MainStreet Advisors
Financial Market Update

February 15, 2013

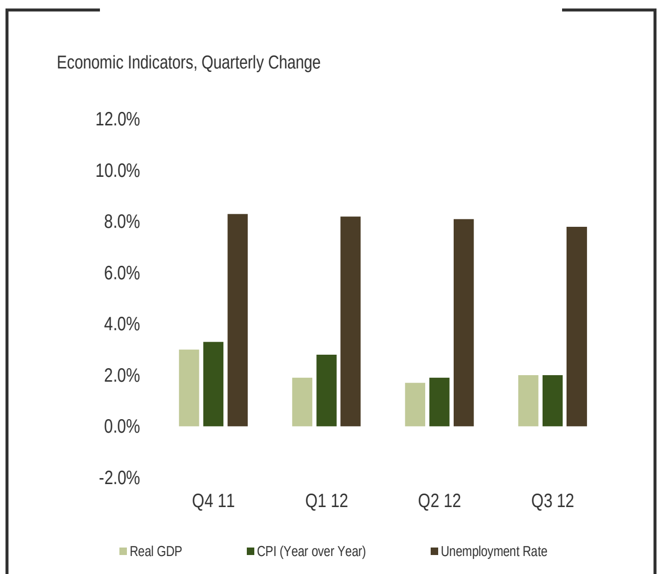
Economic Update

Retail sales for January managed to edge up 0.1% after rising 0.5% the previous month, matching consensus estimates. The report is the first major indicator of how consumers' spending habits have been impacted by the expiration of the payroll tax cut. It is clear the pace of growth slowed, but that is typical after a strong month. So far it seems the higher taxes have not hurt spending much, but it will take additional reports to paint a more accurate picture.

Strength appears to be building in the job market as both initial claims and continuing claims are trending near their lowest levels of the recovery. The number of Americans filing for first-time unemployment benefits fell 27,000 to 341,000 for the week ended February 9. The four-week average is at 352,500 – about 10,000 below the month-ago figure. Continuing claims for the February 2 week fell 130,000 to 3.187 million, pushing the unemployment rate for insured workers to a recovery low of 2.4%. Businesses that were reluctant to hire at the end of the year seem to be making up for it now.

Industrial production slipped 0.1% in January following gains of 0.4% in December and 1.4% in November. Motor vehicle production fell 3.2% while other industries were mixed. In the context of the gains seen the previous two months, the number is not too disconcerting. Meanwhile a strong Empire State survey pointed to improving conditions in manufacturing as that index surged 18 points in February.

Things are looking grim over in Europe as the region posted its worst economic performance in almost four years. Gross domestic product fell at a 2.3% annual pace in the fourth quarter, which was worse than expected and pushed the euro-area deeper into recession. Portugal's economy shrank for the ninth consecutive quarter, but contraction was also seen in the larger countries like Germany, France and Italy. The recent appreciation of the euro has put a strain on exports in the eurozone as their goods become more expensive on the global market.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Feb. 12th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-2.5%
Feb. 13th	MBA Purchase Applications Index, Wkly. Chg.	-6.4%
Feb. 13th	Retail Sales, Jan. Monthly Chg.	0.1%
Feb. 13th	Import Prices, Jan. Monthly Chg.	0.6%
Feb. 13th	Export Prices, Jan. Monthly Chg.	0.3%
Feb. 13th	Business Inventories, Dec. Monthly Chg.	0.1%
Feb. 13th	EIA Petroleum Status Report, Wkly. Chg.	0.6M Barrels
Feb. 14th	Initial Jobless Claims (week ending 2/9)	341,000
Feb. 14th	EIA Natural Gas Report, Wkly. Chg.	-157 bcf
Feb. 15th	Empire State Mfg Survey, February	10.04
Feb. 15th	Industrial Production, Jan. Monthly Chg.	-0.1%
Feb. 15th	Consumer Sentiment Index, February	76.3

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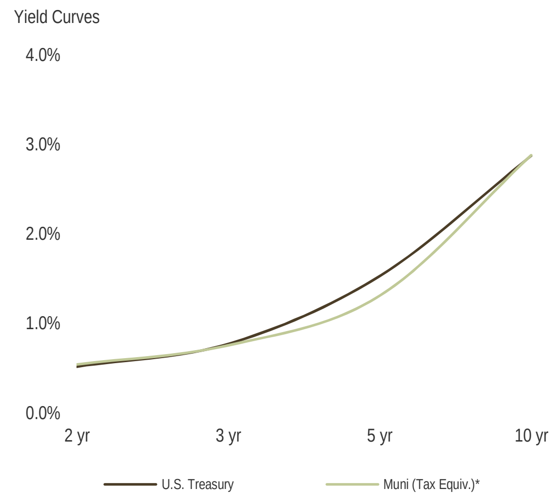
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

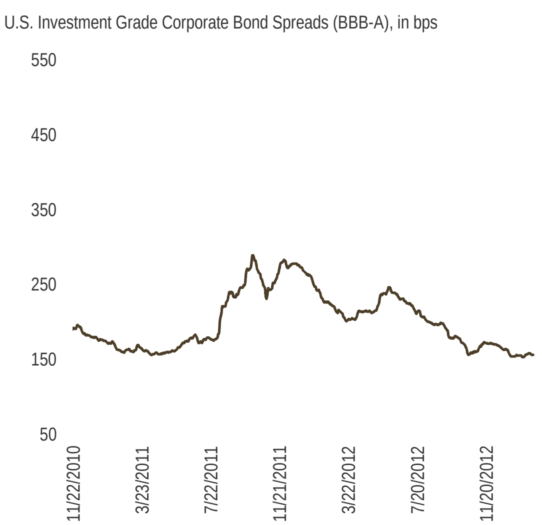
Better than expected manufacturing and consumer confidence reports added to optimism the economy is gaining momentum, which led to lower demand for safe-haven U.S. Treasuries. Yields on the 10-year note, a key measure of funding costs for the U.S. government, rose by approximately 0.06% for the week, reversing the decline from last week. At the same time, according to a recent report from the Treasury, foreign demand for U.S. government debt remains robust. Foreign investors bought a net $29.9 billion of Treasuries in December, up from $26.4 billion the month before, with China and Japan adding to their record-high holdings of $1.2 trillion and $1.12 trillion, respectively. Meanwhile, suggesting the Federal Reserve may be running out of ammunition to boost the economy, Fed Bank of Cleveland President Sandra Pianalto said, "Given how low interest rates currently are, it is possible that future asset purchases will not ease financial conditions by as much as they have in the past. It is also possible that easier financial conditions, to the extent they do occur, may not provide the same boost to the economy as they have in the past." However, should the economy continue to strengthen, some analysts feel monetary stimulus will become unnecessary, implying the Fed will stop their $85 billion monthly Treasury purchase program and ultimately leading to a true selloff in the fixed income markets.



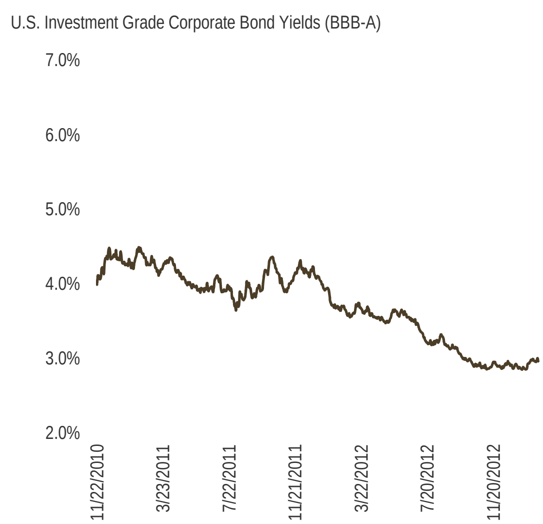
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	2.8.13	2.15.13	Change
3 month T-Bill	0.07%	0.10%	0.03%
2-Year Treasury	0.25%	0.29%	0.04%
5-Year Treasury	0.84%	0.87%	0.03%
10-Year Treasury	1.99%	2.01%	0.02%
30-Year Treasury	3.17%	3.18%	0.01%

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

All three of the major domestic stock markets were flat this week as investors continued to be cautious in February after a record month in January. The Dow Jones Industrial Average closed at 13981.76, while the broader S&P 500 Index finished the week at 1519.79. The NASDAQ Composite Index closed Friday at 3192.03, basically in line with last week's closing prices, after posting positive returns for six weeks in a row.

Currency tensions, weaker than expected European GDP data along with a meeting of G-20 central bankers and finance ministers kept overseas investors on edge this week. European equities as measured by the STOXX Europe 600 were flat for the five-day trading period. The Japanese Nikkei Index sold off slightly after reaching its highest level in four years last week, but remains up 7.5% year-to-date.

Fourth quarter earnings were reported this week by Cisco and Pepsi. Cisco's revenue and profits exceeded expectations on strength in its data center and wireless businesses. 2012 was a reinvestment year for Pepsi, as the company saw its earnings fall from $4.40/share in 2011 to $4.10/share. Increased advertising, reduced head count and disciplined strategic focus are expected to help the company return to positive earnings growth in 2013, according to Morningstar.

It was another big week for corporate mergers – Comcast announced it will acquire the remaining stake in NBC Universal; Berkshire Hathaway and a Brazilian private equity firm agreed to acquire H. J. Heinz; and American Airlines and US Airways unveiled a merger plan. According to Thomson Reuters, mergers and acquisitions in the U.S. have totaled nearly $160 billion to-date this year, more than double the amount in the same period last year. Analysts are attributing the upswing in merger activity to exceptionally low interest rates, high levels of cash on corporate balance sheets, easier availability of credit, optimism after the fiscal cliff negotiations and relative stability in Europe.

Issue	2.8.13	2.15.13	Change
Dow Jones	13,992.97	13,981.76	-0.08%
S&P 500	1,517.93	1,519.79	0.12%
NASDAQ	3,193.87	3,192.03	-0.06%
Russell 1000 Growth	696.13	694.59	-0.22%
S&P MidCap 400	1109.09	1115.75	0.60%
Russell 2000	913.67	923.15	1.04%
MSCI EAFE	1,672.67	1,663.46	-0.55%
MSCI Small Cap	1,059.56	1,065.84	-0.30%

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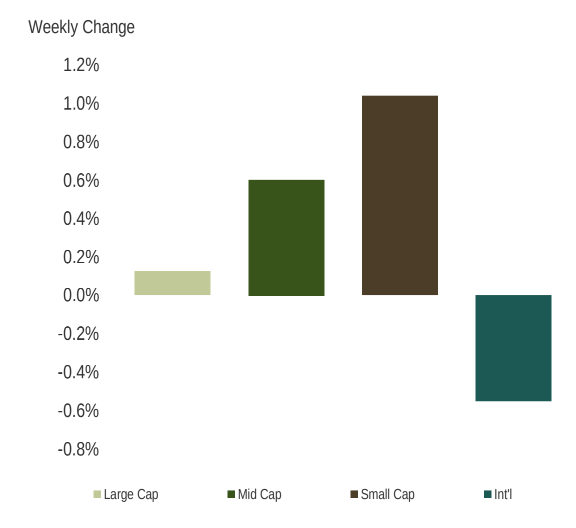
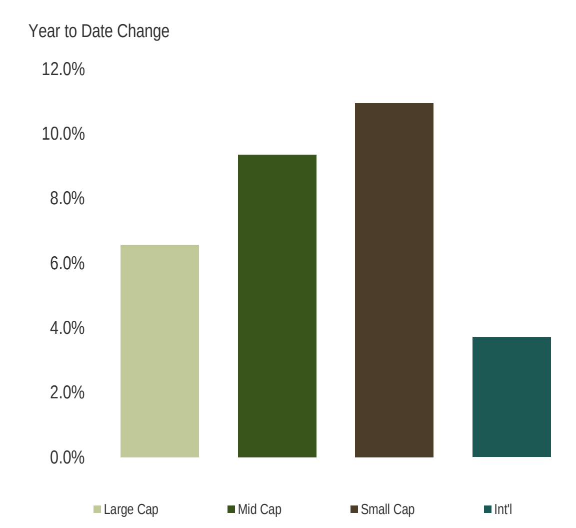
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.



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



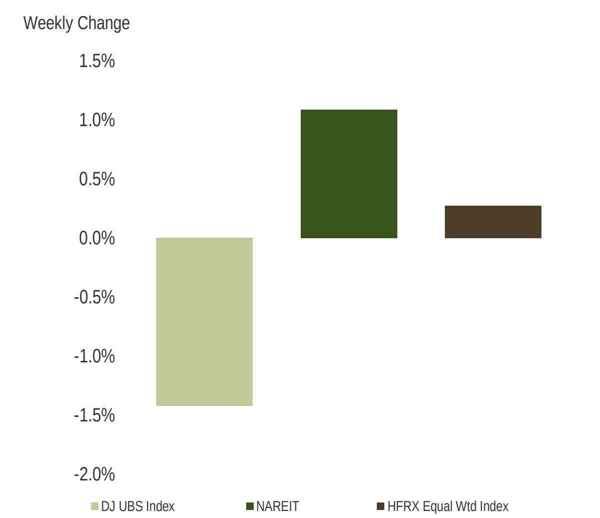
Source: Standard & Poor's, Russell Investment Company, MSCI

Alternative Investments Market Update

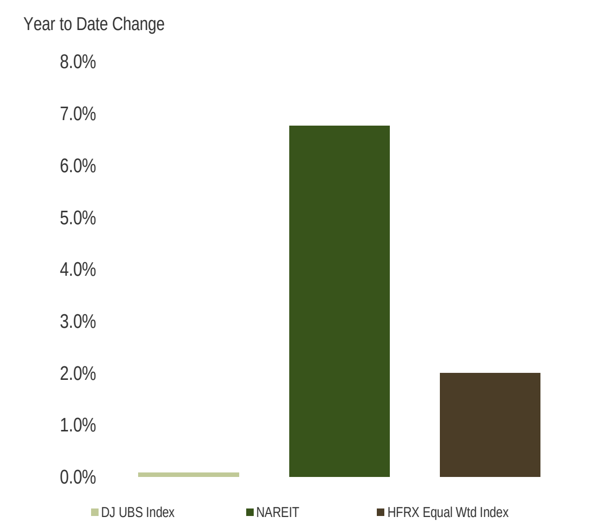
Gold prices hovered above $1,600 an ounce on Friday, dipping below that level for the first time in six months after regulatory filings showed several high-profile fund managers cut back their bullion holdings. Most notable, billionaire investor George Soros pulled around $100 million out of his gold holdings, slashing them in half, selling 720,000 shares of SPDR Gold Trust (GLD), a physical gold-backed exchange-traded fund, during Q3 2012 according to filings with the SEC. Many analysts believe such a move is big enough to cause panic in the market. The precious metal has been under pressure in recent months as resurgence in the equity markets has pushed investors toward riskier assets such as stocks. For the week, the metal fell 3.60%, closing at $1,607.95 an ounce. Crude oil was able to post gains, albeit modest, for the week, settling at $95.92 a barrel as investors continue to reassess the demand growth for oil.

Hedge funds suffered their worst outflows in nearly four years last December, as investors pulled more than $20 billion from the industry as 2012 drew to a close. According to BarclayHedge and TrimTabs Investment Research, the huge withdrawals, the highest in 44 months, swamped the modest inflows the industry had seen during the first 11 months of the year. The $20.7 billion net outflow in December left hedge funds down $14.2 billion on the year. Many analysts point to the underperformance in comparison to the S&P 500 as the primary culprit for the outflows.

Warren Buffett has not spoken kindly regarding private equity firms in the past, but that did not stop the mogul from joining forces with one to purchase H.J. Heinz this week. Buffett's Berkshire Hathaway is buying the iconic condiment-maker for $23.2 billion in a leveraged buyout with New York-based 3G Capital. Both sides will own half of the company, but Berkshire will put up more cash, $12 billion to 3G's $4 billion, even though 3G will actually manage the company. Berkshire will get preferred shares that will pay a 9% dividend.



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	1,667.95	1,607.95	-3.60%
Crude Oil Futures	95.78	95.92	0.15%
Copper	375.85	375.50	-0.09%
Sugar	18.14	17.74	-2.21%
HFRX Equal Wtd. Strat. Index	1,143.60	1,146.72	0.27%
HFRX Equity Hedge Index	1,082.40	1,087.30	0.45%
HFRX Equity Market Neutral	939.35	940.79	0.15%
HFRX Event Driven	1,435.36	1,443.25	0.55%
HFRX Merger Arbitrage	1,512.35	1,514.06	0.11%
Dow Jones UBS Commodity Index	141.21	139.20	-1.42%
FTSE/NAREIT All REIT	164.69	166.48	1.09%

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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