

January 8, 2012

The Bureau of Labor Statistics (BLS) reported that December U.S. non-farm payrolls increased by 200,000, ahead of estimates of a rise of 155,000 with the unemployment rate falling to 8.5%, from 8.6% in November and better than expectations of a rise to 8.7%. In 2011, nonfarm payrolls are estimated to have risen by 1.6 million. The largest employment gains in December were found in transportation and warehousing which gained 50,000 positions, retail trade where 28,000 positions were added and manufacturing where payrolls expanded by 23,000. Government positions were little changed during December but were down by over 280,000 during 2011. The number of long-term unemployed which is defined as those jobless for 27 weeks or longer was little changed at 5.6 million or 42.5% of the total unemployed on a seasonally adjusted basis. Participation in the labor force in December remained unchanged at 64.0%, slightly above the 27-year low reached in June of 63.9%. Average hourly earnings increased by 4 cents to \$23.24, which is 2.1% above levels of a year ago.

The Federal Open Market Committee (FOMC) released its minutes from the December 13, 2011 policy meeting. In the minutes, several FOMC members backed additional easing with Fed members also saying that they were likely to soon alter their language about keeping rates at near-zero levels through the middle of 2013. Beginning in January, the Fed will begin releasing each FOMC member's individual forecasts of the appropriate level on the target federal funds rate in the fourth quarter of the current year and the next several years. The shift in communication strategy by the FOMC is designed to provide additional clarity to financial markets about when the Federal Reserve thinks it might change policy. In its first sign of increased transparency, the Fed for the first time released the results of its monthly survey of primary dealers from a month earlier. The results showed that 60% of primary dealers believed that it would be 2014 before the FOMC increased the Federal Funds rate with just 3% anticipating a rate hike before the end of 2012. St. Louis Federal Reserve President Bullard said that he anticipates that the Federal Reserve could introduce an inflation target this year as well as announcing an official line on where the natural rate of unemployment would be which is below where inflation targets would rise.

Economic releases were generally in-line to better than expected during the first week of January. The December Institute of Supply Management (ISM) manufacturing index showed a climb to 53.9, beating expectations of a rise to 53.5 from 52.7 in November. The headline 53.9 reading in December ISM was the 29th consecutive month of a greater than 50 reading signifying manufacturing growth in the United States. Within the index, the pace of growth in manufacturing employment rose to 55.1 from 51.8 and in new orders rose to 57.6 from 56.7 while prices declined at a slower rate in December with a reading of 47.5 from 45 (readings above 50 signal growth) in November. The Census Bureau reported that November construction spending rose by 1.2% to \$807.1 billion per year which beat expectations of a rise to 0.5%, meanwhile the October reading was revised to a 0.2% decline from a 0.8% increase. The 1.2% increase in construction spending was the largest monthly rise since August. The Commerce Department reported that November factory orders rose by 1.8%, slightly missing economist expectations of a 1.9% rise. The vacancy rate of apartments fell to 5.2% in the fourth quarter, their lowest rate in more than a decade and below the 5.6% rate in the third quarter, according to Reis. Average monthly rents rose 2.3% in the fourth quarter to \$1,009 per month. In a separate

release, Reis reported that the U.S. office vacancy rate fell to 17.3% in the fourth quarter from 17.4% in the third quarter and 17.6% at the conclusion of 2010. A record low 12.3 million square feet of new office space came on to the market in 2011. According to a report from Bank of New York Mellon, the average funded status of U.S. corporate pension plan dropped to 72.4% at the end of 2011 from 84.3% a year earlier with assets rising by 2.7% but liabilities jumping by 20%. Meanwhile, December U.S. auto sales were generally strong led by greater than 30% sales gains at Chrysler, Volkswagen and Kia while Honda was the only major manufacturer to report U.S. sales declines on a year over year basis.

In Europe, the Eurozone December Purchasing Managers Index (PMI) compiled by Markit, which measures manufacturing activity in the region rose to 48.3, from 46.4 in November. Despite the improvement in Eurozone PMI, Markit economist Chris Williamson remarked, "Worryingly, new orders are falling at a far faster rate than manufacturers have been cutting output, meaning firms have been reliant on orders placed earlier in the year to sustain current production levels." In the U.K., the December PMI climbed to 49.6 from 47.7 in November. Eurozone unemployment was unchanged in November at 10.3% with Spain having the highest unemployment rate at 22.9%, up from 20.4% a year earlier and the lowest rate found in Austria at 4.0%. The German unemployment rate declined to 6.8% in December, from 6.9% in November. Not all news was good news in the German economy though as November retail sales fell by 0.9%, below expectations of a 0.5% rise. In response to fears of concerns around Hungary's ability to pay its bills, the Hungarian government said that they are not close to defaulting while signaling that they are willing to negotiate a standby loan from the IMF. Despite the news, Fitch downgraded Hungary's debt to BB+ from BBB-, citing "further deterioration in the country's fiscal and external financing environment and growth outlook, caused in part by further unorthodox economic policies complicating the agreement of a new IMF/EU deal." In early trading on Sunday evening, the Euro fell to new 16-month lows against the dollar at \$1.2680. The Euro has been pressured on the heels of continued economic issues across the Eurozone.

In Asia, the IMF announced that they are conducting stress tests of Japanese banks to measure how they might behave with a drop in value of Japanese bond holdings. The Japanese 10-year government note has one of the lowest yields in the world with a yield of 1%. Meanwhile, the IMF said that Asia should prepare for its own bailouts by calling for strengthening of central bank swap lines. The IMF warned that the Asian region is heavily reliant on trade which might be threatened by weakness in Western economies. China's PMI rose to 50.3 in December, beating economist expectations of a climb to 49.1 from 49.0 in November. A reading above 50 signals manufacturing growth occurred in the country during the month. China reported that its 2011 trade surplus reached was approximately \$160 billion, down from \$183 billion in 2010. India announced that they would allow foreign investors to directly purchase local shares effective January 15 to attempt to boost capital flows into the country and to reduce market volatility. Singapore announced that the country's GDP fell by an annualized 4.9% in the fourth quarter from the prior quarter, which is the second quarterly decline of the last three quarters. Meanwhile, in Australia PMI expanded in December for the first time in six months rising to 50.2 from 47.8 in November.

U.S. equity markets began 2012 with gains of 1-3% in the first week on the heels of mostly stronger than expected economic news. The gains to start 2012 followed a mixed December

where large cap value and microcap stocks had 2% or greater returns, however, large growth stocks showed modest declines with less than 1% falls in the Russell 1000 Growth and NASDAQ indices. For 2011, equity markets were mixed with large cap stocks outperforming as can be seen by gains in the Dow Jones Industrial Average and the Russell 1000 indices, however, small cap stocks underperformed with the Russell 2000 lower by 5.5%. Despite the underperformance by the Russell 2000 in 2011, it remains the best performing major U.S. equity index since the market bottom on March 9, 2009 rising more than 118% off its lows. European markets were mixed to start 2012 with major indices in the U.K. and Germany showing gains while French and Spanish markets started the year with modest declines. Spanish shares were hurt by the announcement of the Spanish government that banks would need to raise 50 billion Euros as a provision against bad property assets. Asian indices were also mixed with gains in Hong Kong, Korea and India while shares started lower in Japan and China. International equity markets generally underperformed U.S. markets during 2011 on concerns over slowing growth in both Europe and Asia. The best performing international markets were in Mexico (-3.8%) and the UK (-5.4%) while Hong Kong, Chinese and Indian shares fell by more than 20% in 2011. Below, is a look at performance by equity market during key market periods. It is important to note that all returns are shown in local returns and therefore US dollar returns may be significantly different when investing in foreign markets.

Equity Market Returns (in local currency) as of 1/6/2012:

| | 1/1/12- 1/6/12 | December 2011 | 4th Quarter 2011 | 2011 (local returns) | Recent Market Top: Since 4/29/11 | Recent Market Bottom: Since 3/9/09 | 1 Year | Since 10/9/07 |
|------------------------------------|-------------------|------------------|------------------------|----------------------------|--|--|--------|------------------|
| Dow Jones Industrial Average | 1.2% | 1.4% | 12.0% | 5.5% | -3.5% | 88.8% | 5.7% | -12.7% |
| S&P 500 | 1.6% | 0.9% | 11.2% | 0.0% | -6.3% | 88.9% | 0.3% | -18.4% |
| Russell 1000 Growth | 1.7% | -0.3% | 10.6% | 2.6% | -4.8% | 102.8% | 3.2% | -0.6% |
| Russell 1000 Value | 1.7% | 2.0% | 13.1% | 0.4% | -6.6% | 104.0% | 0.6% | -18.2% |
| Russell 2000 | 1.2% | 0.5% | 15.0% | -5.5% | -13.4% | 118.4% | -5.3% | -11.4% |
| NASDAQ* | 2.7% | -0.6% | 7.9% | -1.8% | -6.9% | 110.8% | -1.3% | -4.6% |
| Wilshire 5000 | 1.6% | 1.6% | 11.4% | -1.4% | -7.7% | 94.1% | -1.0% | -15.8% |
| Russell Microcap Index | 1.3% | 2.4% | 13.4% | -10.4% | -16.1% | 107.1% | -10.8% | -23.8% |
| FTSE (UK) | 1.4% | 1.2% | 8.7% | -5.6% | -6.9% | 59.5% | -6.1% | -14.6% |
| CAC (France) | -0.7% | 0.2% | 6.0% | -17.0% | -23.6% | 24.6% | -19.6% | -46.5% |
| DAX (Germany) | 2.7% | -3.1% | 7.2% | -14.7% | -19.4% | 64.1% | -13.2% | -24.1% |
| Nikkei (Japan) | -0.8% | 0.2% | -2.8% | -17.3% | -14.8% | 18.4% | -20.3% | -51.1% |
| Hang Seng (Hong Kong) | 0.9% | 2.5% | 4.8% | -20.0% | -21.6% | 63.9% | -21.8% | -34.1% |
| Kospi (Korea) | 1.0% | -1.2% | 3.2% | -11.0% | -15.9% | 72.0% | -11.3% | -8.5% |
| Bovespa (Brazil) | 3.3% | -0.2% | 8.5% | -18.1% | -11.4% | 59.5% | -17.0% | -7.8% |
| IPC (Mexico) | -0.7% | 0.7% | 10.7% | -3.8% | -0.4% | 116.9% | -4.6% | 15.7% |
| Shanghai (China) | -1.6% | -5.7% | -6.8% | -21.7% | -25.7% | 2.1% | -23.4% | -62.2% |
| BSE Sensex (India) | 2.7% | -4.1% | -6.1% | -24.6% | -17.1% | 94.4% | -21.4% | -13.2% |
| IBEX 35 (Spain) | -3.2% | 1.4% | 0.2% | -13.1% | -23.8% | 21.6% | -14.6% | -44.2% |

Looking ahead to the second week of January, market participants will likely be focused on domestic and international economic releases and the start of the quarterly earnings season. In the United States, key economic releases are likely to include November consumer credit on Monday, November wholesale inventories on Tuesday, the release of the January Fed Beige Book on Wednesday, weekly initial jobless claims, December retail sales and November business inventories on Thursday and the release of the November trade balance and January consumer confidence reports on Friday. According to Briefing.com, December retail sales are anticipated to rise 0.4% while consumer confidence is expected to improve to 71.0 from 69.9 in December. The upcoming week will also mark the unofficial start of the quarterly earnings season with results from several companies on the calendar including Alcoa, JPMorgan & Chase, Supervalu and others.

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| INDEX | DESCRIPTION |
|-------------------------------------|---|
| Dow Jones Industrial Average (DJIA) | An unmanaged index of 30 widely held securities. |
| S & P 500 | An unmanaged index of 500 widely held stocks. |
| Russell 2000 | An unmanaged index of small cap securities. |
| NASDAQ | An unmanaged index of all stocks traded on the NASDAQ over-the-counter market. |
| Wilshire 5000 | The Wilshire 5000 Total Market Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. |
| EAFE | An unmanaged index that is generally considered representative of the international stock market. |
| MSCI EAFE | A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East. |
| FTSE (UK) | An capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. |
| CAC (France) | An unmanaged market-capitalization weighted index of 40 widely held stocks listed in France. |
| DAX (Germany) | An total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. |
| Nikkei (Japan) | An unmanaged price-weighted index of 225 widely held stocks listed in Japan. |
| Hang Seng (Hong Kong) | An unmanaged market-capitalization weighted index of 45 widely held stocks in Hong Kong. |
| Kospi (Korea) | An unmanaged market-capitalization weighted index of all common stocks traded on the Korea Exchange. |
| Bovespa (Brazil) | A total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange in Brazil. |
| IPC (Mexico) | An capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. |
| Consumer Price Index | A measure of inflation compiled by the US Bureau of Labor Statistics. |
| S&P/Case Shiller Home Index | An index that measures changes in U.S. home prices by following the purchase price and resale value of homes in major metropolitan cities. |