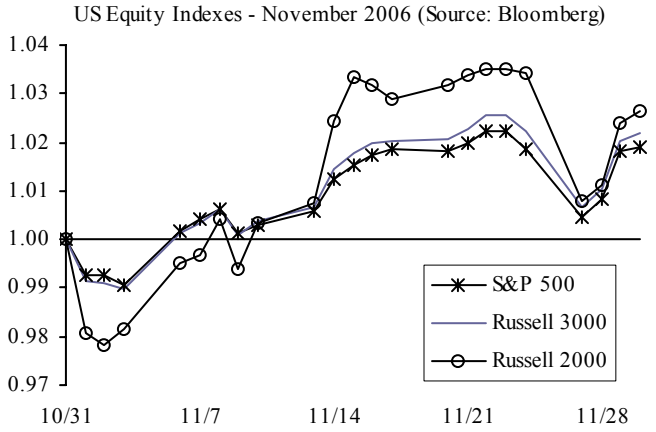
Market Summary
November 2006

CURIAN CAPITAL

Another Good Month for Stocks

Despite signs of a slowing economy, domestic equities moved ahead in November. The Standard & Poor's 500 Index (S&P 500) gained 1.90% for the month, while the broader Russell 3000 advanced 2.02%. Small-company stocks (Russell 2000) outpaced their big-company peers (Russell 1000) 2.63% to 2.16%, respectively. Elsewhere, the value-oriented segment of the market held a modest advantage over growth-oriented stocks as the Russell 3000 Value index out-performed its growth counterpart 2.33% to 2.02%.

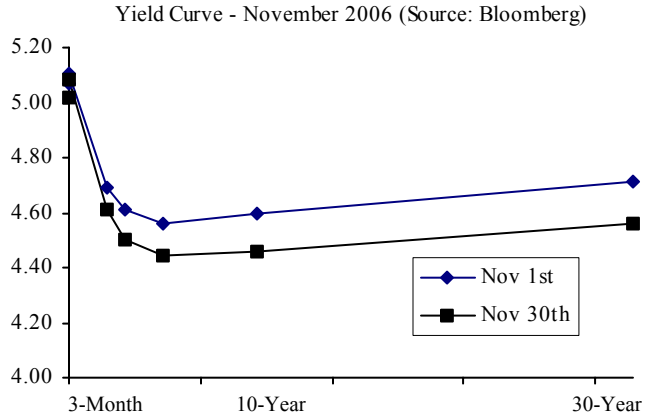


Stocks were helped in large part by lower energy prices. Although rebounding late in the month, oil prices slipped to as low as $55.81 per barrel in November from over $60 per barrel in October. Furthermore, merger activity, specifically in the financial services sector, helped drive the markets higher.

Factory Slowdown and Inverted Yields

Concerns about a cooling economy were reinforced in November as the Institute for Supply Management's (ISM's) report showed a pullback in U.S. manufacturing output for a third straight month. The ISM factory index hit its lowest level since April 2003, suggesting that a slowdown in economic activity might not be limited to the auto and housing industries only. The latest index reading of 49.5 came in below expectations, and any reading below 50 indicates a contraction in the manufacturing sector.

Meanwhile, yields on U.S. Treasury securities experienced an even sharper inversion compared to a month ago as the ISM report drove bond prices higher, forcing yields lower across most maturities. The spread between the 3-month Treasury bill and 10-year Treasury note widened from 0.47% to 0.56% in November.



The inverted yield curve continues to be a concern in view of the fact that previous inversions have preceded difficult economic and stock market environments. The yield on the 10-year Treasury note reached its lowest level in 10 months, perhaps reflecting investors' preference for safe investments amid signs of economic slowing.

Still, in remarks to Congress, Federal Reserve (Fed) Chairman Ben Bernanke predicted the economy will expand at a moderate rate for the next year or so.

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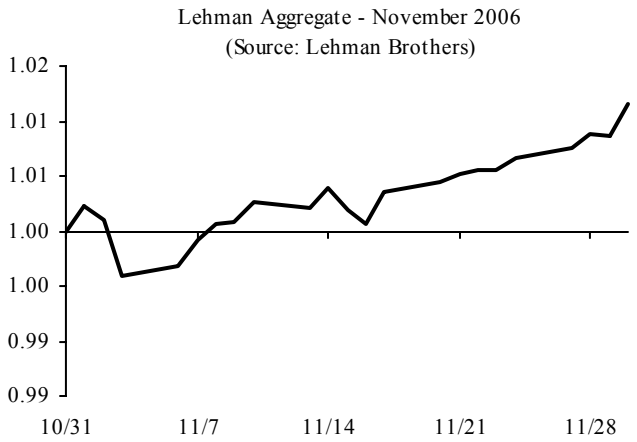
Fixed Income Rallies

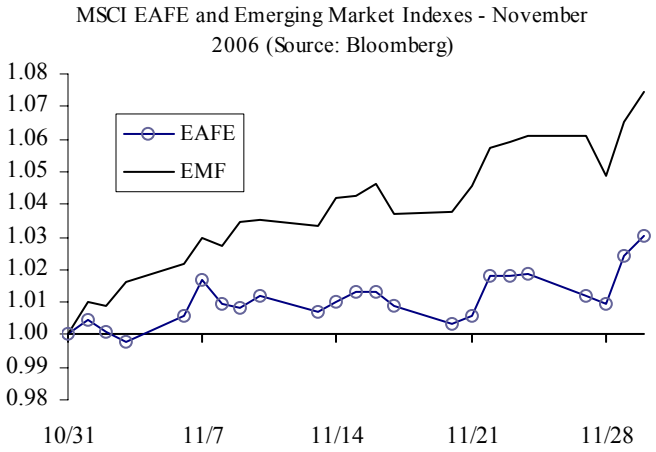
For the sixth straight month, the Lehman Brothers Aggregate Bond Index (Aggregate) delivered positive returns by advancing 1.16% in November. Longer-term maturities fared better than shorter-term securities, and year-to-date, the broad bond market is up 4.94%.



The rally in bonds came as some investors anticipate an interest rate cut sometime next year in light of recent, less-than-stellar economic reports. Lower future rates would make today's rates more attractive and could lead to a more accommodative environment for the capital markets.

But even as Fed chief Bernanke forecasts moderate growth potential for the economy, he sees the current pace of core inflation as worrisome. If these inflation concerns grow over the near term, sentiment could shift from the benefits of a rate cut to the drawbacks of more rate hikes. For now, given the softening of economic indicators, a rate cut seems the more likely scenario in 2007.

International Stocks Higher, Dollar Weaker



International equities — both in developed and emerging markets — outpaced their domestic counterparts in November. The MSCI EAFE gained 3.02% for the month, while the MSCI Emerging Markets Index jumped 7.45%.

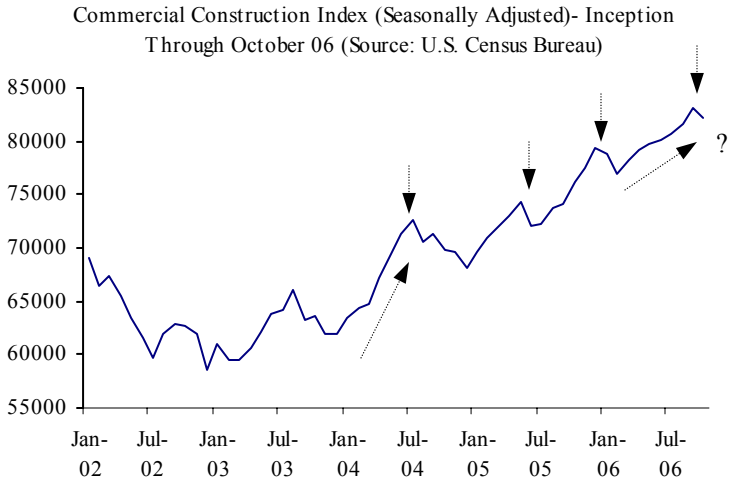
Investors have looked beyond the U.S. for investment opportunities as the dollar has slid versus other major currencies such as the British pound (ℓ) and euro (€). The dollar traded at ℓ0.509 at the end of November, the lowest since February 1991. Moreover, the dollar bought €0.755 at the close of the month, a level not seen since December 2004.

The weaker dollar could pose a dilemma for the Fed in its mission to balance price stability and inflation. Any rate cut by the Fed might place more downward pressure on the dollar as foreign investors look to other currency-denominated investments paying higher interest rates.

Of course, U.S. investors whose portfolios are diversified in international securities will benefit from the potential appreciation of foreign currencies.

REITS Are Hot, but Yields Are Declining

In sharp contrast to the residential housing market, commercial real estate continues to generate above-average returns. The FTSE-NAREIT Index soared 4.21% in November and is up 23.91% over the past six months.



Most of the index's recent performance is due to price appreciation. Because of this appreciation, the dividend yield has steadily declined since May 2006.

Although REITs have been one of the most-rewarding asset classes this year, new commercial construction dropped off slightly in October. Longer-term, the trend in commercial construction likely will be positive. But shorter-term, there could be increased volatility in the sector.

The Bottom Line

- Equities continue to perform well and valuations (P/Es) are not unduly high.
- If economic growth does indeed expand at a moderate rate over the next year — as Bernanke suggests — corporate earnings likely will follow suit.
- Fixed-income returns will be highly sensitive to new economic reports and the Fed's monetary policy heading into next year.
- International equities could do better than domestic equities over the short term, especially if the dollar does not rebound.
- After a very strong run, REITs might experience increased short-term volatility.

Our recommendation, as always, is to remain focused on *long-term* performance and maintain your asset allocation within a properly diversified portfolio. We firmly believe this is the best strategy to weather short-term market volatility and meet longer-term goals.

Curian Capital Asset Management Group

Steve Young, CFA, Senior Vice President
Walt Czaicki, CFA, Vice President
Clint Pekrul, CFA, Research Analyst

8055 E. Tufts Avenue, 10th Floor, Denver, CO 80237 | 877-847-4192

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