

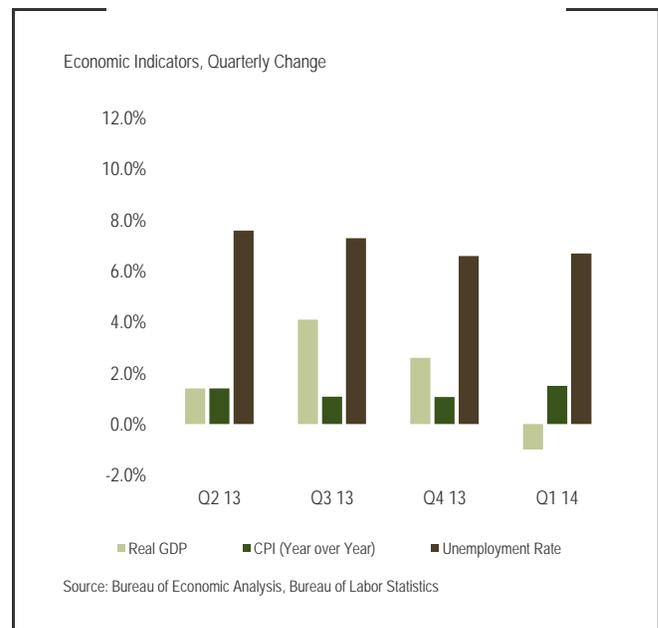
MainStreet Advisors Financial Market Update

July 11, 2014
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Economic Update

The U.S. trade deficit in goods and services came in this month at \$44.4 billion, \$2.6 billion smaller than last month, and nearly flat from this time last year. Exports increased by \$2.0 billion, propelled by autos, petroleum products, and diamonds while imports declined by \$0.7 billion. The improvement in the trade deficit can be at least partially attributed to the boost in energy production within the United States. In 2006 the U.S. imported 11 times as much petroleum products as it exported. In the eight years that have passed since that time petroleum exports have grown by 409% while imports have risen just 1.5%, shrinking the ratio of petroleum imports to exports to just 2.2 from 11. In addition to the production elements, new policy in the U.S. that allows different types of oil to be shipped to foreign buyers is boosting energy export potential. These factors could lead to a petroleum trade balance or even a surplus in the coming years.

The Fed released minutes for the June FOMC meeting and a final date has been set for the end of quantitative easing bond purchasing, granted economic data remains on track. The release states that a final \$15 billion cut will be made in October of this year to end the bond buying program, which began in January and cut \$10 billion each month from the initial \$85 billion monthly purchase. As Q3 ends, the Federal Reserve will have a balance sheet of over \$4 trillion and excess reserves of \$2.6 trillion. How does the Fed return its balance sheet to normal and eliminate those excess reserves so that the federal funds rate can begin to rise again? That \$2.6 trillion is a potential inflation trigger; those reserves will boost the economy as they make their way down to banks and businesses, but added money supply leads to inflation. For now there is no apparent plan to deal with this balance sheet situation, so monetary policy will remain easy for the time being.



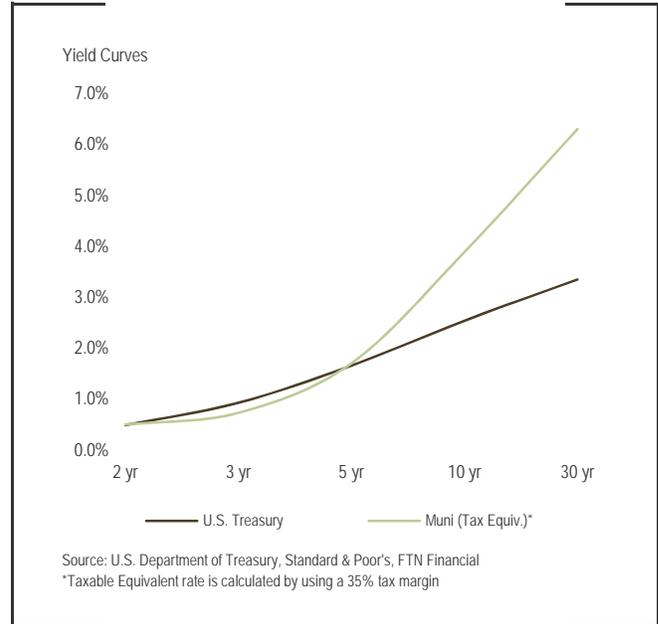
June 30th Chicago PMI Business Barometer Index, June	62.6
June 30th Pending Home Sales, May Monthly Chg.	6.1%
July 1st ISM Mfg. Index - Level, June	55.3
July 1st Construction Spending, May Monthly Chg.	0.1%
July 2nd Factory Orders, May Monthly Chg.	-0.5%
July 3rd Non-farm Payrolls, June Monthly Chg.	288,000
July 3rd Unemployment Rate, June	6.1%
July 3rd International Trade Balance Level, May	\$ -44.4B
July 10th Initial Jobless Claims (Week ending 7/5)	304,000

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.

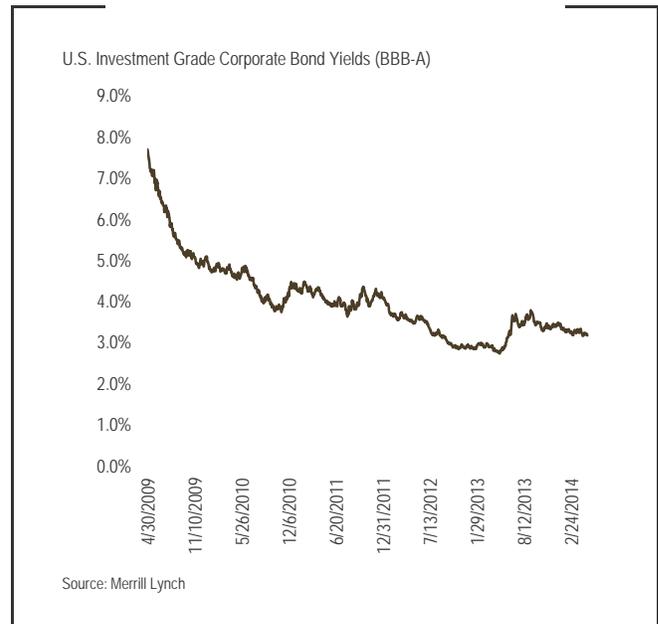
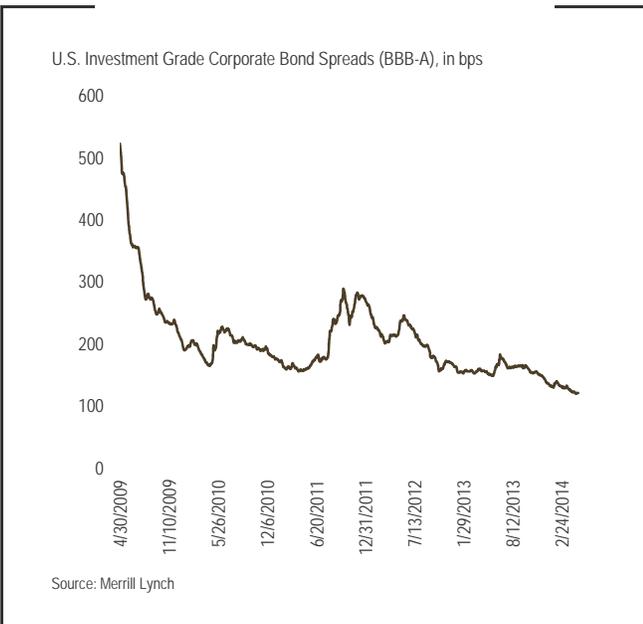
Bond Market Update

After a sell-off last week, U.S. Treasuries rallied for the largest weekly gain in almost four months as a resurgence of financial stresses in Europe, particularly Portugal, spurred demand for safe-haven assets. Portugal's second biggest lender missed a payment on short-term debt, sending prices on the country's government debt sharply lower and sparking concerns of further disappointment from other countries the euro zone. Another driver of demand for Treasuries included minutes from the Federal Reserve June policy meeting indicating the central bank would not move up its plans for an interest hike to early next year. Meanwhile, Puerto Rico's debt has ballooned to over \$73 billion, more than any other U.S. state with the exception of California and New York. At the same time, credit-default swaps, used to speculate on the ability of municipal bond insurers to make good on their guarantees, have jumped amid a report that two of the large insurers have hired restructuring advisors, a sign the commonwealth is likely moving toward some form of reorganization. Despite demand from distressed debt investors for Puerto Rico munis, prices on swap contracts tied to MBIA and Assured Guaranty, two large bond insurers, rose to near all-time high levels. We continue to recommend that investors sell all positions in the commonwealth's debt, including insured bonds.



Issue	7.4.14	7.11.14	Change
3 month T-Bill	0.02%	0.02%	0.00%
2-Year Treasury	0.49%	0.48%	-0.01%
5-Year Treasury	1.71%	1.65%	-0.06%
10-Year Treasury	2.64%	2.53%	-0.11%
30-Year Treasury	3.46%	3.34%	-0.12%

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



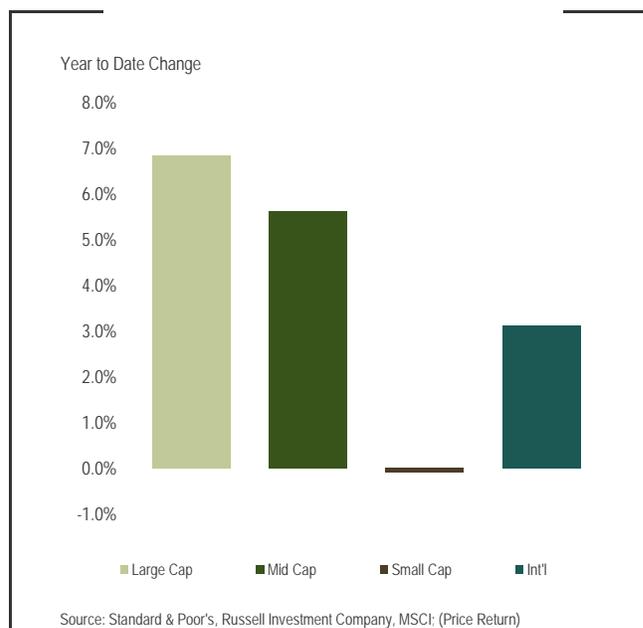
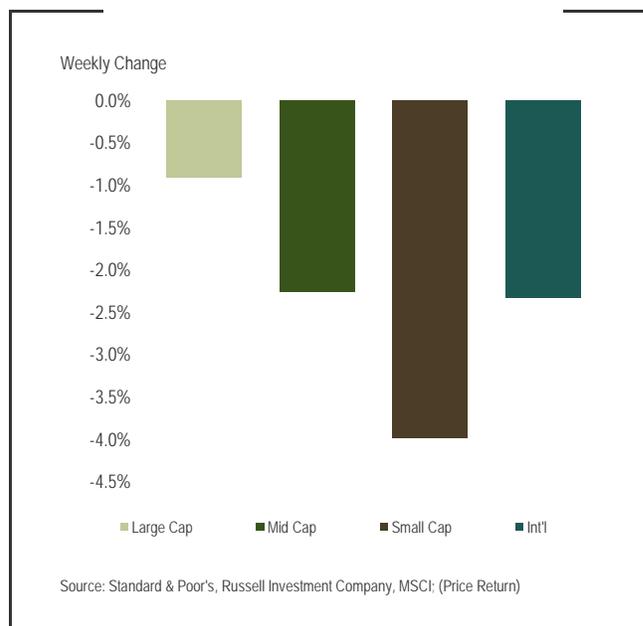
Stock Market Update

After surpassing the 17,000 level last week, stocks sold off across the globe as investor took profits ahead of earnings season. Fears of another European banking crisis weighed on investor sentiment on Thursday, as did weak economic data from Europe and Asia. For the week, the Dow was down 0.7% to close out at 16,943.81. The broader S&P 500 Index declined 0.9% to end the week at 1,967.51. The tech-heavy NASDAQ Composite Index was the weakest, falling 1.6% to finish Friday at 4,415.49. Small cap stocks as measured by the Russell 2000 Index, which had rallied back in June after poor performance earlier in the year, were down nearly 4% for the week.

European equities were hit hard on Thursday when Portugal's largest publicly traded bank announced it had missed payments on some of its debt, sending the stock market in Portugal down 4% and other European bank shares plummeting. Also weighing on sentiment was news that industrial production in France and Italy was lower than expected. The STOXX 600 Index closed at its lowest level since May, and was down 3.2% from last Friday's close. Markets in Asia also struggled this week. Japanese stocks were down for five straight days. The government reported that core machinery orders fell nearly 20% in May, the sharpest decline since April 2005. Chinese exports were also below expectations. The Nikkei Index declined 1.8% and the Shanghai Composite Index fell 0.6% for the week.

Earnings season began on a positive note with Alcoa reporting results ahead of expectations. The company's second quarter earnings per share of \$0.18 and revenue of \$5.84 billion were ahead of estimates for \$0.12 and \$5.7 billion on strength in its aluminum smelting business and cost cutting initiatives. The stock is now up 49% year to date. Wells Fargo, the first major financial firm to report earnings, posted its eighteenth quarter of year-over-year profit growth. Declines in the company's mortgage unit were offset by stronger lending and lower credit loss provisions. Finally, in a sign the low end consumer may not be benefitting from the economic recovery, Family Dollar's quarterly earnings came in at the low end of expectations, and the company lowered guidance for the full-year 2014.

Name	Previous Week	Current ¹	Change
S&P 500	1,985.44	1,967.51	-0.90%
S&P Mid Cap 400	1,444.14	1,411.48	-2.26%
Russell 2000	1,208.13	1,160.01	-3.98%
MSCI EAFE	1,990.23	1,943.87	-2.33%
MSCI EM	1,060.57	1,062.37	0.17%
DJ Industrial Average	17,068.26	16,943.81	-0.73%
NASDAQ	4,485.93	4,415.49	-1.57%



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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, Cornerstone, Morningstar

Alternative Investments Market Update

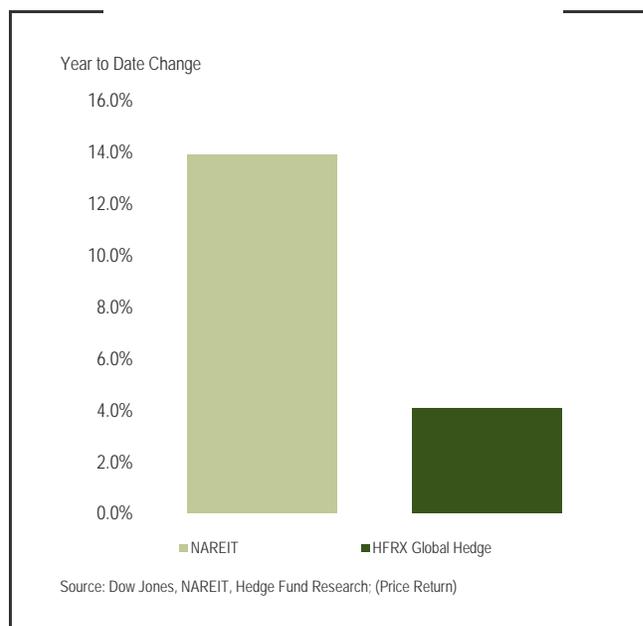
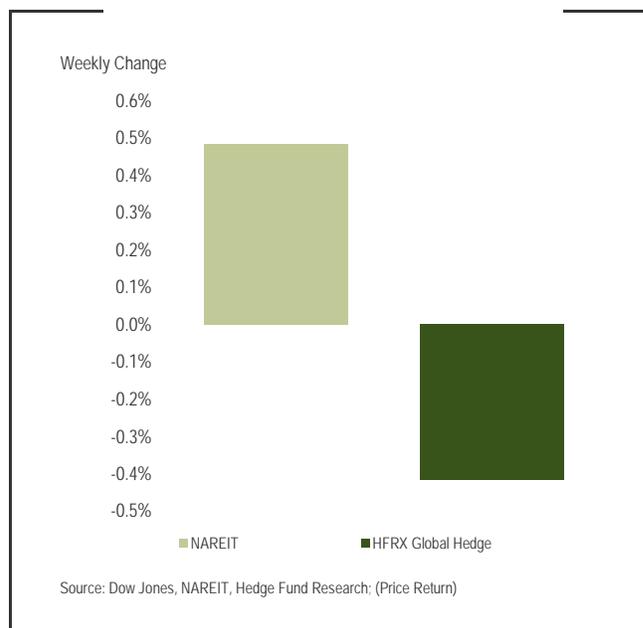
Gold is headed for the longest run of weekly gains since August 2011 as concerns about Europe's economy and the Middle East have boosted haven demand. The precious metal rallied as much as 1.7% yesterday after a company linked to Portugal's second largest bank missed debt payments, reigniting concern about Europe's sovereign-debt crisis. Bullion often attracts investors during periods of political or financial stress as some buy the metal as an alternative to currency, while others view it as a better store of value than other assets.

West Texas Intermediate (WTI) suffered its third straight weekly drop as supply risks eased in Libya and Iraq while crude inventories expanded domestically. Libya's supply gained as the Sharara field resumed production and two oil-export terminals reopened. The ongoing fighting in Iraq hasn't spread to the country's south, home to three-quarters of its output. Crude stockpiles at Cushing, Oklahoma, the delivery point for WTI and the biggest U.S. oil-storage hub, rose the most since January, the Energy Information Administration reported this week.

Rain that has washed out portions of fields in several corn-growing states prompted the U.S. government to lower its estimate of this year's corn crop size, but soybean fields may actually produce more than previously expected. According to the USDA, the national average per acre yield of corn is expected to remain at a record 165.3 bushels per acre, but the number of acres harvested will be about a half million less than expected last month at 83.8 million acres. Soybean production estimates were boosted to a record 3.8 billion bushels, which is 165 million bushels higher than last month's estimate.

Hedge funds that trade on corporate deal making and agitate for change in boardrooms have been the winners in the first half of the year as managers that try to anticipate wider economic trends have suffered. The so called event-driven hedge funds, which broadly try to profit by making trades based on company specific deals such as takeovers and refinancing, returned 4.3% through the first six months of the year, outpacing overall returns of 3.2% across all hedge fund strategies after fees. The Hedge Fund Research data showed that the average manager failed to beat both U.S. equities, as measured by the S&P 500 or the low fee Vanguard Total Bond Fund, over the period.

Name	Previous Week	Current ¹	Change
FTSE/NAREIT All REIT Index	178.01	178.87	0.48%
HFRX Global Hedge Index	1,249.75	1,244.54	-0.42%
Gold	1,321.10	1,337.99	1.28%
Crude Oil Futures	103.76	100.71	-2.94%



SEE IMPORTANT DISCLOSURES ON BACK PAGE.

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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