MainStreet Advisors
Financial Market Update

August 9, 2013

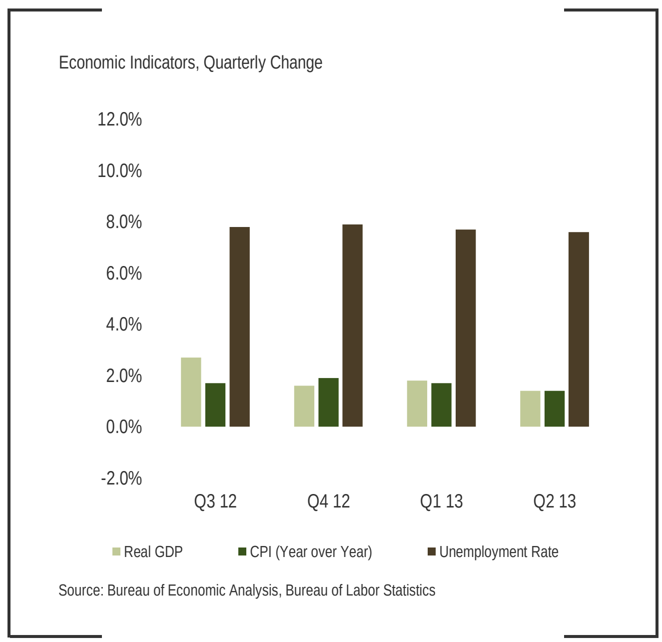
Economic Update

After being in a sideways channel for the past three months it now appears that initial unemployment claims are resuming their downward trend. The 4-week average for the number of Americans filing for first-time unemployment benefits fell 6,250 to a new recovery low of 335,500 for the week ended August 3. The improving job market further increases the odds that the Fed will begin to taper QE in September.

The service side of the economy showed substantial improvement with the ISM's non-manufacturing index climbing 3.8 points to 56.0. This was the best reading since February, and the new orders component rose nearly 7 points for its best reading since December. This, along with last week's strong manufacturing number, points to improved economic growth for the third quarter.

A decline in imports coupled with a rise in exports made for a surprisingly narrow trade gap in June. The trade deficit improved nearly $10 billion to -$34.2 billion which was more than $8 billion better than expectations. While this is backward-looking data, the magnitude of the surprise should equate to a much-improved estimate for second-quarter GDP. Looking forward, the Organisation for Economic Co-operation and Development (OECD) released its composite of leading indicators which showed the U.S. component at its highest level in five years. The United Kingdom and Japan are showing signs that economic growth is firming as well, and although still weak, the Eurozone LEI has turned up. In contrast, LEIs for Brazil, Russia, and China are all declining.

Chinese, exports and imports for the country both showed strong growth in July. This could be viewed as a positive, but the longer-term trend for exports is still declining and imports have been in a sideways channel for over two years. While iindustrial production and retail sales have both stabilized, a slowdown in bank loan growth points to further declines ahead. China's CPI remained elevated in July at 2.7%, which also suggests growth needs to remain slower.



Aug 5th	ISM Non-Mfg. Index, July	56.0
Aug 6th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.3%
Aug 6th	International Trade Balance Level, June	-34.2B
Aug 7th	MBA Purchase Applications Index, Wkly. Chg.	0.2%
Aug 7th	EIA Petroleum Status Report, Wkly. Chg.	-1.3M Barrels
Aug 7th	Consumer Credit, June Monthly Change	13.8B
Aug 8th	Initial Jobless Claims (week ending 8/3)	333,000
Aug 8th	EIA Natural Gas Report, Wkly. Chg.	96 bcf
Aug 9th	Wholesale Inventories, June Monthly Chg.	-0.2%

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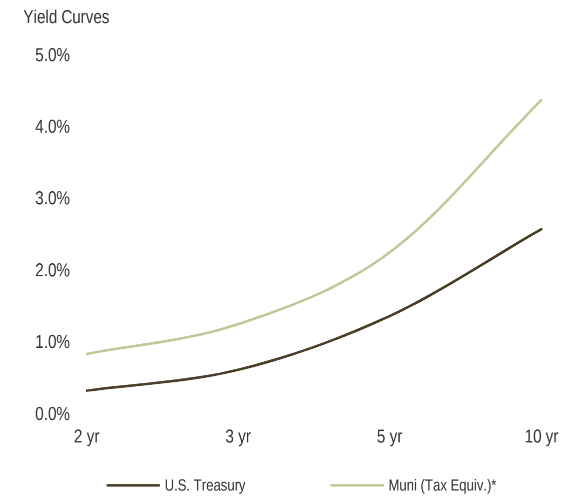
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

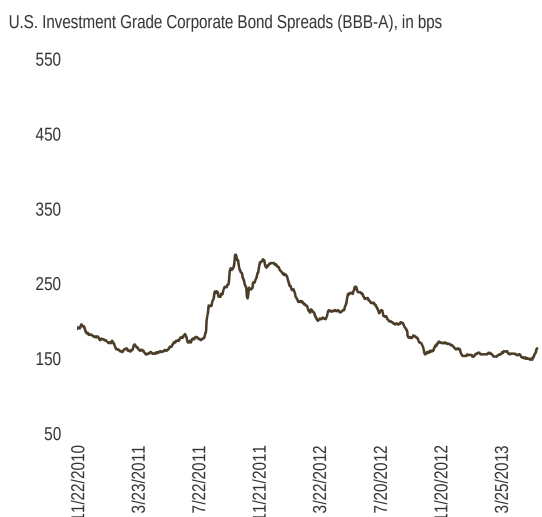
Despite volatility earlier in the week, U.S. Treasuries finished modestly higher as debate persists over the timing of the Federal Reserve's decision to scale back its bond-buying program. After a quiet week, market participants will look for direction from some key economic releases. Next week's retail-sales report will be a main gauge of consumer spending. Other important data points include the nonfarm jobs report on September 6 and the Fed's next policy meeting on September 17 and 18. Meanwhile, the trend in municipal bond fund and ETFs outflows continued, with investors redeeming from $1B to $1.5B weekly. Many strategists feel the selling pressure is creating an opportunity in munis, however, concerns over how Detroit bondholders will be treated in bankruptcy make it difficult to know when the bond fund hemorrhaging will stop. On a positive note, traders are starting to see cross-over buyers stepping into the market. These are insurance companies and hedge funds who only participate in the muni market when they can buy munis at levels more attractive than their taxable alternatives. At the same time, with rates having risen 1.00% to 1.50% on the AAA scale, the market is seeing the supply side tighten as new deals become economically unfeasible to refinance. Going forward, we believe the two biggest risks to the muni market include mutual fund flows/ETF redemptions and the market's reaction to potential QE tapering. Despite all of the headwinds against munis, we still believe there is a significant opportunity to capture attractive long-term returns as long as the investment horizon is over the next two to three years, not the next two to three months.



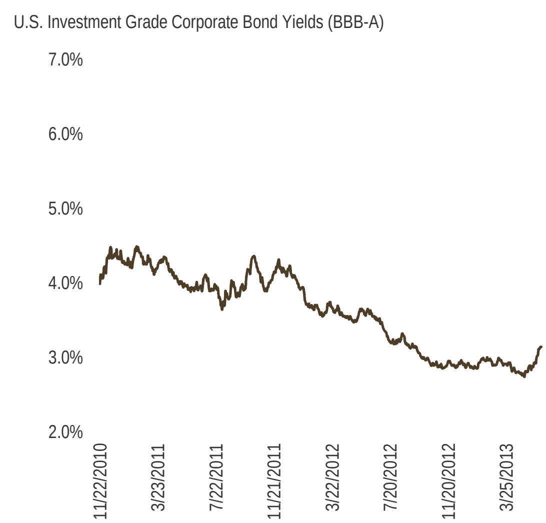
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	8.2.13	8.9.13	Change
3 month T-Bill	0.04%	0.05%	0.01%
2-Year Treasury	0.30%	0.32%	0.02%
5-Year Treasury	1.36%	1.36%	0.00%
10-Year Treasury	2.63%	2.57%	-0.06%
30-Year Treasury	3.69%	3.63%	-0.06%

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



Source: Merrill Lynch



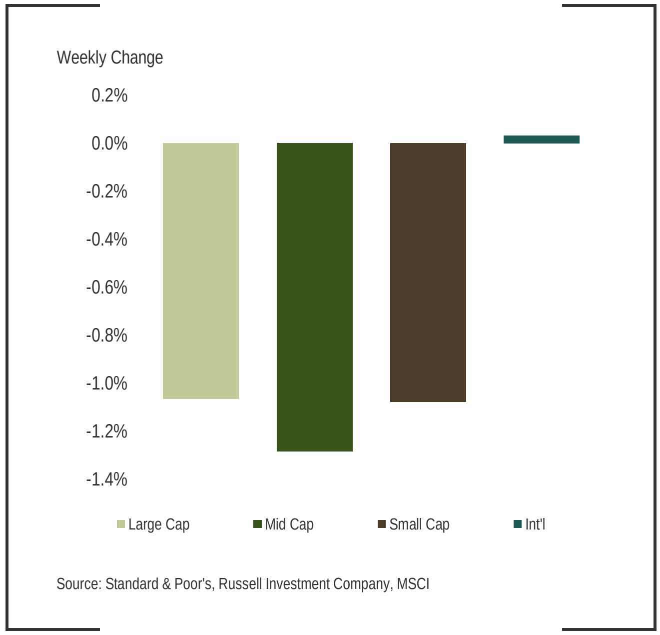
Source: Merrill Lynch

Stock Market Update

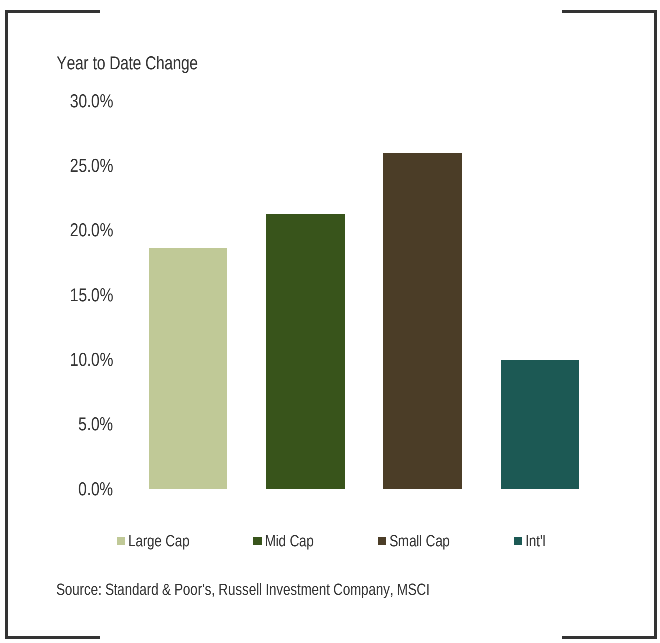
After finishing slightly higher on Thursday following three straight days of declines, domestic stocks dropped sharply on Friday, bringing an end to the Dow's six-week run of positive returns. Atlanta Fed president Dennis Lockhart's statement that the initial taper in the central bank's asset purchase program could start at any of the three remaining Federal Open Market Committee meetings this year scared investors. For the week, the Dow Jones Industrial Average fell slightly, -1.59%, closing at 15425.51. After a record close above the 1700 level last Friday, the broader S&P 500 Index ended 1.19% lower at 1691.42, while the NASDAQ Composite Index fell 0.8% for the week to finish at 3660.11.

Chinese stocks rose on Friday following reports that showed industrial production in July was up 9.7% from 2012, compared to +8.9% in June, its fastest rate of growth since February. In addition, consumer prices in China rose at a slower-than-expected 2.7% rate. For the week, the Shanghai Composite index was up 1.1%. Japanese stocks were down this week, falling 5.9% for the five-day trading period, as the yen hit a six-week high on Tuesday. Several stocks of Japanese exporters fell sharply after reporting poor earnings and cuts to their outlooks. Economic news from Europe was generally positive this week as German industrial orders beat forecasts in June to record their biggest rise since October and British manufacturing growth was above expectations. For the five-day trading session, European equities as measured by the Stoxx Index were up 0.6%.

With earnings season winding down, entertainment giants Disney and Time Warner both reported their second quarter results this week. Sports-related advertising revenue and solid box office receipts helped boost Time Warner's adjusted operating income up 25% for the quarter. Disney's The Lone Ranger did not fare as well as TWX's Man of Steel, leading the company to post a 36% decline in operating income for the studio entertainment division. Strength at the theme parks and media networks divisions helped the Disney company beat analysts' expectations.



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



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

Issue	8.2.13	8.9.13	Change
Dow Jones	15,658.36	15,425.51	-1.49%
S&P 500	1,709.67	1,691.42	-1.07%
NASDAQ	3,689.59	3,660.11	-0.80%
Russell 1000 Growth	780.87	773.70	-0.92%
S&P MidCap 400	1253.77	1,237.66	-1.28%
Russell 2000	1059.84	1,048.40	-1.08%
MSCI EAFE	1,763.27	1,763.82	0.03%
MSCI Small Cap	184.02	185.91	1.03%

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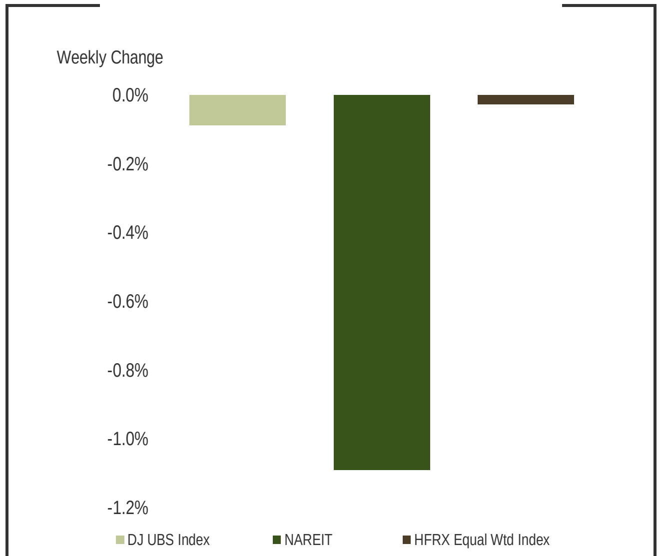
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

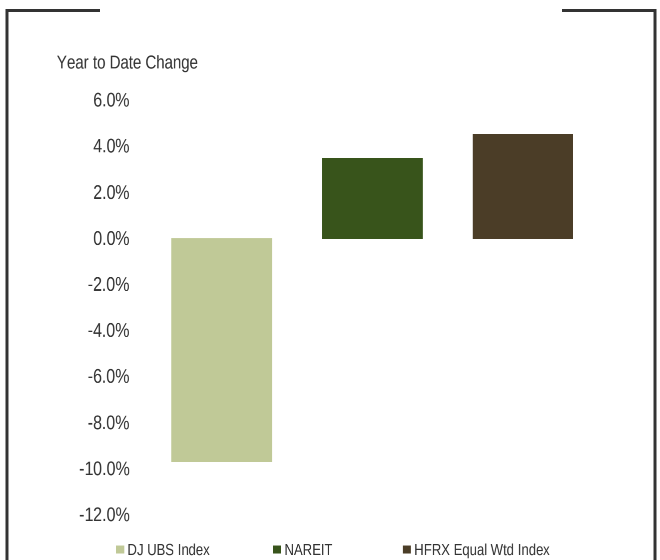
Gold finished the week higher, as the precious metal posted its highest gains in almost two weeks on Thursday. The dollar dropped for the fifth straight session on fears of moves by the U.S. central bank to taper its stimulus measures next month, which increased demand for the metal as an alternative investment. Gold gained nearly 2% on Thursday after having fallen to a three-week low earlier this week, its recovery was helped by the dollar's slide to a seven-week low. The precious metal was also supported by Friday's strong data from China that suggested economic optimism and news of falling mine output in South Africa.

Crude oil extended its rebound on Friday, looking to break a five-day losing streak and find support on a pickup in Chinese industrial production, but was still unable to escape from the negative territory over the week. The Organization of Petroleum Exporting Countries (OPEC), also announced this week that production by members was the lowest since March, as supply disruptions in Libya and Iraq undercut output. OPEC, in its monthly report, expected July output at 30.3 million barrels a day, down 100,000 barrels from the June production pace.

Hedge fund asset flows were negative for the first time this year in June, according to figures released this week by BarclayHedge and TrimTabs Investment Research. Hedge fund investors redeemed a net $8.6 billion in June, the largest outflow since October 2012 and a sharp turnaround from an $18.8 inflow in May. Despite this setback, year-to-date inflows to the hedge fund industry stayed positive at $27.1 billion. In the first five months this year, the industry took in $35.7 billion, compared with just $484 million during the same period last year. Also announced this week, global investors increased their allocations to Asian hedge funds in Q2, with net inflows to Asian hedge funds exceeding the flows to both U.S. and European-focused hedge funds, according to Hedge Fund Research's Asian Hedge Fund Industry Report. Investors allocated over $3 billion of new capital to Asian hedge funds, with new inflows concentrated in Equity Hedge strategies and Japan-focused funds. As of Q2, total capital invested in the Asian hedge fund industry increased to over $98.4 billion, the highest level since 2007. Total global hedge fund industry capital increased by nearly $40 billion to a record $2.41 trillion.



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	1,308.15	1,313.20	0.39%
Crude Oil Futures	106.75	106.01	-0.69%
Copper	316.40	330.90	4.58%
Sugar	16.79	16.98	1.13%
HFRX Equal Wtd. Strat. Index	1,175.45	1,175.13	-0.03%
HFRX Equity Hedge Index	1,124.90	1,128.35	0.31%
HFRX Equity Market Neutral	946.97	943.52	-0.36%
HFRX Event Driven	1,512.20	1,507.36	-0.32%
HFRX Merger Arbitrage	1,544.94	1,543.60	-0.09%
Dow Jones UBS Commodity Index	125.68	125.57	-0.09%
FTSE/NAREIT All REIT	163.17	161.39	-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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