MainStreet Advisors
Financial Market Update

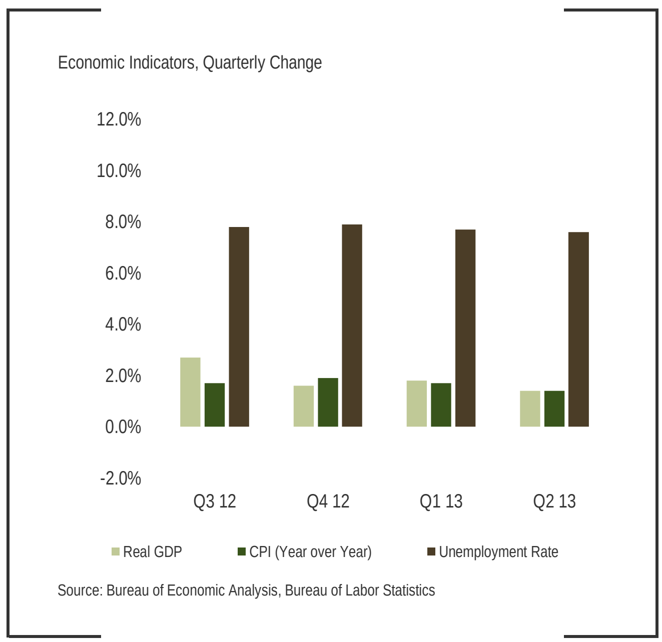
August 23, 2013

Economic Update

The minutes from the August FOMC meeting released this week indicated tapering QE in September was very much on the table, but the Fed is not firmly committed to it. At any rate, “almost all” participants indicated they were comfortable with reducing QE, so it is now only a question of when. Regardless of when they start, the Fed looks to be set on phasing out QE entirely by mid-2014. The employment report scheduled to be released September 6 will be the most influential data point in the Fed’s decision of whether or not to start tapering in September. With initial jobless claims breaking out to the downside and the 4-week average 15,000 lower than a month ago, there is decent potential for a good payroll report and as a result QE tapering in September.

Markit’s preliminary PMI for August increased to 53.9%, and the U.S. leading indicator increased 0.6% in July from the previous month. These two data points, along with the declining trend in initial claims, suggest U.S. real GDP accelerates in 3Q.

There was a big jump in existing home sales in the U.S. in July as a number of buyers rushed to the market in the face of rising mortgage rates. Sales rose 6.5% from June to an annual pace of 5.39 million, beating every estimate from economists, and were 17.2% higher than the same period last year. 30-year mortgage rates hit a two-year high of 4.58% this week, up 127 bps from the all-time low of 3.31% hit on November 21, 2012. Prices have also been climbing and are up 13.7% year-over-year, but so far these are not factors consumers are citing as reasons not to buy a house. If anything they have instilled a sense of urgency for buyers who want to get in before it is too late, but this will likely diminish the future pool of eligible buyers as demand is pulled forward. Market forces have also resulted in a resurgence of the much-maligned adjustable-rate mortgages, which have lower rates than 30-year fixed mortgages and now make up 6% of the application pool -- up from 3% at the beginning of the year. In sharp contrast to existing sales, new home sales fell well below expectations and data from previous months was revised lower. The 62,000 drop to an annual rate of 394,000 came as a surprise given the recent surge in the homebuilder’s market index.



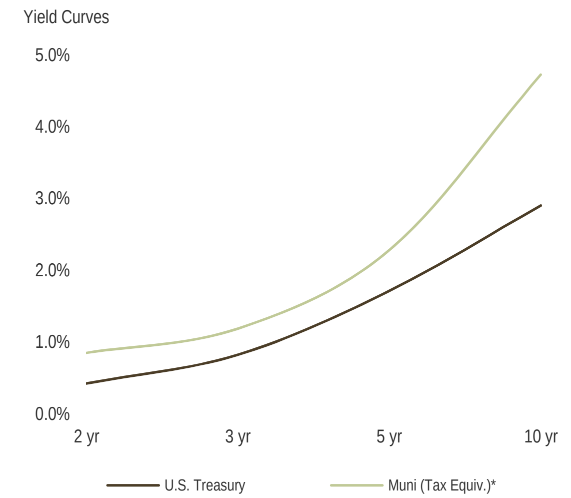
Aug 20th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.9%
Aug 21st	MBA Purchase Applications Index, Wkly. Chg.	-4.6%
Aug 21st	Existing Home Sales, July SAAR	5.39M
Aug 21st	EIA Petroleum Status Report, Wkly. Chg.	-1.4M Barrels
Aug 22nd	Initial Jobless Claims (week ending 8/17)	336,000
Aug 22nd	Leading Indicators, July Monthly Chg.	0.6%
Aug 22nd	EIA Natural Gas Report, Wkly. Chg.	57 bcf
Aug 23rd	New Home Sales, July	394,000

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 mostly unchanged as a weaker than expected U.S. home sales report on Friday tempered speculation the Fed will slow its bond-buying program as soon as next month. Some strategists feel the rally on Friday reflected a pull back of negative bets on bond prices along with many market participants staying on the sidelines in fear the sell-off is not yet over. Yields on 10-year notes touched their highest levels since July 2011 earlier in the week after Federal Reserve minutes showed most voting members of the central bank are prepared to taper quantitative easing should economic growth strengthen.

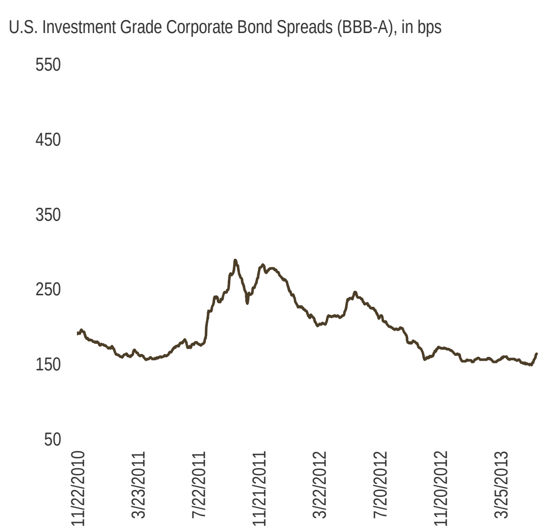
Over the past several years, market participants have invested heavily into bonds believing these securities would provide a steady stream of income with little risk of a sharp decline in prices. Between 2009 and 2012, U.S. bond mutual funds and ETFs experienced more than $1 trillion of inflows, according to TrimTabs Investment Research. However, this year sentiment toward the fixed income markets turned negative, with investors redeeming more than $30 billion from these same securities in August, the third largest monthly outflow ever. This follows a record $69.1 billion outflow in June, and a $14.8 billion outflow in July. Going forward, should sentiment remain quite negative, traders feel outflows will likely continue pulling yields even higher.



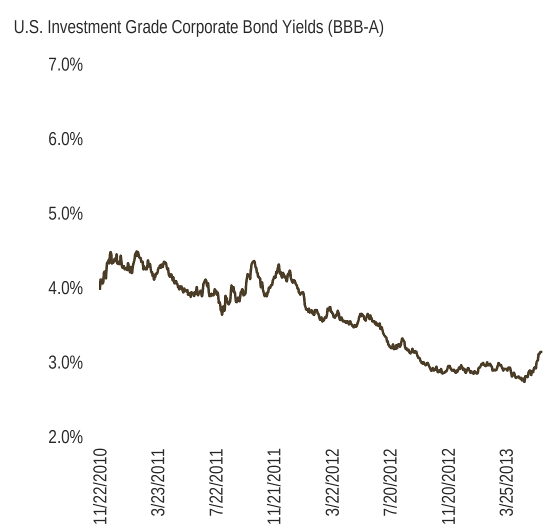
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	8.16.13	8.23.13	Change
3 month T-Bill	0.05%	0.03%	-0.02%
2-Year Treasury	0.36%	0.42%	0.06%
5-Year Treasury	1.60%	1.71%	0.11%
10-Year Treasury	2.84%	2.90%	0.06%
30-Year Treasury	3.86%	3.88%	0.02%

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



Source: Merrill Lynch



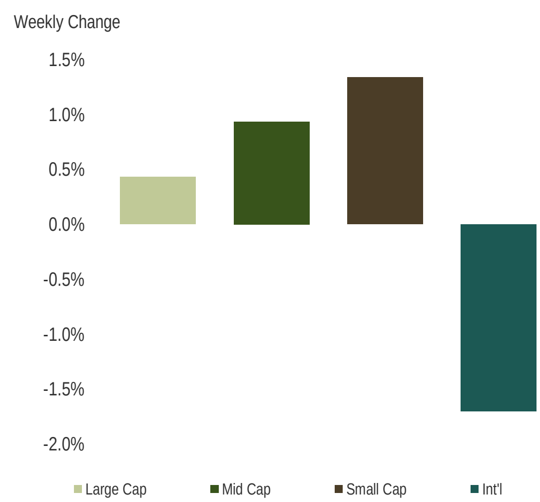
Source: Merrill Lynch

Stock Market Update

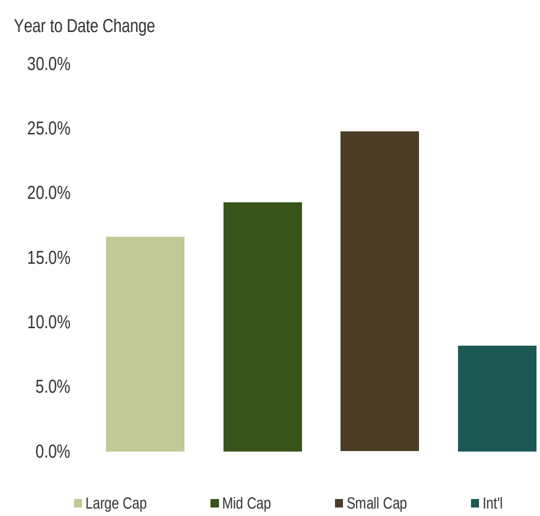
August has historically been a month with the lowest trading volume over the year and this week was no exception. As the earnings season continues to wind down and kids are going back to school the news was very light this week. During the past week the Dow Jones Industrial Average closed at 15,010.36, finishing the week down 0.47%. The broader S&P 500 Index ended the week at 1,663.50, higher by 0.39% on the week. The NASDAQ Composite finished higher by 1.53% and closed the week out at 3,657.79.

The biggest news of the week is what Wall Street has now termed the “Flash Freeze.” On Thursday the Nasdaq stock exchange closed intraday trading for a three-hour period for what has been described as a technology glitch. Over the past couple of decades, technology and computers have created a more efficient trading platform, lowered costs, and leveled the playing field for retail investors; however, it does bring into play the ability for technology to fail when it is needed the most. As trading platforms are shut down it reduces the liquidity in the market and can enhance risk and volatility. The Nasdaq stock exchange is a publicly traded company under the symbol NDAQ. Market reaction to the ‘technology glitch’ put pressure on shares of NDAQ which finished lower by almost 4 % on the day after trading resumed.

On Friday morning before the open it was announced by Microsoft that current CEO Steve Ballmer would retire within the next 12 months. Since taking over as CEO in 2000 the stock price of Microsoft has stayed relatively flat. The company struggled to compete in the mobile technology revolution that has been dominated by Apple and Google. Ballmer was employee number 30 at Microsoft and will retire as one of the richest people in the world with an estimated net worth close to $11 billion. The news of his retirement sent shares soaring in the premarket and Microsoft closed Friday up 7% at $34.76/share.



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



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

Issue	8.16.13	8.23.13	Change
Dow Jones	15,081.47	15,010.00	-0.47%
S&P 500	1,655.83	1,663.00	0.43%
NASDAQ	3,602.78	3,658.00	1.53%
Russell 1000 Growth	756.74	765.28	1.13%
S&P MidCap 400	1205.7	1,217.00	0.94%
Russell 2000	1024.29	1,038.00	1.34%
MSCI EAFE	1,765.48	1,735.38	-1.70%
MSCI Small Cap	185.71	184.00	-0.92%

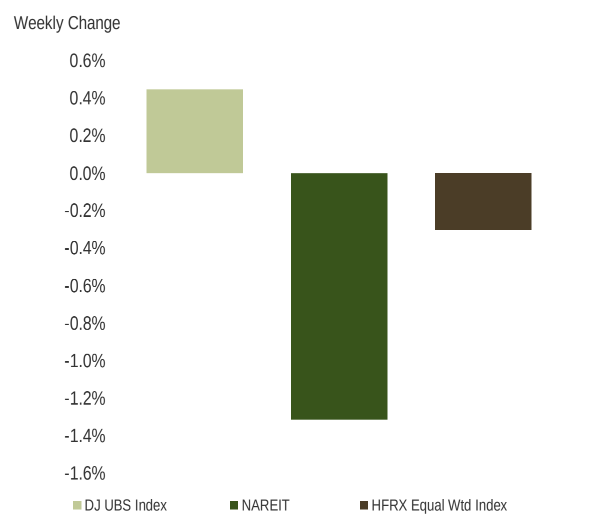
SEE IMPORTANT DISCLOSURES ON BACK PAGE.
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

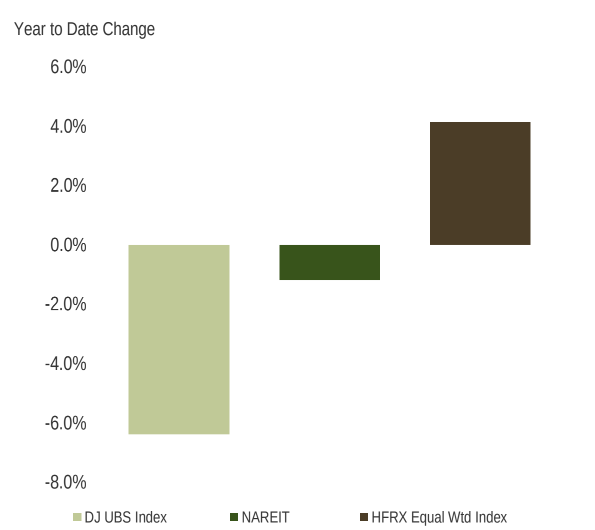
Gold struggled to break through a tight trading range and was little changed on Friday after strong U.S. jobs and manufacturing data added to concerns about an imminent pull back in the Federal Reserve's commodities-friendly stimulus measures. Bullion rose to a two-month high of $1,384.10 an ounce earlier this week and managed to finish the week slightly higher. The metal was helped by the start of the Hindu festival Raksha Bandhan in India, which usually marks a good time for Indians to buy gold. Gold jewelry demand in Indonesia is also set to expand to a four-year high as consumers in Southeast Asia's biggest buyer join India and China in increasing purchases as prices slump. Lower prices boosted Indonesia's total gold demand, including for investment, 55% to 16.4 tons in Q2 compared with a year earlier, increasing first-half consumption 11% to 33.4 tons, according to data from the producer-funded council. The precious metal has slid by nearly a fifth this year on the back of speculation that the Fed may rein in its $85 billion monthly bond-buying program as early as next month.

Crude oil traded higher thanks to growth in China's manufacturing sector, but was unable to escape the red after three days of losses. A preliminary gauge of Chinese manufacturing activity rose to 50.1 in August, from 47.7 in July, showing expansion in the vital sector and calming worries about a potential slowdown in oil consumption. China, the world's second-biggest oil consumer after the U.S., is expected to account for about 40% of the 900,000 barrel-a-day rise in global oil demand projected for this year by the International Energy Agency (IEA). Amid strong refiner demand, U.S. crude-oil inventories have dropped by 35 million barrels in the past eight weeks, including the latest decline of 1.4 million barrels, which put stocks at 359 million barrels, the lowest level since the end of August 2012, according to the IEA.

Strong demand for hedge funds in Europe and North America helped insure that, for now at least, June is the only month this year in which the industry has suffered outflows. Hedge funds took in about $5 billion in July, according to Eurekahedge, recovering some of the nearly $25 billion they lost to net outflows the previous month.



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	1,375.05	1,396.70	1.57%
Crude Oil Futures	107.67	106.40	-1.18%
Copper	336.70	335.70	-0.30%
Sugar	16.94	16.47	-2.77%
HFRX Equal Wtd. Strat. Index	1,174.10	1,170.55	-0.30%
HFRX Equity Hedge Index	1,123.02	1,112.62	-0.93%
HFRX Equity Market Neutral	937.88	937.07	-0.09%
HFRX Event Driven	1,513.29	1,504.84	-0.56%
HFRX Merger Arbitrage	1,545.25	1,543.96	-0.08%
Dow Jones UBS Commodity Index	129.61	130.18	0.44%
FTSE/NAREIT All REIT	156.14	154.09	-1.31%

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