



SilverOak

WEALTH MANAGEMENT LLC

Second Quarter Market Summary

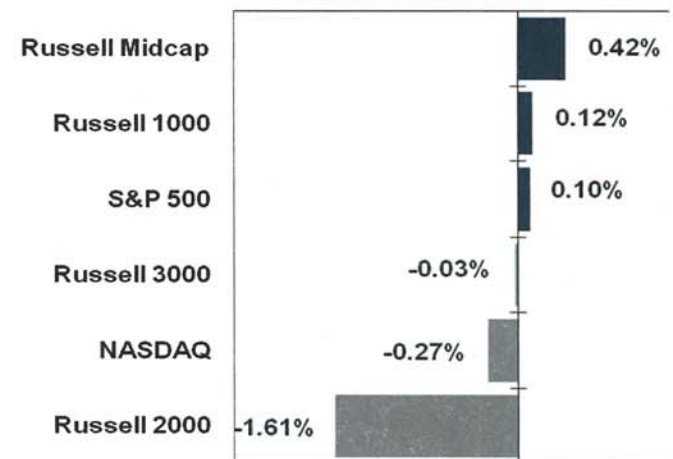
The Economy

The decidedly positive trend the economy had been exhibiting over the previous couple of quarters slowed significantly in the second quarter of 2011. Economic data released during the quarter pointed to a sluggish recovery, with most components of the economy struggling to post gains. The labor market continued to remain very soft, which had a ripple effect by impeding consumer confidence and suppressing the housing sector. Many economists believe the “soft patch” encountered during the second quarter will ultimately be transitory, and that the economy should pick up demonstrably in the second half of the year.

A myriad of issues impacted the economy in the quarter, including the aftereffects of the Japan earthquake and tsunami that occurred during the latter part of the first quarter. The manufacturing sector, particularly those industries related to automobile production, experienced supply chain disruptions due to the earthquake that were only being resolved near the end of the second quarter.

The economy was also buffeted by the ongoing negotiations over the country’s fiscal situation in general, and the need to raise the debt-ceiling limit in particular. Ratings agencies warned that government debt could potentially be downgraded if the debt-ceiling impasse is not resolved in short order. While the negotiations have continued, they have reached a critical stage, as Republicans have so far been unwilling to pass legislation that includes raising taxes, and the Democrats, led by President Obama, have insisted that tax increases be part of the package. The showdown will need to come to a head in the next several weeks, because without an increase in the debt-ceiling limit the government will be in default by early August.

Broad Market Index Returns
Second Quarter 2011



Source:
Russell/Morningstar

Economists are also divided over the likely effects on the economy of the winding down on June 30th of the Federal Reserve's second round of quantitative easing, dubbed "QE2." While some believe that the program had little impact and fell short of expectations for stimulating economic growth, others are of the opinion that one of the important benefits of the program was that it kept the economy from a deflationary spiral.

Internationally, the euro zone sovereign debt problems continued unabated in the quarter. Greece's fiscal problems remained at the forefront, and the quarter ended with some hope that austerity measures approved by the Greek Parliament and fresh aid from international creditors would finally bring resolution to the issue.

Highlights

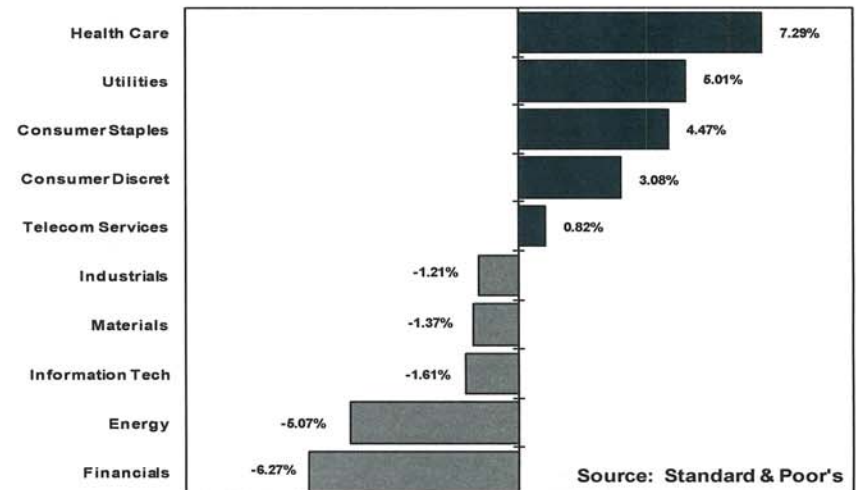
GDP

The Bureau of Economic Analysis released the third estimate of first quarter 2011 GDP, an upward-revised 1.9%, up from the prior estimate of 1.8%, but below consensus expectations of 2.0%. In addition, real GDP rose 2.3% from the first quarter of 2010 to the first quarter of 2011. Economic growth disappointed economists in the quarter, although many maintain that the sluggishness was a result of one-time factors, including the effects of the Japan earthquake, bad weather in much of the country, and high energy prices that sapped consumer confidence. The consensus among economists is that growth will be more robust in the second half of the year as the labor market improves and the Federal Reserve maintains an aggressive monetary policy stance. Because of the recent softness in the economy, most analysts believe that inflation is currently of little concern.

HOUSING

The housing market remained mired in its prolonged slump during the second quarter, without much in the way of significant improvement, but also nothing reflecting signs of material deterioration. Existing home sales fell almost 4% in May from month-earlier levels, resulting in an annualized rate of 4.8 million units. Median existing home sale prices also declined during the quarter, and were 4.6% lower from the levels of one

U.S. Equity Market Returns by Major Sector
(Securities in S&P 500, 2nd Quarter 2011)



year ago. New home sales also declined again during the quarter, with May results coming in 2.1% lower than those of April. Many housing analysts believe that the outlook is improving for the sector, as the labor market should improve, and builders have little unsold inventory on hand.

EMPLOYMENT

The employment situation slowed significantly during the second half of the quarter, confounding economists and the Obama administration. The April employment report showed net job gains of 232,000, but only 54,000 jobs were added in May, far below consensus expectations. In addition, the unemployment rate ticked up to 9.1% in May, its highest reading since December 2010. Analysts were particularly disappointed in the low number of jobs added in the private sector, which at 83,000 was the lowest total since June 2010. One of the primary causes of this situation was auto manufacturers temporarily closing plants as a result of supply chain disruptions stemming from the Japan earthquake. The general consensus is that these factors were largely isolated and unlikely to continue long into the second half of the year. Nevertheless, economists have pared back estimates for expected monthly job gains for the third and fourth quarters.

FED POLICY

In June, the Federal Open Market Committee (FOMC) announced that it will leave monetary policy unchanged, and that the quantitative easing program (“QE2”) begun in the fourth quarter of 2010 would end as scheduled at the end of the month. In its statement, the committee retained language saying that it will maintain a fed funds rate 0% to 0.25% range “for an extended period,” the 15th time in a row that phrase has been used. The committee also was more subdued in its assessment of the economy, stating that the recovery was continuing “somewhat more slowly than the Committee had expected.” Inflation was also a non-issue for the FOMC, which expects it to slow in coming months as food and energy prices ease. Given the slack in the labor market, and the likelihood of declining inputs prices, the FOMC will be under little pressure to tighten monetary policy anytime soon. Some economists believe that the earliest the Fed will begin raising interest rates will be the middle of 2012.

The QE2 program was an expansion of the Fed’s balance sheet by \$600 billion in an effort to reduce long-term interest rates and increase inflation expectations. The ultimate goal of the QE2 program was to help fulfill the Fed’s dual mandate of promoting price stability and full employment. The program was controversial, and was initiated because of the deflationary environment and high unemployment. Opinion is divided as to the ultimate success of the program, which may not be measurable for many quarters.

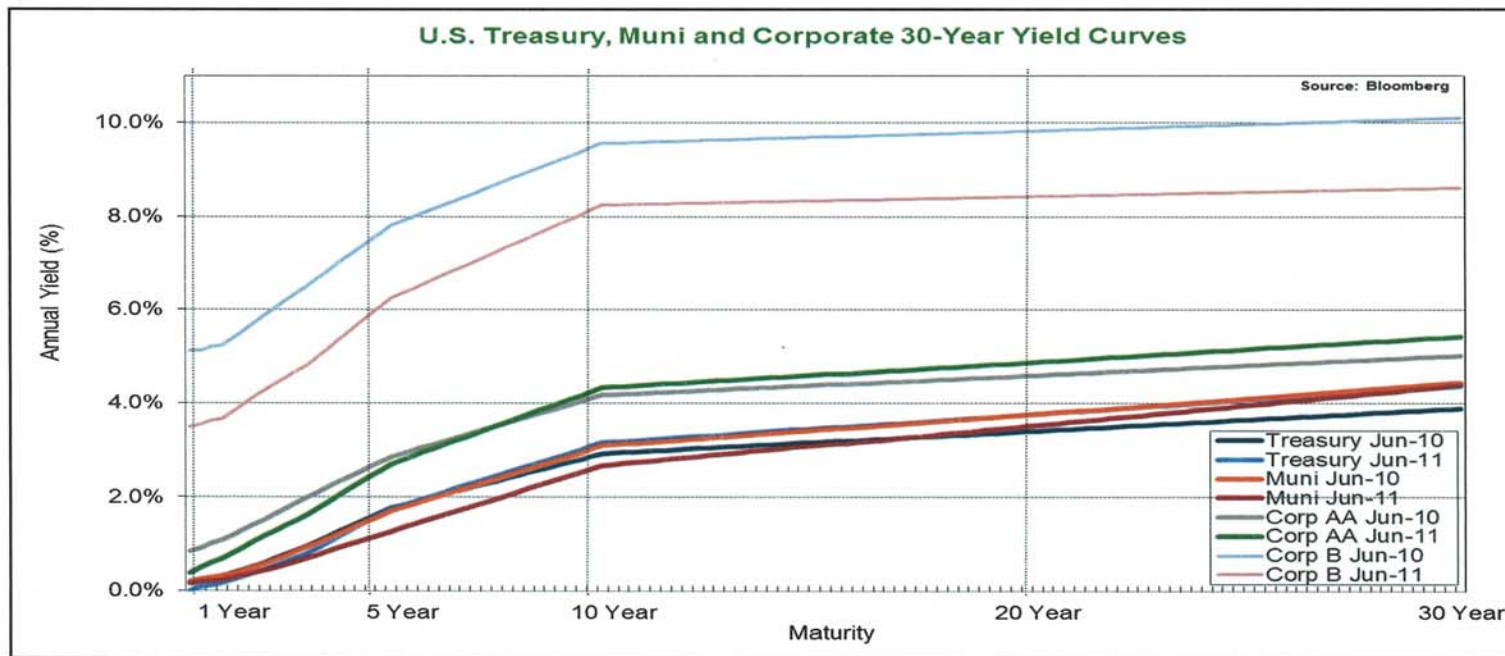
Interest Rates

After remaining relatively flat in the first quarter, the fixed income market rallied strongly in the second quarter. The primary drivers of the rally were a slowing in the global economic recovery and risk aversion resulting from ongoing sovereign debt problems. The rally caught many traders and investors somewhat by surprise, as the overriding sentiment at the beginning of the quarter was that the economy would continue the trajectory of the first quarter and that rates had likely seen their lowest point. However, a confluence of several factors served to put a damper on economic

growth and thereby spur the bond market rally: 1) the improvement in the labor market did not materialize to the extent expected, causing consumer confidence to wane; 2) the Japan earthquake and tsunami created longer lasting supply chain disruptions than originally anticipated; 3) extreme weather conditions in many parts of the country suppressed economic activity; and 4) rising food and energy prices caused consumers to rein in spending in other areas. While the labor market remained sluggish at the end of the quarter, most of the other factors had been resolved. The end of QE2 seemed to have little impact on the market, perhaps because it had been announced far in advance.

The yields on Treasury securities declined significantly on a quarter-over-quarter basis, but yields at the long end of the yield curve did not fall nearly as much as those for shorter term maturities, causing a steepening of the yield curve. The yield on the five-year Treasury declined 48 basis points from 2.24% from March 31st to 1.76% on June 30th, while the yield on the 10-year Treasury dropped 29 basis points from 3.47% to 3.18% over the same period. The 10-year yield rose 30 basis points in the last week of the quarter as investors sensed the economy was once again gaining momentum. The yield on the 30-year Treasury declined by 13 basis points from 4.51% to 4.38% during the quarter. The yield on the 3-month T-bill declined six basis points from 0.09% to 0.03%.

The credit segment of the market also witnessed a rise in rates, but not quite to the extent of the Treasury market. The yield on the BarCap 1-3



credit index declined 30 basis points, from 1.84% on March 31st to 1.54% on June 30th. Intermediate credit yields did not fall by as much, with the BarCap 7-10 year index declining from 4.65% to 4.45% during the quarter. Similar to the first quarter, the high yield segment of the market traded

more in sympathy with equities than with fixed income. The BarCap U.S. Corporate High Yield index yield actually rose to 7.67% from 7.49% at the end of the last quarter. Municipal bonds also rallied during the quarter. The BarCap Municipal Bond Index yield declined 37 basis points to 3.49% from 3.86% at March 31st.

Equities

Stocks started the second quarter strongly in a continuation of the prevailing trend in the first quarter, and posted gains in April. However, as the economy lost steam the market followed suit, losing ground in both May and June. The same factors weighing on the overall economy and the bond market were viewed by stock investors as reasons to reduce the risk in their portfolios. For the quarter, stock prices ended up mixed, with larger capitalization and more growth oriented issues performing better on a relative basis than small capitalization and value biased stocks. The Russell 1000 index of large capitalization stocks posted a total return of 0.12% during the quarter. On a year-to-date basis, the Russell 1000 index has advanced 6.37%. Small capitalization stocks, as represented by the Russell 2000 index, declined during the quarter, posting a loss of 1.61%. However, on a year-to-date basis the index has gained 6.21%.

International stocks generally performed in line with U.S. domestic equities. The MSCI EAFE index of developed markets stocks advanced 1.83% during the three months. On a year-to-date basis, the EAFE is up 5.35%. Emerging market stocks did not fare quite as well as their developed markets counterparts, in part because of the overall slowing of the global economy. The MSCI Emerging Markets index declined 1.04% in the quarter, but is up 1.03% on a year-to-date basis.

Market analysts are somewhat divided as to the likely direction of stock prices over the next two quarters. The optimists see relatively reasonable valuations and a likely strengthening of the economy as reasons to be invested. At the same time, some analysts are urging caution based on concerns about the country's fiscal situation and economic outlook. Market participants will be looking for signs of resolution to the debt ceiling impasse and an acceleration in the improvement in the employment situation as keys to how equities will perform in the months ahead.

**Non-U.S. Equity Market Returns
2nd Quarter 2011**

