

MainStreet Advisors Financial Market Update

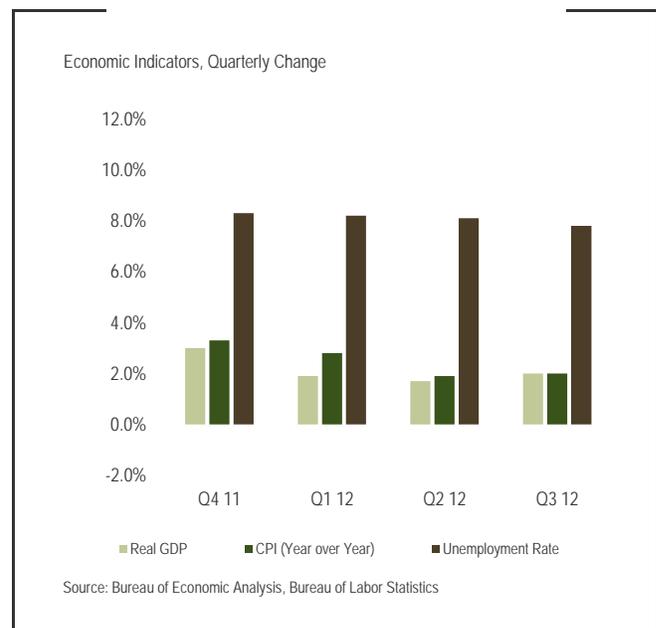
December 28, 2012
[page 1]

Economic Update

Low mortgage rates and an improving economy continue to benefit home prices. The S&P/Case-Shiller 20-city index gained 0.7% in October following a 0.4% increase the previous month. The year-over-year increase improved from 3.0% in September to 4.3% in October. This was the ninth straight month of price increases which should be reassuring to home owners that are finally regaining some of the housing wealth they have lost. Data released this week on the new home market was also positive with sales increasing 4.4% in November. New home sales have been steadily increasing this year and now stand at an annual rate of 377,000. Supply continues to be scarce with the new housing stock falling to a 4.7 month supply from 4.9 months in October. Barring any fundamental changes in demand stemming from the fiscal cliff this report points to the need for increased new home construction in 2013, which would certainly be a positive for economic growth.

Despite the positive impact the improving housing market has had on consumer sentiment in recent months, the lack of a resolution to the fiscal cliff in Washington is clearly starting to rattle Americans. Consumer confidence fell 6.4 points in December to 65.1 with the expectations component plunging nearly 15 points as consumers worry about future economic damage from the fiscal cliff. The present situation component was actually up 5.5 points reaching a recovery high of 62.8, so it is clear it is what lies further ahead that has consumers worried.

The number of Americans filing for first-time unemployment benefits fell 12,000 to 350,000 for the week ended December 22. The four-week average – now free from the inflated effects of Hurricane Sandy – fell 11,250 to a recovery low of 356,750. Continuing claims also fell 32,000 to 3.206 million for the week ended December 15. Year-end unemployment data is always suspect because of the noise created from holiday hiring, and the impact of Sandy does not help to make the picture any clearer, but at least the data is showing a positive trend for the labor market.

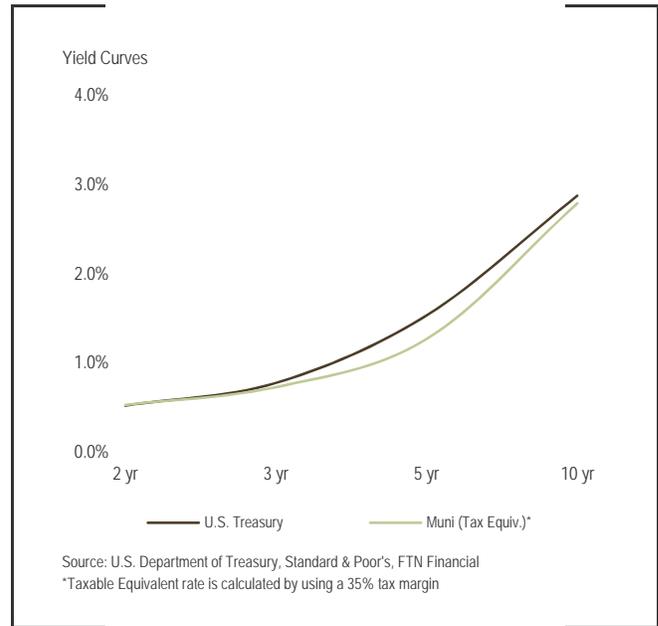


Dec. 26 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.7%
Dec. 26 th	S&P/Case-Shiller 20-city Index, Oct. Monthly Chg.	0.7%
Dec. 26 th	State Street Investor Confidence Index, December	80.9
Dec. 27 th	Initial Jobless Claims (week ending 12/22)	350,000
Dec. 27 th	New Home Sales, November	377,000
Dec. 27 th	Consumer Confidence Index, December	65.1
Dec. 28 th	Chicago PMI Business Barometer Index, Dec.	51.6
Dec. 28 th	Pending Home Sales, Nov. Monthly Chg.	1.7%
Dec. 28 th	EIA Natural Gas Report, Wkly. Chg.	-72 bcf
Dec. 28 th	EIA Petroleum Status Report, Wkly. Chg.	-0.6M Barrels

Bond Market Update

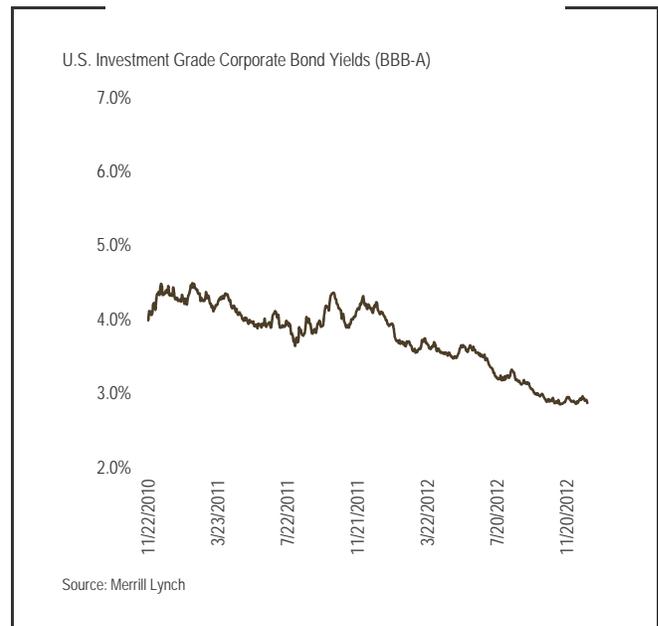
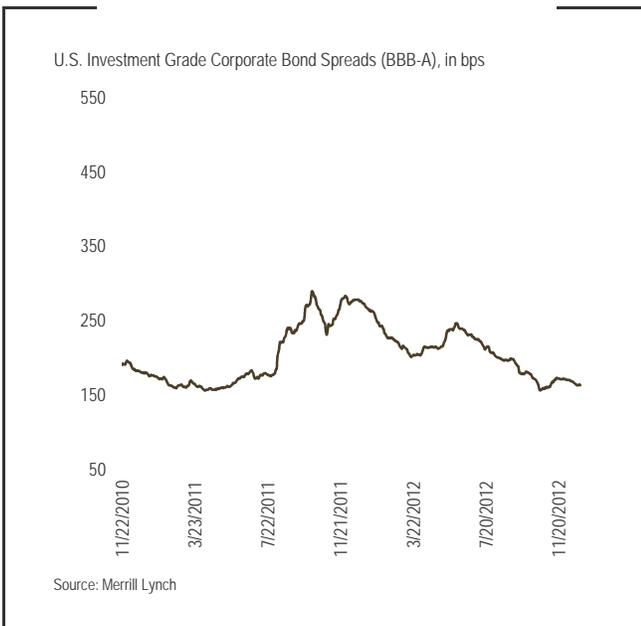
For the first time in a month, U.S. Treasuries finished higher for the week amid a flight-to-safety trade as speculation increased that an agreement will not be reached in time to avoid the fiscal cliff. Also driving demand higher, the Federal Reserve purchased 10-year notes during the week, the last transactions for Operation Twist, which will end December 31. Going forward, along with its program to purchase \$40 billion per month of mortgage-backed securities, the Federal Reserve will also buy \$45 billion of Treasuries to spur economic growth as long as employment stays above 6.5% and expected inflation remains below 2.5%. Overall, the advance in government debt remains relatively muted for the year, with total returns expected to be in the area of 2.3%, the worst performance since 2009.

Meanwhile the sell-off in munis continued with yields on 10-year paper increasing by almost 0.50% this month, driven mostly by the expectation the tax-exempt status of municipal bond interest may be capped as part of the federal deficit reduction plan. Despite the negative sentiment in this segment of the market, some investors feel munis are now attractive, with Bill Gross of PIMCO putting high-quality munis on his list of "picks" and increasing his allocation to this sector to the highest levels since 2006.



Issue	12.21.12	12.28.12	Change
3 month T-Bill	0.06%	0.01%	-0.05%
2-Year Treasury	0.27%	0.27%	0.00%
5-Year Treasury	0.70%	0.72%	0.02%
10-Year Treasury	1.74%	1.73%	-0.01%
30-Year Treasury	2.90%	2.88%	-0.02%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

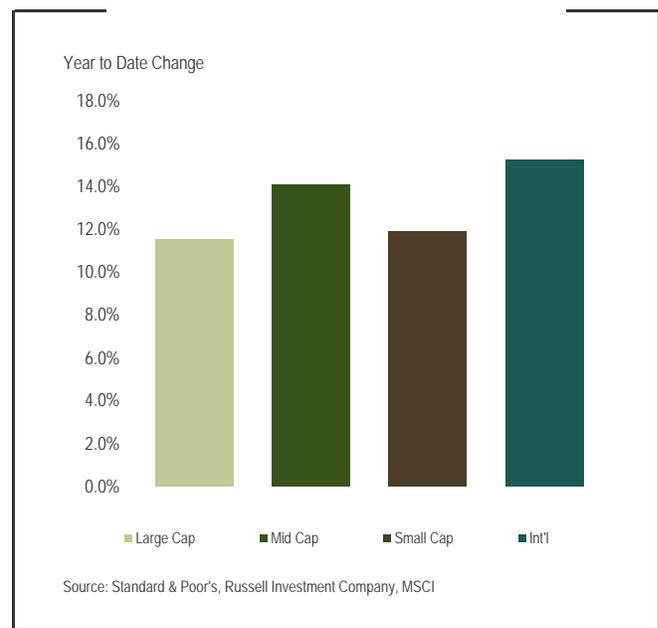
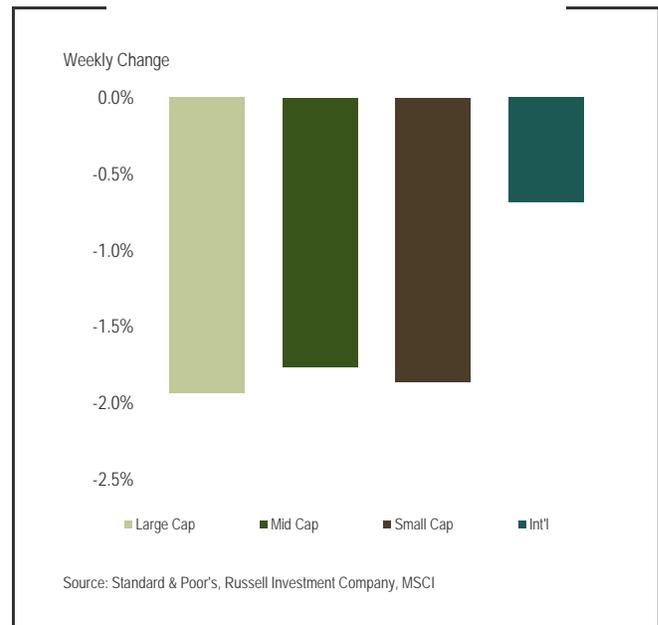


Stock Market Update

The equity markets sold off for a fifth day in a row as the lack of resolution regarding the fiscal cliff continues to put fear into investors. The Dow Jones Industrial Average closed at 12,938.11 down 253 points for the week, or down 1.92%. The broader S&P 500 Index ended the week down 1.94% to close at 1,402.43, while the NASDAQ Composite finished lower by 61 points, or down 2.01% to close the week out at 2,960.31.

International equities finished mixed for the week as European markets followed the U.S. equities and posted negative returns while the Asian markets rallied on hope that a deal would be in place on the last trading day of the year for most Asian markets. Japan posted another strong week of returns as the Yen continues to fall versus the U.S. dollar. For the year, Japan has reported its best performance since 2005 posting a rise in equities of almost 23%. Germany is leading the way in the developed European countries with its best return since 2003.

President Barack Obama spoke this afternoon prior to the close announcing that no deal is in place to avoid the fiscal cliff. This afternoon the President met with House Speaker John Boehner and Senate Minority Leader Mitch McConnell, both Republicans, along with Senate Majority Leader Harry Reid and House Minority Leader Nancy Pelosi, both Democrats. This announcement caused further selling in the final hour of trading on Friday with the Dow and S&P 500 Index down over 1% for the day and the Nasdaq finishing lower by 0.86%.



Issue	12.21.12	12.28.12	Change
Dow Jones	13,190.84	12,938.11	-1.92%
S&P 500	1,430.15	1,402.43	-1.94%
NASDAQ	3,021.01	2,960.31	-2.01%
Russell 1000 Growth	659.80	646.70	-1.99%
S&P MidCap 400	1022.36	1004.33	-1.76%
Russell 2000	847.88	832.1	-1.86%
MSCI EAFE	1,616.95	1,605.82	-0.69%
MSCI Small Cap	1,052.68	1,049.45	-0.37%

Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

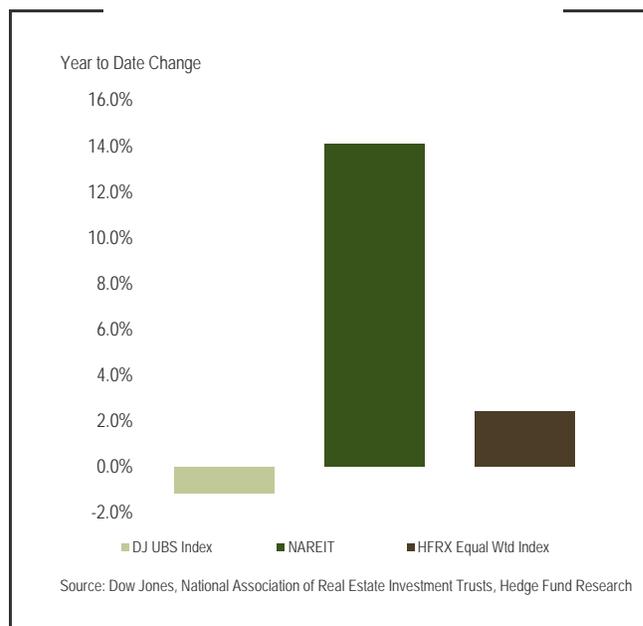
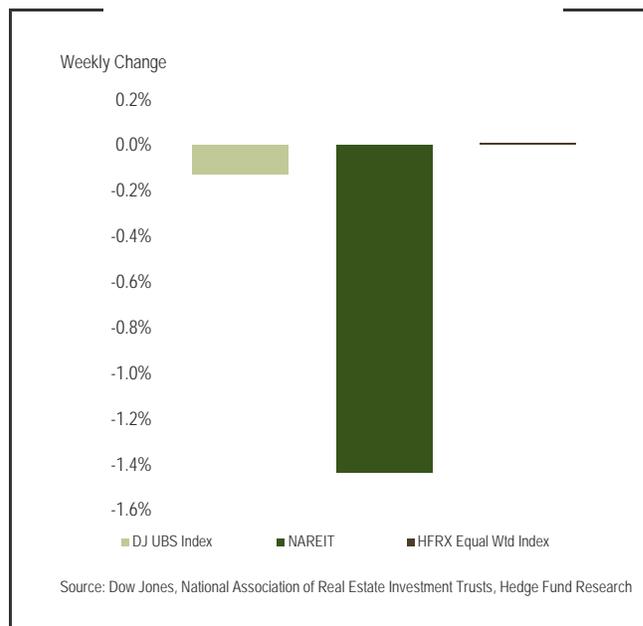
The nation's crude oil supplies fell this week dropping by 600,000 barrels, or 0.2%, to 371.1 million barrels, which is 13.3% above year-ago levels, the Energy Department's Energy Information Administration (EIA) announced in its weekly report. Gasoline supplies rose by 3.8 million barrels, or 1.7%, to 223.1 million barrels, 2.5% above year-ago levels. Analysts expected gasoline supplies to increase by 250,000 barrels. Also, U.S. refineries ran at 90.3% of total capacity on average, 1.2% points down from the prior week. Analysts expected capacity to increase to 91.6%. Meanwhile, U.S. crude oil imports averaged over 8 million barrels per day last week, down by 374,000 barrels per day from the previous week, official data revealed. On the week, crude oil gained 2.06%, or \$1.83, to settle at \$90.68 a barrel.

Also declared this week, Iraq jumped two places to become number 2 in the Organization of Petroleum Exporting Countries' (OPEC) ranking this year, cementing its position among the world's leading oil producers. With only Saudi Arabia in front of them, Iraq's output rose 24% this year. Many analysts believe the country will continue to produce as much crude as it can because "oil is and will remain its main source of income over the next few years". Such a turnaround illustrates the nation's contrasting geopolitical fortunes as it has become the region's second-fastest growing economy, attracting investment from Royal Dutch Shell Plc (RDSA) amongst others in the decade since the departure of Saddam Hussein. According to Bloomberg data, Iraq averaged 3.35 million barrels a day last month.

This year has been somewhat of a disappointment for the hedge fund industry, but hedge funds are attempting a modest rally this month, according to Hedge Fund Research (HFR). The average fund added 0.75% through the first half of December. However, hedge fund investors are showing their concern regarding the impending "fiscal cliff". Redemption requests hit a three-year high in this month, according to SS&C GlobeOp's Forward Redemption Indicator. The withdrawal yardstick ticked up to 6.19% of assets under administration this month, compared to 4.58% last December; although hedge funds' mediocre performance this year undoubtedly played a role, fears of the looming "fiscal cliff" and tax hikes may also be motivating withdrawals.

Issue	Previous Week	Current ¹	Change
Gold	1,657.50	1,654.75	-0.17%
Crude Oil Futures	88.85	90.68	2.06%
Copper	356.60	359.05	0.69%
Sugar	19.25	19.42	0.88%
HFRX Equal Wtd. Strat. Index	1,124.06	1,124.14	0.01%
HFRX Equity Hedge Index	1,050.84	1,046.89	-0.38%
HFRX Equity Market Neutral	935.66	934.80	-0.09%
HFRX Event Driven	1,378.14	1,377.25	-0.06%
HFRX Merger Arbitrage	1,506.86	1,508.26	0.09%
Dow Jones UBS Commodity Index	139.26	139.08	-0.13%
FTSE/NAREIT All REIT	159.97	157.67	-1.44%

¹ Prices reflect most recent data available at the time of publication
Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.



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