

MainStreet Advisors Financial Market Update

October 16, 2009
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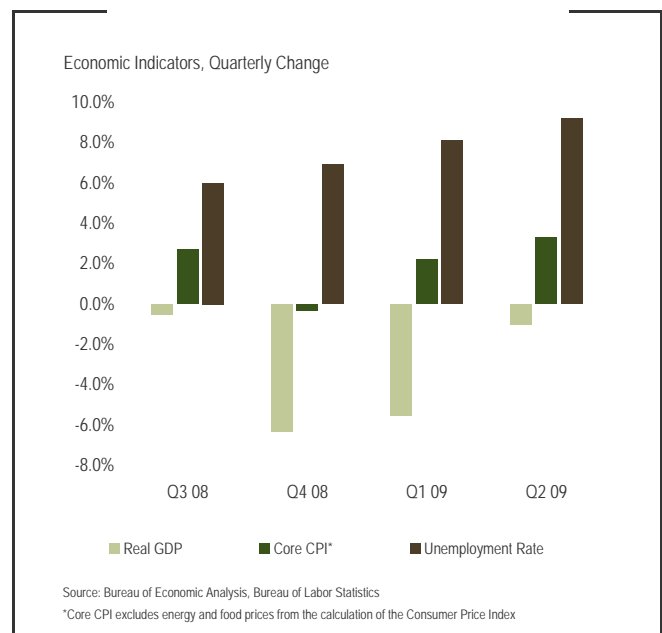
Economic Update

Consumer sentiment declined in early October amid continued concerns about personal financial situations, as show by the Reuters/University of Michigan Survey of Consumers. Reuters reported that personal financial situations have experienced the “longest and deepest decline in the 60-year history of the surveys.” This suggests that consumer spending will continue to be muted in the coming months. The U.S. Department of Commerce reported this week that September retail sales declined 1.5% from August, down 5.7% from last September. According to Bloomberg, this was largely reflective of lower auto sales following the Cash for Clunkers program.

Businesses successfully continued to reduce inventories in August. The Commerce Department reported that manufacturers’ and trade inventories adjusted for seasonal variance, declined 1.5% from the previous month and are 13.3% lower than August 2008. Federal Reserve Chairman Ben Bernanke noted the importance of getting inventories to more normal levels several times in recent months. The Philadelphia Federal Reserve’s Business Outlook Survey, released this week, reported that the manufacturing sector has continued to strengthen. While the survey reflects a recovery in the sector, the composite indexes indicate very modest growth. On Friday, the Federal Reserve announced that industrial production increased 0.7% in September. This caused overall output to increase at a seasonally adjusted annual rate of 5.2% for the third quarter—the strongest quarterly activity since 2005.

The Consumer Price Index (CPI) advanced 0.2% in September, according to the U.S. Department of Labor. In the last year, CPI has declined 1.3% on a seasonally adjusted basis. Prices excluding food and energy, or core CPI, increased 0.2%. The report showed that food and energy prices have both trended lower over the past year. Separately, the Labor Department reported that the U.S. Import Price Index increased 0.1% last month, following a 1.6% gain in August. A 1.8% decrease in fuel prices helped offset increases in non-fuel imports. Prices for U.S. exports decreased 0.3% in September, down from a 0.7% increase the previous month.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, The Wall Street Journal, Reuters.



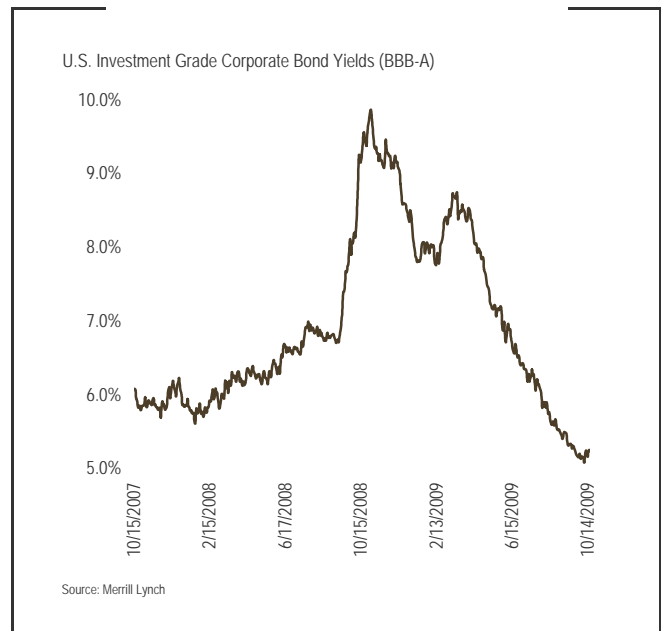
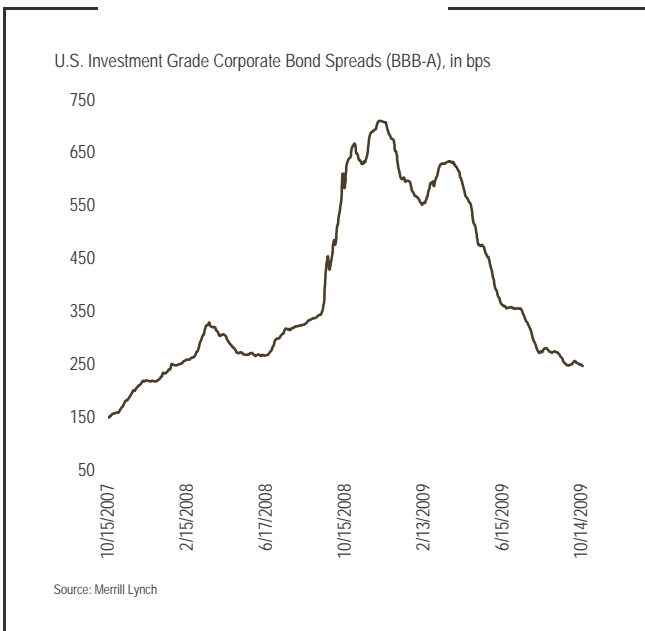
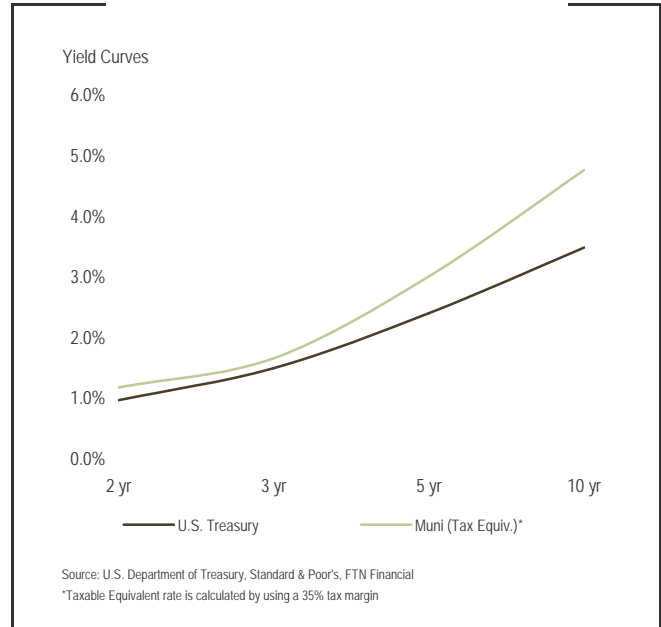
Oct. 13 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.6%
Oct. 14 th	MBA Purchase Applications Index, Wkly. Chg.	-5.0%
Oct. 14 th	Retail Sales, September Monthly Chg.	-1.5%
Oct. 14 th	Export Prices, September Monthly Chg.	-0.3%
Oct. 14 th	Import Prices, September Monthly Chg.	0.1%
Oct. 14 th	Business Inventories, August Monthly Chg.	-1.5%
Oct. 15 th	Consumer Price Index, September Monthly Chg.	0.2%
Oct. 15 th	Empire State Mfg Survey, October	34.57
Oct. 15 th	Initial Jobless Claims (Week ending 10/10)	514,000
Oct. 15 th	Philidelphia Fed Survey, October	11.5
Oct. 15 th	EIA Natural Gas Report, Wkly. Chg.	58 bcf
Oct. 15 th	EIA Petroleum Status Report, Wkly. Chg.	0.4M Barrels
Oct. 16 th	Frgn Dmnd for LT US Securities, August	28.6B
Oct. 16 th	Industrial Production, September Monthly Chg.	0.7%
Oct. 16 th	Consumer Sentiment Index, October	69.4

Bond Market Update

U.S. Treasuries finished the week mostly unchanged, although the 30-year bond posted a strong return on Friday benefiting from weakness in the U.S. stock markets. Some market participants, including Pimco's Bill Gross, feel Treasuries are relatively cheap given a sluggish U.S. recovery and tepid short-term inflation expectations. Pimco's Total Return Fund recently increased U.S. government debt from 44% to 48% of the portfolio and cut mortgage bond holdings to the lowest level since 2005. Should inflation remain subdued, the Treasury markets may be on the cusp of what's known as a "bull flattening" in which yields on long dated bonds fall more than rates on short-term paper. Meanwhile, a recent report from the Treasury Department showed international demand for long-term U.S. Treasuries rose in August as Japan and Russia increased their positions. China remained the largest foreign holder of U.S. debt at \$797.1 billion, followed by Japan with \$731 billion, and Russia holding \$121.6 billion. Highlighting imbalances in trade and investment, China's reserves grew to a record \$2.3 trillion in the third quarter. In an effort to promote more balanced economic worldwide growth, Group of Seven (U.S., U.K., Canada, France, Italy, Germany and Japan) finance officials recently recommended a stronger Chinese currency, at odds with Treasury Secretary Geithner's strong dollar position.

Issue	10.9.09	10.16.09	Change
3 month T-Bill	0.06%	0.07%	-0.01%
2-Year Treasury	0.97%	0.97%	0.00%
5-Year Treasury	2.35%	2.41%	0.06%
10-Year Treasury	3.38%	3.49%	0.11%
30-Year Treasury	4.22%	4.31%	0.09%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



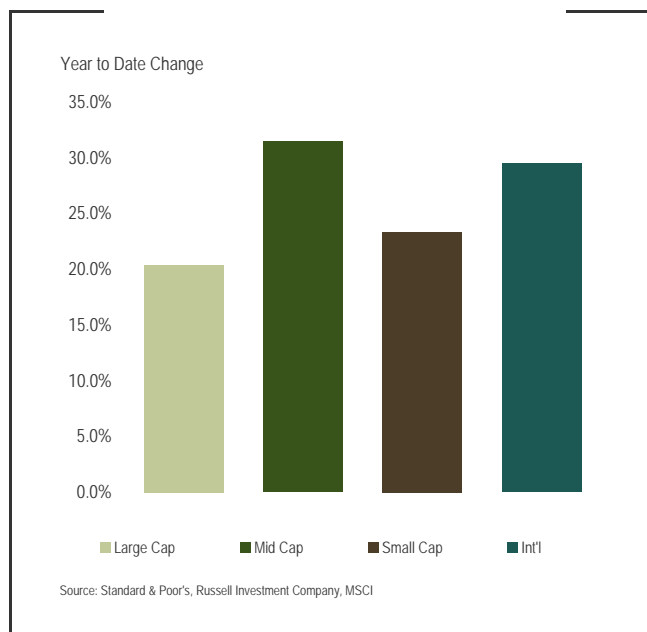
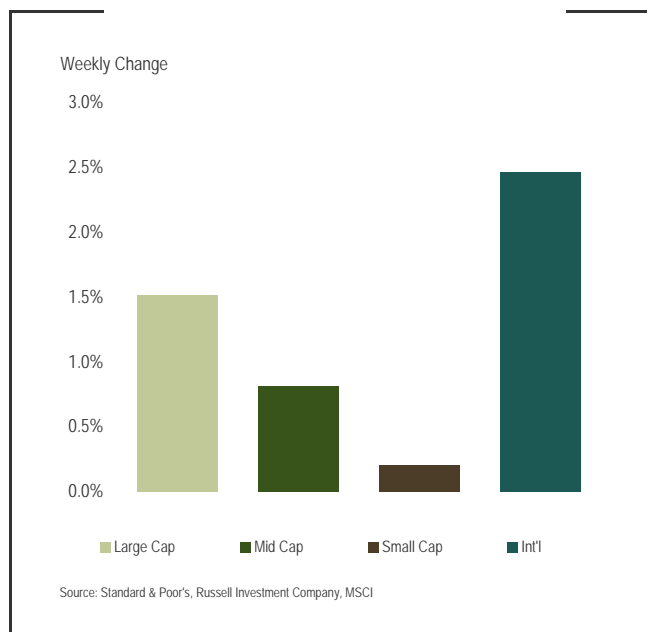
Stock Market Update

Stocks gave back some early week gains on Friday but went into the weekend higher than last Friday. The bulk of the gains came on Wednesday when positive earnings news from JP Morgan (JPM) and Intel (INTC) sent the DJIA through the psychologically important 10,000 level; this has happened before—April 1999 and December 2003. The DJIA ended the week at 9,995.91, up 130.97 points or 1.33% from last week. The broader S&P 500 gained 16.91 points, or 1.51%, to finish the week at 1,087.68.

A number of bellwether companies reported a mixed bag of third quarter earnings results this week. Stocks drifted lower after a report from Johnson & Johnson (JNJ), which fell short of analyst expectations. Wednesday's rally was sparked by JP Morgan's third-quarter results, which beat analyst expectations on better than expected trading gains. Also, Intel reported positive results and raised its outlook, commenting that it sees the PC market recovering, according to Reuters. Adding to Wednesday's enthusiasm was a report from the Department of Commerce that retail sales had declined less than expected. On Thursday, Citicorp (C) and Goldman Sachs (GS) both beat analyst expectations, but Wall Street sent the stocks more than 2% lower due to uncertainty in the outlook for the two financial companies. On Friday, Google (GOOG) reported a blow-out third quarter which led to a large number of analyst upgrades. Meanwhile, Bank of America (BAC) reported results that missed analyst expectations on larger-than-expected loan losses, sending the stock 4.64% lower.

Issue	10.9.09	10.16.09	Change
Dow Jones	9,864.94	9,995.91	1.33%
S&P 500	1,071.49	1,087.68	1.51%
NASDAQ	2,139.28	2,156.80	0.82%
Russell 1000 Growth	588.02	478.32	-18.66%
S&P MidCap 400	702.19	707.87	0.81%
Russell 2000	614.92	616.18	0.20%
MSCI EAFE	1,563.81	1,602.32	2.46%
MSCI EM	939.91	975.79	3.82%
MSCI Small Cap	146.07	149.37	2.26%

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.



Alternative Investments Market Update

Volatility in commodities continued to be high this week, but the gains in crude oil outpaced last week's rally gold. The benign CPI report and a positive surprise rise in the industrial production may have been responsible for this week's modest change in gold.

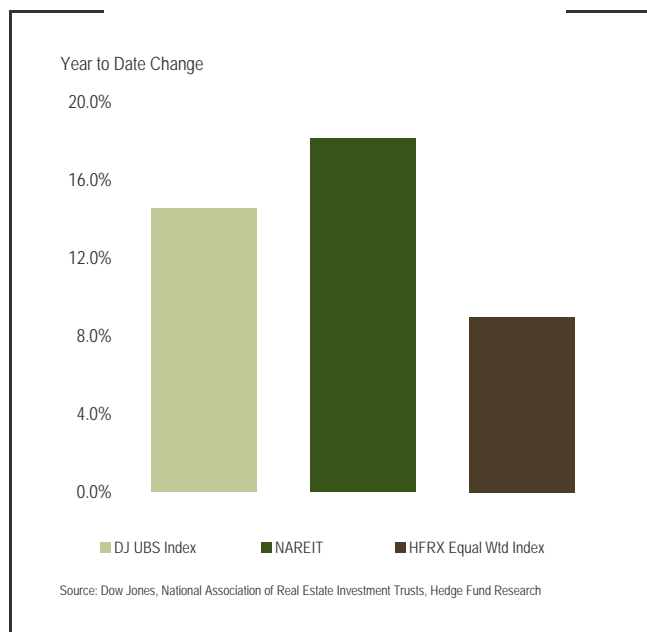
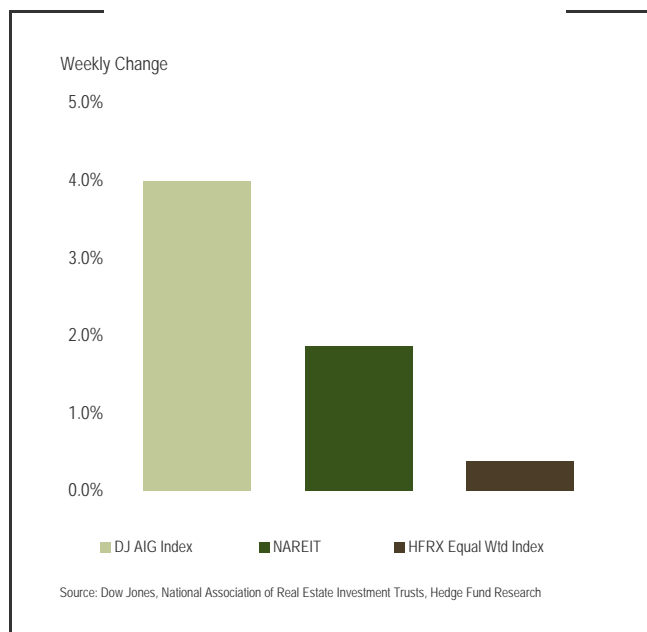
Oil, however, began trading at new 52-week levels earlier this week. After hitting the psychologically important level of \$75 per barrel on Wednesday, Thursday's Department of Energy report that gasoline stockpiles declined by 5.2 million barrels instead of rising by 700,000 and distillate oil stocks fell by 1.1 million barrels instead of 100,000 were behind the \$2.40 rise—nearly 3.2%, to close at \$77.58. Oil closed the week at \$78.53 per barrel, a rise of 9.4%.

Congress has continued to wrangle over measures to regulate the over-the-counter derivatives market. An amendment late in the week loosened the requirement for all derivatives to be cleared by a central exchange. This bill is part of the Obama administration's efforts to overhaul financial regulation.

Fitch Ratings issued its quarterly report on the real estate investment trusts (REITs) industry this week, noting that credit concerns for REITs have improved this year. The report also indicated that of the 11 REITs they offer ratings on, they have issued unsecured debt of \$7.9 billion, executed bond tender offers worth \$3.4 billion and issued common stock worth \$9.6 billion since March. REITs are expected to have reduced leverage and increased liquidity as a result of these moves.

Issue	Previous Week	Current ¹	Change
Gold	1,048.60	1,051.50	0.28%
Crude Oil Futures	71.77	78.53	9.42%
Copper	2.84	2.85	0.35%
Sugar	21.24	23.91	12.57%
HFRX Equal Wtd. Strat. Index	1,089.65	1,093.67	0.37%
HFRX Equity Hedge Index	1,125.85	1,136.95	0.99%
HFRX Equity Market Neutral	976.90	976.46	-0.05%
HFRX Event Driven	1,327.90	1,331.80	0.29%
HFRX Merger Arbitrage	1,411.04	1,418.11	0.50%
Dow Jones UBS Commodity Index	129.18	134.32	3.98%
FTSE/NAREIT All REIT	102.00	103.90	1.86%

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.



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