



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
October 24, 2019

Presented by:
Shannon King and
Jonathan Scharlau



Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®]
Partner and Lead Analyst



Agenda

- Economic data
- Market data
- SilverOak's outlook
- Portfolio strategy and market volatility
- SilverOak updates and important reminders
- Questions



*Economy:
Slowing Growth During
Third Quarter*



Market Dashboard

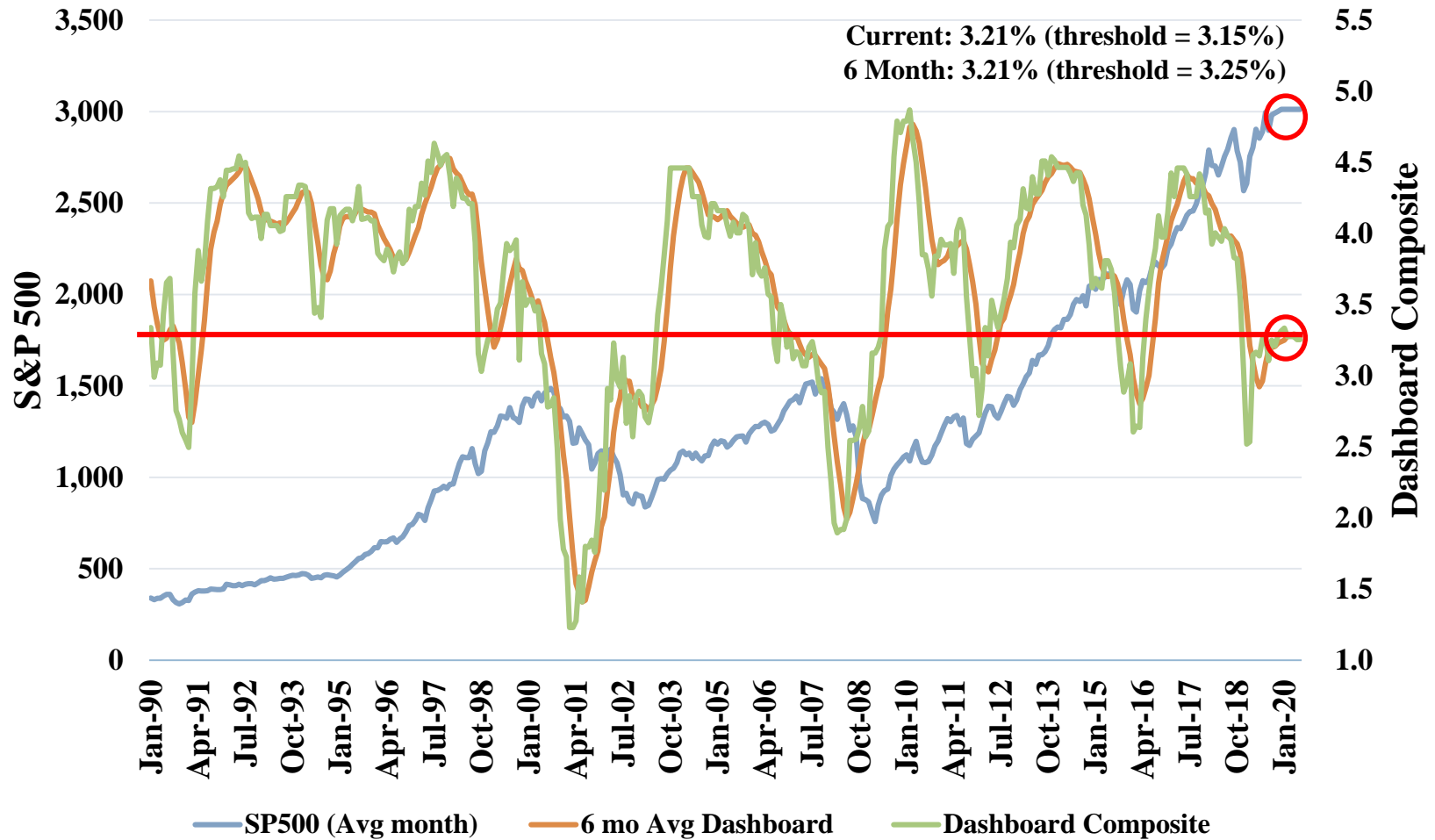
Projected



	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
Economy	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey
Credit Markets	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Grey	Grey	Grey
Valuations	Red	Red	Red	Red	Red	Red	Red	Red	Red	Grey	Grey	Grey	Grey	Grey	Grey	Grey
Market Sentiment	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Red	Green	Green	Green	Green	Green
Composite	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey	Grey	Grey



Market Dashboard



Current Economic Factors Scorecard

Positive

Credit Conditions ↓
Consumer Confidence
Employment
Corporate Sector

Neutral

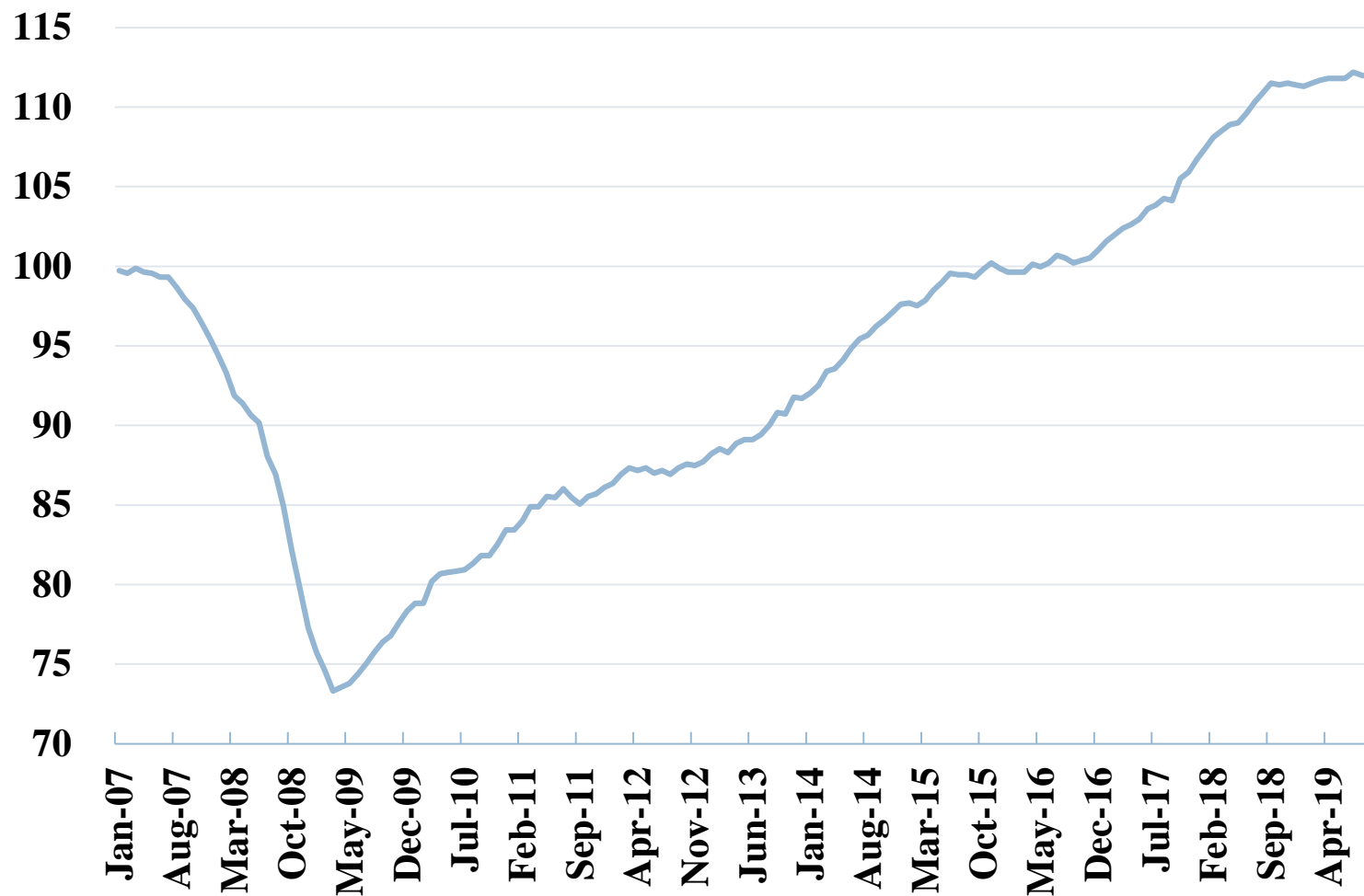
Housing ↑
Fiscal Policy
Commodity Prices
Interest Rates ↑
U.S. Politics
U.S. Dollar
U.S. Inflation
China ↓

Negative

Global Growth
Geopolitics
Tariffs ↑
Eurozone ↓



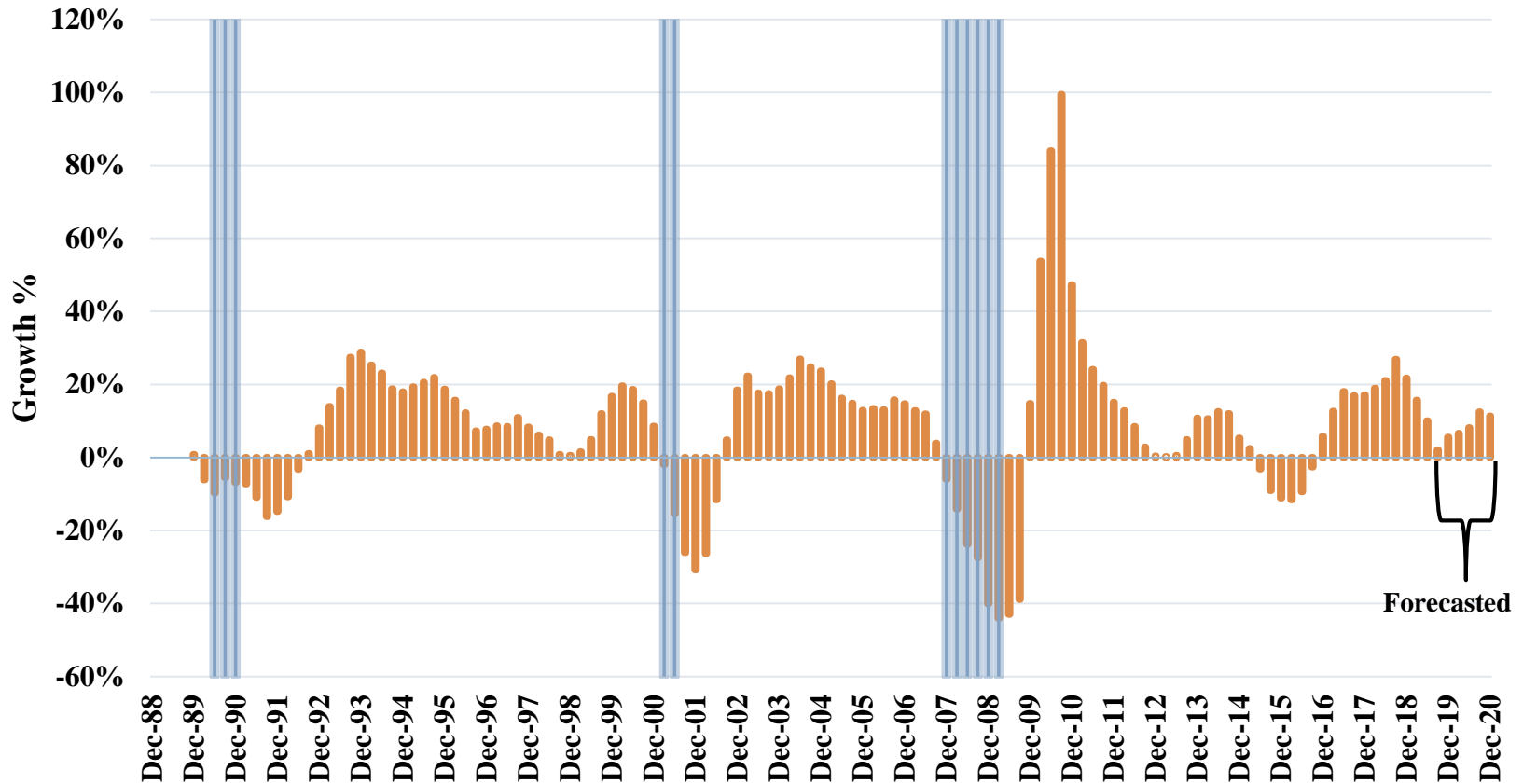
LEI Has Flattened Over the Past Year



Source: The Conference Board, as of 7/18/19

Earnings Growth Has Moderated in 2019

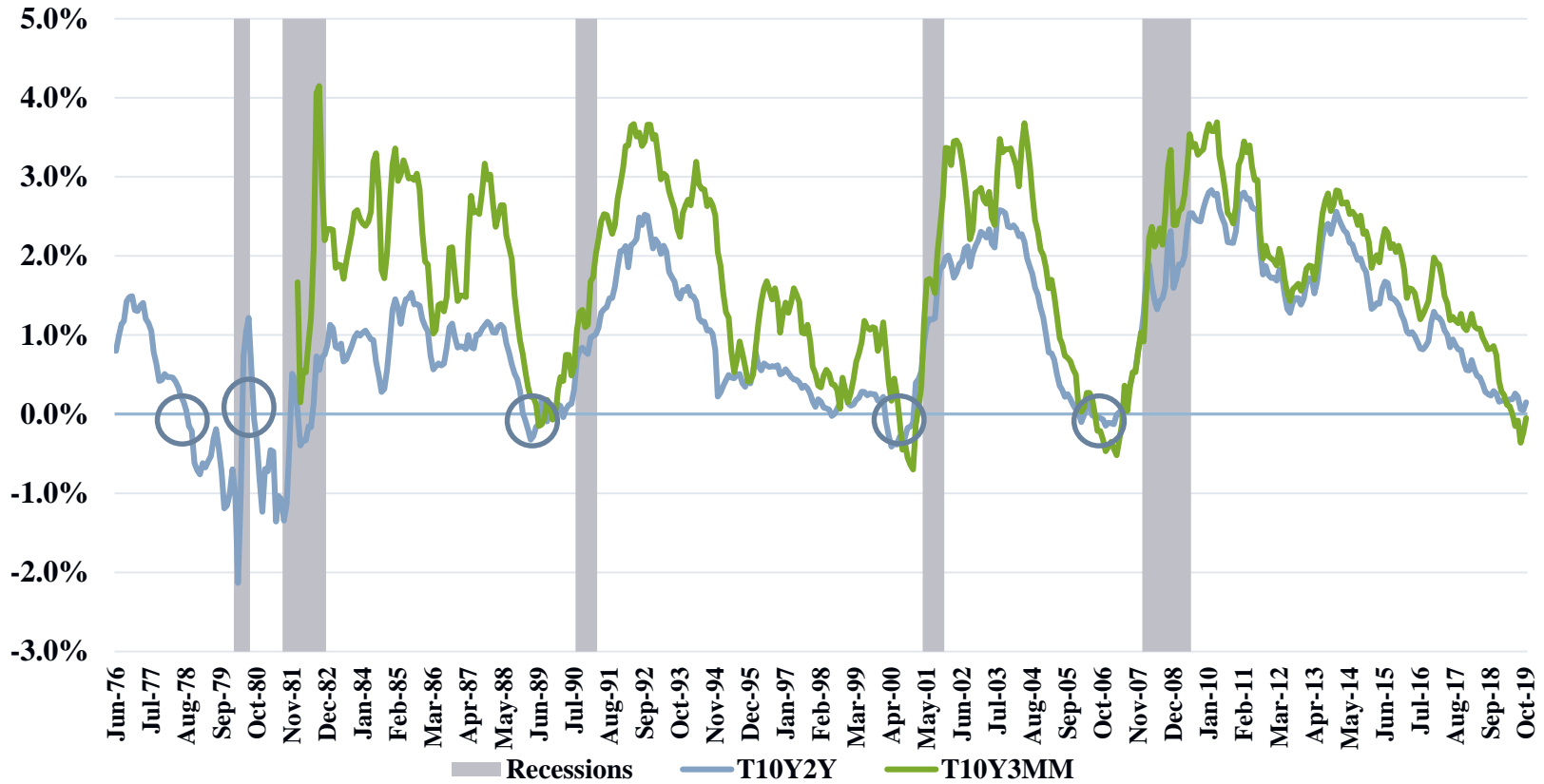
S&P 500 Earnings Growth
Trailing 12-Month Operating Earnings Growth YOY



Source: S&P, as of 10/18/2019

Historical Inversions of the Yield Curve

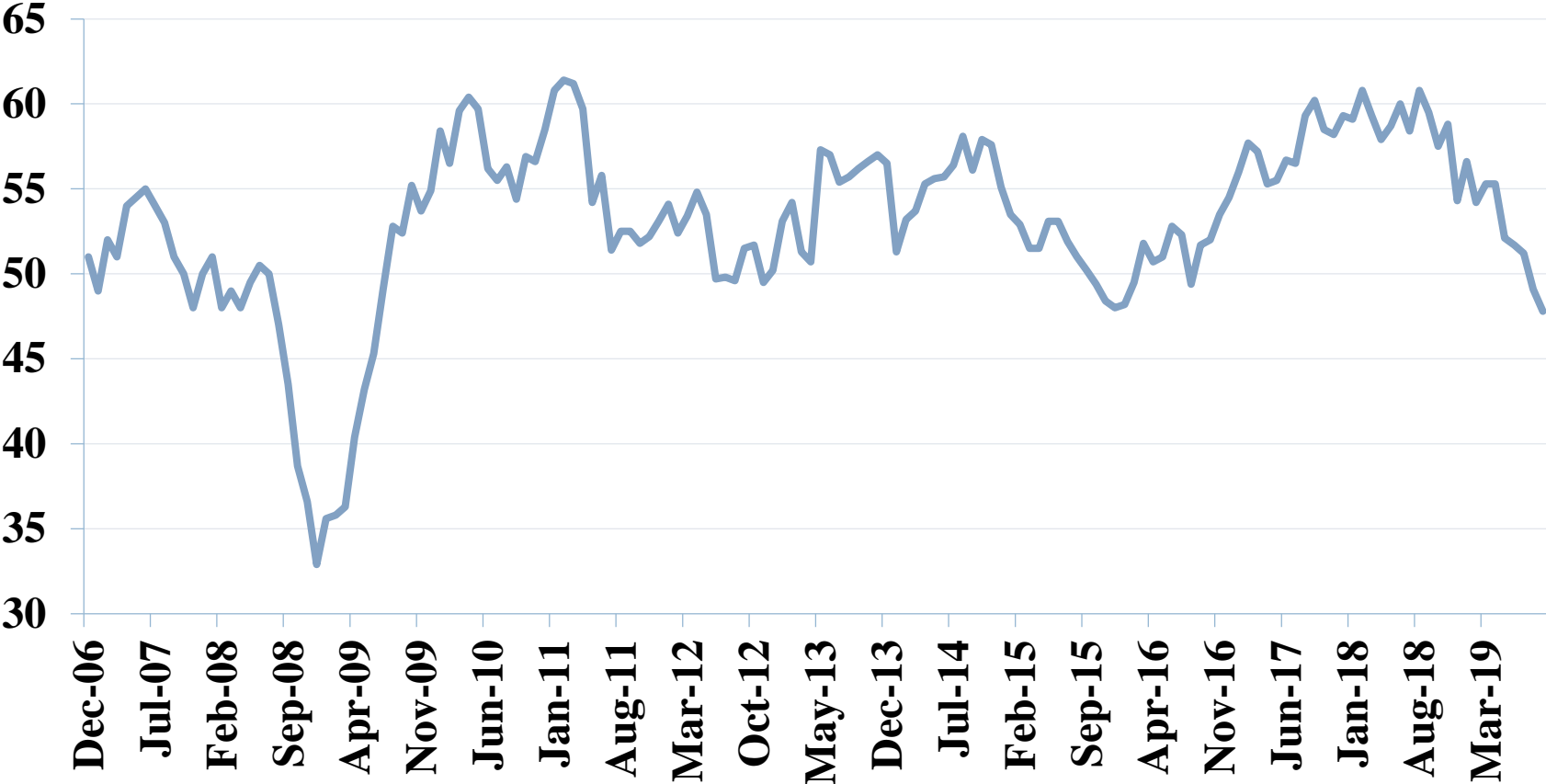
10-Yr. Treasury minus 2-Yr. Treasury



Source: Federal Reserve St. Louis, as of 10/18/2019

Manufacturing Continues to Contract

Purchasing Managers Index (PMI)



Source: Institute for Supply Management

*Markets:
Performance Mixed
During Third Quarter*



Market Summary

■ Equity market performance

	<u>Q3 2019</u>	<u>YTD</u>	<u>1-Year</u>
– US large cap			
• S&P 500	+1.7%	+20.6%	+4.3%
– US mid cap			
• Russell Midcap	+0.5%	+21.9%	+3.2%
– US small cap			
• Russell 2000	-2.4%	+14.2%	-8.9%
– International equities			
• MSCI ACWI ex US	-1.8%	+11.6%	-1.2%
– International small cap			
• MSCI ACWI ex US SMID	-1.5%	+11.0%	-4.5%
– Emerging markets			
• MSCI Emerging Markets	-4.3%	+5.9%	-2.0%



Market Summary

■ Bonds and other asset class performance

	<u>Q3 2019</u>	<u>YTD</u>	<u>1-Year</u>
– US fixed income			
• Barclay's Aggregate	+2.3%	+8.5%	+10.3%
– Global fixed income			
• Barclay's Global ex US	-0.6%	+4.4%	+5.3%
– Commodities			
• Bloomberg Commodity TR	-1.8%	+3.1%	-6.6%
– Long short			
• Morningstar Long Short	+0.0%	+7.7%	-1.6%
– REITS			
• MSCI US REIT NR	+7.4%	+25.7%	+16.8%



Equity Market Conditions

■ Third Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+1.4%	+1.7%	+1.5%
Mid	+1.2%	+0.5%	-0.7%
Small	-0.6%	-2.4%	-4.2%

■ YTD

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+17.8%	+20.6%	+23.3%
Mid	+19.5%	+21.9%	+25.2%
Small	+12.8%	+14.2%	+15.3%

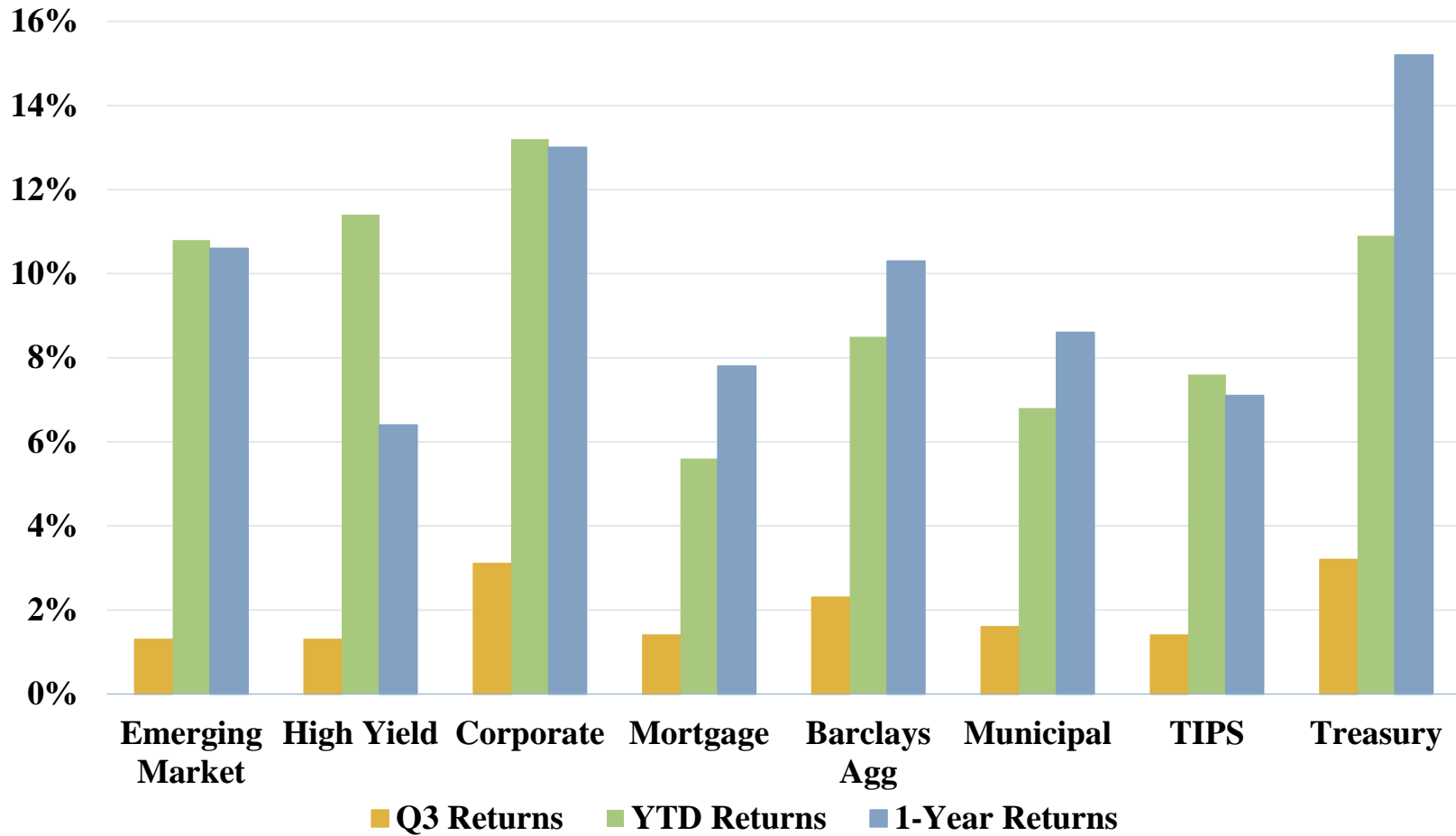
All calculations are cumulative total return as of 9/30/2019.

Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.

Past performance is no guarantee of future success.



“Equity-Like” Bond Returns



SilverOak's Outlook



SilverOak's Outlook

■ U.S. Economy

- The U.S. economy is in the late-cycle phase
 - For now, recession does not appear imminent
- U.S. – China trade uncertainty a drag on corporate confidence
- Despite Fed rate cuts, liquidity backdrop remains challenged

■ International Economy

- Global policy support appears insufficient to re-accelerate global growth
- China growth rebound has stalled
- Europe teetering on the edge of recession
- Brexit remains a wildcard



SilverOak's Outlook

■ Bonds

- Bond yields likely to stay within current range, although lower rates are a possibility if growth slows further
- After extremely high returns this year, returns will likely be more average over the next year
- Bonds continue to offer protection from equity volatility and potential downside risks
- Continue to focus on credit quality!
 - Credit spread are currently narrow
 - Lower growth could cause credit spreads to widen



SilverOak's Outlook

■ Equities

- S&P 500 valuation slightly above the 25-year average P/E
- A modest pullback from near all-time highs a possibility
 - Slowing US and global growth
 - Relatively high second half 2019 and 2020 earnings growth expectations
 - Continued U.S. – China trade uncertainty
 - 2020 Election
- Volatility is typically higher late in cycles
- With a wide dispersion of potential outcomes, diversification and consistency is more important than ever!

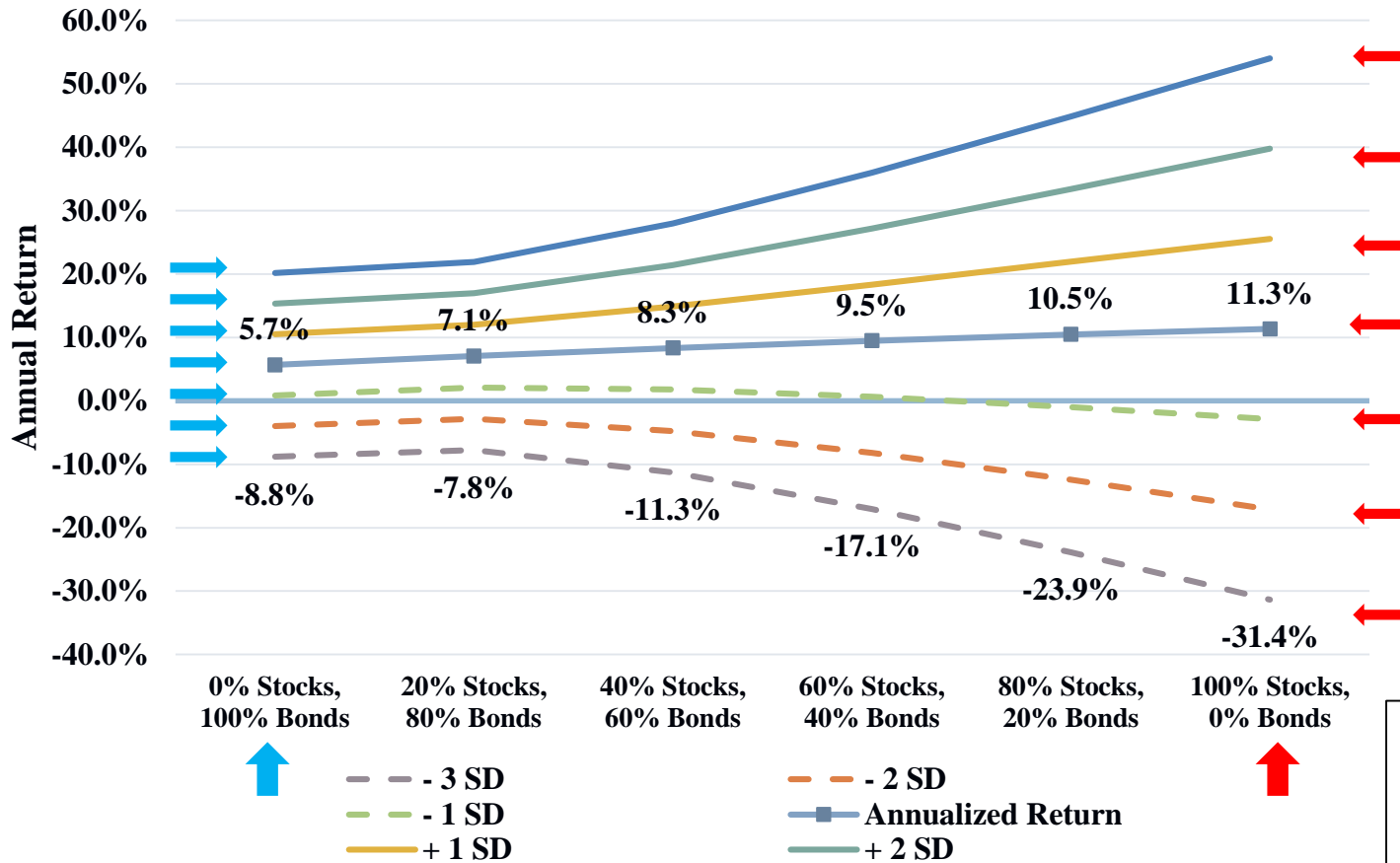


Portfolio Strategy and Market Volatility



Historical Average & Volatility of Returns

Standard Deviation of Annualized Returns, 1950-2018

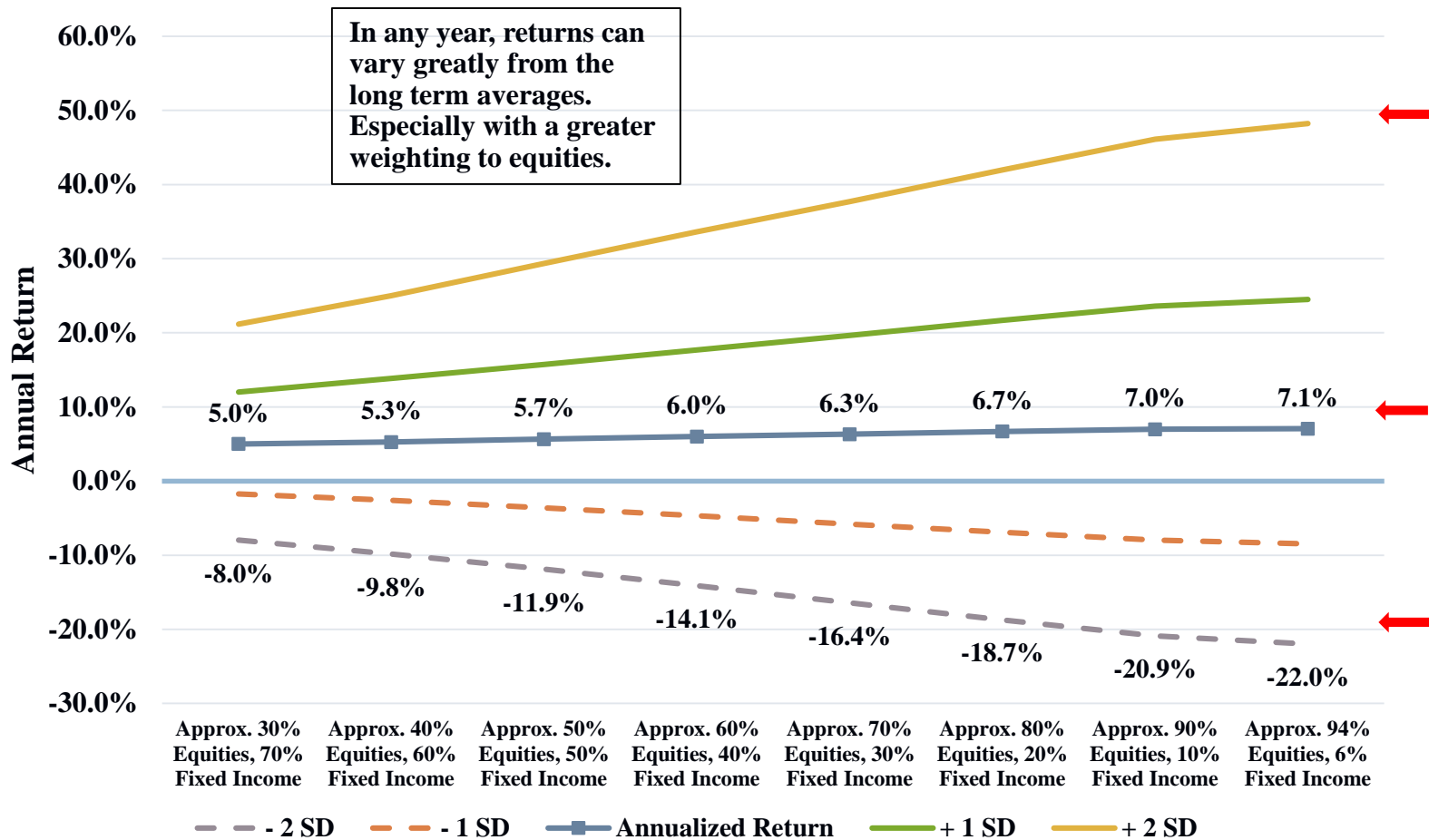


In any year, returns can vary greatly from the long term averages. Especially with a greater weighting to equities.



Source: Morningstar, as of 5/31/2018. Stocks = Ibbotson SBBI US Large Stock TR, Bonds = Ibbotson SBBI US IT Govt TR

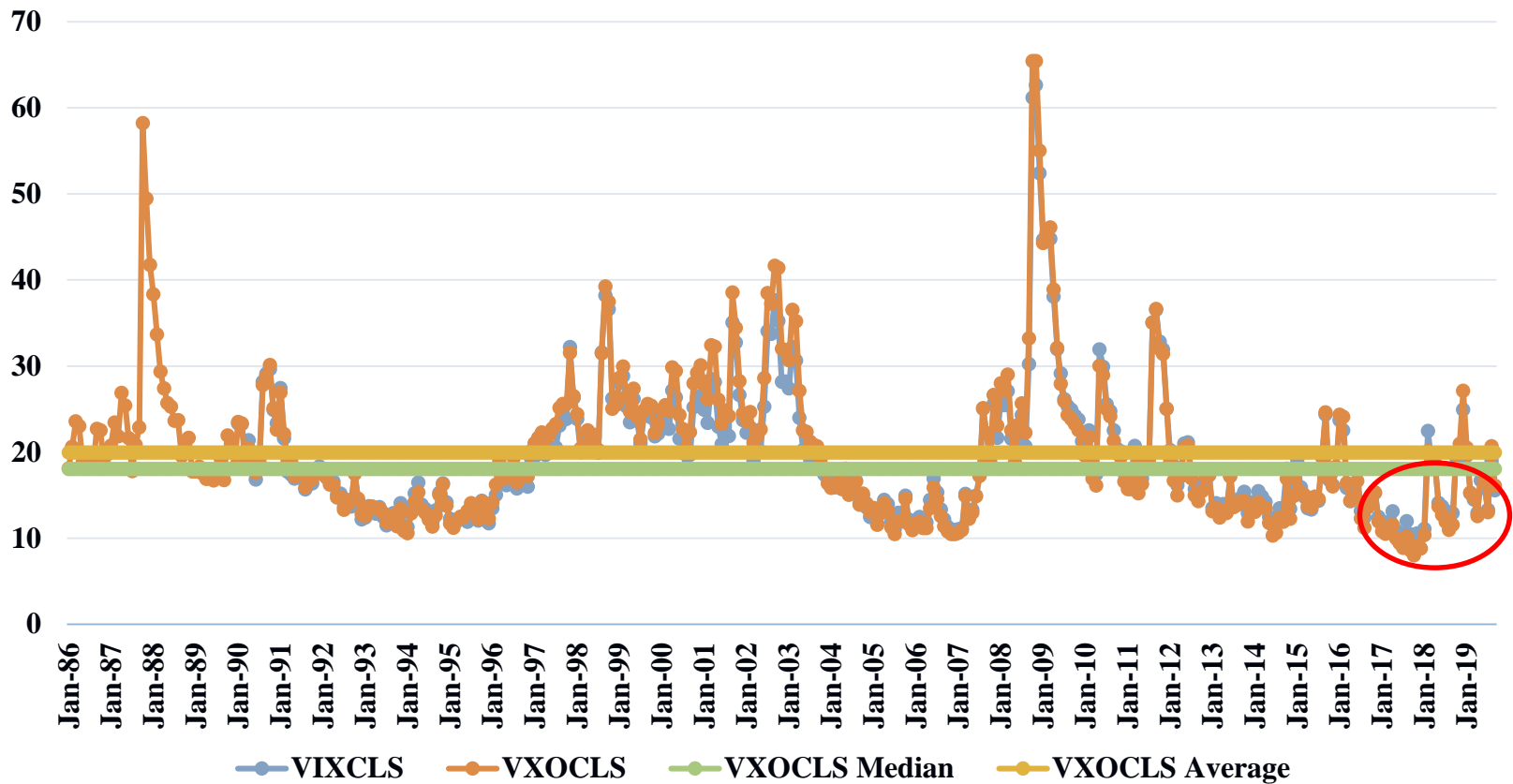
Future Estimated Returns & Volatility of Returns



Source: SilverOak, Analysis utilizes estimated returns and correlations projected over the next 10-20 years.

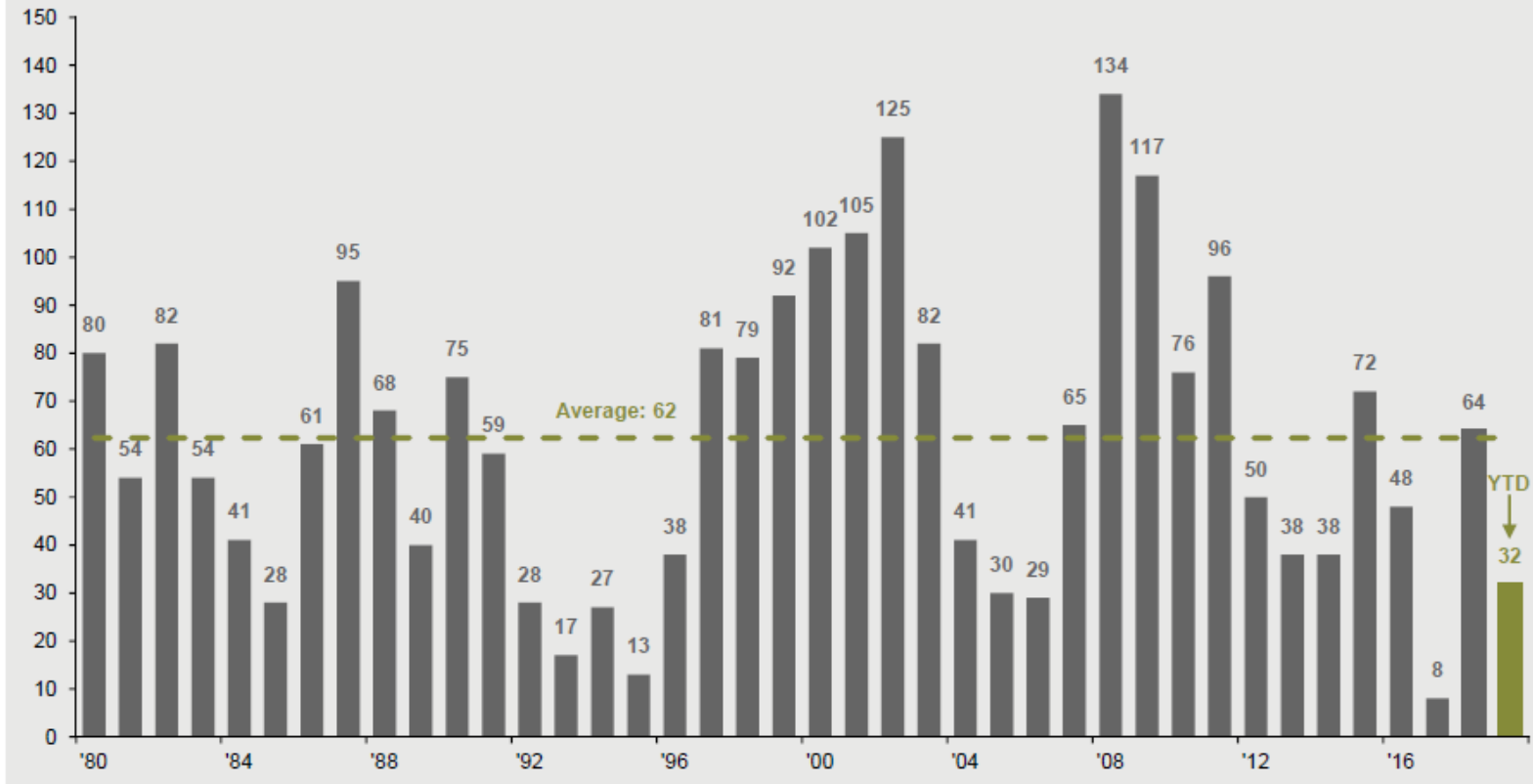
Volatility Up to “Normal” Levels

CBOE Volatility Index (VIX) & CBOE S&P 100 Volatility Index (VXO)



Another Measure of Volatility is Still Low

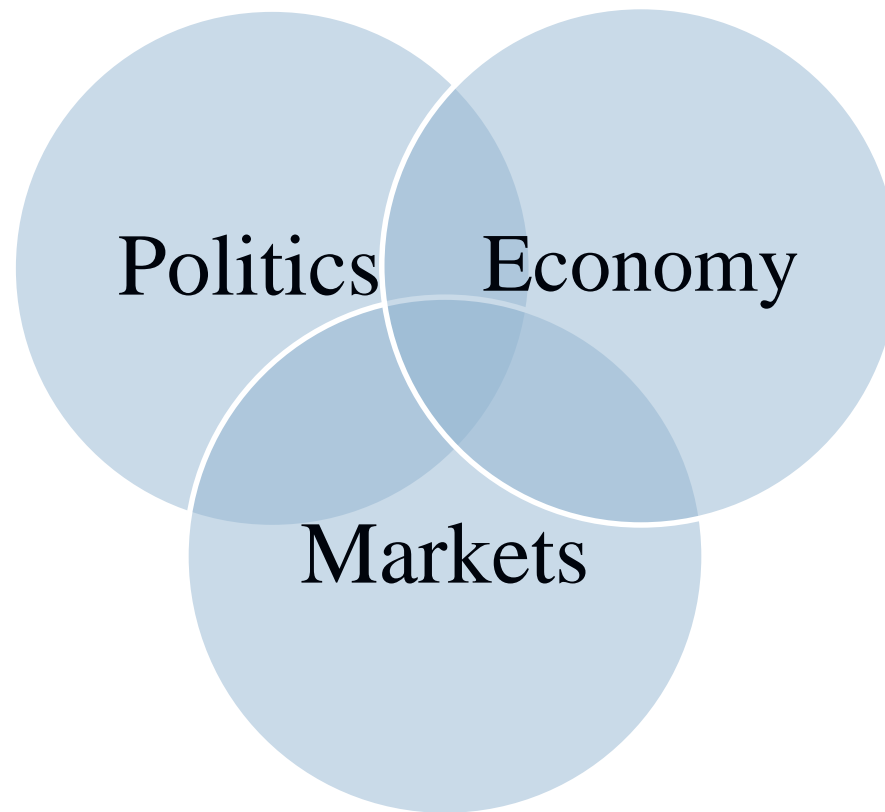
Number of daily 1% moves up or down
S&P 500 price index



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. For illustrative purposes only.
Guide to the Markets – U.S. Data are as of September 30, 2019.



Allow History To Help Guide Your Investment Strategy - - - Not Current Politics or Economic Data



Stock Returns Better When Unemployment is High

Unemployment Rate	S&P 500 Annualized Gain
> 6%	13.7%
4.3% - 6%	5.5%
< 4.3%	2.2%

We Are Here

Source: Charles Schwab, Bureau of Labor Statistics, National Bureau of Economic Research, Ned Davis Research, 4/30/1948-1/31/2019

Past performance is no guarantee of future success

Best Returns Not Tied To Strong Growth

Y/Y % Change of Real GDP	S&P 500 Annualized Gain
> 6.0%	-4.6%
0.5% - 6.0%	7.2%
< 0.5%	10.5%

We Are Here

Source: Charles Schwab, National Bureau of Economic Analysis, National Bureau of Economic Research, Ned Davis Research, 3/31/1960-6/30/2011

Past performance is no guarantee of future success



Pessimism Is the Best Environment For Stocks

Consumer Confidence	DJIA Annualized Gain
>110	-0.2%
66-110	6.4%
<66	12.5%

We Are Here

Source: Charles Schwab, The Conference Board, National Bureau of Economic Research, Ned Davis Research, 2/28/1969-9/30/2011

Past performance is no guarantee of future success



What If The Following Occurred?

- Subpar GDP growth
- Double-dip recession
- Unemployment peaks at 10%+ and averages close to 8%
- Short-term interest rates peak at 16% and average 8%+
- General price inflation peaks at 14%+ and averages 7%+
- Oil Prices spike 250%



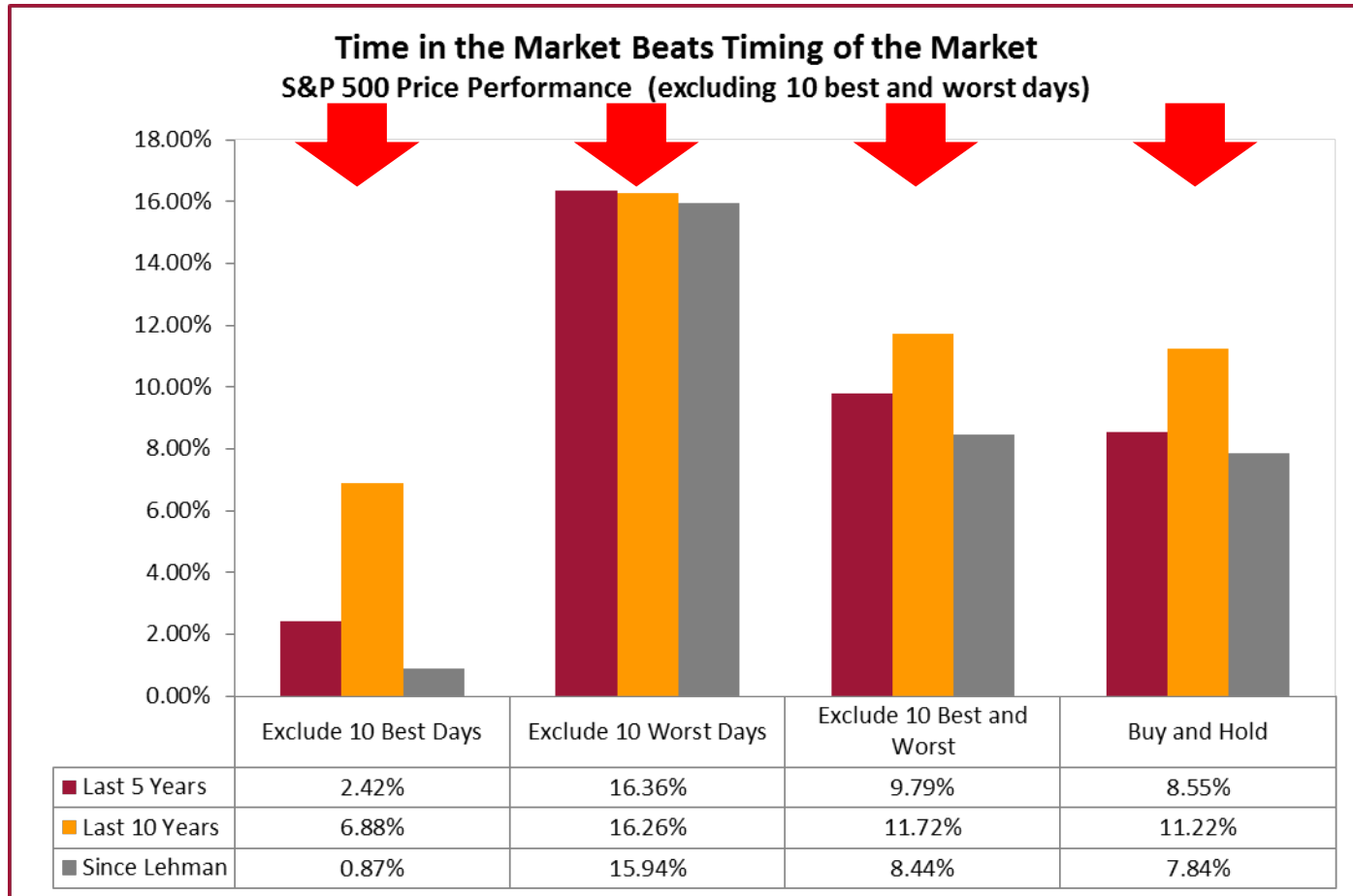
Certainty Isn't Always Certain

- This was the environment of 1974 – 1984
- How did stocks do on an annualized basis?
 - Large Cap Stocks + 14%
 - Mid Cap Stocks + 22%
 - Small Cap Stocks + 27%

Past performance is no guarantee of future success!

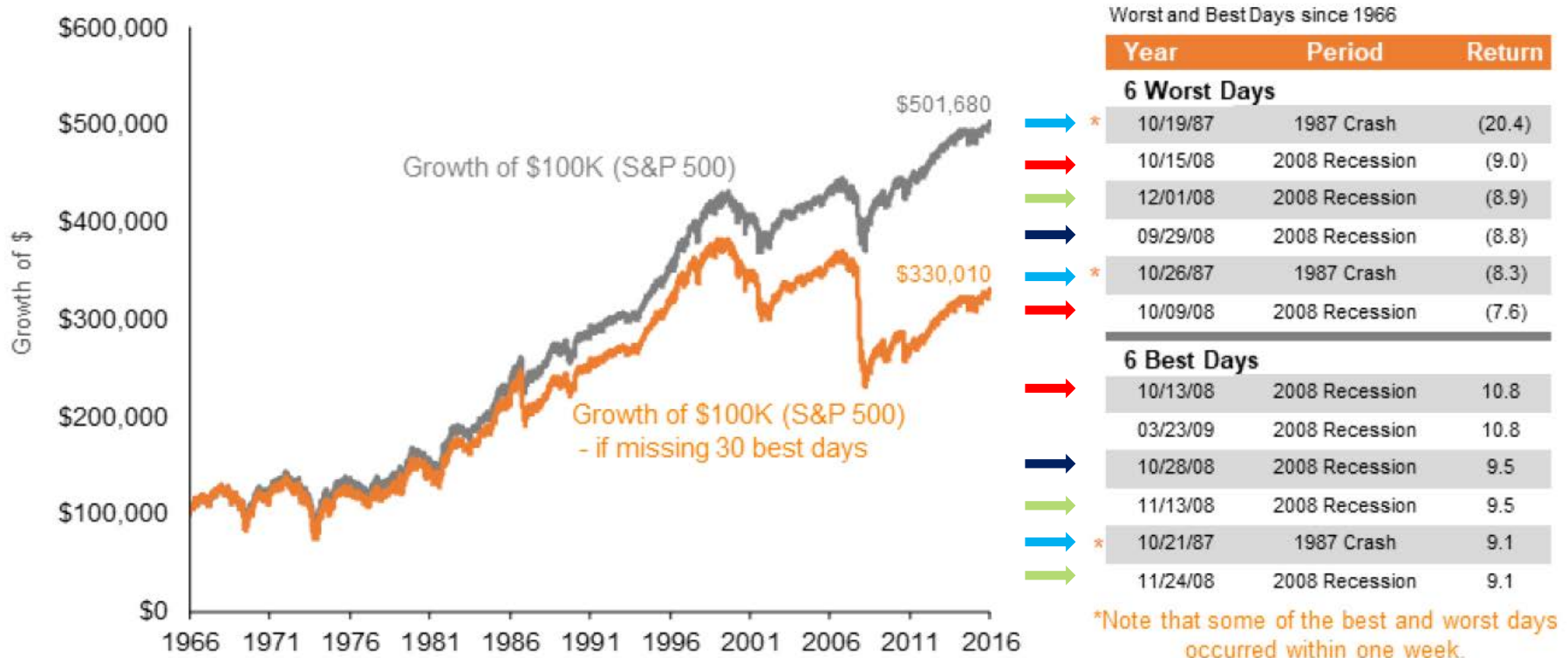


Market Timing Could Hurt Long-Term Returns



Market Timing Is Difficult, If Not Impossible

Wide swings in markets over short time frames illustrate the need to stay invested in equities through difficult periods. Missing just the 30 best days in the last 50 years resulted in 40% less return.



Maintain a Long-Term Perspective

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through June 2019. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

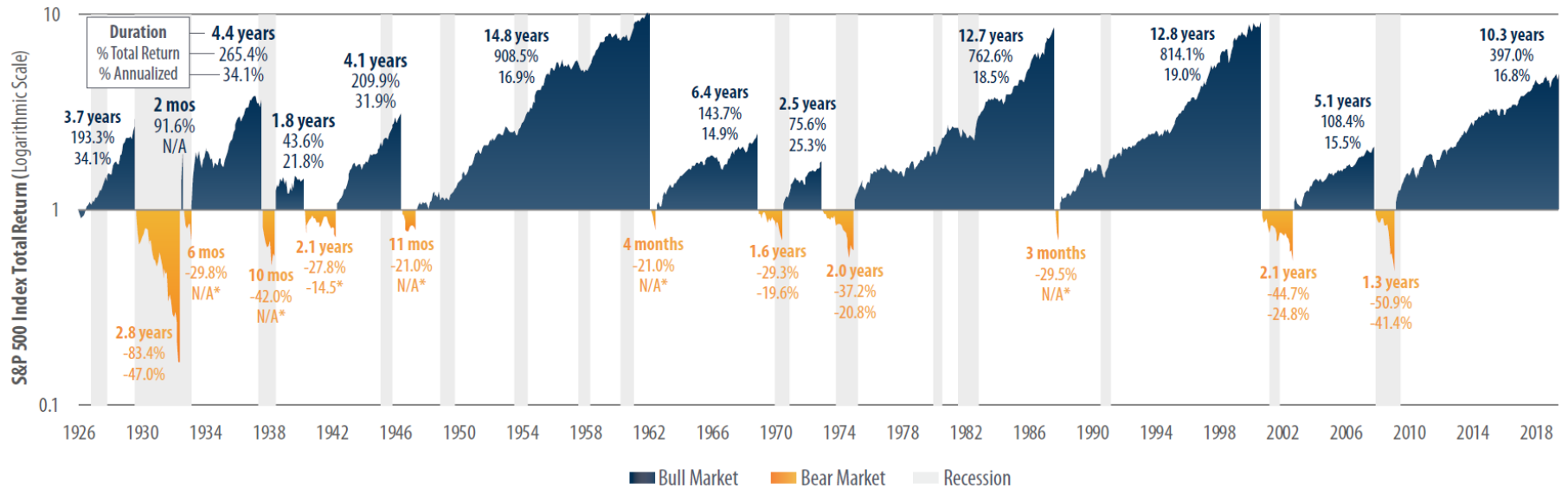
- The average **Bull Market** period lasted 6.6 years with an average cumulative total return of 334%.
- The average **Bear Market** period lasted 1.3 years with an average cumulative loss of -38%.



From the lowest close reached after the market has fallen 20% or more, to the next market high.



From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust

SilverOak Update and Important Reminders



SilverOak Updates

- **IQSStm (Investment Quality Scoring Systemtm)**
 - Several co-manager changes
 - 1 position added to “Watch List Open” for recent performance
 - 1 position added to “Watch List Close” for manager change
 - Several ratings changes
- **White papers to be released soon**
 - International investing
 - Tax loss harvesting
 - Donor advised funds



Year-end Reminders

- Keep good tax records for 2019
- Ensure that you complete a year-end tax projection
- Take RMDs for the year (required minimum distributions)
 - Consider gifting to charity
- Ensure proper riders in place for jewelry, electronics, etc.
- Watch for year-end capital gains distributions
 - FYI – Year-end distributions look to be slightly lower than last year



Year-end Reminders

- Consider tax loss harvesting
- The current annual gift tax exclusion is \$15,000
- Consider using low-basis stock for charitable donations
- Review beneficiary designations
- Review personal property and casualty insurance coverage



Other Noteworthy Items

- **2020 401(k) contribution limits**
 - Likely a \$500 increase to \$19,500 under age 50*
 - Likely \$25,500 age 50 and over with catch-up*
- **2020 HSA contribution limits increased**
 - \$7,100 family
 - \$3,550 single
- **2020 IRA and Roth IRA contribution limits**
 - Likely \$6,000 under age 50*
 - Likely \$7,000 age 50 and over with catch-up*

*Not yet formally announced!



Other Noteworthy Items

- **Social Security updates**
 - COLA increase of 1.6%
 - Maximum taxable earnings increasing by \$4,500
 - From \$132,900 in 2019 to \$137,700 in 2020
 - Increases maximum tax from \$7,961 in 2018 to \$8,240 in 2019
 - Maximum monthly benefit at FRA increases by \$150
 - From \$2,861 in 2019 to \$3,011 in 2020



Other Noteworthy Items

■ Medicare updates

- Standard monthly premium for Part B increasing
 - From \$135.50 in 2019 to \$144.30 in 2020
- “High earner” premium (based on 2017 MAGI) will likely have a COLA increase in 2020

<u>Individual</u>	<u>Joint</u>	<u>2019 Premium</u>
\$85,001-\$107,000	\$170,001-\$214,000	\$189.60
\$107,001-\$133,500	\$214,001-\$267,000	\$270.90
\$133,501-\$160,000	\$267,001-\$320,000	\$352.20
\$160,001-\$499,999	\$320,001-\$749,999	\$433.40
\$500,000+	\$750,000+	\$460.50

- Annual enrollment is October 15th – December 7th



*Additional
Questions
and/or Topics?*



End of Quarterly Webinar

Please contact your SilverOak Advisor
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free
to contact us at 952-896-5701 to learn more about our services.

www.silveroakwealth.com

