MainStreet Advisors Financial Market Update

August 2, 2013
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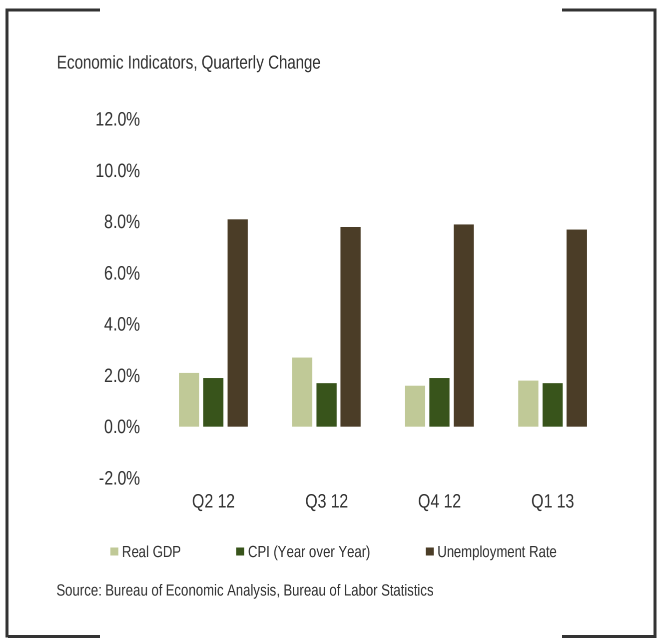
Economic Update

Second quarter GDP growth topped expectations coming in at 1.7%, but it was in part at the expense of first quarter GDP which was revised down to 1.1% from the previous estimate of 1.8%. Annual revisions also showed the 12 months leading up to April were weaker than previously reported. Federal budget cuts have been a drag on the economy, but consumer spending continued to increase during the second quarter. Business investment and the housing recovery were positive contributors as well. This was the first report using the new methodology from the Bureau of Economic Analysis that includes research and development and spending on the arts as business investments.

Manufacturing showed considerable strength in July with the ISM's index jumping 4.5 points to 55.4. This was the strongest reading in over two years. New orders improved 6.5 points to 58.3, and the production reading surged 11.5 points to a recovery high of 65.0. Inventories were down, which given the gain in new orders should equate to expanding production in the months ahead. This is a very good report and points to a reacceleration of economic growth for the third quarter.

The number of Americans filing for first-time unemployment benefits fell 19,000 to a five-year low of 326,000 for the week ended August 1. Despite this decline the payroll numbers for July came in slightly below expectations. According to the report only 162,000 jobs were added during the month while the consensus expectation from economists had been 175,000. Private payrolls accounted for all but 1,000 of the new jobs as government payrolls turned slightly positive. Federal employment is still in decline, but the seven-times-larger state & local employment has hooked up a little. The unemployment rate managed to tick down slightly to 7.4% partly because 37,000 Americans dropped out of the workforce. The report probably was not as strong as the Fed had hoped, but it is not likely weak enough to stall their plans to taper QE in September. August's employment report will be all the more important, but with initial claims looking like they will resume their downward trend and manufacturing activity picking up, it will likely be a decent number.

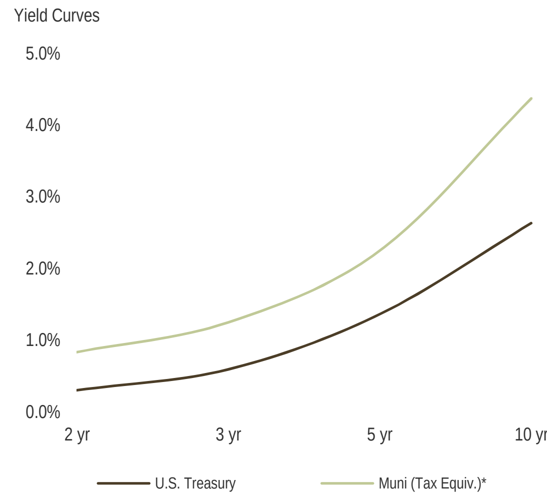


Jul 29th	Pending Home Sales, June Monthly Chg.	-0.4%
Jul 30th	S&P/Case-Shiller 20-city Index, May Monthly Chg.	1.0%
Jul 30th	Consumer Confidence Index, July	80.3
Jul 30th	State Street Investor Confidence Index, July	107.6
Jul 31st	MBA Purchase Applications Index, Wkly. Chg.	-3.7%
Jul 31st	Real GDP, Q2 Quarterly Change SAAR	1.7%
Jul 31st	GDP Price Index, Q2 Quarterly Change SAAR	0.7%
Jul 31st	Employment Cost Index, Q2 Quarterly Change	0.5%
Aug 1st	Initial Jobless Claims (week ending 7/27)	326,000
Aug 1st	ISM Mfg. Index - Level, July	55.4
Aug 1st	Construction Spending, June Monthly Chg.	-0.6%
Aug 2nd	Non-farm Payrolls, July Monthly Chg.	162,000
Aug 2nd	Unemployment Rate, July	7.4%
Aug 2nd	Personal Income, June Monthly Chg.	0.3%
Aug 2nd	Consumer Spending, June Monthly Chg.	0.5%
Aug 2nd	Core PCE Price Index, June Monthly Chg.	0.2%

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

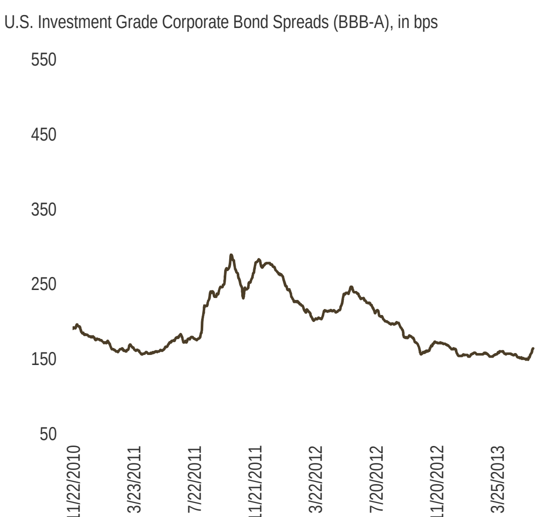
Despite volatility earlier in the week, U.S. Treasuries finished modestly lower as a stronger than expected GDP report was offset by cautious comments by the Fed along with a weaker than anticipated jobs report. On Wednesday, the Federal Reserve announced plans to sell fewer bonds in coming months and the Treasury signaled they plan to reduce supply of some debt sales as soon as later August, which will mark the first reduction in auction sizes in three years. The Treasury also announced they would begin selling in January floating rate debt whose yields change along with interest rates, a major shift in strategy driven by investor concerns about rising interest rates. Demand for floating rate securities sold by companies and banks has risen in recent months as investors seek protection from increasing yields. The Treasury said the initial floating rate notes would have a two-year maturity and it plans to expand into other maturities. The yield will be set based on the most recent yield of the 13-week Treasury bill auction. U.S. money market funds, that are required to buy very short-term securities, will be one of the targeted audiences, according to strategists. “For some investors, the Treasury floating rate notes may eventually become a substitute for money funds invested only in Treasury bonds,” said Alex Roever, head of short-term fixed income strategy at JPMorgan. “The notes will appeal to investors looking for a very high quality, liquid asset with limited interest rate risk.”



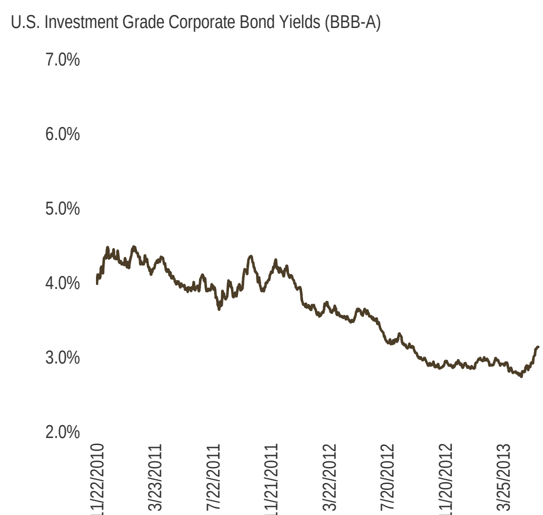
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	7.26.13	8.2.13	Change
3 month T-Bill	0.03%	0.04%	0.01%
2-Year Treasury	0.31%	0.30%	-0.01%
5-Year Treasury	1.36%	1.36%	0.00%
10-Year Treasury	2.58%	2.63%	0.05%
30-Year Treasury	3.61%	3.69%	0.08%

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



Source: Merrill Lynch



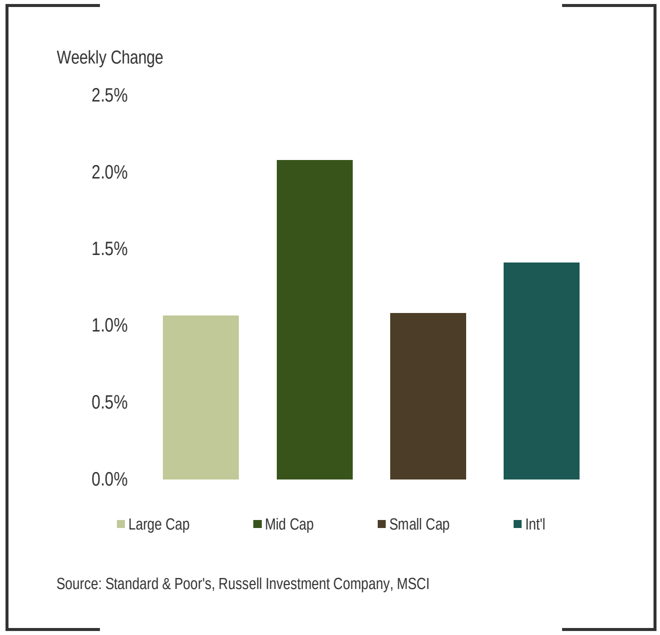
Source: Merrill Lynch

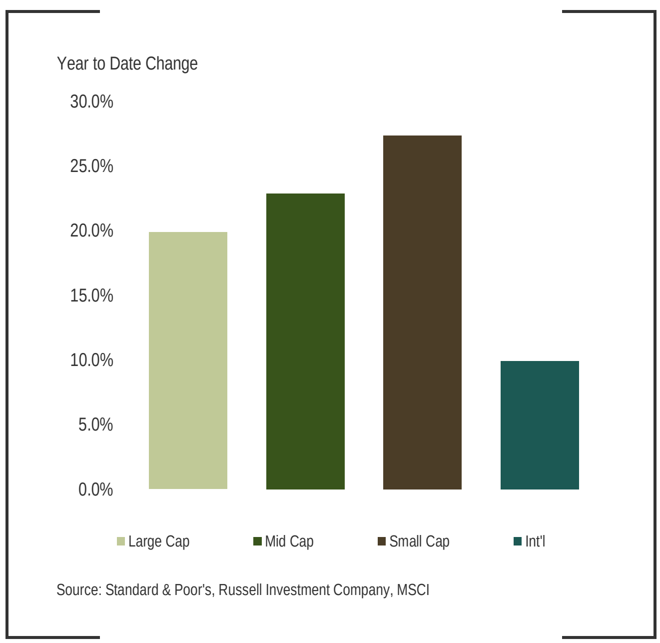
Stock Market Update

The stock market continued its trend in August where it left off in July by reaching new intra-week highs. This was also the case in Europe as the region's benchmark index finished at a two-month high on Friday. During the past week The Dow Jones Industrial Average closed at 15,658.36, finishing the week up 0.64%. The broader S&P 500 Index ended the week at 1,709.67, higher by 1.07% on the week. The NASDAQ Composite finished higher by 2.12% and closed the week out at 3,689.59.

Making news on Friday were shares of Dell (DELL) that were up more than 5% to $13.65 on news that Michael Dell and his private equity partner Silver Lake upped their bid for the company and also agreed to a new special dividend of 13 cents per share. More importantly, the company's special committee had agreed to a voting change so that abstentions no longer count as opposing votes. Carl Icahn, who owns 8.7% of the company, still feels that the offer is too low and continues to fight for a price in the range of $15.50 to $18.00 a share.

Also making news in the technology sector this week were shares of LinkedIn (LNKD), which posted better-than-expected quarterly results. The company reported earnings of $3.7 million on revenue of $363.7 million. During the same period last year the company earned $2.8 million on revenue of $228.2 million. Several analysts increased their fair value estimates for the company and the shares were up significantly on the news rising over 10% to close Friday at $235.28 a share. Year-to-date shares of LNKD have far exceeded the market with a return of 105%.





Issue	7.26.13	8.2.13	Change
Dow Jones	15,558.83	15,658.36	0.64%
S&P 500	1,691.65	1,709.67	1.07%
NASDAQ	3,613.16	3,689.59	2.12%
Russell 1000 Growth	768.55	780.87	1.60%
S&P MidCap 400	1228.27	1,253.77	2.08%
Russell 2000	1048.51	1,059.84	1.08%
MSCI EAFE	1,738.76	1,763.27	1.41%
MSCI Small Cap	181.51	184.02	1.38%

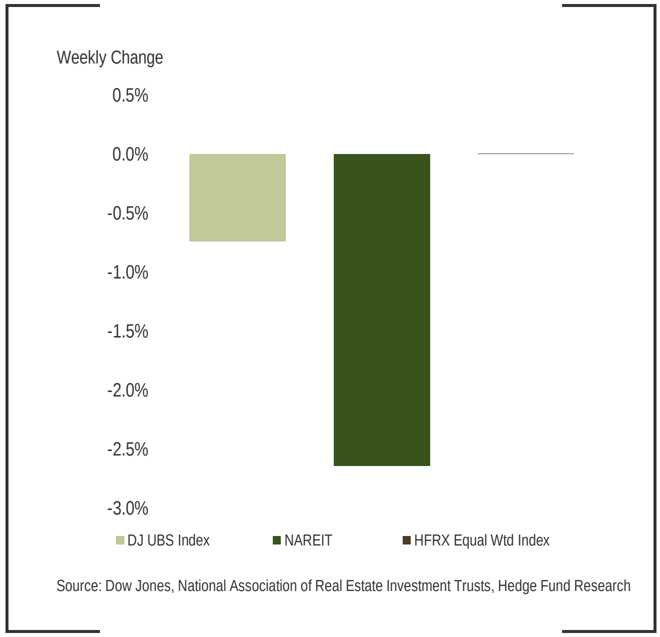
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

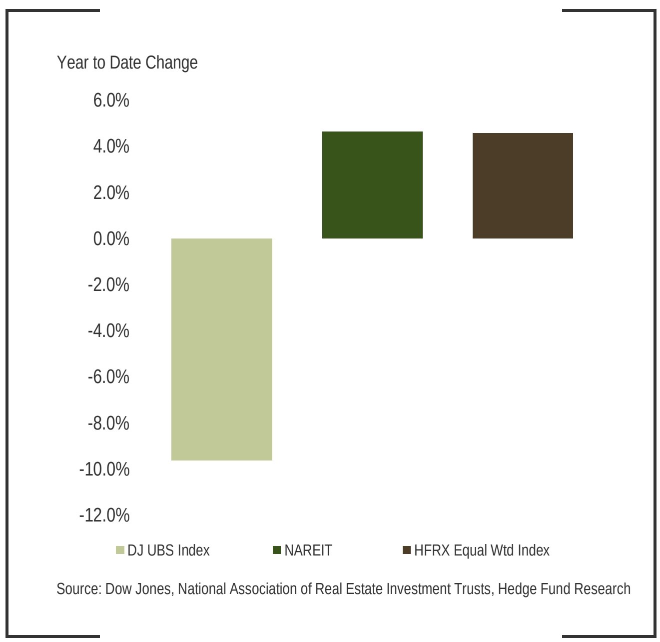
Alternative Investments Market Update

Gold rebounded on Friday as the dollar dropped after U.S. labor market reports brought into question the likelihood that the Federal Reserve would start tapering its commodities-supportive stimulus. These gains weren't enough to offset the precious metal's drop from earlier in the week, as bullion posted its first loss in four weeks thanks to the dollar rallying after the European Central Bank chief said eurozone interest rates would remain low for an extended period of time. Also, gold's 22% drop year-to-date is hurting the profitability of gold miners. The world's number one gold producer, Barrick Gold, posted an $8.7 billion write down and cut its dividend by 75% on falling gold prices. On a more positive note for the metal, holdings of the world's largest bullion-backed exchange traded fund (ETF), SPDR Gold Shares, were unchanged for a fifth day this week. Gold ETFs have recorded outflows of nearly 600 tonnes of metal this year, helping push prices down more than 20%.

Crude oil posted gains this week, even though prices fell Friday after growth in July U.S. non-farm payrolls was lower than expected. Analysts believe prices had been due for a correction following a sharp two-day 4.7% rise that pushed U.S. benchmark crude to a two-week high. Labor strikes in Libya, blocking more than 1 million barrels a day of crude-oil exports, had helped fuel earlier gains. The signals from the job market suggest that demand growth in the world's largest oil consumer will continue to be modest.

It was announced this week that America's largest hedge funds have $1.47 trillion in net assets, but more than $1 trillion in debt, according a new report from the Securities and Exchange Commission (SEC). Due to Dodd-Frank, the SEC issued the report, the first of its kind, to Congress last week. The new reporting rules require hedge fund managers with more than $1.5 billion in gross assets to file quarterly with the SEC. According to the report, 27% of the $1.47 in net assets could be divested within a day, 53% of the net assets could be liquidated in a week or less, and 71% would take no more than a month to sell.





Issue	Previous Week	Current[1]	Change
Gold	1,330.51	1,308.15	-1.68%
Crude Oil Futures	104.62	106.75	2.04%
Copper	310.70	316.40	1.83%
Sugar	16.47	16.79	1.94%
HFRX Equal Wtd. Strat. Index	1,175.44	1,175.45	0.00%
HFRX Equity Hedge Index	1,123.69	1,124.90	0.11%
HFRX Equity Market Neutral	944.97	946.97	0.21%
HFRX Event Driven	1,514.06	1,512.20	-0.12%
HFRX Merger Arbitrage	1,542.48	1,544.94	0.16%
Dow Jones UBS Commodity Index	126.62	125.68	-0.74%
FTSE/NAREIT All REIT	167.60	163.17	-2.64%

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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