

MainStreet Advisors Financial Market Update

September 3, 2010
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Economic Update

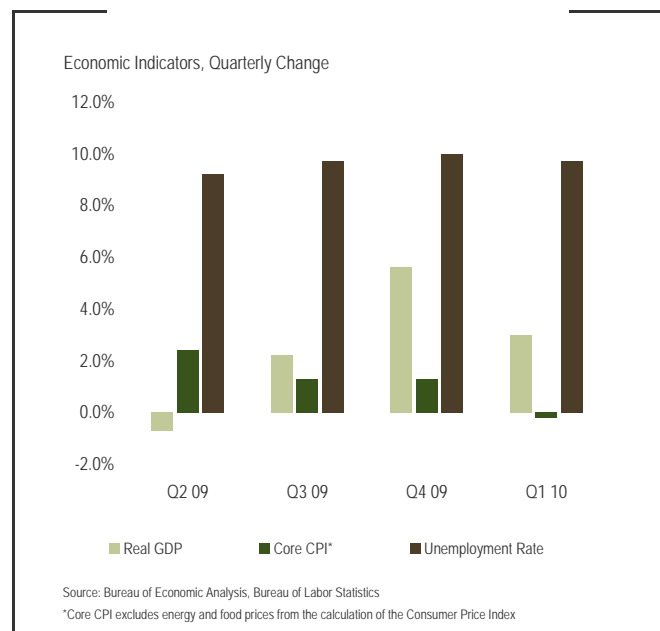
The Department of Labor announced that non-farm payrolls shed 54,000 jobs in August; the unemployment rate edged slightly higher to 9.6%. Much of the decline in payrolls again largely resulted from temporary Census 2010 workers that completed their work.

The Conference Board Consumer Confidence Index increased slightly in August as consumers' near-term outlook improved. Director of The Conference Board Consumer Research Center Lynn Franco noted, however, that consumers view current economic conditions as "less favorable" due to continued uncertainty in the jobs market. Given this ongoing uncertainty, consumers remain focused on their personal financial situations. The Bureau of Economic Analysis reported that personal income advanced 0.2% in July, while personal consumption expenditures increased 0.4%. The personal savings rate, as a percentage of disposable personal income decreased from 6.2% to a rate of 5.9%.

The S&P/Case-Shiller Home Price Indices indicated that U.S. home prices improved in the second quarter. The U.S. National Home Price Index increased 4.4% following a 2.8% decline in the first quarter. Despite some recent strengthening in home prices, the report noted that other indicators continue to signal ongoing challenges including the end of the home-buyer tax incentives and foreclosures. Meanwhile, the National Association of Realtors (NAR) reported that the Pending Home Sales Index, a leading indicator of the housing sector based on contracts signed, increased in July. NAR chief economist Lawrence Yun warned that "the recovery looks to be a long process."

The manufacturing sector expanded at an accelerated pace in August, as shown by the Institute for Supply Managers (ISM) Purchasing Managers Index. This marks expansion in the sector for the 13th consecutive month as 11 of the 18 participating industries reported growth. The ISM Non-Manufacturing Index reflected slowing growth within the non-manufacturing sector. ISM reported that respondents' comments "continue to be mixed about business conditions and the state of the overall economy."

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, National Association of Realtors, Standard & Poor's, The Institute for Supply Management.



Aug. 28 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.1%
Aug. 31 st	Consumer Confidence Index, August	53.5
Sep. 1 st	Domestic Motor Vehicle Sales, August	8.3M
Sep. 1 st	MBA Purchase Applications Index, Wkly. Chg.	1.8%
Sep. 1 st	Announced Layoffs, August	34,768
Sep. 1 st	ISM Mfg. Index - Level, August	56.3
Sep. 1 st	Construction Spending, July Monthly Chg.	-1.0%
Sep. 1 st	EIA Petroleum Status Report, Wkly. Chg.	3.4M Barrels
Sep. 2 nd	Initial Jobless Claims (Week ending 8/28)	472,000
Sep. 2 nd	Factory Orders, July Monthly Chg.	0.1%
Sep. 2 nd	Pending Home Sales, July Monthly Chg.	5.2%
Sep. 2 nd	EIA Natural Gas Report, Wkly. Chg.	54 bcf
Sep. 3 rd	Non-farm Payrolls, Aug. Monthly Chg.	-54,000
Sep. 3 rd	Unemployment Rate, August	9.6%
Sep. 3 rd	ISM Non-Mfg. Index, August	51.5

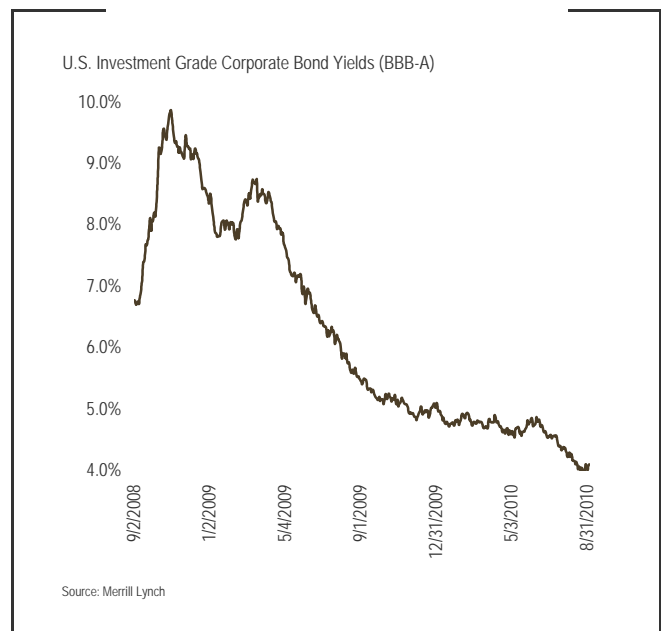
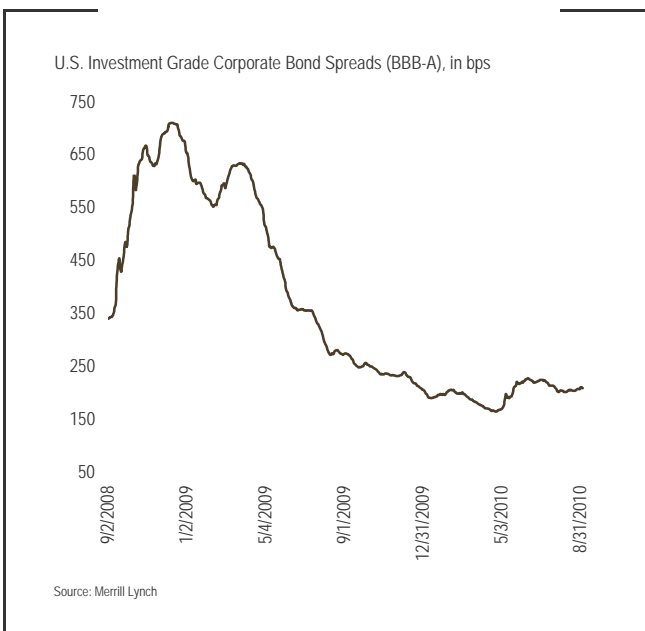
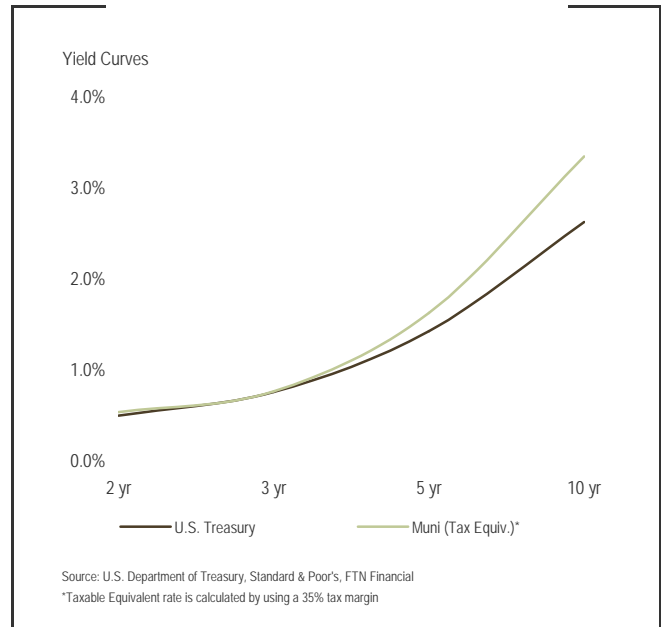
Bond Market Update

After yet another volatile week, U.S. Treasuries finished lower as better-than-expected economic data reports weakened investor demand for safe-haven government debt. Traders noted that it is easier to find sellers in the bond market than buyers as investors have already priced in a considerable amount of negative economic expectations, according to the Wall Street Journal. The market also faces an increase in supply next week, with the Treasury auctioning \$67 billion in three-, 10- and 30-year securities. Market makers tend to push up long-term bond yields before additional supply as a way to underwrite bond auctions at more attractive levels.

Concerns that the U.S. is heading toward a Japan-style decade of deflation has been the primary driver of the rally in Treasuries over the past several months. The stampede into bonds has lowered interest rates to historically low levels, with the yield on the two-year Treasury note dropping to a record low of 0.5% along with 30-year mortgage rates falling below 4.5%. Because of this, some strategists are suggesting we may have entered bubble territory in the fixed income markets. However, the bond bulls suggest that yields are unlikely to rise significantly because the preponderance of recent data reports has been tilted toward a weakening economy. They argue the market will remain buoyed by low inflation expectations for a sustained period.

Issue	8.27.10	9.3.10	Change
3 month T-Bill	0.15%	0.14%	-0.01%
2-Year Treasury	0.56%	0.50%	-0.06%
5-Year Treasury	1.49%	1.43%	-0.06%
10-Year Treasury	2.66%	2.63%	-0.03%
30-Year Treasury	3.69%	3.72%	0.03%

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



Stock Market Update

U.S. equity markets bounced back this week after a lackluster August, snapping a three-week losing streak as investors were encouraged by positive economic data. Stocks started the week in negative territory, with each of the major indices dropping more than 1.3% through the first two days as tepid anticipation mounted about the dense slew of economic announcements slated for the week. This capped off the worst August performance since 2001, with the S&P 500, Dow Jones Industrial Average (DJIA), and NASDAQ Composite indices falling 4.74%, 4.31%, and 6.24%, respectively. Wednesday brought a strong rebound, however, with a fresh calendar month and very encouraging manufacturing activity data boosting the market over 2.5%. The positive momentum continued through the end of the week, with the S&P 500, DJIA, and NASDAQ Composite indices finishing up 3.75%, 2.93%, and 3.72%, respectively.

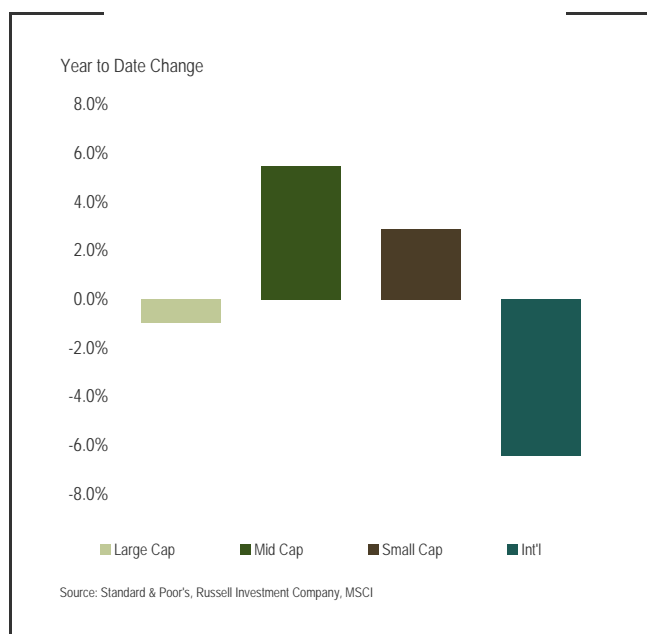
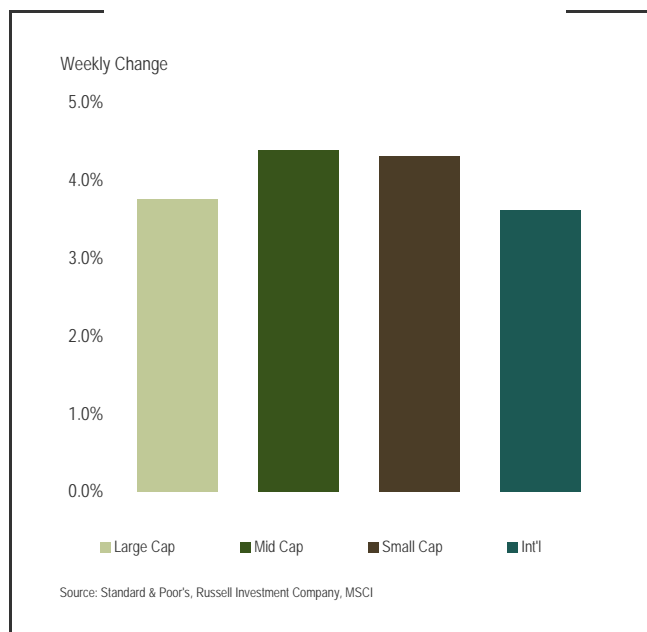
The intense three-week bidding war between Hewlett-Packard Co. (HPQ) and Dell Inc. (DELL) over the acquisition of the data-storage company 3Par Inc. (PAR) came to an end on Thursday after Dell withdrew following HP's offer at \$33 per share. The final offer values the small company at \$2.4 billion, a price that many investors feel is a hefty premium. Shares of 3Par have risen 240.83% since bidding began in mid-August. Hewlett-Packard jumped 6.16% for the week while Dell climbed 3.62%.

Burger King Holdings Inc. (BKC) surged 37.13% this week after the company confirmed on Thursday that private equity firm 3G Capital Management has agreed to purchase it for \$24 per share. The fast-food chain, which is the second-largest burger franchise after McDonald's Corp. (MCD), recently reported disappointing fourth quarter and fiscal 2010 earnings and stands to benefit from the new ownership. 3G Capital intends to expand the restaurant internationally and improve upon existing locations.

Take-Two Interactive Inc. (TTWO) led technology stocks higher on Friday after announcing a surprising third-quarter profit, which was fueled by the popularity of its "Red Dead Redemption" video game. The company also raised its earnings forecast for the remainder of the year, sending shares up 12.56% for the week.

Issue	8.27.10	9.3.10	Change
Dow Jones	10,150.65	10,447.93	2.93%
S&P 500	1,064.59	1,104.51	3.75%
NASDAQ	2,153.63	2,233.75	3.72%
Russell 1000 Growth	474.55	492.08	3.69%
S&P MidCap 400	734.3	766.52	4.39%
Russell 2000	616.76	643.36	4.31%
MSCI EAFE	1,420.64	1,471.96	3.61%
MSCI EM	966.05	995.28	3.03%
MSCI Small Cap	136.42	141.28	3.56%

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

The International Energy Agency announced on Friday they believe global oil consumption will become more reliant on OPEC members and non-OPEC production will decline in the next five to ten years. OPEC currently accounts for 40% of oil consumption. Crude oil fell early in the week after an inventory report indicated stockpiles rose by 3.4 million barrels, 2.6 million more than the consensus estimates. Upbeat manufacturing data sent crude oil futures past \$75 per barrel late in the week only to pull back Friday after a negative report on the U.S. service sector. Gold rose \$11.50, or 0.93% for the week to settle at \$1,251.10. Gold futures traded up-and-down this week as investors increased safe haven buying prior to important economic reports and then sold off following the better than expected results.

Russian Prime Minister Valdimir Putin extended the ban on wheat exports from December 2010 into late 2011. Winter planting is behind schedule, putting next year's crop in jeopardy. Prices are again on the rise sparking additional fears of food inflation. Exporters are battling to secure contracts with countries traditionally serviced by Russia. The U.S. recently struck agreements with Germany and Egypt, the world's largest importer of grain.

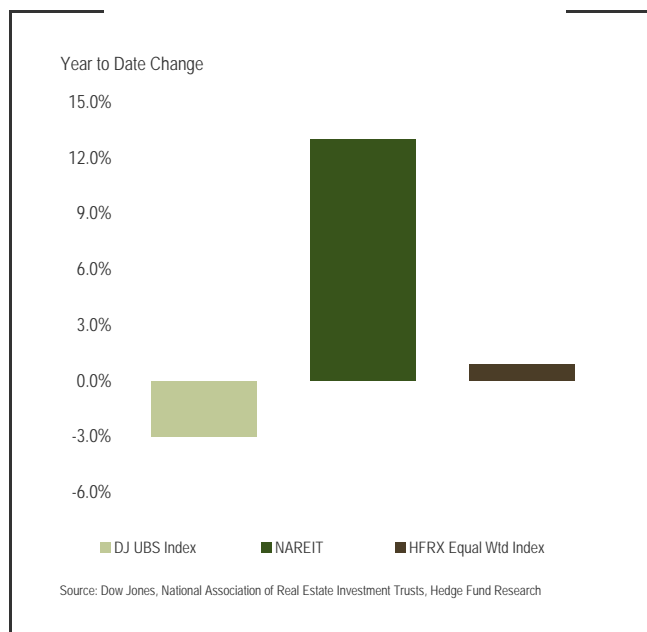
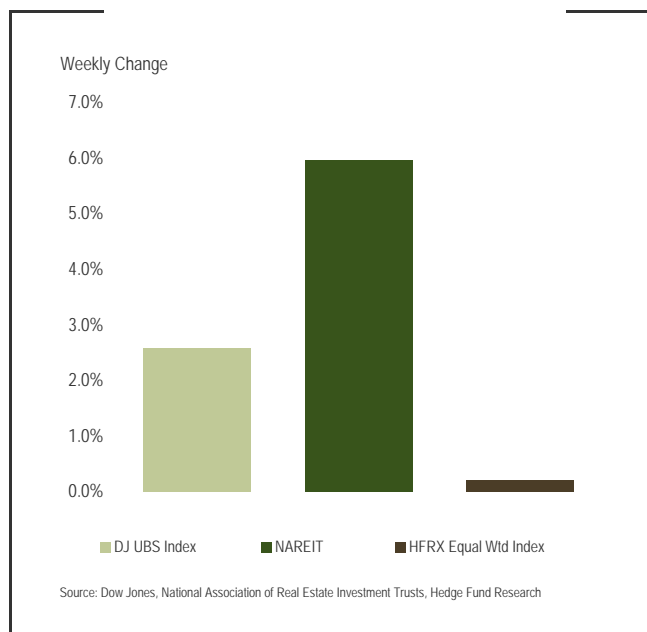
A survey conducted every three years by the Bank for International Settlements revealed that currency trading volume has reached \$4 trillion per day—representing a 20% gain from the last survey in 2007. Contributing to the growth is the push for international investment and the development of currency funds that have made access easier for smaller investors.

Back in July, China relaxed restrictions on the trading of index futures opening the door for the hedge fund industry. E Fund Management announced plans this week to launch China's first registered hedge fund. J.P.Morgan Chase (JPM) is the latest financial firm to announce plans to completely terminate their proprietary trading operations in order to comply with the Volcker Rule.

Issue	Previous Week	Current ¹	Change
Gold	1,239.60	1,251.10	0.93%
Crude Oil Futures	75.41	74.45	-1.27%
Copper	339.60	350.40	3.18%
Sugar	19.96	20.60	3.21%
HFRX Equal Wtd. Strat. Index	1,119.37	1,121.53	0.19%
HFRX Equity Hedge Index	1,110.35	1,120.32	0.90%
HFRX Equity Market Neutral	971.65	969.87	-0.18%
HFRX Event Driven	1,344.70	1,347.04	0.17%
HFRX Merger Arbitrage	1,453.89	1,467.49	0.94%
Dow Jones UBS Commodity Index	131.58	134.99	2.59%
FTSE/NAREIT All REIT	119.80	126.94	5.96%

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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