MainStreet Advisors
Financial Market Update

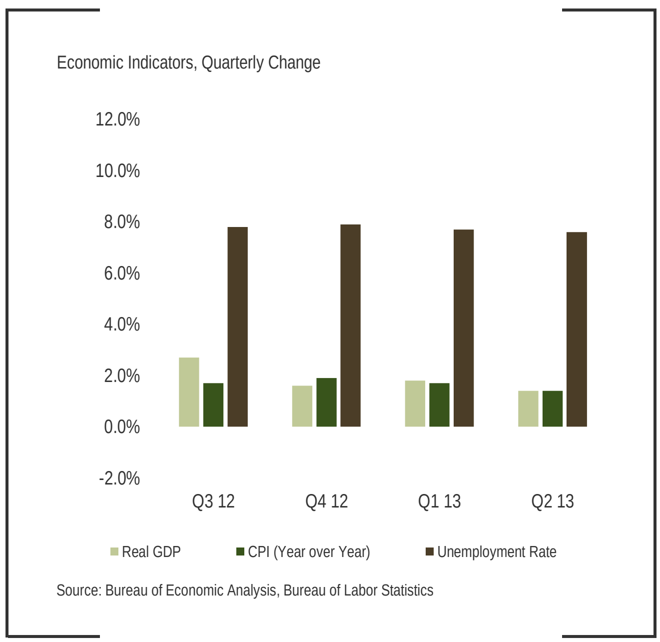
October 11, 2013

Economic Update

On Wednesday President Obama nominated Janet Yellen to be the first female chairman of the Federal Reserve. The nomination removes an uncertainty that has existed since around July and should reassure markets and restore some clarity in Fed communications. Yellen is dovish when it comes to monetary policy, therefore, with her nomination and the current government shutdown the market should expect a further delayed phasing out of QE. Yellen still has to clear Senate confirmation, but it should not be too difficult for her to get unanimous Democratic support and enough Republicans to clear the 60-vote hurdle.

The weekly initial jobless claims number was up drastically for the week ended October 5. Claims surged 66,000 to 374,000 for the week, but about half of that gain can be attributed to a backlog of applications in California from a computer changeover last month. (Furloughed federal employees are not counted in this data.) Still, about 15,000 claims were attributed to non-federal employees affected by the government shutdown. With the ongoing issues in California we can't give any significant weight to these nebulous readings.

The partial shutdown of the Federal Government continues to deprive economists of some of their favorite data. The international trade balance data from the Commerce Department, retail sales numbers from the Census Bureau, and the Producer Price Index (PPI) from the Bureau of Labor Statistics all went unreleased this week. This gives us a chance to report some lesser-observed things in the economy, like weekly U.S. lumber orders which have picked up again recently. The correlation between lumber orders and housing starts has been 97% since 1996, so this is a good sign for the new home market. There was also further evidence of the Energy Renaissance as the seasonally-adjusted weekly U.S. crude oil production surged to a 24-year high, helping the U.S. beat out Russia for the title of world's #1 energy producer; this has huge implications for the future of U.S. manufacturing strength as well as our national security.



Oct 7th	Consumer Credit, August Monthly Change	13.6B
Oct 8th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.1%
Oct 9th	MBA Purchase Applications Index, Wkly. Chg.	1.3%
Oct 9th	EIA Petroleum Status Report, Wkly. Chg.	6.8M Barrels
Oct 10th	Initial Jobless Claims (week ending 10/5)	374,000
Oct 10th	EIA Natural Gas Report, Wkly. Chg.	90 bcf
Oct 11th	Consumer Sentiment Index, October	75.2

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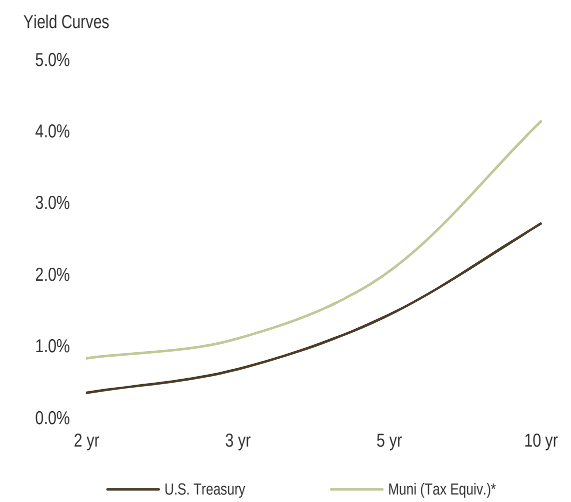
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Similar to last week, U.S. Treasuries finished mostly unchanged as investors continue to await a resolution to the government shutdown. Officials from China and Japan increased their holdings in U.S government debt over the past two weeks, suggesting the ongoing fiscal gridlock has not reduced demand from foreign central banks. Strategists feel this is a positive sign, as these countries represent key funding sources for the U.S. to finance its budget deficit. Foreign investors own nearly half of all outstanding Treasury debt, with China and Japan each holding more than $1 trillion.

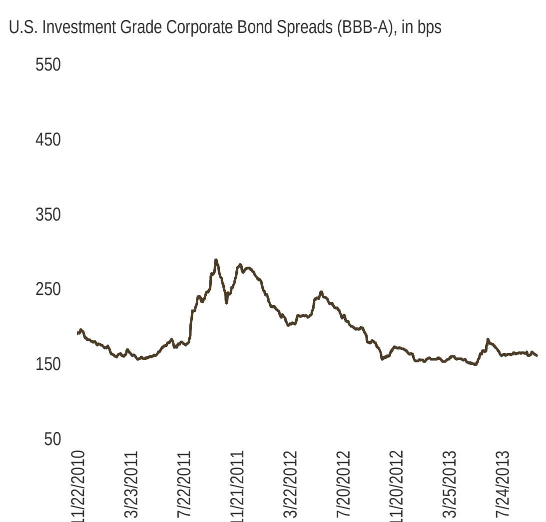
Looking ahead, although the short-term outlook for the fixed-income market has grown clouded, most market participants expect interest rates to eventually rise, as the U.S. economy is likely to normalize within the context of a slow recovery and subdued inflation. Although, the Fed's decision to maintain their existing quantitative easing program at $85 billion in bond purchases per month may have temporarily stalled the move to higher rates, we feel it has done so at the risk of increasing market volatility. As Treasuries remain expensive, in our opinion it is prudent to maintain an underweight exposure to this sector across all durations. We believe the best way to diversify against interest rate exposure is through underappreciated credit opportunities. Compelling prospects exist in certain investment-grade corporate and municipal credits, as the rating agencies' struggle with their methodologies has increased market uncertainty around spread products.



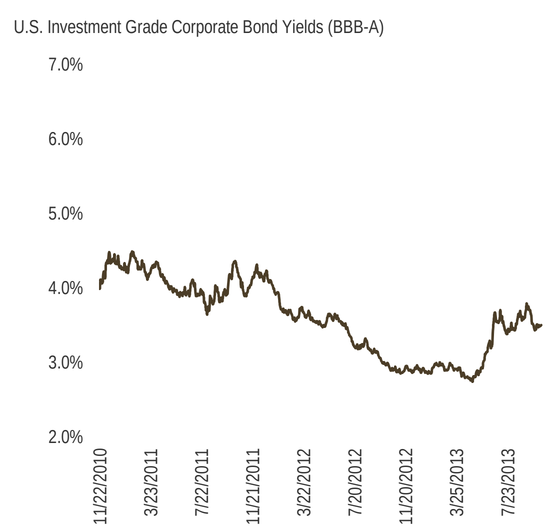
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	10.4.13	10.11.13	Change
3 month T-Bill	0.03%	0.05%	0.02%
2-Year Treasury	0.33%	0.35%	0.02%
5-Year Treasury	1.41%	1.44%	0.03%
10-Year Treasury	2.66%	2.71%	0.05%
30-Year Treasury	3.73%	3.75%	0.02%

SEE IMPORTANT DISCLOSURES ON BACK PAGE. Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Source: Merrill Lynch



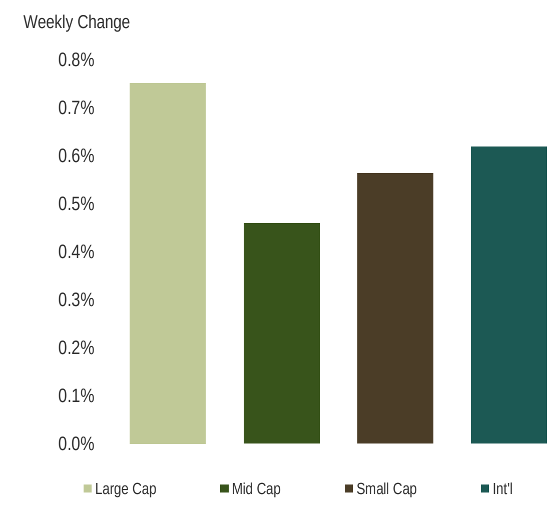
Source: Merrill Lynch

Stock Market Update

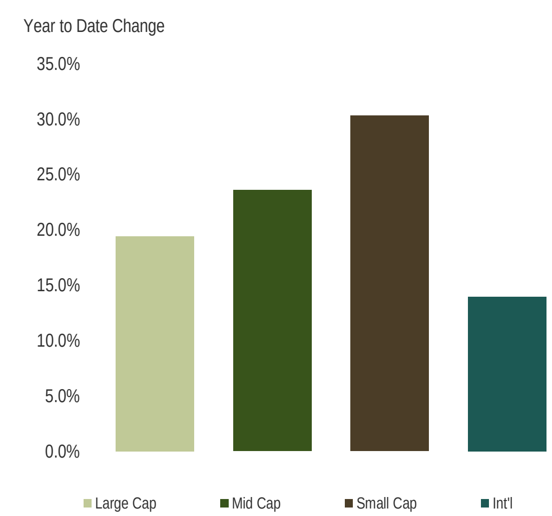
Most major equity markets were surprisingly positive this week considering the volatility experienced due to political infighting in Washington; the government shutdown and the debt-ceiling deadline, the announcement of the nomination of Janet Yellen to lead the Federal Reserve Bank, and the rumors on Thursday of a deal being reached in Congress. The Dow Jones Industrial Average posted its largest single-day gain since January, up 323 points, on Thursday. For the week, the Dow was up 1.1%, closing at 15237.11. The broader S&P 500 Index ended 0.8% higher at 1703.20. The NASDAQ Composite Index declined slightly, -0.4% for the week to finish at 3791.87. It was the NASDAQ's first weekly decline after five straight increases.

International stocks were also positive this week despite increased volatility and the downward revision in the International Monetary Fund global growth forecast from 3.2% to 2.9%. A weakening outlook for emerging markets like India and China drove the revision. European stocks as measured by the STOXX 600 Index closed out the week up 0.6% after similar volatility, despite mixed economic data from England and France. The Bank of England announced it will keep interest rates low, indicating they might stay low until 2016, at which point it is predicted unemployment will finally fall below 7%. In Asia, the Nikkei Index increased 2.7% for the five-day trading session. After a week long holiday in China, the Shanghai Composite Index finished 2.5% above its pre-holiday close.

Earnings season began this week with Alcoa reporting profits ahead of expectations and affirming its 7% increase in global aluminum demand this year. The company has been cutting production costs by closing high-cost smelters, as well as focusing on making lightweight aluminum products for cars and planes as a way to offset the aluminum industry glut. Wells Fargo reported a slowdown in its mortgage business as rising interest rates crimped customer demand for mortgages throughout the quarter. In early September, home loan refinance applications fell to their lowest level since November 2008. Higher revenues from other businesses helped to offset some of the decline in mortgage banking. Trust and investment fees increased to $3.28 billion from $2.95 billion in



Source: Standard & Poor's, Russell Investment Company, MSCI



Source: Standard & Poor's, Russell Investment Company, MSCI

Issue	10.4.13	10.11.13	Change
Dow Jones	15,072.58	15,237.11	1.09%
S&P 500	1,690.50	1,703.20	0.75%
NASDAQ	3,807.75	3,791.87	-0.42%
Russell 1000 Growth	790.35	791.26	0.12%
S&P MidCap 400	1255.44	1,261.20	0.46%
Russell 2000	1078.25	1,084.32	0.56%
MSCI EAFE	1,816.70	1,827.93	0.62%
MSCI Small Cap	194.61	195.82	0.62%

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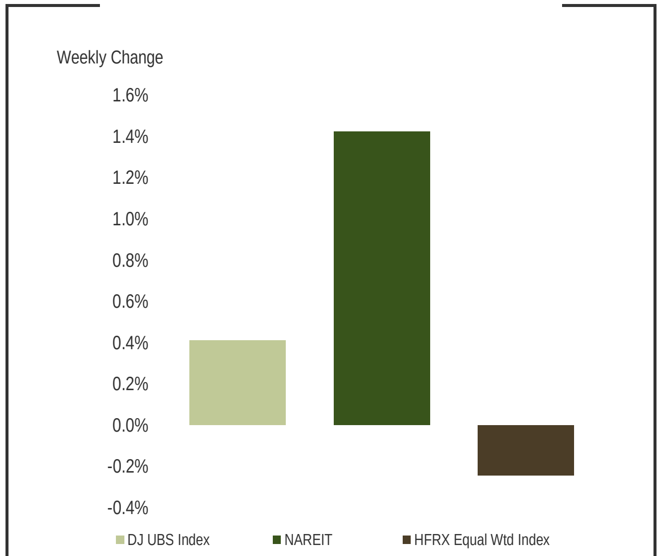
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

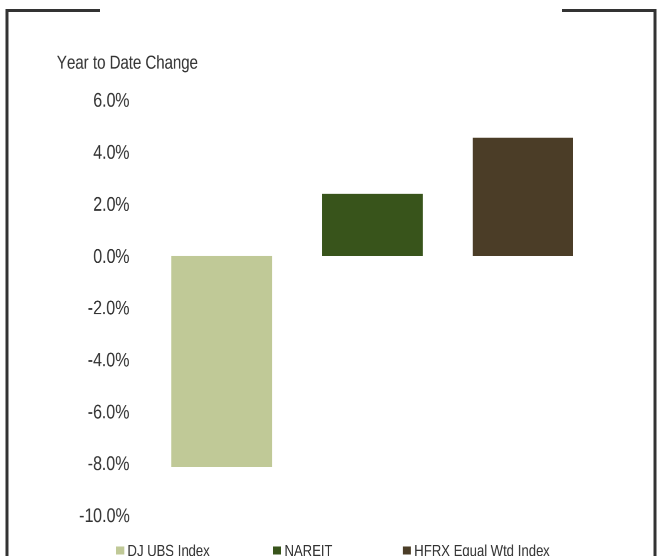
Gold broke a three-day losing streak on Friday but still ended the week in the red as its safe-haven appeal lessened, and the dollar rebounded on signs that the U.S. Government was taking steps towards resolving its budget standoff. On top of this, soft physical demand, lack of economic data, along with outflows from gold-backed exchange-traded funds (ETFs) have also weighed on the precious metal. Analysts believe gold could stay below the $1,300 an ounce threshold for the near future due to lack of strong fundamentals.

Crude oil hit a 14-week low earlier this week after government data showed inventories climbed much more than expected, as refiners sharply reduced operations due to operational snags and seasonal maintenance. Crude oil stocks rose 6.8 million barrels last week, the biggest weekly rise since mid-September 2012, says the Energy Information Administration (EIA). At 370.5 million barrels, inventories are at their highest level since mid-July and 6.7% above the five-year average for the week. The EIA went on to warn of significant risks posed by any economic fallout from the political standoff in the U.S. and the sharp currency depreciation in many emerging markets that could undercut its projections. The agency boosted its forecast for global oil demand growth by 100,000 barrels a day, to 1 million barrels a day for this year and left 2014 growth forecasts unchanged at 1.1 million barrels a day. The EIA also boosted its forecast for oil output outside the Organization of the Petroleum Exporting Countries (OPEC) by 360,000 barrels a day. This rise would surpass expected oil demand growth, thus putting pressure on OPEC to reduce supplies or lower prices.

Even though hedge funds are having a difficult time outperforming the broader market this year, the industry is still on pace to beat 2012 returns. According to research released this week from eVestment, hedge funds rose an average of 1.7% last month, ending Q3 up 2.4%, and have returned an average of 5.7% through the first nine months of the year. On an annualized basis, the industry is on pace to return 7.7% this year, slightly ahead of 2012's 7.2% increase.



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

Issue	Previous Week	Current[1]	Change
Gold	1,309.82	1,269.08	-3.11%
Crude Oil Futures	103.63	101.83	-1.74%
Copper	329.90	327.00	-0.88%
Sugar	18.48	18.93	2.44%
HFRX Equal Wtd. Strat. Index	1,178.30	1,175.43	-0.24%
HFRX Equity Hedge Index	1,124.75	1,114.88	-0.88%
HFRX Equity Market Neutral	934.12	934.44	0.03%
HFRX Event Driven	1,541.35	1,535.31	-0.39%
HFRX Merger Arbitrage	1,551.47	1,557.38	0.38%
Dow Jones UBS Commodity Index	127.26	127.78	0.41%
FTSE/NAREIT All REIT	157.43	159.67	1.42%

SEE IMPORTANT DISCLOSURES ON BACK PAGE.
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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