

MainStreet Advisors Financial Market Update

August 30, 2013
[page 1]

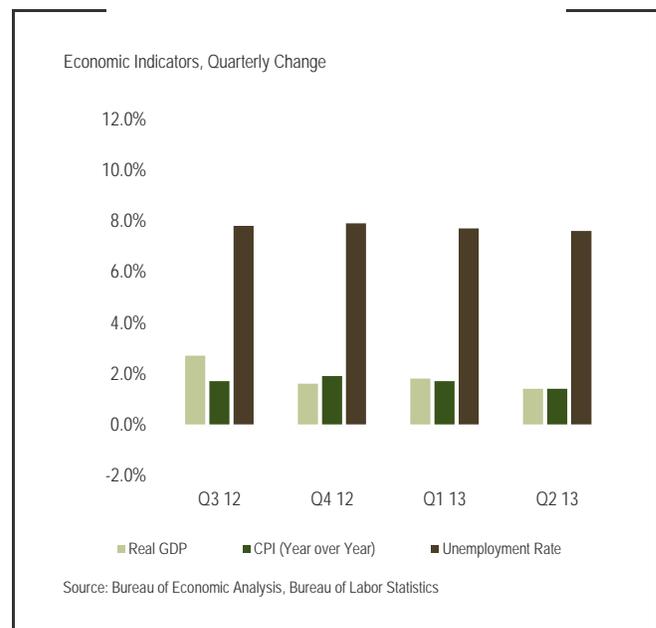
Economic Update

Real GDP growth for the second quarter was revised up to 2.5% from an initial estimate of 1.7%, beating expectations. A sharp increase in net exports led the improvement, but a buildup in inventory was also a contributor which is not very favorable. Labor market improvements have been good but economic growth is still far from strong, so it is likely the Fed will only taper a little in September if at all.

Consumer confidence improved slightly in August, according to the Conference Board, edging up a half-point to 81.5. There was a bit of weakness in the present situation component which was down 3.1 points, but the expectation for the future and the outlook for the job market both improved. The sample for the survey only included data up to August 15, so the recent pullback in the stock market and the events in Syria which are almost certain to get the U.S. involved in yet another military conflict in the Middle East were not yet factors. These events along with the uncertainty about the next Fed Chairman and the looming political theater surrounding the debt-ceiling are likely to put downward pressure on consumer confidence over the next couple months.

The confidence report also revealed a decline in consumers' plans for buying a home. This notion was reinforced by a 1.3% decline in pending home sales in July as higher mortgage rates seem to finally be discouraging buyers. As a result, existing home sales numbers for August and September will probably be softer. The rate of home price appreciation slowed down for the third month in a row according to a report from S&P/Case-Shiller. U.S. single family home prices for the largest 20 cities rose 0.9% in June, down from an average monthly gain of 1.4% from January to May. Year-over-year prices are still up an impressive 12.1% with the largest gains being seen in Las Vegas, up 24.8%, and San Francisco which is up 24.4%

Things in India are looking rather weak. The country is dealing with stagflation along with a current account deficit problem and government turmoil. India's rupee fell the most in two decades earlier this week and is down 20.1% so far this year. The recent surge in oil prices risks pushing India into a recession.



Aug 26 th	Durable Goods New Orders, July Monthly Chg.	-7.3%
Aug 27 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.2%
Aug 27 th	S&P/Case-Shiller 20-city Index, June Monthly Chg.	0.9%
Aug 27 th	Consumer Confidence Index, August	81.5
Aug 27 th	State Street Investor Confidence Index, August	105.1
Aug 28 th	MBA Purchase Applications Index, Wkly. Chg.	-2.5%
Aug 28 th	Pending Home Sales, July Monthly Chg.	-1.3%
Aug 28 th	Real GDP, Q2 Quarterly Change SAAR	2.5%
Aug 29 th	GDP Price Index, Q2 Quarterly Change SAAR	0.8%
Aug 29 th	Initial Jobless Claims (week ending 8/24)	331,000
Aug 29 th	EIA Natural Gas Report, Wkly. Chg.	67 bcf
Aug 30 th	Personal Income, July Monthly Chg.	0.1%
Aug 30 th	Consumer Spending, July Monthly Chg.	0.1%
Aug 30 th	Core PCE Price Index, July Monthly Chg.	0.1%
Aug 30 th	Consumer Sentiment Index, August	82.1
Aug 30 th	Chicago PMI Business Barometer Index, August	53.0

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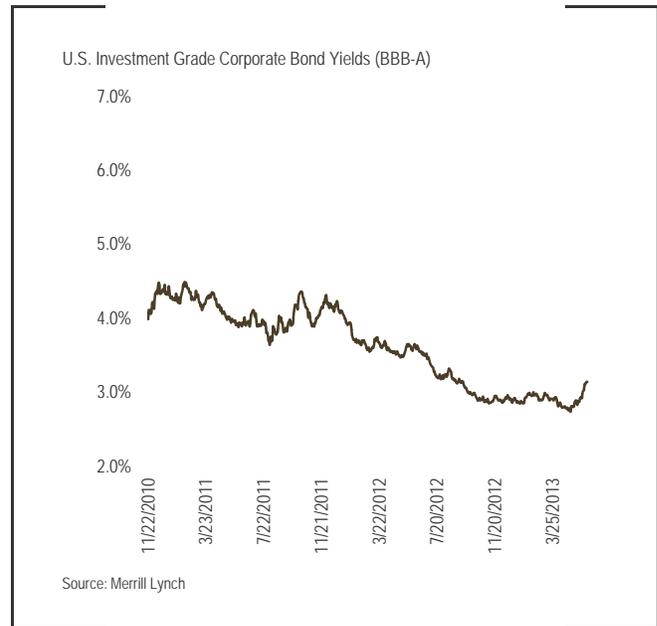
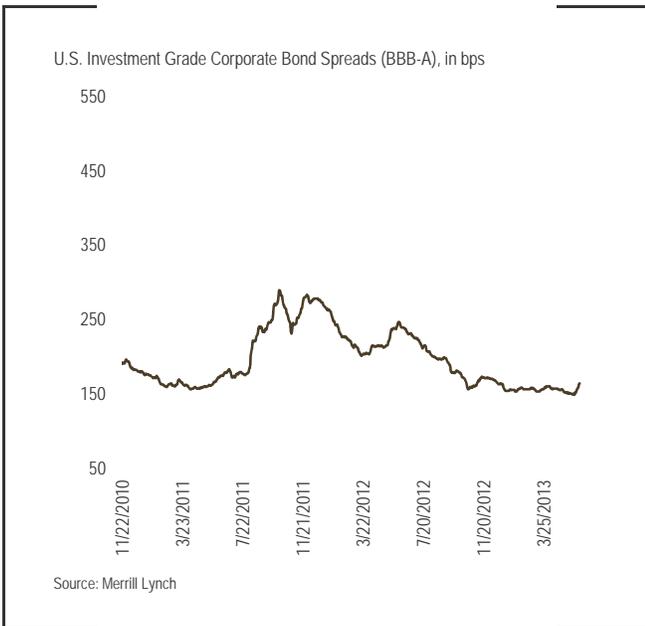
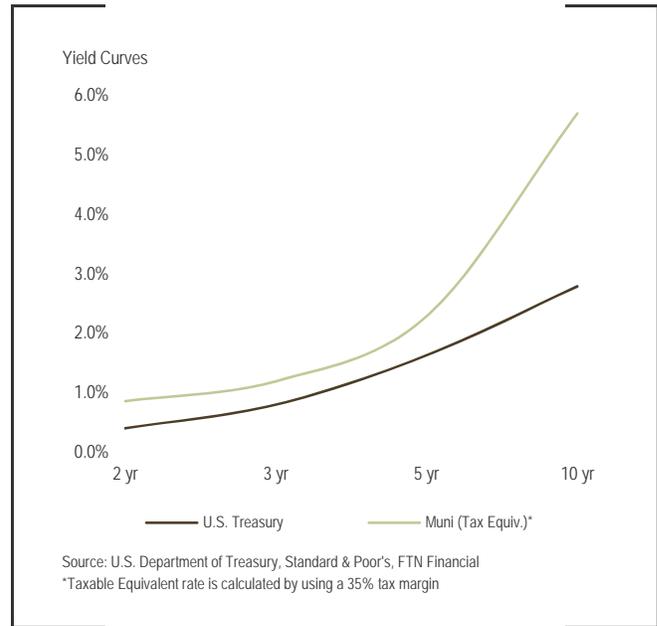
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Largely attributable to concerns over the prospect for U. S. military action in Syria, investor demand for safe-haven U.S. Treasuries increased driving the bond market higher for the week. However, U.S. government debt posted its fourth consecutive monthly loss in August, as investors remained fixated on the anticipated pullback in the Fed's bond-buying program. According to J.P. Morgan's fixed income strategy team, the Treasuries market has fully priced in a \$15 billion reduction in this program starting in September. After that, strategists feel the central bank could reduce purchases by another \$20 billion in December and March, before ending the stimulus package in June with a \$30 billion reduction. Because the Fed has been a buyer in the Treasuries market for nearly five years, the looming prospect of its withdrawal has caused investors to sell out of bond mutual funds, with approximately \$100 million of outflows over the last three months. At the same time, Fed Chairman Bernanke said last month that even if the fiscal stimulus program ends in 2014, the central bank would continue to keep short-term interest rates near zero to continue to support the economy. If the Fed manages to reassure investors the current monetary policy will be in place for an extended period, the rise in bond yields will likely remain in check. Meanwhile, sales of short-term corporate bonds have risen over the past two months as large global borrowers prepare for the potential of higher interest rates. In a sign of this change, the share of corporate debt maturing in ten years or less rose to almost 70% of total U.S. dollar-denominated sales last month, up from 47% in January. Strategists expect this trend to continue, as investors increasingly demand shorter maturity bonds to help minimize exposure to duration risk.

Issue	8.23.13	8.30.13	Change
3 month T-Bill	0.03%	0.03%	0.00%
2-Year Treasury	0.42%	0.39%	-0.03%
5-Year Treasury	1.71%	1.62%	-0.09%
10-Year Treasury	2.90%	2.78%	-0.12%
30-Year Treasury	3.88%	3.70%	-0.18%

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

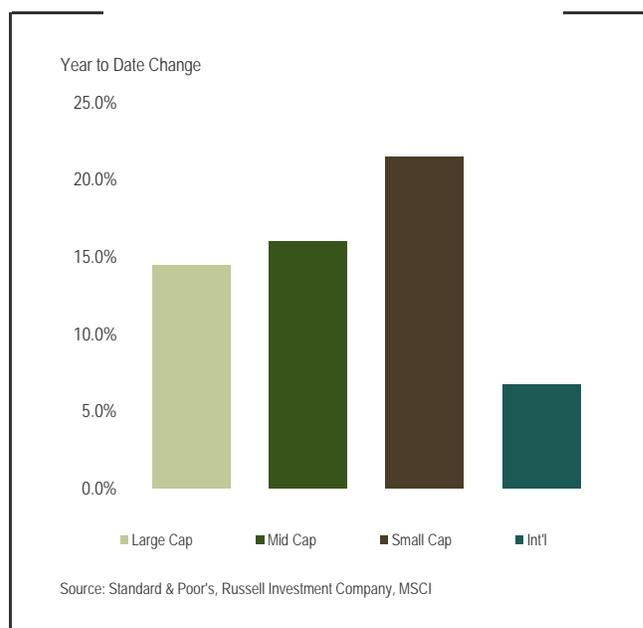
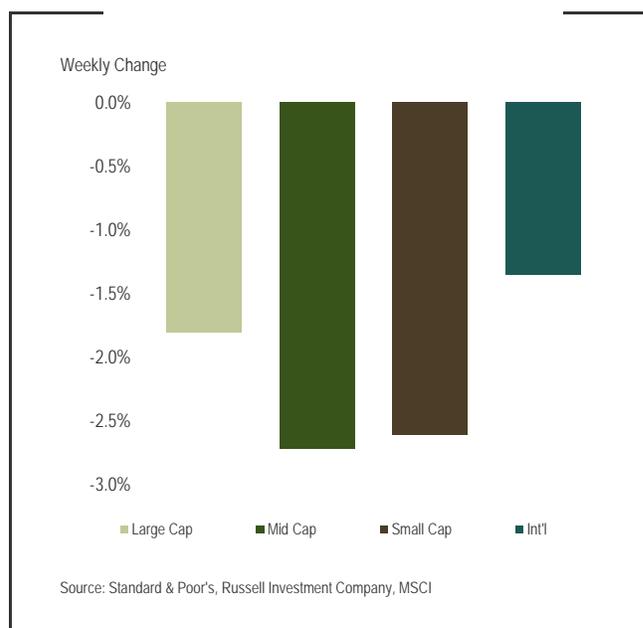


Stock Market Update

Domestic stocks ended August on a down note as continued worry over Fed tapering and the situation in Syria over-shadowed signs of an economy continuing to recover. The equity markets traded mostly lower for the week on continued very light volume, despite a higher than expected revision to second quarter GDP. The Dow Jones Industrial Average closed at 14,810.31, falling 200 points for the week, or down 1.33%. The broader S&P 500 Index ended the week at 1632.97, to close down 1.84%, while the NASDAQ Composite fell 1.86% for the week to finish at 3589.87.

Second quarter GDP was revised up to 2.5%, confirming that the economy is still growing and not showing signs of stalling. After-tax corporate profits rose to a new all-time high of \$1.68 trillion in the second quarter, up 7% from a year ago. European markets were generally weak as economic data was mixed with a negative reading on German retail sales, causing some concern amid an uneven economic recovery in Europe. One bright spot for the week came from China, where the Shanghai Composite rose 2% over the past week, its best weekly performance since March. In Japan, the Nikkei Index lost 2% for the week and finished August with a fourth straight monthly decline.

Both Verizon and Vodafone saw strong price gains Thursday on news that Verizon is close to buying Vodafone's stake in Verizon Wireless for \$130 billion. The deal would give Verizon, the biggest cellphone carrier in the U.S., full control of Verizon Wireless, the faster growing portion of their business. Vodafone is expected to pay down debt in addition to distributing a large portion of the proceeds to shareholders, most likely as a special dividend. Vodafone would also like to expand its wireless businesses in Europe, Africa and Asia through acquisitions.



Issue	8.23.13	8.30.13	Change
Dow Jones	15,010.00	14,810.31	-1.33%
S&P 500	1,663.00	1,632.97	-1.81%
NASDAQ	3,658.00	3,589.87	-1.86%
Russell 1000 Growth	765.28	752.05	-1.73%
S&P MidCap 400	1217	1,183.87	-2.72%
Russell 2000	1038	1,010.89	-2.61%
MSCI EAFE	1,735.38	1,711.89	-1.35%
MSCI Small Cap	184.00	180.91	-1.68%

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 fell about 1% Friday on U.S. jobs reports and news of the conflict in Syria. Jobless claims declined to 331,000 this week which was a reduction of 5,000 from the previous week. This data, along with a strong GDP revision gives the Fed more reason to go through with its plan of beginning QE tapering as improved economic data is one of the primary motivations for such action. British parliament rejected the suggestion of participation in an assault against Syria and U.S. officials admitted that they did not yet have the evidence needed to move forward with the use of military force. This apparent delay has quieted the typical rise in gold prices when global conflicts arise. Despite the slowdown this week, gold prices have risen nearly 7% in August and silver by over 20%.

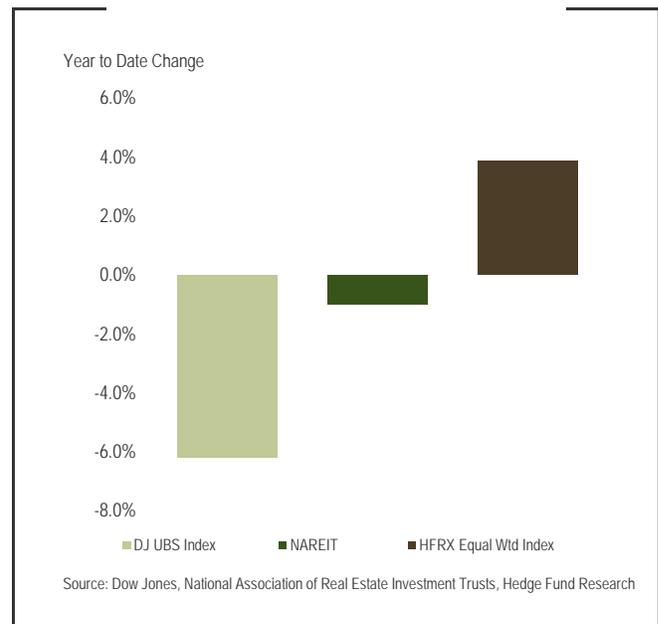
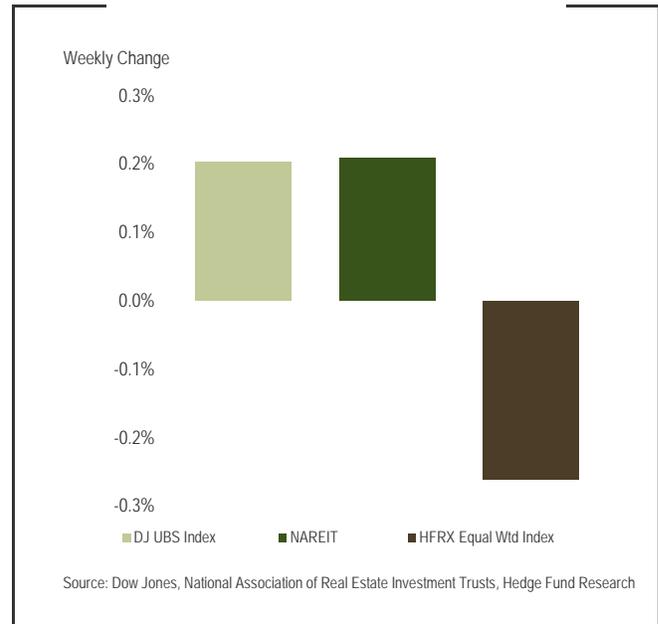
Oil futures also moved lower Friday with the news of uncertainty about U.S. action in Syria. WTI fell nearly 1% to \$107/barrel and Brent Crude dropped 0.3% to \$114/barrel. This comes after the market spiked earlier in the week as major military powers considered taking action against Assad for his apparent use of chemical weapons. The crude market appears to be in a holding pattern as news continues to surface with regards to the assault on Syria.

In hedge fund news, a new report found that over the past six years the most expensive funds, the ones that charge more than the standard 20% performance-based fee, have been the best performing managers. An increasingly competitive environment for hedge funds has caused many to improve management and performance-based fees in recent years. Elsewhere, Bill Ackman of Pershing Square reportedly sold his entire 18% stake in J.C. Penney (Ticker: JCP) at a \$473 million loss. Despite Ackman's loss of confidence in the major U.S. department store, many hedge fund managers continue to hold major stakes in the firm, including Soros Fund Management, Perry Capital, Citadel and SAC Capital.

Issue	Previous Week	Current ¹	Change
Gold	1,396.70	1,395.11	-0.11%
Crude Oil Futures	106.40	107.67	1.19%
Copper	335.70	323.55	-3.62%
Sugar	16.47	16.34	-0.79%
HFRX Equal Wtd. Strat. Index	1,170.55	1,167.49	-0.26%
HFRX Equity Hedge Index	1,112.62	1,101.02	-1.04%
HFRX Equity Market Neutral	937.07	932.39	-0.50%
HFRX Event Driven	1,504.84	1,504.73	-0.01%
HFRX Merger Arbitrage	1,543.96	1,543.35	-0.04%
Dow Jones UBS Commodity Index	130.18	130.44	0.20%
FTSE/NAREIT All REIT	154.09	154.41	0.21%

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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