

# MainStreet Advisors Financial Market Update

December 23, 2010  
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## Economic Update

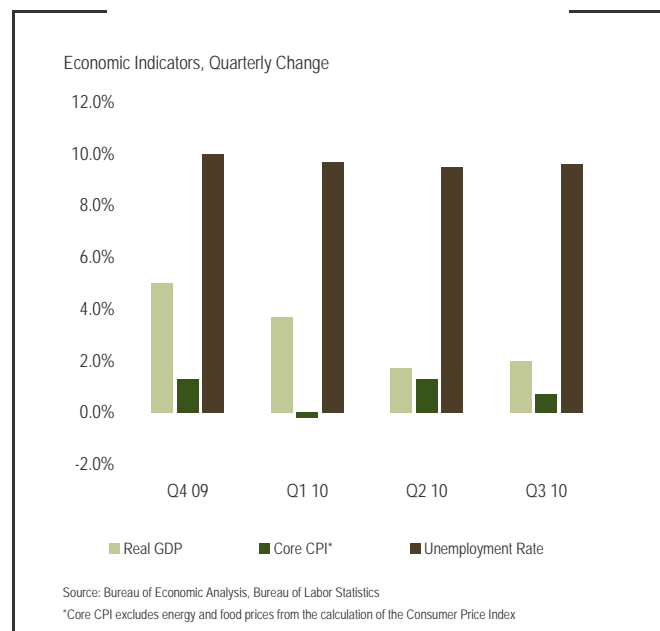
The Commerce Department announced on Wednesday that final third quarter gross domestic product (GDP) was higher than initially projected, rising 2.6% as compared to the previous estimate of 2.5%. Despite the slight upward revision, the GDP adjustment fell notably short of expectations – analysts were forecasting final GDP growth of 3.0% for the quarter. While the report reflected strengthening export activity and increased inventory investment, it also conveyed lower-than-expected consumer spending.

Undeterred by the disappointing GDP revision, optimism regarding the recovery of the U.S. economy continued to grow this week. The Wall Street Journal reported that forecasters at many major institutions, including J.P. Morgan Chase & Co. and Goldman Sachs Group Inc., have increased their growth estimates for the fourth quarter to an average of 3.5% from 2.6% earlier this month. The heightened confidence can be attributed to positive economic reports indicating an accelerating economy, including increased consumer spending and tapering business layoffs.

The National Association of Realtors released data this week showing that sales of existing homes are improving, albeit at a slower than expected rate. Sales rose to 4.68 million in November, up 5.6% from the month prior, with used home sales representing over 90% of U.S. home sales. A six-month streak of decreasing home prices came to an end as the average price for an existing home rose to \$170,600, up 0.4% from one year ago. New home sales had a strong showing as well, rising 5.5% to an annual rate of 290,000 units while prices rose 8% and inventory relaxed.

Consumer spending rose for the fifth consecutive month in November, growing 0.4% to coincide with a 0.3% increase in personal income heading into the holiday shopping season. The Commerce Department's report also showed a slight increase in the core price index for personal consumption expenditures (PCE), a key inflationary indicator closely monitored by the Federal Reserve. The index rose 0.1%, down from the 0.2% increase in October.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, U.S. Census Bureau.

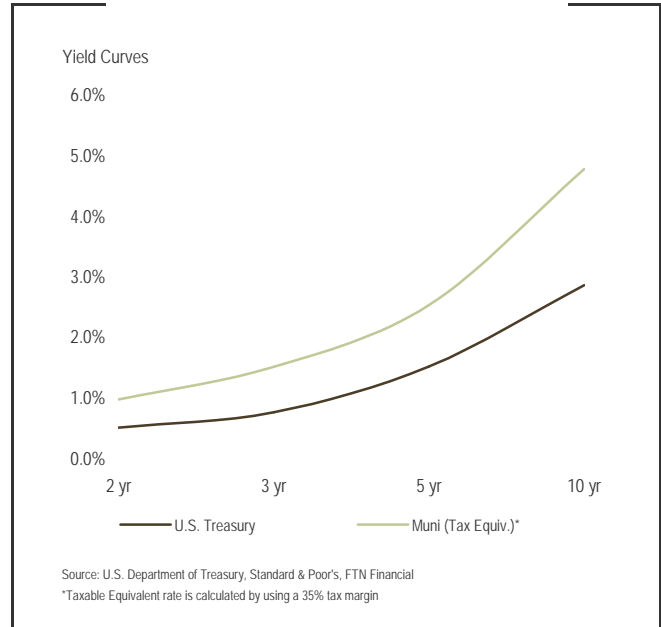


Dec. 21 <sup>st</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.7%
Dec. 22 <sup>nd</sup>	MBA Purchase Applications Index, Wkly. Chg.	-2.5%
Dec. 22 <sup>nd</sup>	Real GDP, Q3 Quarterly Change SAAR*	2.6%
Dec. 22 <sup>nd</sup>	GDP Price Index, Q3 Quarterly Change SAAR*	2.1%
Dec. 22 <sup>nd</sup>	After-tax Corporate Profits, Q3 Annual Change	27.2%
Dec. 22 <sup>nd</sup>	Existing Home Sales, November SAAR*	4.68M
Dec. 22 <sup>nd</sup>	EIA Petroleum Status Report, Wkly. Chg.	-5.3M Barrels
Dec. 23 <sup>rd</sup>	Durable Goods New Orders, Nov. Monthly Chg.	-1.3%
Dec. 23 <sup>rd</sup>	Personal Income, Nov. Monthly Chg.	0.3%
Dec. 23 <sup>rd</sup>	Consumer Spending, Nov. Monthly Chg.	0.4%
Dec. 23 <sup>rd</sup>	Core PCE Price Index, Nov. Monthly Chg.	0.1%
Dec. 23 <sup>rd</sup>	Initial Jobless Claims ( Week ending 12/18)	420,000
Dec. 23 <sup>rd</sup>	Consumer Sentiment Index, December	74.5
Dec. 23 <sup>rd</sup>	New Home Sales, November	290,000
Dec. 23 <sup>rd</sup>	EIA Natural Gas Report, Wkly. Chg.	-184 bcf

Bond Market Update

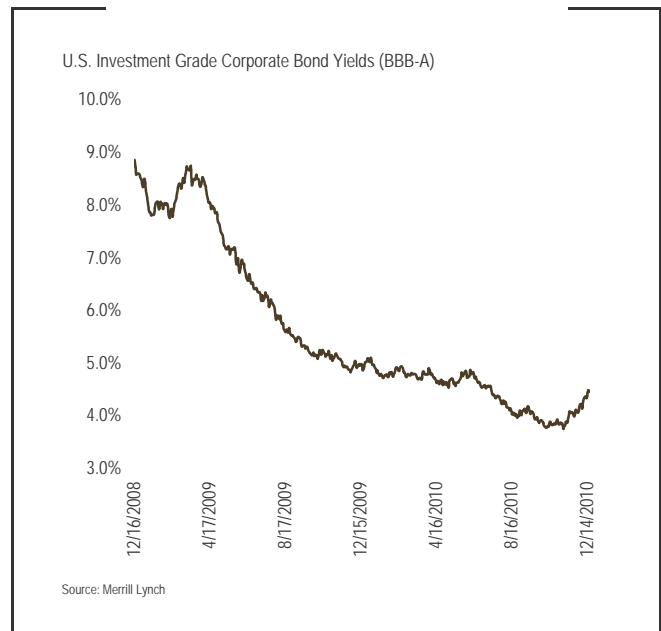
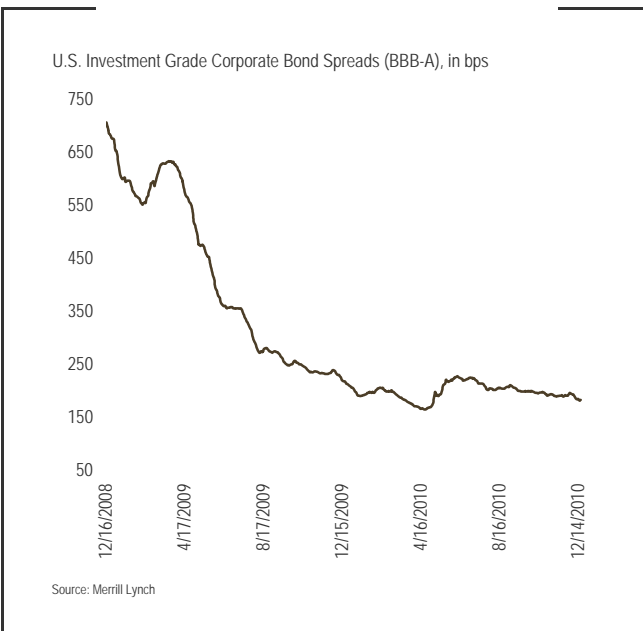
U.S. Treasuries finished lower across the entire yield curve on notably thin volume as trading desks were lightly staffed during the holiday shortened week. Short-term yields fell early in the week on continued European sovereign debt worries and military tension between North Korea and South Korea. However, reports from the Labor Department indicating initial jobless claims fell more than expected, along with rising consumer sentiment, helped to edge bond prices lower to finish the week. Yields on 10-year notes marched to their fourth consecutive weekly increase, the longest stretch of weekly increases in 19 months, according to Bloomberg. Losses in the fixed income markets were viewed as a positive in preparation of the Treasury's final note sale of 2010. A total of \$99 billion is up for sale next week and lower prices could potentially lure in more buyers.

According to J.P.Morgan Chase, demand for high yield bonds will remain elevated in 2011, noting they are an "attractive way to play the upside of a continued economic recovery while also protecting against the downside of earnings and volatility surprises." J.P.Morgan expects spreads to tighten to 515 basis points with continued strong demand for high yield and expected increases in Treasury yields throughout 2011.



Issue	12.17.10	12.23.10	Change
3 month T-Bill	0.11%	0.14%	0.03%
2-Year Treasury	0.61%	0.67%	0.06%
5-Year Treasury	1.97%	2.09%	0.12%
10-Year Treasury	3.33%	3.41%	0.08%
30-Year Treasury	4.41%	4.47%	0.06%

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



Stock Market Update

Domestic stocks climbed to new two-year highs this week as encouraging economic data boosted investor confidence and continued merger activity led banks and other financial companies higher. Tuesday saw the largest upswing in a holiday week notorious for low volumes, with activity surging after Toronto-Dominion Bank (TD) proposed a \$6.3 billion takeover of Chrysler Financial, the lending arm of the Chrysler automobile manufacturer. Markets were also bolstered by favorable earnings announcements in the technology sector, including a report from Adobe Systems Inc. (ADBE) boasting a profit that beat expectations. A slew of economic releases offering varying signals slowed the upward momentum on Friday; however, stocks finished the week in positive territory for the fourth consecutive time, with the S&P 500, Dow Jones Industrial Average, and NASDAQ Composite indices up 1.03%, 0.71%, and 0.86%, respectively.

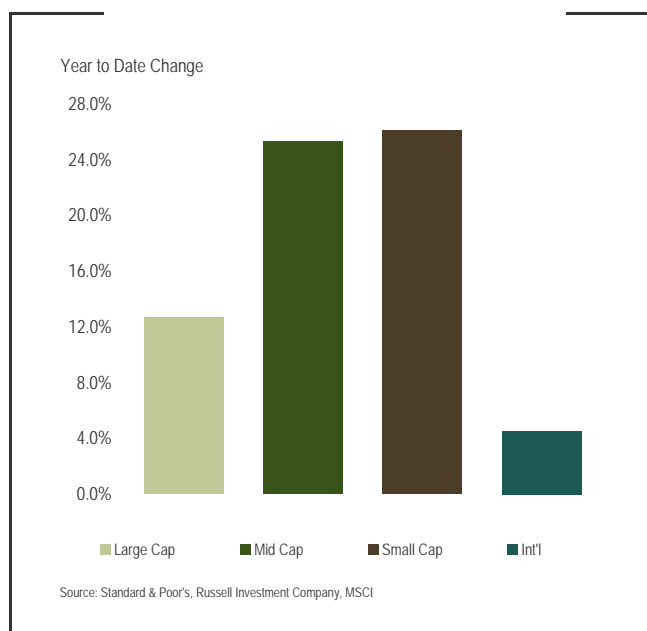
Walgreen Co. (WAG) reported earnings on Wednesday that beat analyst estimates, with its fiscal first-quarter profit rising 19% from \$489 million, or 49 cents per share, to \$580 million, or 62 cents per share. Average analyst forecasts predicted a profit increase to 54 cents per share. Profitability improved despite revenue growth that was relatively modest, a fact that can be attributed to the company's efforts to restructure and add efficiencies. Shares jumped 7.58% on the week.

CarMax Inc. (KMX) announced fiscal third quarter results on Tuesday that exceeded expectations, with year-over-year comparable-store sales and profit increasing 16% and 10.5%, respectively. The company has benefitted from the uncertain economic environment wherein consumers are more likely to purchase a previously owned car in lieu of a new one. CarMax fell 5.59% by the end of the week despite the favorable report.

Athletic apparel giant Nike Inc. (NKE) dropped 6.76% in two days after announcing on Thursday that its profit margins could be negatively impacted by increasing costs in labor, cotton, and transportation. The Finish Line, Inc. (FINL), an athletic outfitter, fell 7.61% over the same time period.

Issue	12.17.10	12.23.10	Change
Dow Jones	11,491.91	11,573.49	0.71%
S&P 500	1,243.91	1,256.77	1.03%
NASDAQ	2,642.97	2,665.60	0.86%
Russell 1000 Growth	571.83	575.09	0.57%
S&P MidCap 400	902.64	910.79	0.90%
Russell 2000	779.52	788.87	1.20%
MSCI EAFE	1,629.47	1,644.16	0.90%
MSCI EM	1,111.85	1,126.49	1.32%
MSCI Small Cap	163.83	165.45	0.98%

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

For the week, gold contracts rose \$3.60, or 0.26%, to settle at \$1,380.00. Gold rose early in the week on thin volume in response to concerns over Europe's financial instability and political tensions between North and South Korea. End of the year profit-taking pushed contracts lower ahead of the Christmas holiday. Crude oil finished higher (3.88%) and settled at two year highs this week. The U.S. Energy Department reported that crude inventories fell to the lowest level since February, helping to push oil futures upward. Corn futures closed higher for the fifth consecutive week and soybean futures traded near 28-month highs as Chinese demand continues to rebound after sending commodity markets into frenzy in mid-November. According to Bloomberg, China's December soybean imports are approaching 5.3 million tons and are projected at similar levels for the first several months of 2011.

Private equity firm Carlyle Group is getting closer to acquiring Europe's largest private equity investor, Alpinvest. The move would increase Carlyle's assets under management by nearly 50% as they prepare to go public in 2012.

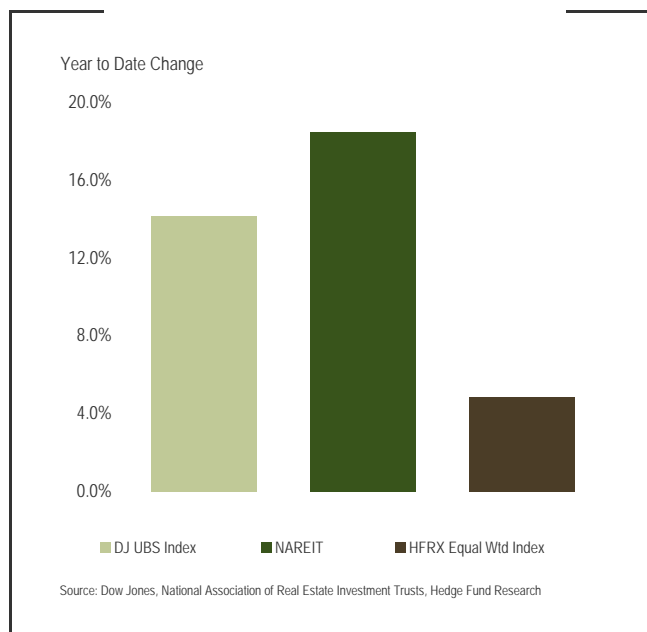
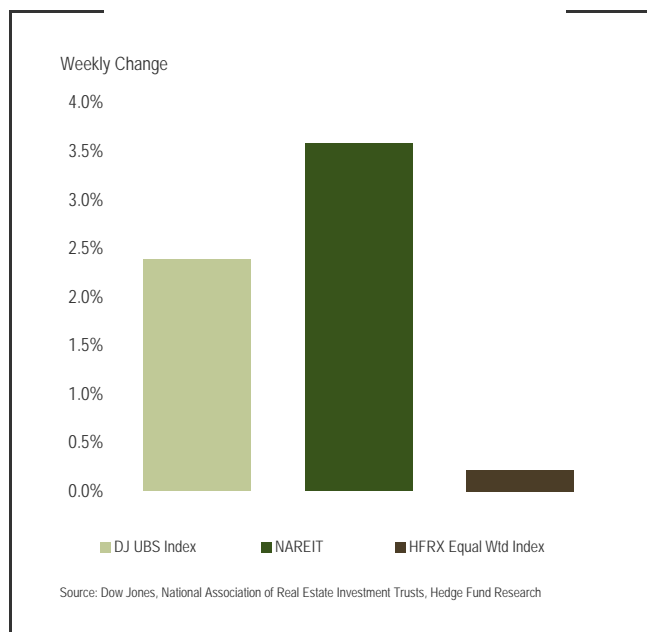
A recent report from Morgan Stanley Smith Barney identifies substantial opportunity for hedge funds in the coming year. Turmoil stemming from the 2008 meltdown trimmed the number of hedge funds in market which creates opportunities for those funds still remaining. The report also notes that risk exposure and borrowing are down from historical standards creating an environment for "alpha generation." Strategies that are expected to outperform next year include equity-oriented, event-driven, and global macro according to the report.

Hedge funds have been under more regulatory scrutiny since the financial crisis, but this week the Federal Reserve went on record saying that a single hedge fund is not systematically important—meaning the collapse of a single fund would not bring down the entire financial system. While hedge funds may encounter more regulation from the SEC, this is considered a small victory for alternative investment firms.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,376.40	1,380.00	0.26%
Crude Oil Futures	88.00	91.41	3.88%
Copper	417.00	425.45	2.03%
Sugar	32.50	33.98	4.55%
HFRX Equal Wtd. Strat. Index	1,163.22	1,165.74	0.22%
HFRX Equity Hedge Index	1,220.10	1,219.15	-0.08%
HFRX Equity Market Neutral	1,014.39	1,015.69	0.13%
HFRX Event Driven	1,362.59	1,369.96	0.54%
HFRX Merger Arbitrage	1,515.87	1,518.94	0.20%
Dow Jones UBS Commodity Index	155.19	158.89	2.39%
FTSE/NAREIT All REIT	128.52	133.12	3.58%

<sup>1</sup> 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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