

# MainStreet Advisors Financial Market Update

August 6, 2010  
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## Economic Update

Earlier this week, Federal Reserve Chairman Ben Bernanke addressed the Annual Meeting of the Southern Legislative Conference of the Council of State Governments. Bernanke reiterated that the U.S. economy continues to grow at a moderate pace, highlighting expectations for consumer spending to strengthen over the next several months and for continued contribution from exports on the manufacturing sector. Bernanke also noted ongoing economic challenges including: the housing market, "less supportive" financial conditions, and uncertainty in the labor market.

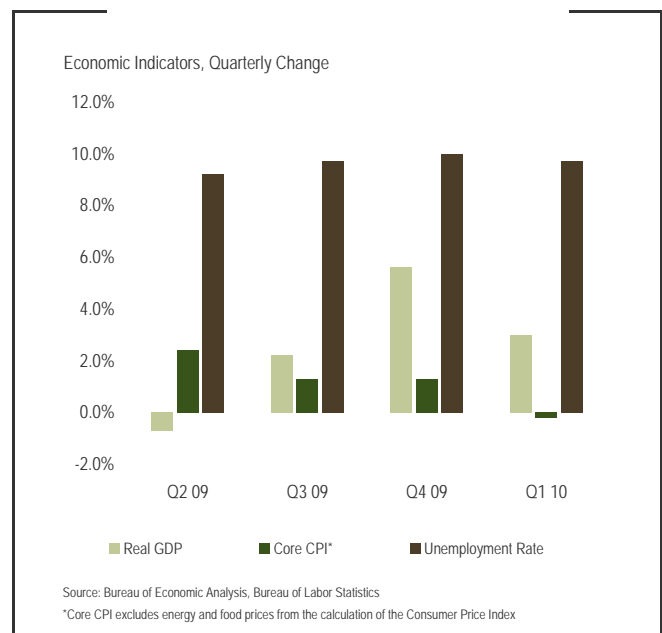
On Friday, the Department of Labor announced that U.S. payrolls shed 131,000 jobs in July, significantly more than the 70,000 consensus estimate reported by Bloomberg. The private sector added 71,000 jobs while another round of temporary Census 2010 workers (143,000) completed their jobs. The unemployment rate remained unchanged at 9.5%.

A report released this week by the Department of Commerce showed that consumers continue to focus on deleveraging their personal debt. Personal income increased less than 0.1% in June and personal spending also remained essentially flat, with an increase of less than 0.1%. Personal savings, as a percentage of disposable personal income, trended higher to 6.4%.

The Institute for Supply Management (ISM) released its Report on Business for both the manufacturing and non-manufacturing sectors this week. The Purchasing Managers Index indicated decelerating expansion within the manufacturing sector. The non-manufacturing sector, however, expanded at a faster rate in July.

The Pending Homes Sales Index, released Wednesday by the National Association of Realtors (NAR), slipped 2.6% in June. The forward-looking indicator of housing activity suggests that near-term sales will likely decline. NAR Chief Economist, Lawrence Yun, noted expectations for activity to increase again later this year, if the labor market continues to improve.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Institute of Supply Management, National Association of Realtors.

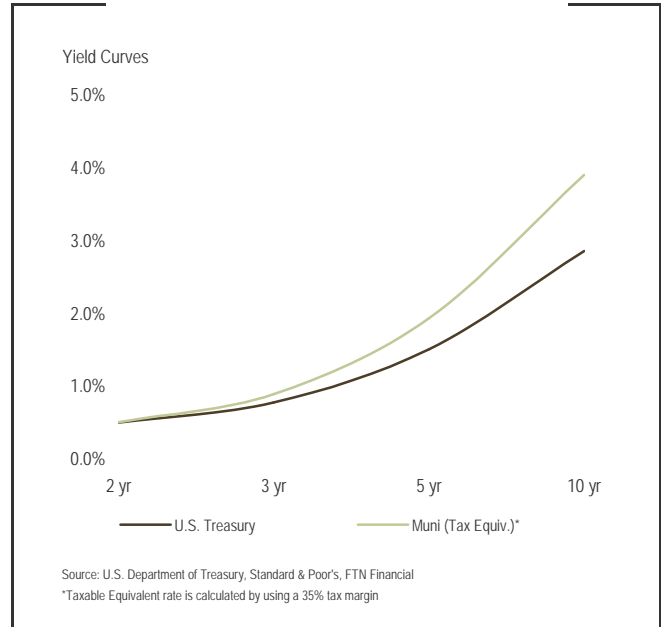


Aug. 2 <sup>nd</sup>	ISM Mfg. Index Level, July	55.5
Aug. 2 <sup>nd</sup>	Construction Spending, June Monthly Chg.	0.1%
Aug. 3 <sup>rd</sup>	Domestic Motor Vehicle Sales, July	8.9M
Aug. 3 <sup>rd</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.1%
Aug. 3 <sup>rd</sup>	Factory Orders, June Monthly Chg.	-1.2%
Aug. 3 <sup>rd</sup>	Pending Home Sales, June Monthly Chg.	-2.6%
Aug. 4 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	1.5%
Aug. 4 <sup>th</sup>	Announced Layoffs, July	41,676
Aug. 4 <sup>th</sup>	ISM Non-Mfg. Index, July	54.3
Aug. 4 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	-2.8M Barrels
Aug. 5 <sup>th</sup>	Initial Jobless Claims ( Week ending 7/31)	479,000
Aug. 5 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	29 bcf
Aug. 6 <sup>th</sup>	Non-farm Payrolls, July Monthly Chg.	-131,000
Aug. 6 <sup>th</sup>	Unemployment Rate, July	9.5%
Aug. 6 <sup>th</sup>	Consumer Credit, June Monthly Change	-1.3B

Bond Market Update

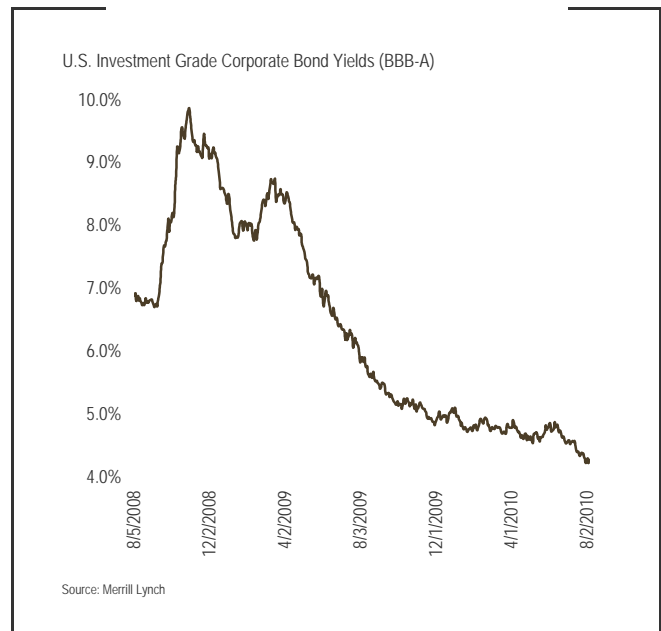
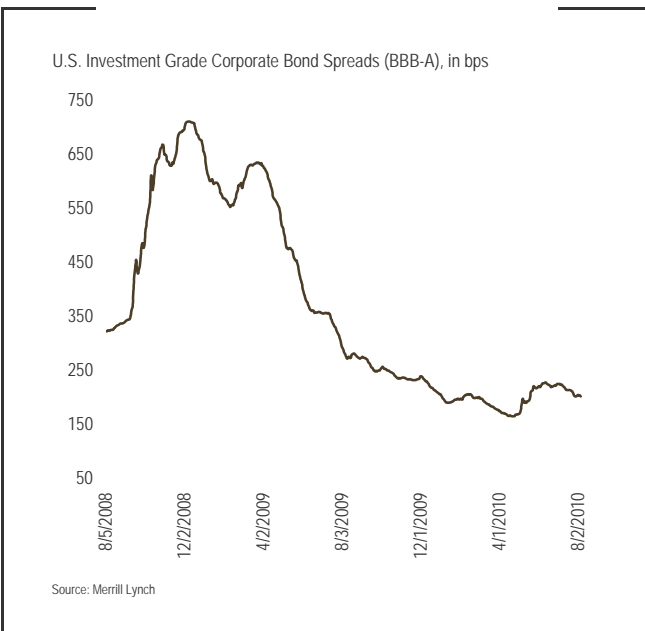
After a sharp rally on Friday, U.S. Treasuries finished the week higher with strongest gains occurring on the short-end of the curve. Two-year note yields dropped to below 0.50% for the first time after a weaker than expected jobs report added to concerns the economic recovery may be faltering. Bill Gross of Pimco said the plunge in two-year yields and a steep yield curve indicate investors should buy longer-maturity securities. Meanwhile, evidence of continued stagnation in employment has strategists speculating that the Fed may focus on a quantitative easing program after their policy-setting meeting next Tuesday. Because quantitative easing and low inflation levels increase the demand for Treasuries, some market participants expect even lower yields in the short-term.

In company-specific news, Goldman Sachs (GS) recently agreed to settle SEC charges of securities fraud for \$550 million, or approximately \$0.92 per share. Because the fine was on the lower end of what the market had expected, this settlement was a clear positive for GS, from both an earnings and sentiment perspective. Currently, the fundamental creditworthiness of the company remains healthy and the risks associated with holding the bonds remains low, creating an attractive opportunity from a risk/reward perspective.



Issue	7.30.10	8.6.10	Change
3 month T-Bill	0.15%	0.15%	0.00%
2-Year Treasury	0.55%	0.50%	-0.05%
5-Year Treasury	1.60%	1.51%	-0.09%
10-Year Treasury	2.94%	2.86%	-0.08%
30-Year Treasury	3.98%	4.00%	0.02%

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



Stock Market Update

U.S. stocks had a strong start to the month on Monday as each of the major indices gained nearly 2%, driven by momentum from July's impressive performance, favorable reports from European banks, and positive news on manufacturing and construction spending. The rally was short lived, however, as stocks began trading lower the next day as weak readings on consumer spending, housing, and factory orders cast doubt on the strength of the economic recovery. Markets were temporarily propped up on Wednesday after a surprise increase in private-sector payrolls, but prices fell for the remainder of the week leading up to and after the Labor Department's employment report. The S&P 500, NASDAQ Composite, and Dow Jones Industrial Average indices managed to stay positive on the week, however, gaining 1.82%, 1.50%, and 1.79%, respectively.

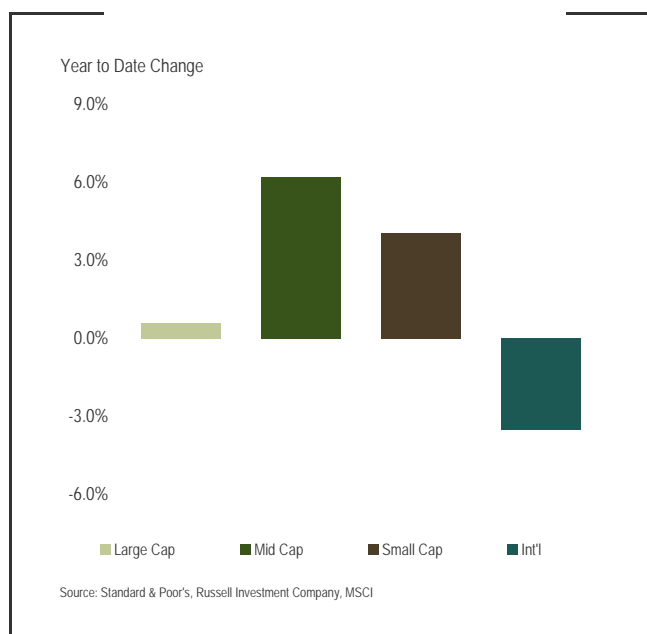
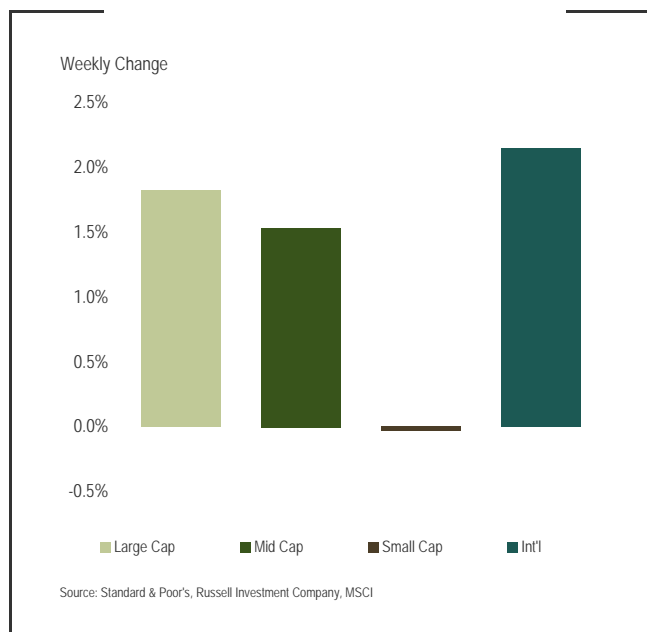
Domestic for-profit colleges fell on Friday, reacting to American Public Education Inc. (APEI) plummeting 32.13% after revising its earnings forecast downward. The government proposed a stricter set of regulations for the industry amid concerns that recruiters are signing up unqualified students to meet quotas. The possibility of these new rules has put pressure on the industry, sending Apollo Group Inc. (APOL) down 7.89% for the week.

Walgreen Co. (WAG) announced revenue growth on Wednesday that missed analyst estimates. Sales were boosted by the drugstore operator's acquisition of the Duane Reade chain in April; however, the company said that business was hurt by calendar shifts and a weak 2009 flu season.

European stocks were bolstered this week by strong earnings from HSBC Holdings Plc, BNP Paribas, and Lloyds Banking Group Plc, the three largest banks in the region. The Stoxx Europe 600 Index gained 1.3% as favorable company earnings overshadowed mixed economic news from the U.S. that raised concerns about the strength of the economic recovery.

Issue	7.30.10	8.6.10	Change
Dow Jones	10,465.94	10,653.56	1.79%
S&P 500	1,101.60	1,121.64	1.82%
NASDAQ	2,254.70	2,288.47	1.50%
Russell 1000 Growth	490.63	500.43	2.00%
S&P MidCap 400	760.27	771.93	1.53%
Russell 2000	650.89	650.68	-0.03%
MSCI EAFE	1,485.63	1,517.55	2.15%
MSCI EM	993.84	1,011.72	1.80%
MSCI Small Cap	142.86	145.39	1.77%

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

Continued strong manufacturing data from the U.S., euro zone, and the U.K. pushed crude oil above \$80 per barrel on Monday, as crude futures for September delivery rose \$2.39 to settle at \$81.34—the highest level since May 4th. Also, the U.S. dollar fell to its lowest level in months relative the euro, driving commodity prices upward. Oil pulled back late in the week as investors reacted to rising new jobless claims and a second consecutive month in which the economy lost jobs, leaving the demand outlook for commodities in question. Many analysts believe crude futures need to settle above \$82.50 in order to break the \$70-\$80 per barrel range for the foreseeable future. Gold extended its winning streak to eight consecutive days on increased buying to hedge against instability in other markets. In addition to mixed economic data and a lower U.S. dollar pushing gold higher, China announced additional banks will be allowed to import and export gold, broadening demand.

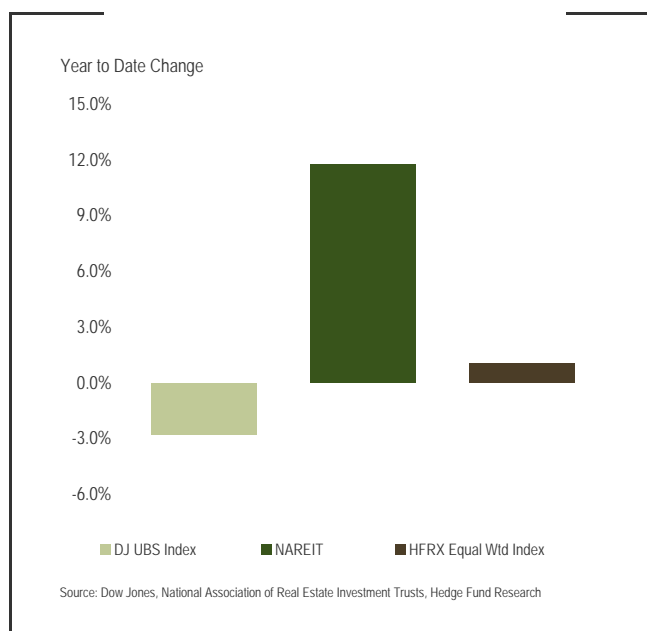
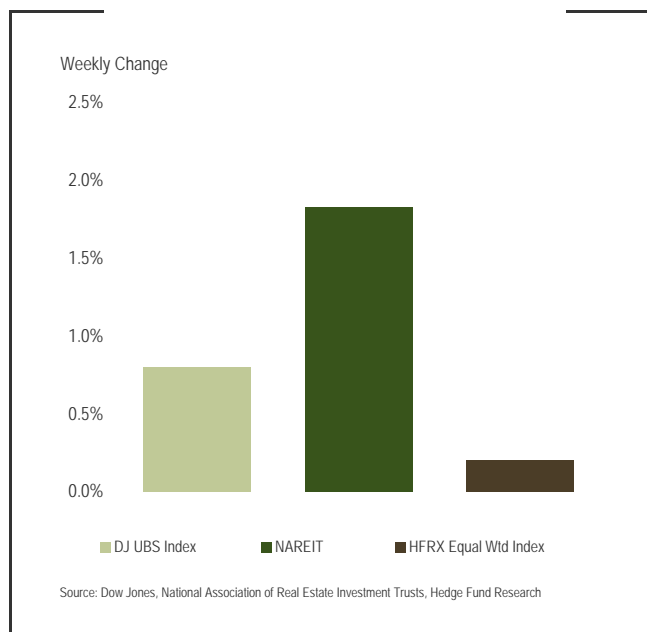
Wheat futures continued to soar this week as Russia officially announced a ban on the country's grain exports starting August 15th. Share prices of several food companies declined on worries the additional cost to procure wheat will be passed on to consumers. On Friday, wheat prices tumbled nearly 7% as the U.S. and other large exporters stepped in to fill the void in international grain markets. U.S. stockpiles are at 23-year highs and many farmers stand to make large profits. Prices are currently over \$8 per bushel, which prompted U.S. producers to release 21 million bushels into the global supply chain last week.

According to the Wall Street Journal, Lehman Brothers Holdings, ruined by misguided property bets, has reinvested \$1 billion since their late 2008 collapse into distressed apartments, office buildings, and other commercial properties previously financed by Lehman. The firm is gambling that property values have reached a bottom—U.S. commercial real-estate values remain 41% below the 2007 peak and barely above October 2009 lows.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,183.80	1,206.70	1.93%
Crude Oil Futures	78.95	80.96	2.55%
Copper	330.90	335.95	1.53%
Sugar	19.57	18.24	-6.80%
HFRX Equal Wtd. Strat. Index	1,121.21	1,123.42	0.20%
HFRX Equity Hedge Index	1,118.97	1,128.01	0.81%
HFRX Equity Market Neutral	1,002.83	999.65	-0.32%
HFRX Event Driven	1,345.70	1,347.60	0.14%
HFRX Merger Arbitrage	1,460.08	1,466.68	0.45%
Dow Jones UBS Commodity Index	134.25	135.32	0.79%
FTSE/NAREIT All REIT	123.30	125.55	1.82%

<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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