SilverOak
WEALTH MANAGEMENT LLC

Third Quarter 2013 Market Summary

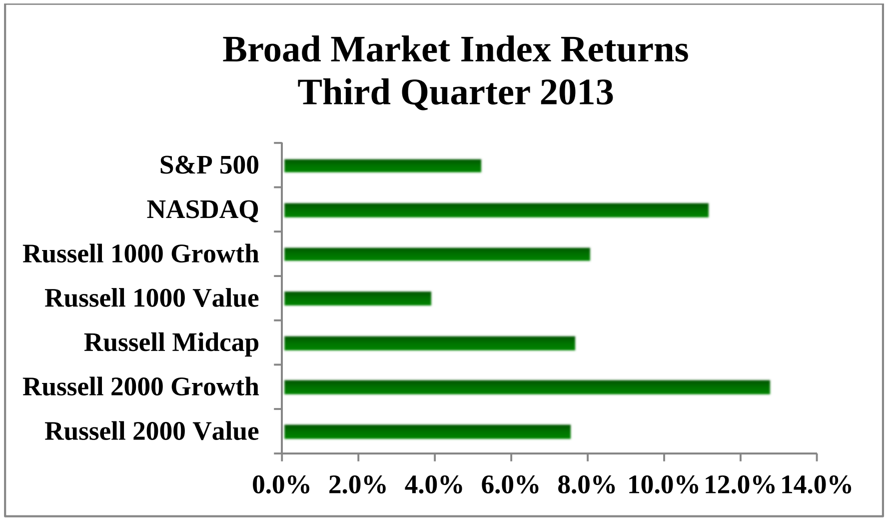
Despite uncertainty caused by global geopolitical issues, the recent government shutdown and an upcoming showdown over raising the U.S. debt ceiling, the equity markets were able to overcome these fears and they posted solid returns during the 3rd quarter. The U.S. Federal Reserve backed away from the idea of "tapering" the quantitative easing program, allaying fears in the fixed income markets. As a result, volatility declined and bonds were able to post modestly positive results during the quarter.

The S&P 500 was up roughly 5% during the quarter and is up almost 20% year-to-date. Small cap and mid cap stocks have performed even better. In terms of investment style, growth stocks did much better than value stocks during the quarter, although results are very comparable over the past year. International stocks posted a nice rebound during the quarter as the MSCI EAFE Index, a proxy for international stocks, was up roughly 12% and emerging markets were up almost 6%. While posting strong quarterly results, both have lagged U.S. equity markets so far this year.

As of this date, the U.S. government is officially shut-down and there is concern that if the debt ceiling is not increased by mid-October, the U.S. will default on its debt. However, an actual default is unlikely and it remains important not to panic or become too negative. Although this is a serious issue that could certainly generate short-term downside risk, there is no precedence these types of political events spark prolonged downturns. We have dealt with similar issues many times over the past 40 – 50 years. In fact, if one had panicked during the third quarter of 2011 when the U.S. Treasury was downgraded for the first time in history, they would have missed the 50% advance of the S&P 500 since August 2011.

Actually, even over the past few years since 2011, there have been multiple headline news events that have caused fear and distracted some investors from the underlying fundamentals of the markets.

Some might wonder how the markets have been able to post such strong returns in this type of environment. However, countering these headline-grabbing negative risks have been the more the important factors that include the resumption of modest economic growth and the quick rebound and continued growth in corporate earnings.



However, as confidence in the markets has increased and investors have been more willing to look past the risks they may have focused on in prior years, they have also been willing to pay higher valuations for stocks. In doing so, they have driven stock valuations up and bond valuations down. However, the recent political events in Washington could cause investors to re-evaluate this proposition, at least temporarily.

Highlights

GDP

- The Bureau of Economic Analysis released the third estimate of second quarter 2013 GDP, an increase of 2.5% versus first quarter 2013, unrevised from the second estimate.
- The University of Michigan Consumer Sentiment Index in September was revised up from 76.8 to 77.5, which was a decrease from August. August was 82.1 down from 85.1 in July. Consumer sentiment has been trending up since late 2011, despite the index decreasing the past two months.
- ISM Manufacturing Index increased to 56.2 in September from 55.7 in August. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish.
- In August, Conference Board Leading Economic Index increased 0.73% month-over-month to 96.6. The Index has been increasing slowly over the past year showing slow growth in the economy.
- The price of WTI Crude Oil was $102.36 at the end of September, which is 6.2% higher than $96.36 at the end of June. The price of Brent Crude Oil increased 4.5% in the quarter to $107.85.
- Headline CPI was has been stable over the past few months. In August, the CPI came in at 1.5% year-over-year, down from 2% in July. Core CPI, which does not include food and energy, came in at 1.8%. Inflation levels have remained low over the past year and are less than historical averages.

HOUSING

- Preliminary existing home sales rose in August with an annualized rate of 5.48 million units from 5.39 million units in July. The August annualized rate is 13.2% above the 4.84 million units in August 2012 as existing home sales have been rising slowly since July 2011.
- Median existing home sale prices rose during the quarter. Prices have risen since the beginning of 2012 and in August; prices were 14.7% higher from the levels of one year ago.
- New home sales increased slightly in August with a seasonally adjusted annual rate of 421k homes sold versus 390k in July. Home sales have been trending up since August 2011, when 292k new homes were sold. However, new home sales growth has stalled since the beginning of 2013.
- S&P Case-Shiller 20-City Home Price Index (seasonally adjusted) showed home prices rose 12% year-over-year in July. This is the eighteenth month in a row that prices have risen after twenty months of falling prices.

EMPLOYMENT

- The labor market was weaker in the second quarter as the July and August Nonfarm Payrolls increased by 104,000 and 169,000 respectively. In the second quarter, Nonfarm Payrolls averaged around 180,000 new jobs per month.
- Hourly earnings have been increasing since the end of 2012.
- The unemployment rate decreased during the quarter to 7.3%.
- Initial Jobless Claims continue to decrease to levels last seen in 2007.

DOMESTIC CORPORATIONS

- Corporate earnings have continued to slowly grow over the past two quarters after taking a pause in the second half of 2012.
- P/E multiples using trailing 12-month earnings have been expanding since 3Q 2011 and are now at historical averages. Forward P/E multiples are slightly below historical averages.

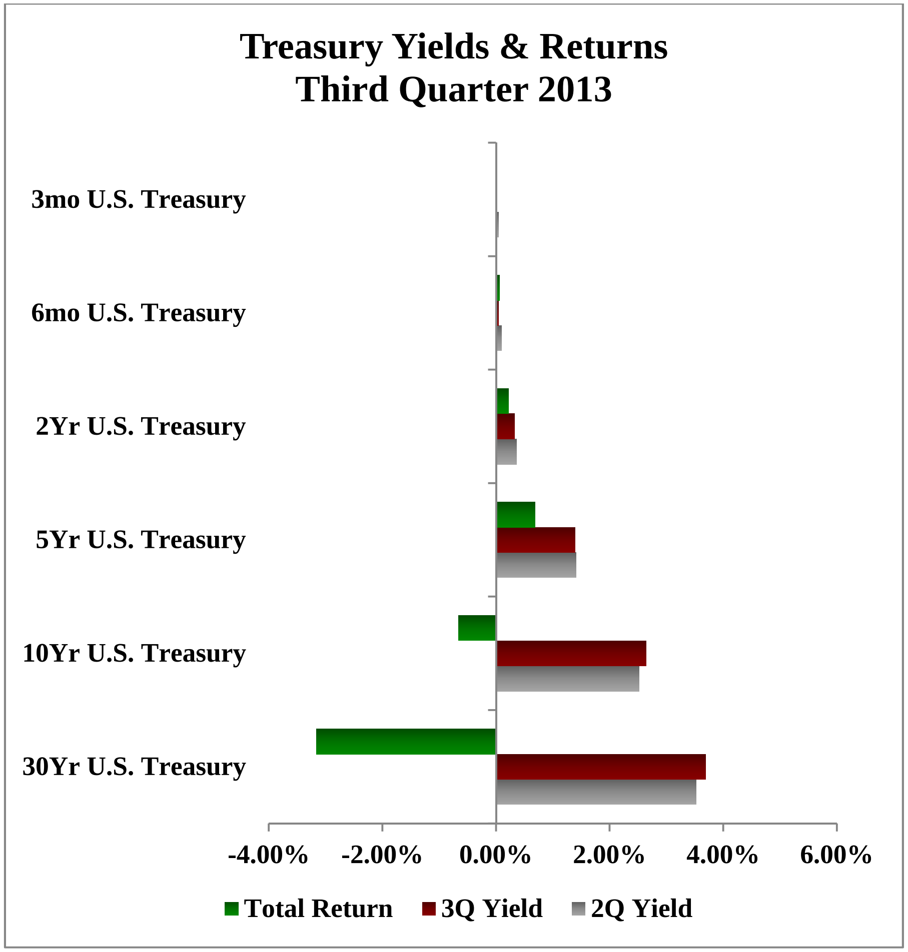
FIXED INCOME

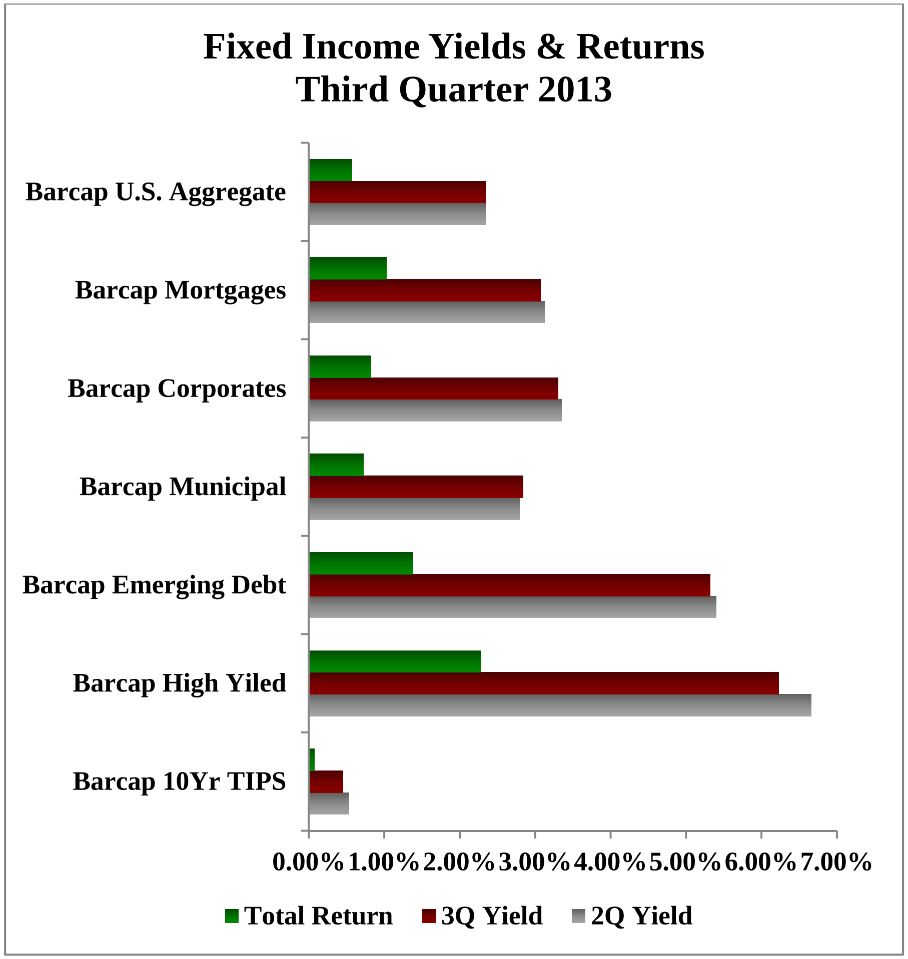
- The yields on longer-term Treasury securities increased on a quarter-over-quarter basis. While yields on shorter-term Treasuries decreased causing the yield curve to steepen. A steep curve indicates market participants are not concerned about a recession over the next year.
- Yields for all fixed income sectors, except Municipals, declined during the quarter. Fixed income rebounded this quarter as all fixed income sectors were positive. Emerging Market Debt and High Yield were the best performers. TIPS were the worst performing sector.

- The TED Spread, which is the difference between the three-month LIBOR and three-month T-bill rates, has increased slightly from 0.24% in June to 0.25% at the end of September. A low TED Spread, like in September, indicates the perceived risk of bank defaults is low.

FED POLICY

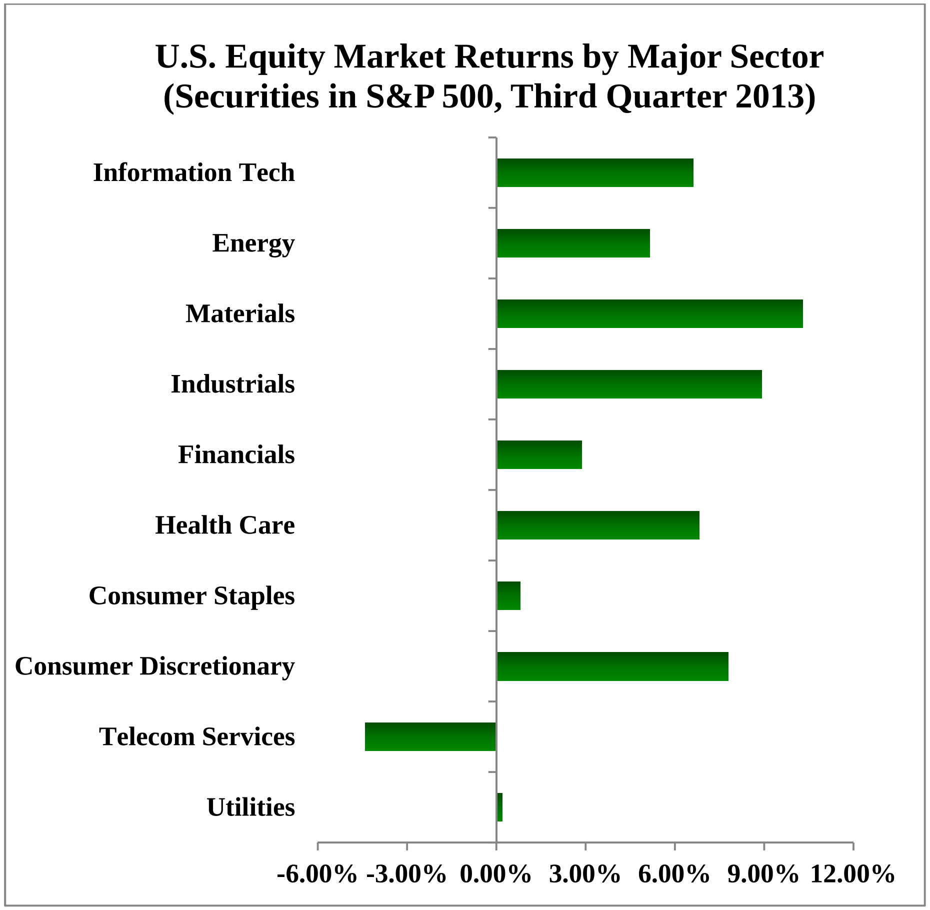
- In September, the Federal Open Market Committee (FOMC) announced they will leave the federal funds rate at 0% to 0.25% percent. They maintained the fed funds rate will remain at exceptionally low levels if the unemployment rate stays above 6.5% and inflation remains low.





EQUITIES

- For the quarter, domestic stock prices ended higher. Performance in the U.S. was positive across the board; however, small capitalization stocks were the best performing. Growth stocks performed better on a relative basis than value stocks during the quarter.
- The Russell 1000 Index of large capitalization stocks posted a total return of 6.02% during the quarter. On a year-over-year basis, the Russell 1000 Index has advanced 20.91%.
- Small capitalization stocks, as represented by the Russell 2000 Index, posted a gain of 10.21% during the quarter. On a year-over-year basis, the index has increased 30.06%.
- Developed international stocks performed better than U.S. domestic equities. The MSCI EAFE index of international markets stocks increased 11.56% during the quarter. On a year-over-year, the EAFE is up 23.77%.
- During the quarter, emerging market stocks performed worse relative the developed markets. The MSCI Emerging Markets Index increased 5.77% in the quarter and is up 0.98% on a year-over-year basis.
- CBOE Volatility Index (VIX) increased in the quarter from 16.86 at the end of June to 16.6 at the end of September. The VIX declined to 12 in August but it has increased during the second half of the quarter. Low levels on the VIX are generally positive for the equity markets.



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