MainStreet Advisors
Financial Market Update

February 22, 2013
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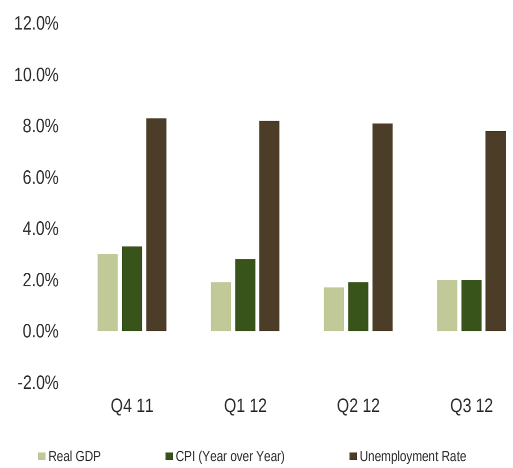
Economic Update

We are beginning to see early indications that the housing market recovery is slowing down. The NAHB housing market index fell for the first time in ten months to 46, with home builders citing uncertainty in the job market, a shortage of available lots and stringent credit standards as limiting factors. The report's traffic component fell four points to 32, pointing to weaker sales in the coming months. Housing starts fell 8.5% in January following a sharp 15.7% increase the previous month, but permits continued to trend upwards climbing 1.8% for the month. Finally, sales of existing homes rebounded slightly up 0.4% for January to a 4.92 million annual pace. The National Association of Realtors continues to point to low supply as a limiting factor to sales activity, which at 4.2 months is the lowest level of housing inventory since 2005. The housing recovery was a key driver of the stock market in 2012 and one of the sets of economic data we are watching closest right now. The weakening in housing data reinforces our decision at the beginning of the month to reduce equity exposure.

Another data point we are monitoring closely is inflation, which has remained tame – a good thing for the stock market. Headline inflation came in flat for January and eased to 1.6% on a year-over-year basis, while core CPI excluding food and energy rose 0.3% for the month and held steady at 1.9% for the year. The report likely understates inflation, though, as the BLS made special adjustments during the month to 31 series of underlying data. Inflation at the producer level rose 0.2%, driven higher by a 0.7% increase in food prices that included a 39% surge in the prices for fresh and dry vegetables. For now inflation appears in check, but it is likely to heat up in February's reports with gas prices having now risen for 35 consecutive days – up almost 15% so far in 2013.

The FOMC minutes released this week revealed heightened debate over continued quantitative easing, stating "Several participants discussed the possible complications that additional purchases could cause for the eventual withdrawal of policy accommodation, a few mentioned the prospect of inflationary risks, and some noted that further asset purchases could foster market behavior that could undermine financial stability."

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

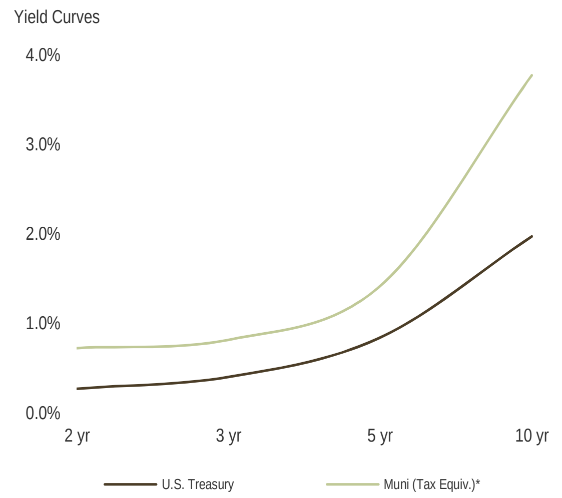
Feb. 19th	Housing Market Index, February	46.0
Feb. 20th	MBA Purchase Applications Index, Wkly. Chg.	-1.7%
Feb. 20th	ICSC-Goldman Same Store Sales, Wkly. Chg.	2.7%
Feb. 20th	Housing Starts, January	890,000
Feb. 20th	Producer Price Index, January Monthly Chg.	0.2%
Feb. 21st	Consumer Price Index, January Monthly Chg.	0.0%
Feb. 21st	Initial Jobless Claims (week ending 2/16)	362,000
Feb. 21st	Existing Home Sales, January SAAR	4.92M
Feb. 21st	Philidelphia Fed Survey, February	-12.5
Feb. 21st	Leading Indicators, Jan. Monthly Chg.	0.2%
Feb. 21st	EIA Natural Gas Report, Wkly. Chg.	-127 bcf
Feb. 21st	EIA Petroleum Status Report, Wkly. Chg.	4.1M Barrels

SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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

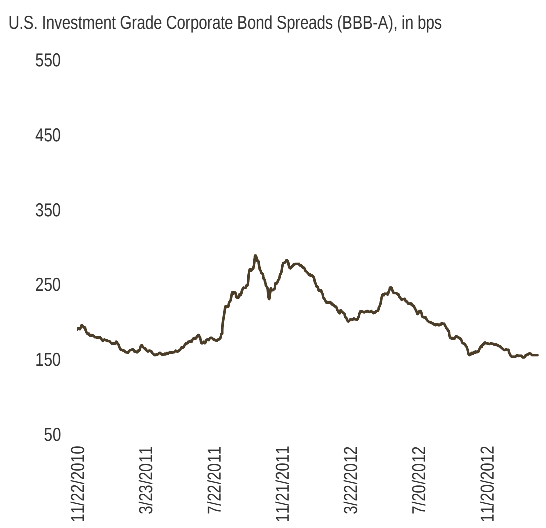
Despite losses earlier in the week, U.S. Treasuries finished mostly unchanged, a sign the clash between bond bears and bulls is far from over. Driving demand higher for safe-haven U.S. government debt later in the week were several developments in the eurozone suggesting that although the sovereign debt crisis has eased it is still a legitimate concern. In particular, European Union economists reported they expect a second year of contraction in 2013 for the region. At the same time, European banks said they will repay far less than expected of the funds they borrowed from the European Central Bank, indicating the banking system in this area has not yet fully recovered. Meanwhile, a key factor that will determine the direction of interest rates remains with the actions of the Federal Reserve. Bond bears feel stronger U.S. economic data will compel the Fed to slow its $85 billion per month bond buying program sometime during the second half of the year. Released earlier this week, minutes from the FOMC's January policy meeting revealed a heated debate among central bankers concerning the end of this program even before unemployment reaches the previously established bogey of 6.5%. Because the Fed's recurring bond purchases have driven interest rates artificially low, an end to this program could lead to a true sell-off in government debt. We continue to recommend the sale of U.S. Treasuries and TIPS, given the poor risk/return characteristics associated with these securities.



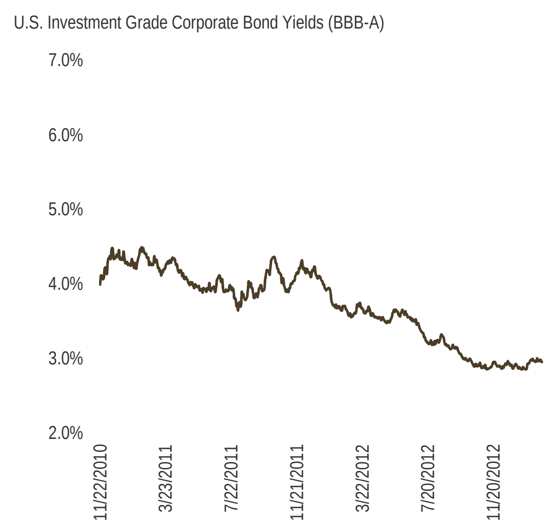
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	2.15.13	2.22.13	Change
3 month T-Bill	0.10%	0.13%	0.03%
2-Year Treasury	0.29%	0.27%	-0.02%
5-Year Treasury	0.87%	0.84%	-0.03%
10-Year Treasury	2.01%	1.97%	-0.04%
30-Year Treasury	3.18%	3.15%	-0.03%

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



Source: Merrill Lynch



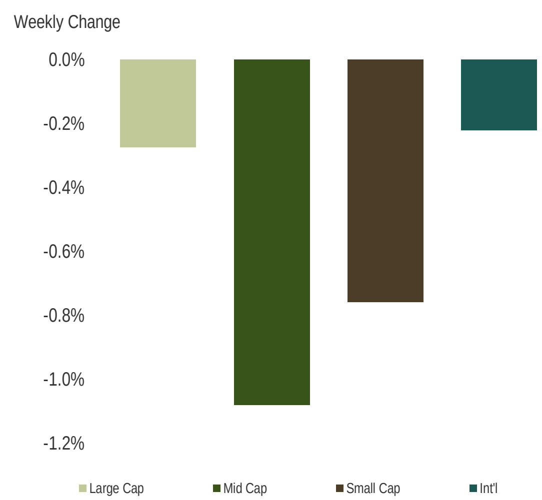
Source: Merrill Lynch

Stock Market Update

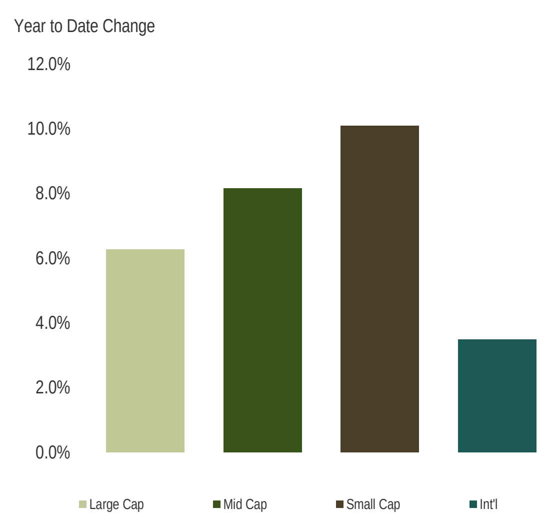
The phrase TGIF has not only become common place within English vernacular, it has also been the market sentiment so far this year. Wednesday and Thursday were the worst two consecutive days for 2013; however, the markets rebounded Friday to continue its streak of positive performance every Friday for the year 2013. The Dow Jones Industrial Average closed at 14,000.57, slightly down for the week. The broader S&P 500 Index ended the week slightly lower to close at 1,515.60, while the NASDAQ Composite finished lower by 1.15% to close the week out at 3,161.82.

In the face of a changing industry and a more competitive environment, both OfficeMax (OMX) and Office Depot (ODP) formally announced a merger. Currently, the two companies are the second and third largest retailer in office supplies. The combination of the two companies will generate combined revenue of $18 Billion in annual sales, still behind the leader in the industry, Staples, which generates $25 Billion in annual sales. Both companies rallied on the news and finished the week higher.

International stocks have risen with domestic stocks this year; however, European stocks have been on pause over the past four weeks. After a surprising upbeat reading on Germany's industrial production growth the European index rallied to post a positive gain for the week. The European markets continue to remain volatile and much attention will now be given to the Italian elections that will take place over the weekend.



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



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

Issue	2.15.13	2.22.13	Change
Dow Jones	13,981.76	14,000.57	0.13%
S&P 500	1,519.79	1,515.60	-0.28%
NASDAQ	3,192.03	3,161.82	-0.95%
Russell 1000 Growth	694.59	697.57	0.43%
S&P MidCap 400	1115.75	1103.7	-1.08%
Russell 2000	923.15	916.15	-0.76%
MSCI EAFE	1,663.46	1,659.78	-0.22%
MSCI Small Cap	1,065.84	1,053.55	0.17%

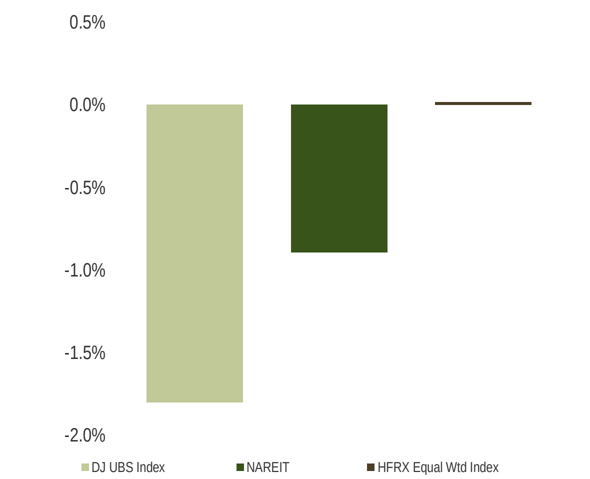
SEE IMPORTANT DISCLOSURES ON BACK PAGE.
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

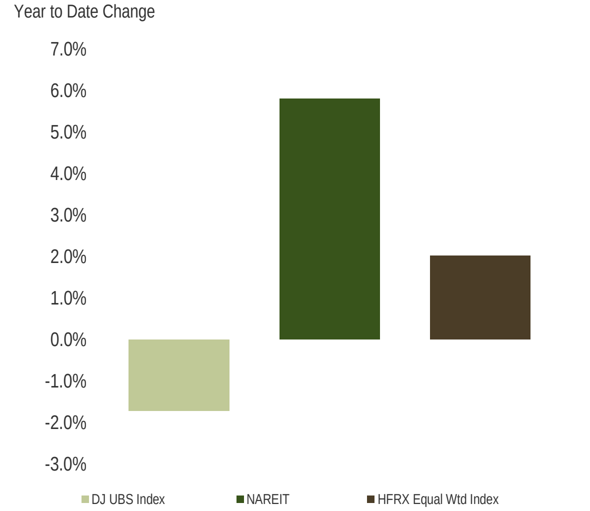
Gold futures dipped to a seventh month low after minutes from the Federal Reserve meeting in January sent traders and speculators to the exits. The meeting notes highlighted a growing chorus of Federal Reserve board members who are growing uncomfortable with its massive asset-buying program. The program, which many view as inflationary, sent the dollar higher and weakened gold's allure as an inflation hedge. Some market watchers, however, are looking toward the Italian elections as a possible positive catalyst. A vote for the Italian incumbent would be seen as a vote to continue austerity and could strengthen the Euro versus the U.S. dollar. As gold has tended to follow the direction of the Euro, speculators may move back in.

The Italian elections are also giving pause to many hedge funds as a change in power in that country may give rise to market volatility in the near-term. Some credit based hedge funds are selling long positions, increasing short positions, or buying puts to protect themselves in case the European credit rally is disrupted. While many still believe the eight month rally is not over, we believe the sentiment in the market appears vulnerable to a shock from Italy.

Oil suffered the biggest weekly decline since December as the Federal Reserve minutes sent other commodities lower in addition to gold. Oil was hurt by additional head winds as the EU indicated it expected overall economic growth to decline again in 2013. Additionally, the U.S. announced a surprise rise in inventories of 4.14 million barrels.



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	1,607.95	1,579.40	-1.78%
Crude Oil Futures	95.92	93.33	-2.70%
Copper	375.50	355.55	-5.31%
Sugar	17.74	18.15	2.31%
HFRX Equal Wtd. Strat. Index	1,146.72	1,146.92	0.02%
HFRX Equity Hedge Index	1,087.30	1,088.63	0.12%
HFRX Equity Market Neutral	940.79	941.41	0.07%
HFRX Event Driven	1,443.25	1,436.00	-0.50%
HFRX Merger Arbitrage	1,514.06	1,513.83	-0.02%
Dow Jones UBS Commodity Index	139.20	136.69	-1.80%
FTSE/NAREIT All REIT	166.48	164.99	-0.90%

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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MAINSTREET ADVISORS™

120 North LaSalle Street, 37th Floor
Chicago, Illinois 60602
312.223.0270 direct
312.223.0276 fax
www.mainstreetadv.com