

2011

Year in Review

2012 *Outlook*

 First National
Wealth Management



Looking back, 2011 was certainly an interesting year from an investment perspective. We're hopeful that 2012 is a little more "boring," with stable and positive returns throughout the year.

We want to take this opportunity to share with you our summary of 2011 from an economic viewpoint as well as review the equity and fixed income markets. In addition, we would like to share our 2012 outlook and current investment strategies being employed in client portfolios.

We are proud of our experienced investment team who continuously manage investment strategies that are tailored to meet your goals and risk tolerance. No matter what 2012 holds, we encourage you to remain in close contact with your respective investment officer, so that together, you can make needed changes to meet your unique lifestyle goals.

We appreciate your business and look forward to working with you in a prosperous new year.



Kurtis D. Spieler, CFA
Chief Investment Officer

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Economy

Economic Review

2011 started with optimism that the global economy was recovering from the 2008 financial crisis and subsequent recession. Economic growth showed steady improvement through the 2nd half of 2010, with 4th quarter GDP particularly strong. Economists expected this momentum to continue in 2011 with 3% growth predicted in the U.S.¹ Early in 2011, this sense of optimism faded as concerns intensified regarding the global economy and unpredicted, exogenous shocks impacted U.S. economic conditions.

• 1st Half:

- Commodity prices, especially oil, surged due to geopolitical risk in North Africa and the Middle East. This negatively impacted the purchasing power of consumers.
- In March, Japan was hit by an earthquake that triggered a tsunami and subsequent nuclear disaster. This impacted the supply chain in several industries, negatively impacting growth.

As a result of the increase in commodity prices and supply disruption, U.S. GDP decelerated to an anemic 0.4% growth rate in the 1st quarter and 1.3% growth in the 2nd quarter.¹

• 2nd Half:

- In the U.S., political gridlock over the debt ceiling and the ultimate agreement, which failed to adequately address the U.S.'s unsustainable debt situation, led Standard & Poor's to downgrade the U.S. sovereign debt rating on August 6th.
- In Europe, politicians and finance ministers battled throughout the year to contain the sovereign debt crisis. European leaders were divided as to how best contain the situation, consistently delayed decisions and implemented the minimum in reform measures, which increased uncertainty about Europe's future.

As a result, consumers and businesses became more risk averse which impeded growth. The U.S. economy entered a "soft patch" and economists increased the probability of a double-dip recession. Equities fell sharply and Treasuries rallied on a "recession trade." In the face of the negative events, however, the U.S. economy proved resilient. GDP growth accelerated to 1.8% in the 3rd quarter with economists expecting faster growth in the 4th quarter.¹ Consumption and business spending led the economy in 2011. The chart shows major economic statistics by quarter in 2011 and expectations for 2012.

	1Q 2011	2Q 2011	3Q 2011	4Q 2011 ^a	2012
Real Economic Growth (GDP) ^b	0.4%	1.3%	1.8%	2.8%	2.1%
Unemployment Rate	8.9%	9.1%	9.1%	8.8%	8.7%
Consumer Price Index (CPI) ^c	2.1%	3.5%	3.8%	3.4%	2.1%
CPI ex Food & Energy ^c	1.2%	1.6%	2.0%	NA	NA

^a Bloomberg survey estimate; ^b Annualized Q/Q % Change; ^c 12-Month % Change
Source: Conference Board, Bureau of Economic Analysis, Bureau of Labor Statistics (Bloomberg)

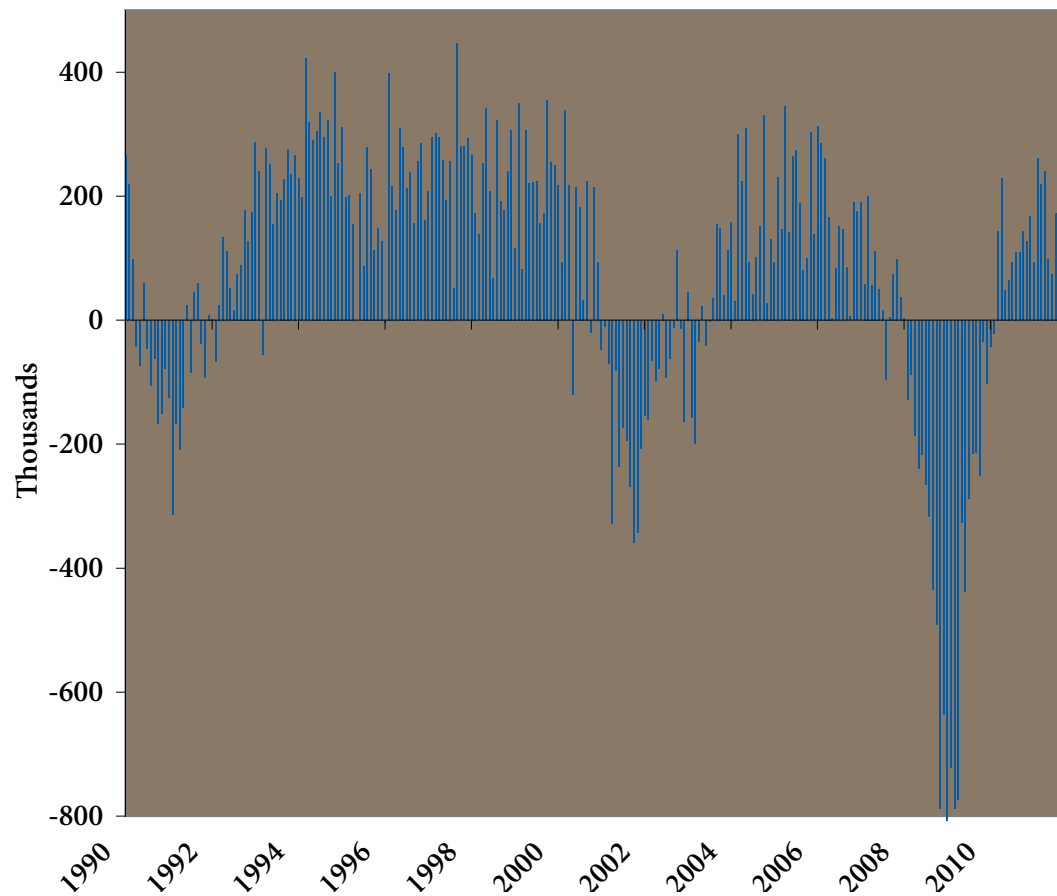
The U.S. economy is consumer-led with personal consumption accounting for around 71% of GDP.² As such, growth in real disposable income is a critical driver for a sustainable economic recovery. High unemployment in the U.S. remains a constraint on the economy. On the positive side (as noted in the graph), private employment continued to grow throughout 2011 and there is positive momentum in the labor market. The U.S. unemployment rate fell from 9.2% in June to 8.5% in December, when the government reported a gain of 200,000 new jobs.³

The positive results derived from private job growth were partially offset by the extent of the job loss. From February 2008 to February 2010, the U.S. economy lost 8.8 million jobs. Since March 2010, the U.S. economy gained 3.2 million jobs, an average of 143,000 jobs per month.³ In addition, offsetting gains in the private labor market is the decline in the public sector job market. Federal, state and local governments have cut jobs in response to budget constraints.

The second key factor that impacts real disposable income is inflation. As a result of the 2008 financial crisis and subsequent recession, U.S. policymakers implemented a massive fiscal and monetary policy response. Moreover, oil prices increased markedly in early 2011 due to the “Arab Spring” and rising uncertainties in the Middle East. These factors, coupled with the improving economic landscape of late 2010, led to increasing inflationary pressures during the early part 2011. Inflation, measured by the CPI, drifted higher and ultimately peaked at 3.9% in September. However, the core inflation rate, which excludes food and energy, was lower and averaged 1.6% from January through November, 2011.³ In 2012, most economists expect inflationary pressures to ease due to the slowing global economy and continuation of high unemployment.

The last factor in real disposable income is taxes. Economic research has focused on the negative long-term impact of high budget deficits and excessive government debt in developed economies, including the U.S. High levels of government debt have negative economic costs due to increased uncertainties regarding future taxes, interest rates and potential government austerity measures. In the short-term, the U.S. Congress appears to be avoiding the federal deficit issue until after the elections. Over the long-term, taxes are likely to increase in the U.S.

Change In Private Employment



Source: Bureau of Labor Statistics (Bloomberg) 1/31/1990 - 12/31/2011

2012 Economic Outlook

We believe the U.S. economy will continue to expand and avoid a recession in 2012. *Overall, we expect sub-par GDP growth of around 2%.* This growth rate is based on an expectation that the health of the consumer is slowly improving. On the positive side, the improving job market and modest wage hikes will boost income. Consumers will also benefit if inflation is lower in 2012 as economists predict. On the negative side, the absolute high level of unemployment and extent of consumer deleveraging will impede consumption. The U.S. savings rate declined to 3.5% at the end of 2011.⁴ This fairly low level is a constraint on future economic growth as individuals may increase their savings.

Higher consumer confidence may also boost consumption. For most of 2011, consumers' view of the economy was dire. Yet, in December 2011, consumer confidence was 64.5, up from the year's low of 40.9 recorded in October.⁵ The increase in optimism that consumers feel about the overall state of the economy is an encouraging sign for future economic growth.

Business investment was a strong component of growth in 2011 and we expect investment in capital equipment and technology to continue to be a positive in 2012. Businesses are well positioned for 2012 with strong balance sheets and cash reserves at record levels.

There are two additional economic variables to analyze that may impact this growth outlook:

- **European Sovereign Debt Crisis**
- **China's Economy**

Thus far, the European debt crisis has been primarily contained within Europe, which will likely experience a recession. U.S. trade with Europe may decline in 2012, though exports to Europe are just roughly 3% of the U.S. economy.⁴ The major risk is the impact of the crisis on the European banking system and the contagion effect it would impart on the U.S. banks because of how integrated the global financial system is. The outcome would be an increase in the cost and a decline in the supply of credit to the U.S. economy. The negative consequences of a credit contraction would be significant.

We continue to closely monitor Europe and their government's response to the sovereign debt crisis with most economists and investors disappointed with governments in how the debt and budget issues have been addressed. Many countries have elected new leadership supporting austerity measures and the Euro. Recently, the European Central Bank has stepped up their efforts and market pressures have marginally subsided.

China's economy is also a wildcard in 2012 as it slowed last year as a result of monetary policy actions taken to reduce inflation and the impact of lower global growth, especially in Europe. At this time, inflationary pressures have subsided and economic growth is expected to accelerate in China, which is a positive for the U.S. economy.

Overall, the U.S. economy has been amazingly resilient and is in strong position relative to other developed markets. We expect the bond market will not force our government, through higher interest rates, to address the federal deficit in 2012 and our expectation of modest growth is somewhat dependent on Europe experiencing a mild recession. Increased growth in emerging markets, including China, would significantly improve global growth expectations.

Equities

2011 Equity Review

2011 started positively for the “risk-on” trade as equities and commodities rallied early in the year. The catalyst was optimism regarding global economic growth. As of April 29th, the S&P 500 was up 9.1%. Initially, investors ignored the impact of higher oil prices and the hit to the global economy as a result of the Japanese earthquake. It was also becoming clear that Europe’s sovereign debt problems were escalating and not being solved. From April 29th to October 3rd, the S&P 500 fell 18.6% as investors became concerned about a U.S. recession. Stock markets subsequently rebounded in the 4th quarter as the U.S. economy accelerated and company earnings were exceeding expectations. From October 3rd to December 31st, the S&P 500 rebounded 15.1%.⁶ The increase in volatility and huge swing in investor sentiment did not result in any directional trend to the U.S. market as the S&P 500 finished the year flat, with dividends providing the positive return for the year. U.S. large capitalization stocks were the best performing equity class in 2011 as the table indicates.

International markets, both developed and emerging, were the clear laggards last year. Emerging markets were negatively impacted by the Middle East turmoil and by high inflation, which led various Central Banks, including China, to raise interest rates in an effort to slow down their respective economies. Developed markets were negatively impacted by recession in Japan and ongoing European debt issues.

As the table illustrates, diversification into smaller U.S. companies in addition to international markets did not add value in 2011. In looking at the longer return periods, diversification has been additive to returns with U.S. small and mid cap stocks, international developed and emerging markets all outperforming U.S. large caps over the last 10 years.

	1 Year	3 Year	5 Year	10 Year
U.S. Large Cap	2.1%	14.1%	-0.3%	2.9%
U.S. Mid Cap	-1.6%	20.2%	1.4%	7.0%
U.S. Small Cap	-4.2%	15.6%	0.2%	5.6%
International Developed	-12.2%	7.7%	-4.7%	4.7%
Emerging Markets	-18.5%	20.1%	2.4%	13.9%

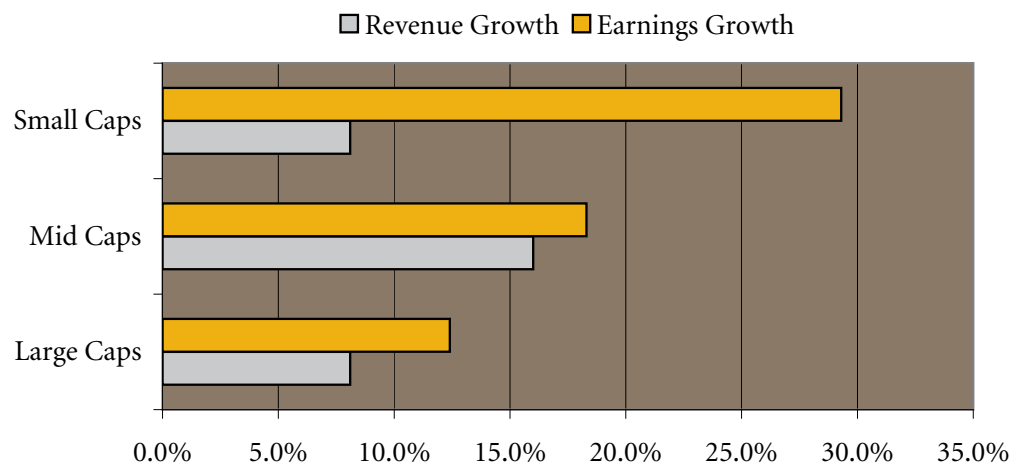
Source: Standard & Poors (Large), Russell (Mid & Small), MSCI (International & Emerging) (Bloomberg)

In the U.S. market, two important themes emerged in 2011:

1. Companies delivered exceptional sales and earnings growth in a relatively weak economy
2. Valuations contracted substantially, offsetting the positive fundamentals

U.S. company fundamentals were strong in 2011:⁷

As a result of the strong revenue and earnings growth and prudence with investments, the financial strength of companies continued to improve. Companies ended 2011 with lower leverage as indicated by improving net debt to equity ratios and high cash balances.



Unfortunately, companies were not rewarded with price appreciation for their strong earnings. Valuations or market multiples declined in 2011 on a trailing price-to-earnings (P/E) basis:⁷

	Large Caps	Mid Caps	Small Caps
P/E 12/31/10	14.9x	21.1x	26.8x
P/E 12/31/11	13.2x	17.3x	20.7x

In our opinion, the lack of price appreciation this year is to a large degree due to the European sovereign debt crisis and expected recession. Although a low probability event, there is fear related to outright failure of the Euro and major European financial institutions becoming bankrupt. This fear has kept valuations depressed and sentiment fairly negative toward investing in global equities.

2012 Equity Outlook

Similar to last year, we enter 2012 with an improving economy with U.S. growth the best among developed nations. Market sentiment is relatively depressed based on European struggles as well as the inability of our federal government to govern and reach agreements on the budget deficit.

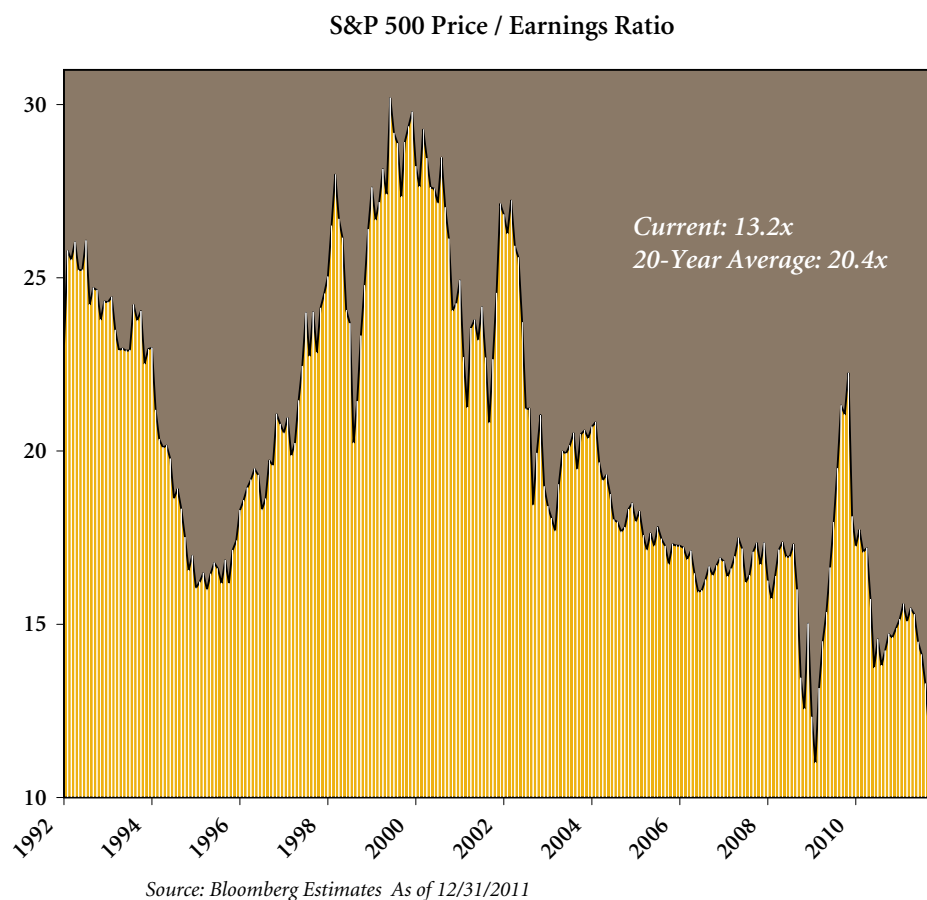
In reflection of the issues facing the global economy, Wall Street has revised down expectations for revenue and earnings growth. Current consensus estimates for the S&P 500 show revenue growth of 5.6% and earnings growth of 11.0% in 2012.⁸ Assuming the continuation of economic growth, the lower estimates should allow companies to continue to meet and exceed expectations.

Equity valuations are attractive and cheap by historical standards. The chart shows the trailing P/E ratio of the S&P 500 over the last 20 years. The current 13.2x multiple represents a 35% discount to the 20-year average.⁸ This is definitely a market “on sale.”

For long-term investors, we believe the cheapness of the stock market is a buying opportunity. Historically, investors have been rewarded by investing at these valuations. Unfortunately, valuations are a poor short-term market timing indicator as markets can stay cheap for extended periods of time.

In terms of downside, a U.S. recession is the major risk for equity and commodity prices. Recessions ultimately cause earnings contraction increasing the current valuation. We continue to monitor the European situation closely as it represents the biggest risk to the U.S. economy and stock market. Investors should also be prepared for a continuation of volatility as markets grapples with the global macroeconomic pressures. Positive U.S. company fundamentals and valuations may continue to be offset by European news flow and the ongoing political debate on how to fix the federal deficit. After underperforming in 2011, international markets trade at an even bigger discount. In Europe, the trailing P/E ratio has fallen from 14.7x to 10.1x. Emerging markets also trade at similar valuations to Europe, with the trailing P/E ratio 10.7x.⁹ The discount reflects the higher global macroeconomic risk.

In summary, we expect better returns for global equity investors in 2012. The ride, however, may continue to be choppy due to the high level of global economic risk.



Fixed Income

2011 Fixed Income Review

Given the improving economic outlook and inflationary pressures that were building in late 2010 and early 2011, conventional wisdom led investors to believe that rates would be moving higher and bonds would be a poor performing asset class in 2011. Conventional wisdom was proven wrong. As the table indicates, fixed income returns were strong with bonds the best performing asset class in 2011.

Bond prices moved higher due to weaker-than-expected economic conditions and a heightened sense of fear and risk aversion, drawing investors to the safe-haven of bonds. In addition, the U.S. Federal Reserve continued to implement an easing monetary policy creating demand for Treasuries, further driving prices up and interest rates down.

In September, the Federal Reserve implemented “Operation Twist”, an effort to keep interest rates low and stimulate borrowing and growth. Effectively, they are reinvesting bond maturities and prepayments in longer Treasuries (5 – 10 years) and mortgage-backed securities. This helped long bonds perform extremely well with Barclay’s Capital U.S. Treasury 7-10 Year Index Return +15.6% in 2011. The Federal Reserve also has taken the unprecedented step to “keep Fed Funds rate at exceptionally low levels through mid 2013.”¹⁰

As noted earlier, U.S. government debt was down graded to AA+ by the rating agency Standard & Poor’s in August. Bond investors responded more to global economic concerns than the rating downgrade, moving more assets into Treasuries, leading Treasury bonds to be the best performing taxable fixed income asset in 2011.¹¹ Effectively, Treasuries benefited from their status as the world’s safest and most liquid investment.

In the municipal bond market, another interesting (and irrational) development occurred last year. A well-known analyst predicted an apocalyptic scenario for the municipal bond market in 2011. According to this analyst, defaults were expected to escalate and investors were warned to brace for devastating consequences. At the beginning of 2011, the prices of municipal bonds were under pressure relative to other bonds, due to credit concerns in the market in addition to supply / demand imbalances. Over the year, fears subsided, defaults remained low and municipal bonds rallied in value. Municipal bonds generated the best total return of all fixed income securities in 2011.¹¹

	1 Year	3 Year	5 Year	10 Year
U.S. Int. Gov Credit	5.8%	5.7%	5.9%	5.2%
U.S. Int. Treasury	6.6%	3.4%	6.0%	4.8%
U.S. Int. Corporate	5.5%	10.7%	6.3%	5.9%
U.S. High Yield	5.0%	24.1%	7.5%	8.9%
U.S. Municipal 1-10 Year	8.4%	6.1%	5.8%	5.1%

Source: Barclay’s Capital Intermediate Indices Total Return Annualized

2012 Fixed Income Outlook

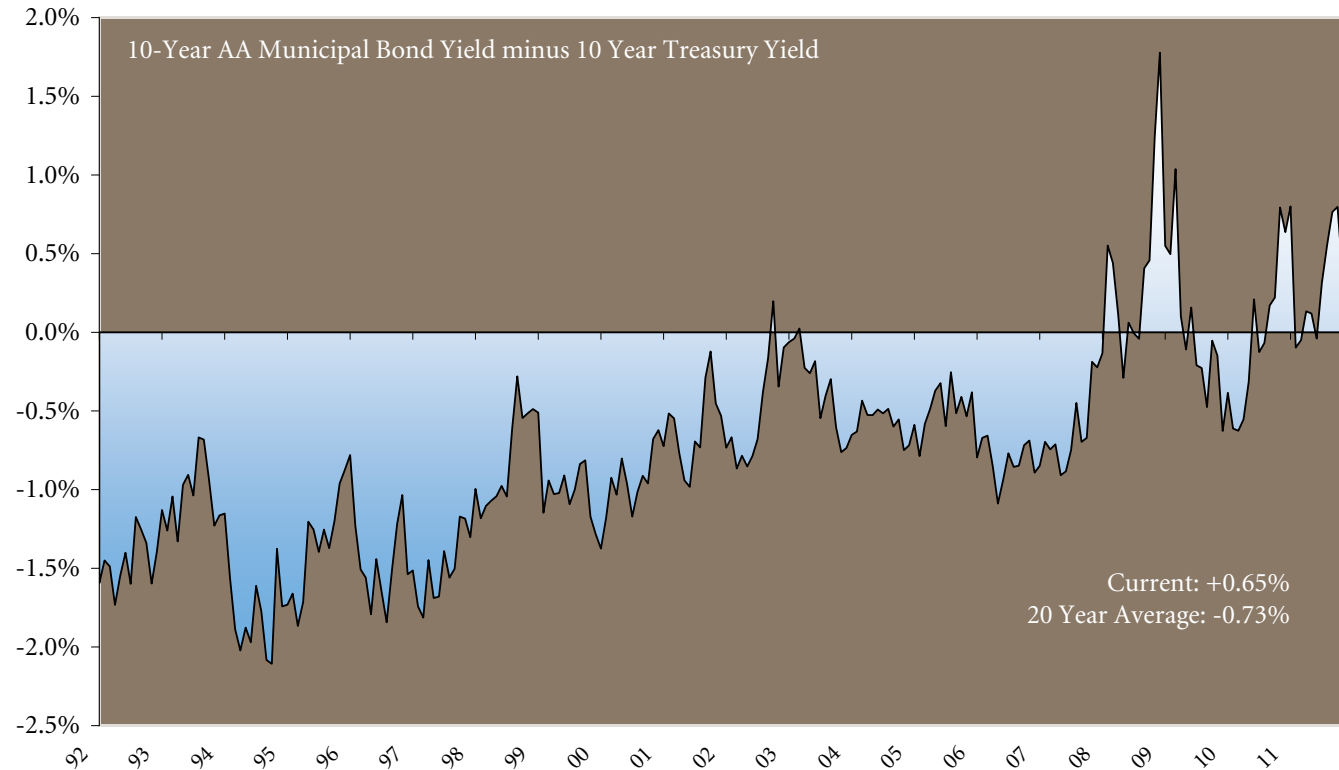
There is no “free lunch” in the bond market. Investors can either extend the duration of the portfolio (take on interest rate risk) or buy bonds with a higher chance of default (take on credit risk) to increase yield. During 2012, we favor two asset categories where increased yield is derived from credit, rather than interest rate risk.

- **Municipal Bonds**
- **Corporate Bonds**

As illustrated in the chart, municipal bonds are trading at attractive valuations relative to Treasuries with AA rated bond yields higher than the comparable Treasury yield. Yet, municipal bonds are tax-exempt. Historically, this has signaled a buying opportunity for investors.

Investors also understand that not all municipal bonds have the same credit risk. Given our outlook, we favor general obligation and essential service revenue bonds. Certain regions of the country are not recommended, specifically those that have higher levels of unemployment and debt structures.

10-Year Municipal Bond vs Treasury Yield

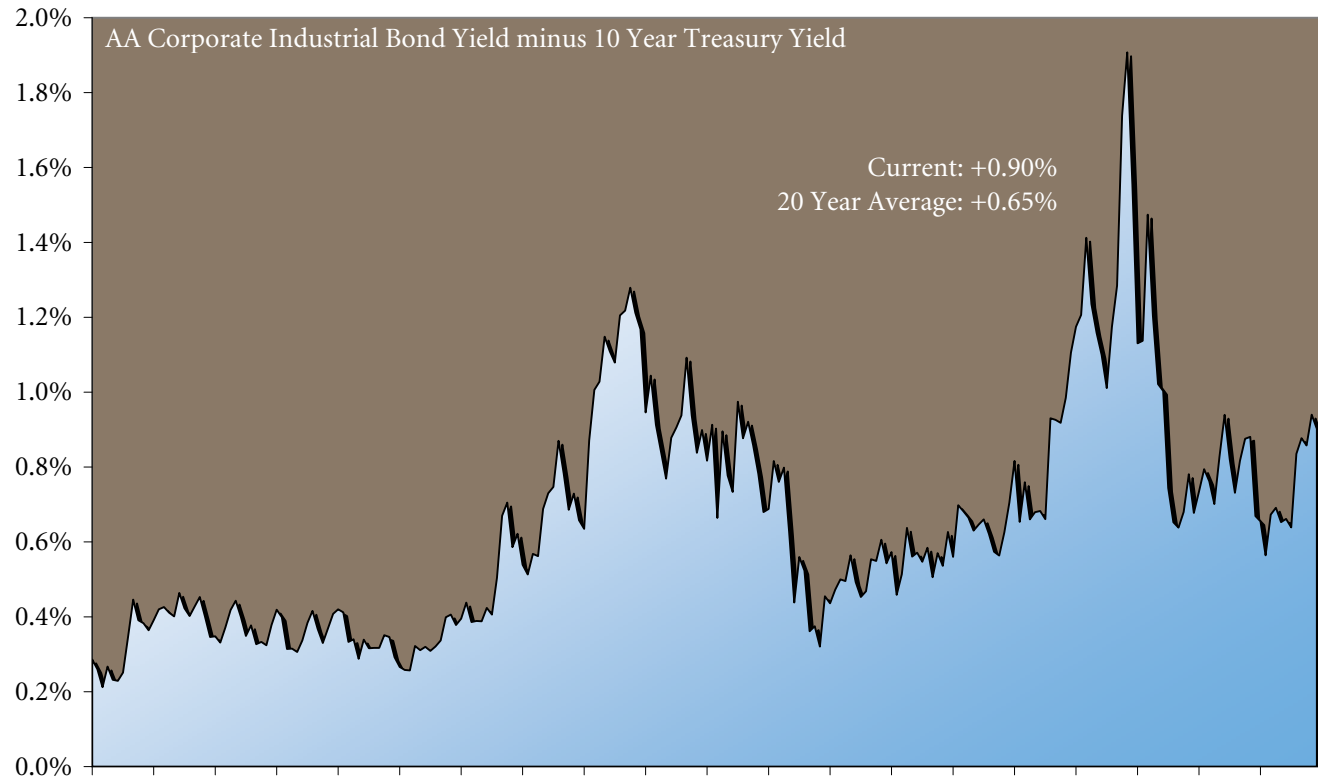


Source: Moody's Investors Service (Bloomberg), Bloomberg Indices As of 12/31/2011

Corporate bonds are also attractive relative to Treasuries. As the chart illustrates, the additional yield investors receive from investing in high quality corporate bonds versus Treasury bonds is 0.25% greater than the 20 year average.¹² We believe this spread reflects expected value and corporate bond investors will benefit as the spread reverts to the mean. Investment grade financials are currently the cheapest area within corporate bonds and we expect this to be the case throughout this year.

In 2012, we expect interest rates will stay low and be fairly range bound. We believe bond returns will be positive albeit at lower levels than the last few years as we don't expect a large movement in interest rates. We will likely remain focused on municipal and corporate bonds given their potential value relative to other sectors.

AA Corporate Bond vs 10-Year Treasury Yield



Source: Moody's Investors Service (Bloomberg), Bloomberg Indices As of 12/31/2011

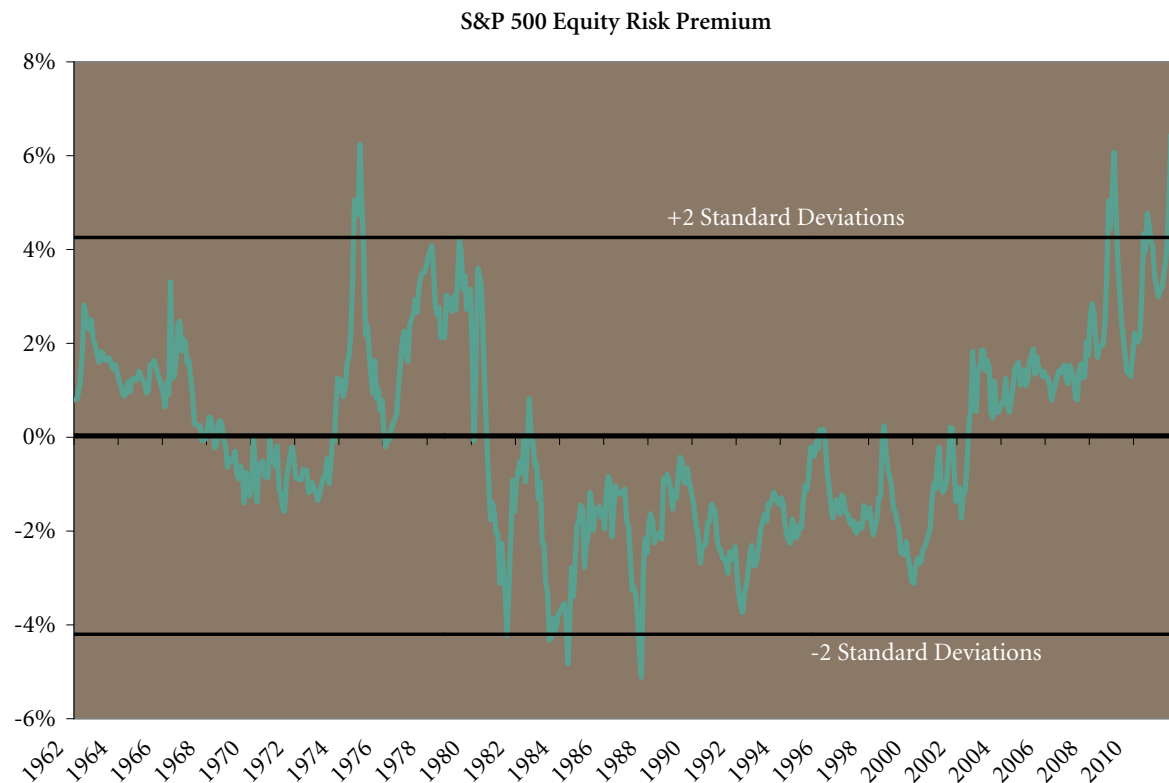
Investment Strategy

Investment Strategy

The most important determinant of total returns and risk is asset allocation, or the appropriate mix between equities, fixed income, cash and non-traditional asset classes. Within each investment objective, we make asset allocation decisions based on our economic and corporate profit outlook and the relative valuation of asset classes. In client portfolios, we currently advocate a modest overweight in equities relative to fixed income & cash based on the following analysis:

1. Economic outlook: We believe the U.S. economy will continue to grow and not enter a recession. Based on the structural headwinds of high unemployment and government budget deficits, we expect this growth to be relatively subdued. The possibility of a recession in the U.S. is currently low and consumer confidence is showing signs of strength. An expectation of a recession would warrant a decrease in exposure to equities.
2. Corporate profit outlook: Companies fundamentals were strong in 2011 with positive earnings surprises expected to continue this year. Management guidance and subsequent analyst revisions have recently moderated. We would characterize the current profit outlook as stable, which combined with company valuations, warrants a slight overweight position in equities.
3. Equities are cheap relative to their historic averages, reflecting the negative consumer and business sentiment. Fixed Income markets are relatively expensive with bond yields close to all time lows. The chart illustrates the Equity Risk Premium, which is calculated by taking the inverse of the P/E ratio minus the 10-year Treasury. The current 5.7% level represents a historically cheap indicator for equities.⁷

A risk to our outlook is the high level of global economic risk and unknown impact of Europe's sovereign debt crisis to the world financial system. However, *we believe that investors will be rewarded for "staying in the course" with their stock allocation over a 5-10 year time horizon.*



Source: Bloomberg As of 12/31/2011

Equity Allocation

Equity Allocation

Within equities, we recommend the following:

- **U.S. Large Cap (Overweight):** We believe U.S. large cap equities are very attractive within an overall cheap asset class. As previously indicated, U.S. large caps are trading at a 35% discount on a P/E basis to their 20 year average. Small and mid caps are trading at 14% and 15% discount, respectively.⁸ Large caps also have the advantage of lower volatility and a higher dividend yield.
- **U.S. Small & Mid Cap (Neutral):** Although attractively valued relative to their history, small and mid caps are trading at a premium to large caps. This combination argues for a relatively neutral allocation.
- **International Developed (Underweight):** The structural problems in Europe and Japan as well as the likely recession in Europe, lead us to an underweight position. These markets continue to trade at attractive valuations based on the higher risk.
- **Emerging Markets (Neutral):** This asset class is also trading cheaply relative to their history and the U.S. market. We continue to believe this asset class warrants exposure based on the higher growth rates. The International Monetary Fund estimates that growth in emerging markets will exceed 6% in 2012. Emerging markets was the worst performing equity asset class in 2011. We expect better performance over the next 5 years.
- **Global Real Estate (Neutral):** We recommend a small position in global REITs based on the attractive dividend yield.
- **Commodities (Overweight):** We advise an opportunistic small position in commodities in recognition that growth in emerging markets will likely lead to higher commodity prices.

Fixed Income Allocation

Fixed Income Allocation

Within taxable bonds, we advocate the following:

- **U.S. government (Underweight):** We believe that U.S. Treasuries and government agencies remain expensive relative to other opportunities. Within government bonds, Treasury Inflation Protections Securities (TIPS) are attractive and warrant a small position.
- **Investment Grade Corporate Bonds (Overweight):** As indicated, corporate bonds are attractive relative to government bonds. Within corporate bonds, financials and utilities remain cheap.
- **Municipal Bonds (Overweight):** Even after strong performance in 2011, municipal bonds remain the cheapest area within fixed income. We utilize Build America Bonds in tax-exempt portfolios.
- **High Yield (Neutral):** We recommend a modest position in high yield to take advantage of the attractive yield. The current index yield level is 8.1%.¹¹ The high yield asset class has risk characteristics closer to equities.
- **Global Bond (Neutral):** We advise a modest position in global bonds to take advantage of the higher yields globally. Emerging market bonds are attractive relative to developed markets and many countries have a better fiscal situation than developed economies.

In analyzing the opportunities in equities and fixed income, we believe that U.S. large cap stocks are attractive relative to U.S. Treasuries. The dividend yield of this asset class is currently higher than the 10 year Treasury yield. In addition to the prospect of price appreciation, companies have the ability to increase their dividend during the time horizon as companies have strong balance sheets and relatively low dividend payout ratios. In individual equity and mutual fund strategies, we are emphasizing large caps and focusing on companies that return value to shareholders. Overall, we recommend investors continue to invest in diversified portfolios to minimize risk and increase returns.

We continue to closely monitor the global economy and will alter our strategy as needed.

Prepared by:

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Kurt Spieler, Chief Investment Officer

January 2012

Definitions

Research reports often contain terminology and acronyms that are specific to the industry. The following Definitions are provided to help clients navigate the terminology used in this report.

Asset Allocation: An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon.

Commodities: Any good exchanged during commerce, which includes goods traded on a commodity exchange. Examples of commodities include corn, oil, gold, live cattle, and coffee.

Consumer Confidence: Consumer confidence is a measure of the level of optimism consumers have about the performance of the economy. Generally consumer confidence is high when the unemployment rate is low and GDP growth is high.

Consumer Price Index (CPI): A measure that examines the weighted average prices of a basket of consumer goods and services (such as transportation, food and medical care). Changes in CPI are associated with the cost of living.

CPI ex Food & Energy: The most commonly used measure of core inflation (or core CPI) is the CPI excluding food and energy. This measure systematically excludes food and energy prices because, historically, they have been highly volatile and are widely thought to be subject to large changes that often fail to persist (such as supply disruptions from a drought or OPEC-led cutbacks in production).

Corporate Bonds: A debt security issued by a company. Corporate bonds are considered higher risk than government bonds, thus interest rates are almost always higher.

Dividend Yield: A financial ratio that shows how much a company pays out in dividends each year relative to its share price. Dividend yield is calculated as follows: Annual Dividends Per Share divided by Price Per Share.

Emerging Markets: Emerging markets are nations with social or business activity in the process of rapid growth and industrialization.

Equity Risk Premium: The excess return that an asset or the overall market provides over a risk-free rate. This excess return compensates investors for taking on the relatively higher risk of the asset. The size of the premium will vary as the risk in a particular asset, or in the market as a whole, changes; higher-risk investments are compensated with a higher premium.

Euro: The official currency of the European Union (EU), currently in use in 16 of the 27 States. Participating in the euro: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. Other member states of the EU are: Bulgaria, the Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Sweden, and the United Kingdom.

Growth Domestic Product (GDP): The total of goods and services produced by a nation over a given period, usually one year. Gross Domestic Product measures the total output from all the resources located in a country, wherever the owners of the resources live.

Inflation: Increase in the overall level of prices over an extended period of time.

Developed Markets: Developed markets are nations that have met all of the following criteria. They are a high-income economy as defined by the World Bank having a Gross National Income per capita of \$12,196.

Municipal Bonds: A debt security issued by a state, county, or municipality to finance its capital expenditures. Municipal bonds can be exempt from federal, state, and local taxes, especially if you live in the state in which the bond is issued.

Personal Consumption Expenditures (PCE): Personal consumption expenditures is a measure of data pertaining to spending on goods and services targeted toward individuals and consumed by individuals.

Real Disposable Income: The amount of money that households have available for spending and saving. It is calculated as: wages minus inflation minus taxes.

Real Economic Growth: A measure of economic growth from one period to another expressed as a percentage and adjusted for inflation (sc. expressed in “real terms”).

Recession: A significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country’s gross domestic product (GDP).

Real Estate Investment Trust (REIT): A security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate.

Savings Rate: An estimate from the U.S. Commerce Department’s Bureau of Economic Analysis of the amount of income left over after subtracting consumption costs and expenditures. National savings include savings left over from personal, business and government.

Standard & Poor’s 500 Index: An index of 500 stocks chosen for market size, liquidity and industry grouping by Standard & Poor’s. It is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index where each stock’s weight is proportionate to its market value.

Trailing Price to Earnings (P/E): The sum of a company’s price-to-earnings for the past 12 months. Price-to-earnings is calculated by taking the current stock price and dividing it by the trailing earnings per share.

Unemployment Rate: The percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

High Yield: A subset of corporate bonds characterized by having a rating below Investment Grade (below BBB- or Baa3) or no rating at all. High yield bonds typically have a significantly higher interest rate because of their historically higher default rates.

Intermediate Government-Credit: An index produced by Barclays Capital that is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented including U.S. Treasuries, government agencies, corporate bonds, other non-corporate debt, and a small amount of foreign bonds traded in the U.S. The index is of intermediate term meaning maturities from one to ten years. Intermediate Treasury and Intermediate Corporate are sub-indices.

Municipal 1-10 Year: An index produced by Barclays Capital that is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. The index is of intermediate term meaning maturities from one to ten years and contains the tax-exempt municipal bonds commonly held by bond portfolio managers.

Market Capitalization (Large-Cap, Mid-Cap Small-Cap): Market capitalization is the total value of the tradable shares of a publicly traded company; it is equal to the share price times the number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company’s net worth and is a determining factor in some forms of stock valuation.

- Large-Cap > \$10 billion
- Mid-Cap \$1 – 10 billion
- Small-Cap < \$1 billion

Sources:

1. Bureau of Economic Analysis
2. Organization for Economic Cooperation and Development
3. Bureau of Labor Statistics
4. Bureau of Economic Analysis
5. Conference Board
6. Standard & Poor's
7. Bloomberg
8. Bloomberg Estimates
9. Northern Trust
10. Federal Reserve Minutes
11. Barclays Capital
12. Moody's Investor Service, Bloomberg Indices

Unless otherwise stated, all data are as of December 31, 2011 or most recently available.

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