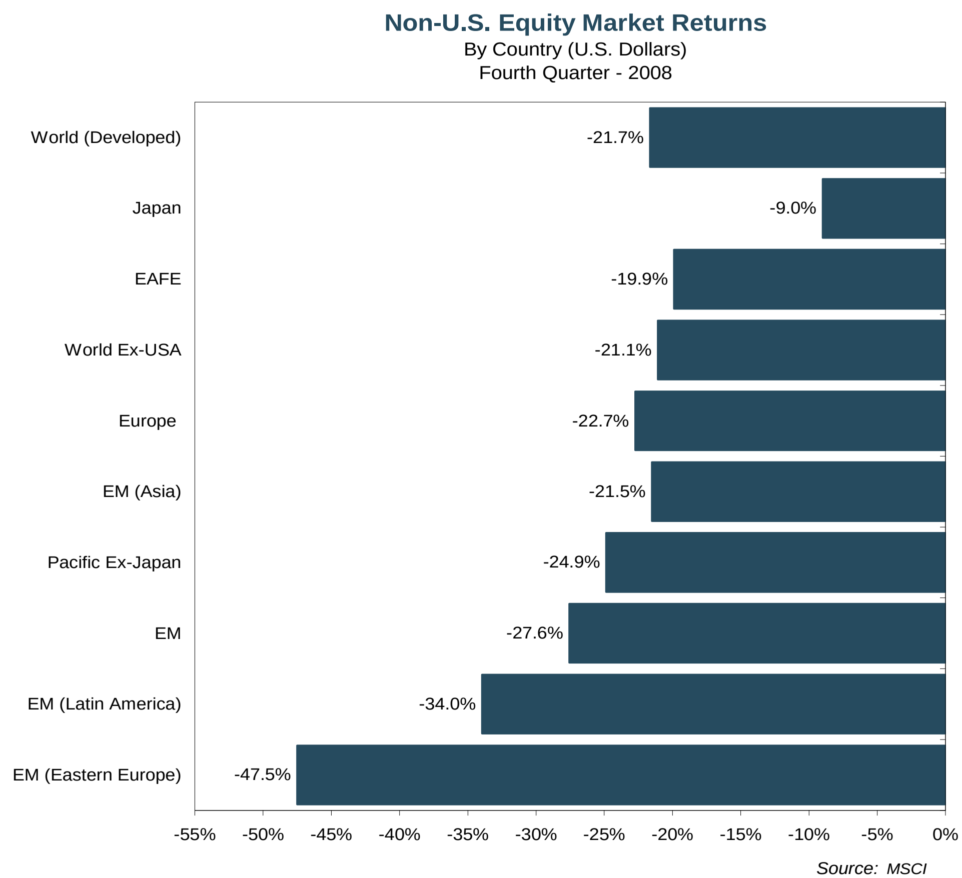
SilverOak
WEALTH MANAGEMENT LLC

Fourth Quarter 2008 Market Summary

The Economy



The fourth quarter of 2008 was a difficult one by almost any measure. The reshaping of the financial industry continued as the credit crisis gained downward momentum. The quarter capped off a year that witnessed ongoing deterioration in the housing market, the consumer balance sheet and the labor markets. Combined, these factors have perpetuated further general economic weakness.

Asset quality deterioration has greatly hindered bank performance and caused a further seizure in lending. The true extent of the credit crisis has yet to be determined, and the banking industry remains under stress as it continues to experience increases in problem assets, in addition to nonperforming and delinquent loans.

Reviving the commercial banking sector has been at the forefront of policymakers' concerns. Their objective has been to not only restore bank capital, but to reinvigorate the lending environment that is essential for business and consumers in the U.S. economy. It has been said frequently in recent months that credit is the lifeblood of the U.S. economy, as it funds both short-term working capital needs as well as longer-term strategic initiatives. The situation has been one of global urgency. Central banks throughout the world have acted in coordinated fashion in an effort to avert a deflationary spiral that might lead to a depression.

The previous quarter concluded with the nationalization of Fannie Mae and Freddie Mac as the two government-affiliated entities were provided with $100 billion of preferred equity capital. Since then, the Fed and Treasury have greatly expanded their array of spending initiatives.

In their efforts to aggressively counter the economic slowdown, policymakers have taken unprecedented actions, including enactment of the Troubled Assets Relief Program ("TARP"), the largest financial bailout since the Great Depression. The TARP provides $700 billion with which the Treasury can purchase troubled and non-liquid assets from banks and other financial institutions.

The ease in administering such a large and complex initiative is a different story. The hope is that the inflow of cash from the Treasury will allow banks to start lending again. However, early indications are that TARP fund recipients have been hoarding the cash in order to buttress their own capital. Even so, the closely watched credit spreads have gradually declined since the TARP program was initiated.

Although originally designed to assist banks, the TARP has had a variety of different companies seeking access to funds. Credit-card issuers, auto manufacturers and commercial real-estate developers have all made their case for aid through TARP or similar facilities. GM, Ford and Chrysler came to Congress asking for government loans to avoid bankruptcy. After the authorization of $14 billion in rescue loans by legislation failed in early December, the Bush Administration announced a $17.4 billion rescue package for GM and Chrysler designed to tie them over until they can develop viable restructuring plans. Ford said it did not need the funds at this time, and so was not part of the loan program.

Another notable trend during the quarter was the increase in financial institutions applying to become bank holding companies. Morgan Stanley and Goldman Sachs were the initial companies granted this status, allowing them to accept federally insured deposits and also the ability to borrow from the Fed's discount window. Since then, the Fed and Treasury have begun granting this status to nonbanking companies such as American Express.

Also on the fiscal front, President-elect Obama has proposed a stimulus package targeting the creation of three million jobs over the next two years. There are many working parts involved in the plan that will need to play out into the following year. Currently, Obama is seeking $700- $750 billion for various initiatives, including infrastructure programs. Some expect Congress to authorize an additional $100 billion, bringing the grand total to $850 billion. In addition, Obama advisers are floating the idea of offering as much as $300 billion in tax cuts as incentive for Republicans to back the stimulus plans.

Economic data continued to be grim throughout the quarter. Stating what many already assumed, the National Bureau of Economic Research (NBER) announced that the official start date of the current recession was December of 2007.

One of the most sobering pieces of data to be released in the quarter was the November employment report, which showed 533,000 job losses during the month, the largest monthly drop since December 1974. The unemployment rate closed out the year at 6.7%. This data is reflective of the headlines announcing large-scale layoffs, such as Citigroup's announcement on November 17th that it was reducing its work force by 52,000.

Typically, the Fed's goal tends to be juggling price stability and economic growth. However, the October CPI fell at a record pace and was followed by an even larger decline of 1.7% in November, prompting concerns that the weak economy may trigger a deflationary environment. The Fed's recent aggressive actions are meant to avert a deflationary spiral.

The Fed's Beige Book continued to suggest broad weakness and impaired access to credit. Likewise, there was no positive news to be found in the housing market as inventories remained high and demand low, and homebuilders continue to be squeezed.
It is no surprise that the NAHB housing market index remained at a record low of 9.0 for the month of December.

The Fed continued its series of aggressive interest rate cuts in its December 16th meeting. The unanimous decision was made to set the Fed funds target range from 0% to 0.25%, the lowest level in the bank's 95-year history. This is a sharp drop from 4.75% in September 2007. The Fed made it known it is willing to use "all available tools" to re-stimulate the economy, noting that it would consider purchasing large amounts of agency debt and mortgage-backed securities in order to support the housing market.

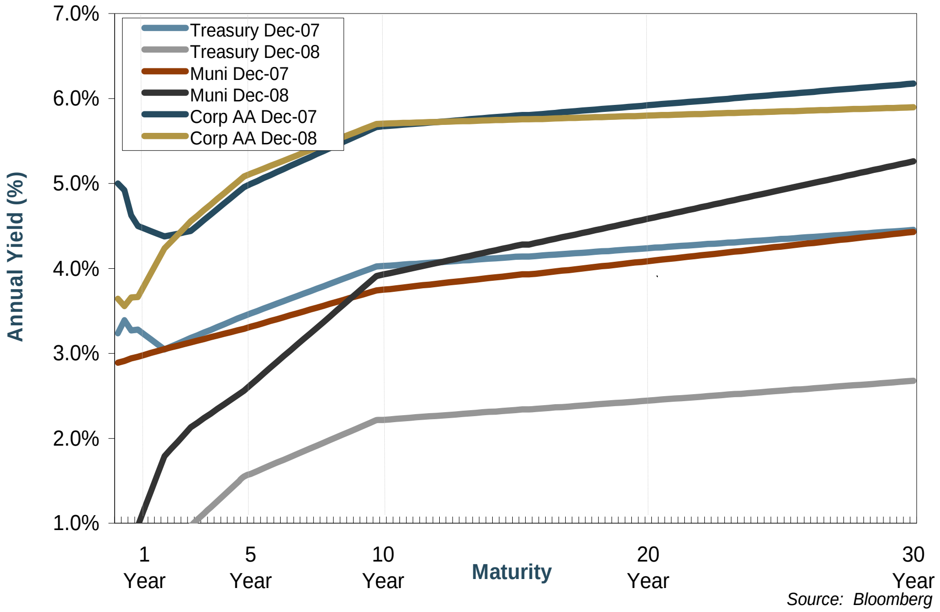
The shocking headlines continued through the end of the quarter when allegations were made of an alleged fraud carried out by investment manager Bernard Madoff. This plot may have lasted at least 30 years and caused up to $50 billions in losses. Madoff is accused of running a giant "Ponzi scheme" whereby he would misrepresent returns while claiming to make stock and options trades. Instead, money would be taken from new clients and paid out to existing clients under the guise of actual returns.

Interest Rates

The economic situation created an interesting environment for the fixed income market. The extreme flight-to-quality situation in the fourth quarter resulted in investors seeking to shed risk assets in favor of the safest form of investment – short-term U.S. Treasury securities. For the first time since 1940, the yield on the 3-month Treasury bill went negative as buyers were willing to pay the government to keep their assets safe. The sentiment seemed to be that investors were not necessarily looking for a return *on* their investment, merely a return *of* their investment.

The Treasury market continues to exhibit a flight-to-quality atmosphere. Treasury yields have continued to fall over the last several weeks of the quarter. The yield on the 10-year closed out the year at a yield of 2.2%, down from 3.8% at the end of the third quarter. The 3-month T-bill finished the year yielding 0.1%, down from 0.9% on September 30th. The steep shape of the Treasury yield curve was little changed in the quarter, a good situation as banks rehabilitate their balance sheets.

U.S. Treasury, Muni and Corporate 30-Year Yield Curves



Source: Bloomberg

While Treasuries enjoyed generally rising prices and falling yields in the quarter, the same cannot be said for the credit segment of the market. Investment-grade corporate bonds stabilized in the fourth quarter after suffering significant price declines in the third quarter due to the massive deleveraging that took place. The yield on the Barclays Capital Corporate Bond Index declined slightly in the fourth quarter, from 7.8% at the end of the third quarter to 7.6% on last day of 2008.

High-yield securities are another story, however. High-yields have traded based on the same dynamics as equities, and suffered a similar fate in the fourth quarter. The yield on the Barclays Capital High Yield Index rose to 19.50% on 12/31 from 13.9% on 9/30, reflecting a 17.9% decline in the value of the index.

Municipal bonds also stabilized somewhat in the fourth quarter following poor third quarter performance. The yield on the Barclays Capital Municipal Bond Index closed the year at 4.5%, down slightly from its end of third quarter yield of 4.7%. Many strategists believe that municipal bonds represent excellent value compared to Treasuries. For example, a 10-year AAA-rated municipal bond yielding 3.7% would yield 5.3% on a taxable equivalent basis for an investor in the 28% tax bracket. This compares favorably to the 2.5% yield on the 10-year Treasury.

Equity Markets

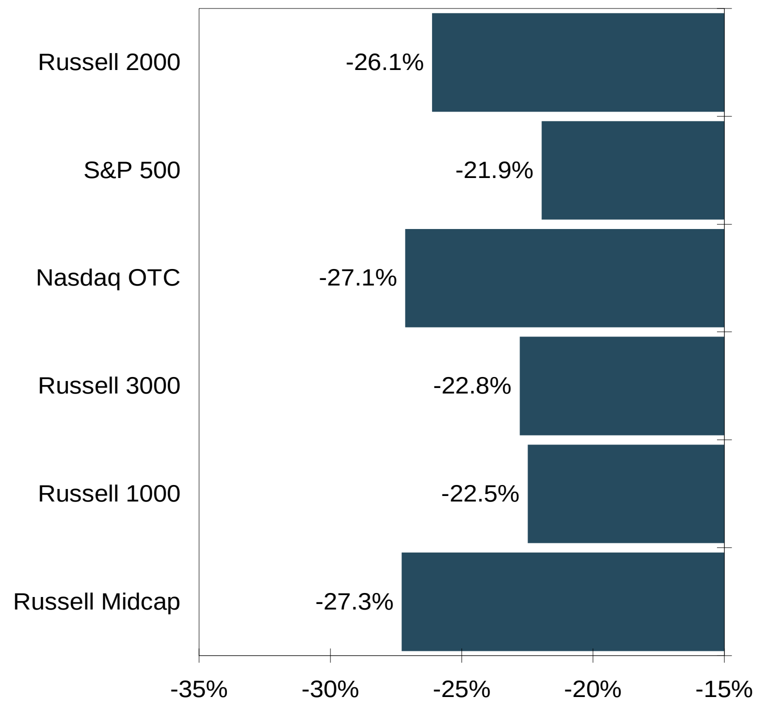
Equity markets around the globe saw price declines accelerate in the fourth quarter. Major indices extended their 2008 losses, with the S&P 500 falling 21.9% and the NASDAQ plummeting 27.1%. These losses were significantly higher than the third quarter losses of 8.4% and 8.6% in the S&P and NASDAQ, respectively.

There was no safe harbor to be found anywhere in the world. As in the U.S. market, emerging markets were subject to significant losses. The MSCI Emerging Markets Index declined by 27.6%, with regions such as Asia and Eastern Europe faring especially poorly. The worsening global economic problems in the quarter were manifest in equity indices worldwide. No particular segment of the market was unaffected as the Russell Indices for large-cap, mid-cap, and small-cap stocks (Russell 3000, Russell Mid-Cap, and Russell 2000) all posted losses greater than 20%.

In terms of sector performance, Financials posted the biggest drop, declining 37.6% for the quarter, while Materials (-31.4%) and Information Technology (-26.0%) also suffered. The only sector to post a single-digit percentage drop for the quarter was Telecom Services at -2.9%.

Broad Market Index Returns

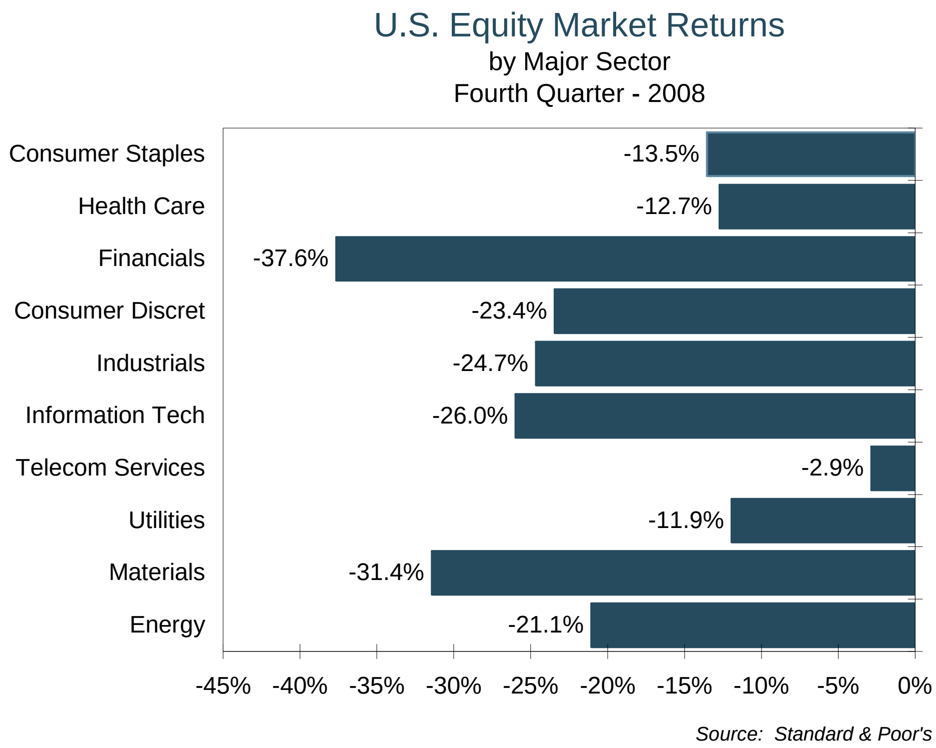
Fourth Quarter - 2008



Source: Russell/Bloomberg

A primary reason for the losses experienced in the quarter was the impact the ongoing deleveraging cycle has on the economy. As banks and other financial services firms shore up their balance sheets, they are less apt to lend, thereby putting a damper on corporate earnings growth. As earnings expectations decline, so do stock prices. Coupled with fears of a deflationary spiral, falling stock prices made investors increasingly nervous and more prone to liquidate assets at risk. One of the assets liquidated was hedge funds, and as these funds received redemption notices from investors they were forced to liquidate their own portfolios. It was a truly vicious cycle in the fourth quarter.

Heading into 2009, many strategists see opportunities for higher stock prices based on technical factors, if nothing else. Valuations have come down significantly, volatility has abated and uninvested cash remains at historically high levels. To be sure, there are strong headwinds, but it is possible that the worst may be behind us.



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