SilverOak
WEALTH MANAGEMENT LLC

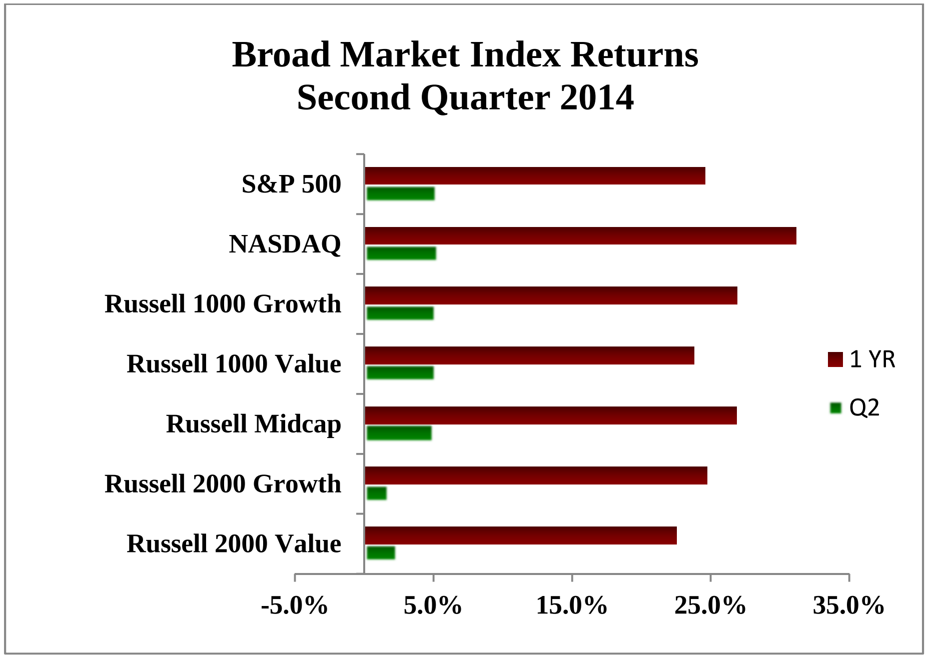
Second Quarter 2014 Market Summary

Equity markets posted healthy returns during the second quarter, continuing the streak of consecutive quarters of positive returns to six, which is the longest run since 2007. With a 5.3% return, the S&P gains accelerated as economic data began to rebound, following a weak first quarter in which GDP came in at a surprisingly negative 2.9%. Stronger market returns were also likely a function of continued gains in confidence as investors seemed to be focused on the improving economy.

Continuing the trend established during the first quarter, value stocks once again performed better than growth stocks. Much of this was due to the strong performance of energy stocks as the turmoil in Iraq caused oil prices to surge 20%. Small-cap U.S. stocks lagged behind large-cap and mid-cap stocks during the quarter and the year-to-date period as they have been hurt by the move toward more defensive investments. International stocks had solid performance during the quarter as European economies continue to recover. Emerging market stocks have had a strong rally and are now up roughly 6% in 2014 after being down almost 8% during the first quarter.

The bond market seems to be taking a more conservative stance on second half economic growth prospects as interest rates continued to fall modestly during the second quarter. As a result, fixed income investments had widespread positive returns during the quarter. The Barcap U.S. Aggregate, an index containing a broad basket of bonds, was up roughly 2% during the quarter and is now up 3.9% for the year.

Several economic indicators have recently strengthened and likely signal a stronger economy going forward. The June employment report was recently released and 288,000 new jobs were added during the month and the April and May reported jobs numbers were revised higher. Job growth has now exceeded 200,000 for five consecutive months - the first time in 15 years. In addition, unemployment fell to a 6-year low of 6.1% last month while initial weekly jobless claims fell to a 7-year low. Small business credit conditions have also improved recently. The Fed's June Flow of Funds report found that combined credit extended to small businesses grew at a 3.8% annualized rate, the first time it has exceeded the rate of inflation since the 2008 financial crisis. Previous crossovers like this occurred in 1984, 1996 and 2004 and were followed by periods of stronger GDP growth. This would be welcome news as the small business segment has lagged the overall economic recovery.



Highlights

GDP

- The Bureau of Economic Analysis released the third estimate of first quarter 2014 real GDP, a decrease of 2.9% versus fourth quarter 2013, revised down from the second estimate.
- The University of Michigan Consumer Sentiment Index final reading for June was 82.5, which was an increase from May. May was 81.9 down from 84.1 in April. Consumer sentiment has leveled off the past twelve months after trending up the previous few years.
- The ISM Manufacturing Index rose during the quarter from 53.7 in March to 55.3 in June. After a slow start to the year the ISM Index has rebounded. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish.
- In May, the Conference Board Leading Economic Index increased 0.5% month-over-month to 101.7. The Index has been increasing steadily over the past year showing steady slow growth in the economy.
- The price of WTI Crude Oil was $106.07 at the end of June, which is 4.4% higher than $101.57 at the end of March. The price of Brent Crude Oil increased 5.0% in the quarter to $111.03.
- Headline CPI has increased slightly over the past six months as food and energy costs have increased. In May, the headline CPI came in at 2.1% year-over-year, up from 1.1% in February. Core CPI, which does not include food and energy, increased to 2.0%. Inflation levels have remained low over the past year and have been less than historical averages and the Fed's 2% inflation target.

HOUSING

- Preliminary existing home sales increased in May with an annualized rate of 4.89 million units from 4.66 million units in April. The May annualized rate is 5% below the 5.15 million units in May 2013. Home sales have stalled as mortgage rates are expected to rise and home prices have risen over the past year.
- Median existing home sale prices increased during the quarter. The preliminary prices for May were 5.1% higher from the levels of one year ago and have been trending up since the beginning of 2012.
- New home sales increased in the quarter with a seasonally adjusted annual rate of 504k homes sold in May versus 432k in February. 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 10.8% year-over-year in January. The index has risen every month since the beginning of 2012.

EMPLOYMENT

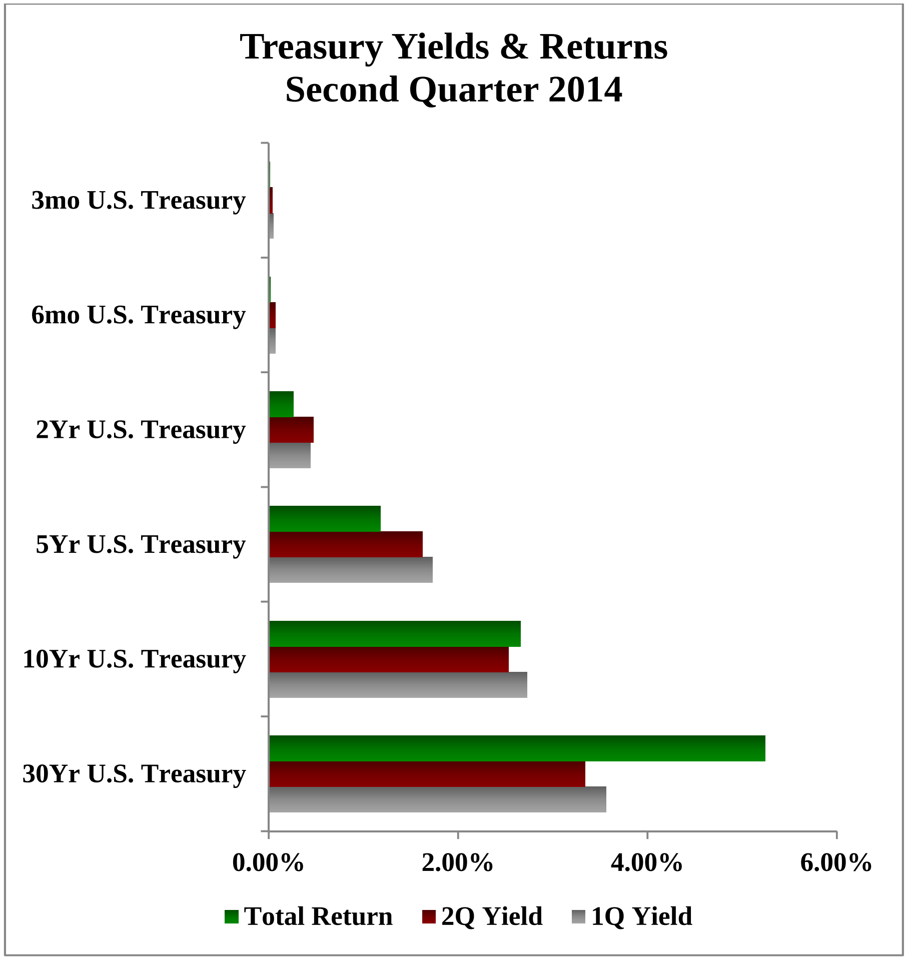
- The labor market was stronger in the second quarter after a weak start to the year. Nonfarm payrolls added 288,000 jobs in June which beat expectations. In the second quarter, nonfarm payrolls averaged 272,000 jobs added per month which was much stronger than the first quarter's averaged of 190,000 jobs per month.
- Hourly earnings have been increasing since the end of 2012.
- The unemployment rate fell to 6.1% from 6.7% during the quarter.
- Initial Jobless Claims have been decreasing since 2009; however, in the last nine months initial claims have been relatively flat.

DOMESTIC CORPORATIONS

- Corporate operating earnings took a step back in the first quarter 2014 as weather and slower growth contributed to lower earnings than the fourth quarter. However, earnings have been trending up over the past year.
- Forward and trailing P/E multiples have been expanding since 3Q 2011 and are now at or slightly above historical averages.

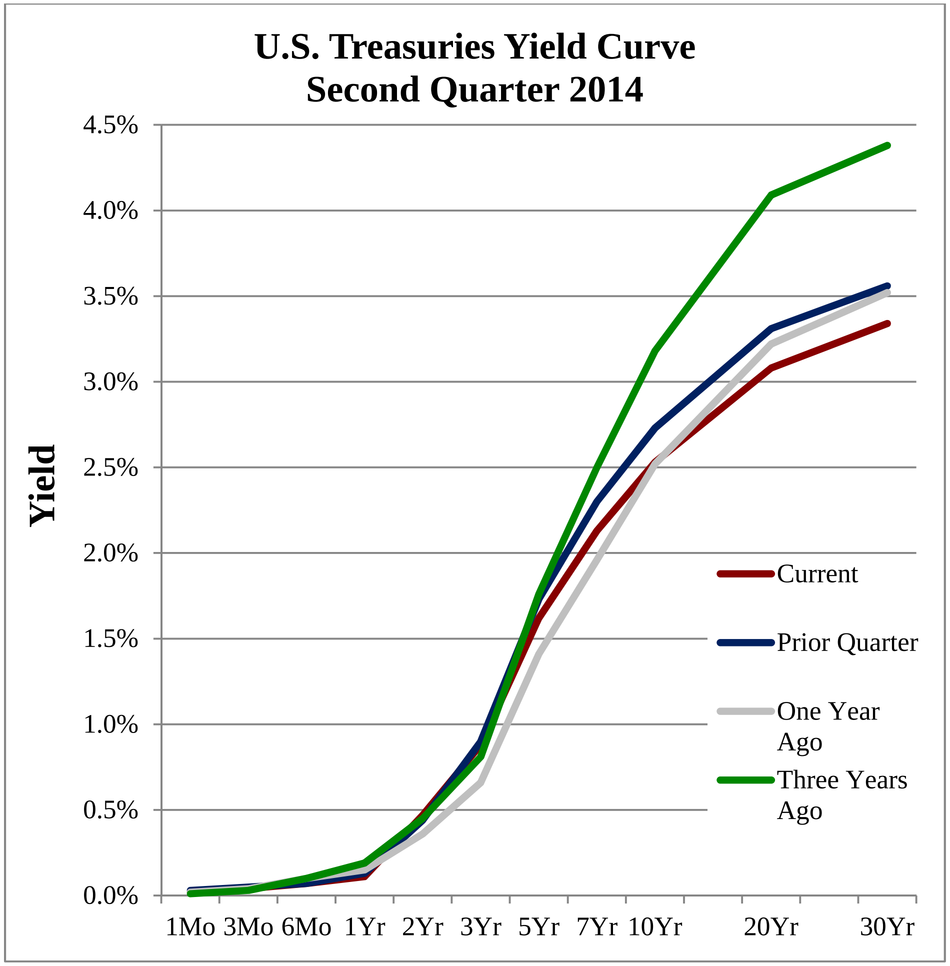
FED POLICY

- In May, the Federal Open Market Committee (FOMC) announced they will leave the federal funds rate at 0% to 0.25% percent. In their statement, the Fed expressed that the fed funds rate will remain at exceptionally low levels even if the unemployment rate falls below 6.5% as long as inflation remains low.
- The Fed continued their tapering of agency mortgage-backed securities and longer-term Treasury securities purchases for the fifth consecutive month. They will reduce total purchases by another $10B, to $35B per month. The Fed is expected to cut purchases to zero in October.



FIXED INCOME

- The yields on longer term Treasury securities decreased on a quarter-over-quarter basis causing the yield curve to flatten slightly. A steep curve indicates market participants are not concerned about a recession over the next year.

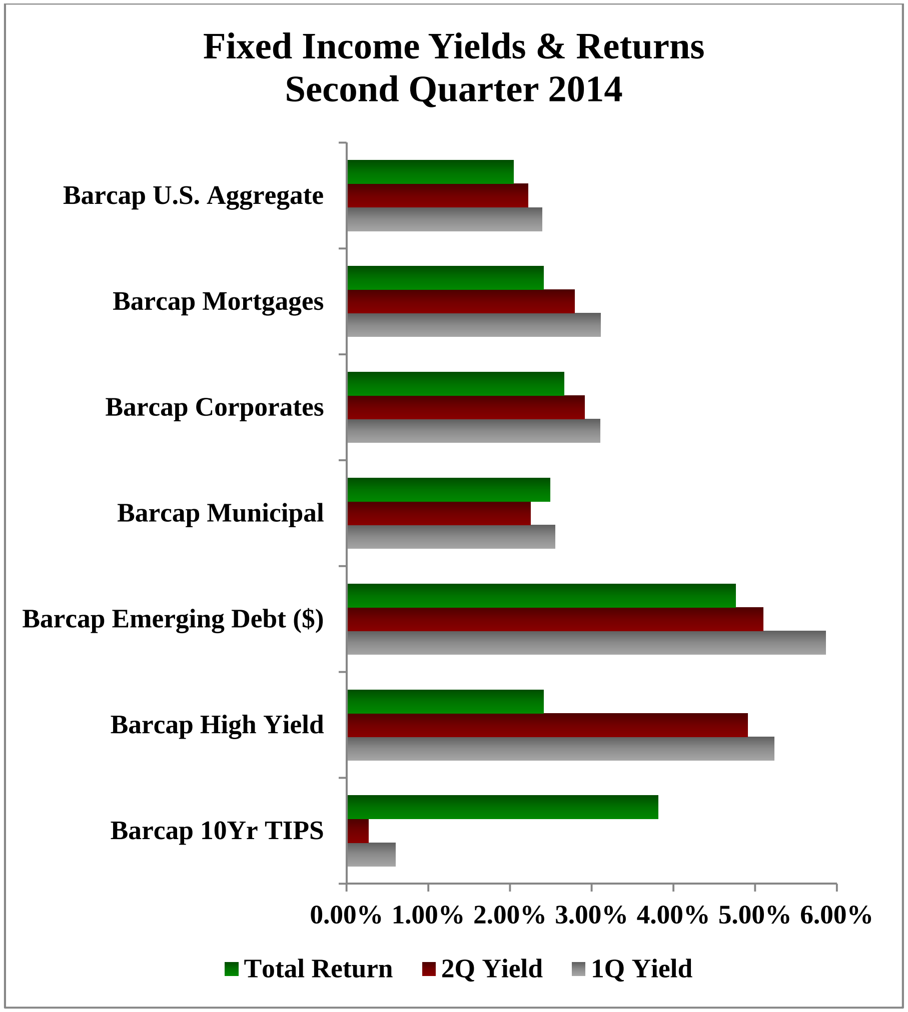


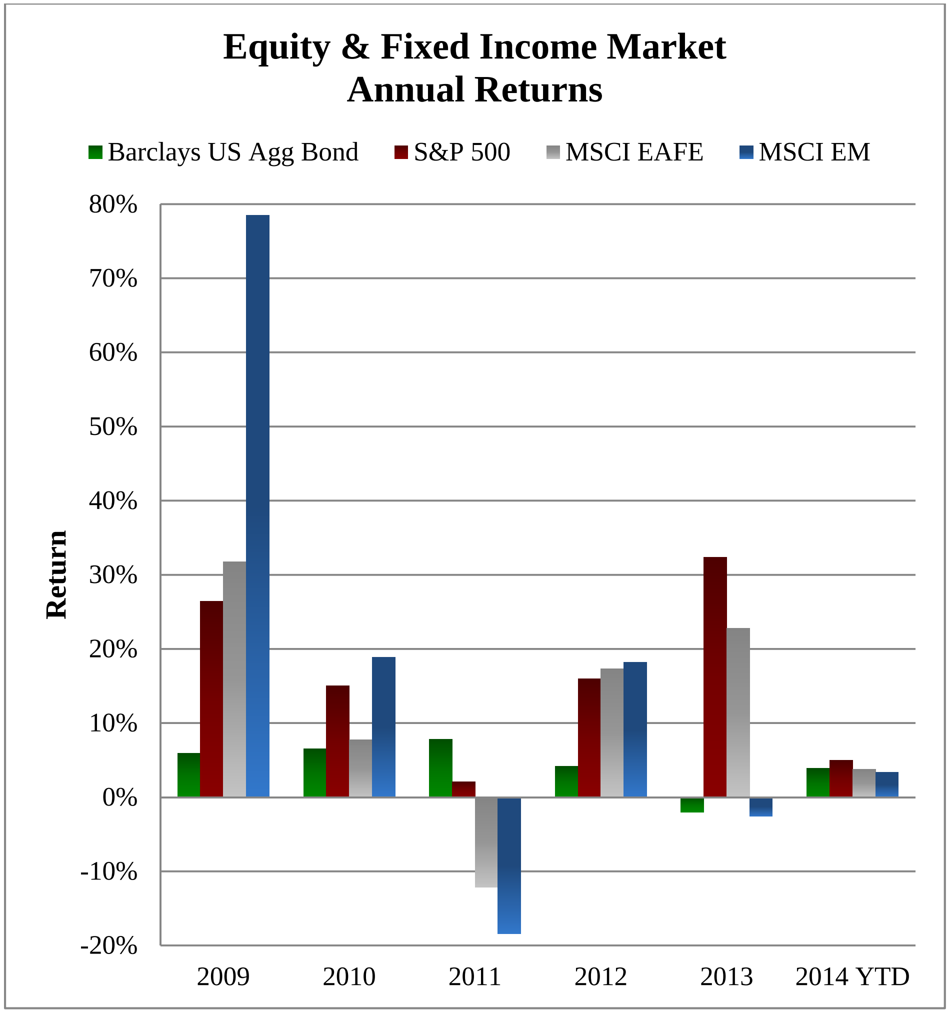
FIXED INCOME (continued)

- Yields in all fixed income sectors decreased during the quarter. Fixed income yields remain low due to low interest rates and tight spreads. As a result, fixed income returns were all positive this quarter. Emerging Market Debt, Corporates and longer term US TIPS had the strongest returns.

EQUITIES

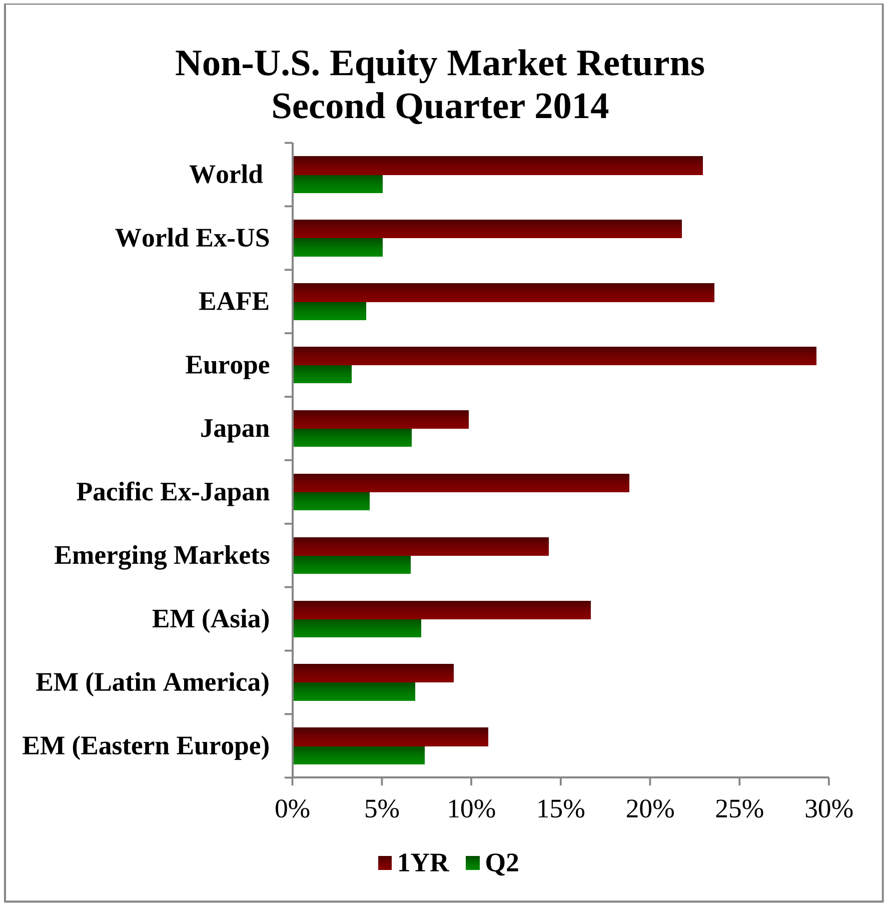
- For the quarter, domestic stock prices ended higher, continuing the strong performance of the past five years. Performance in the U.S. was positive across the board; however, large capitalization stocks were the best performing. Value stocks performed better on a relative basis than growth stocks during the quarter.

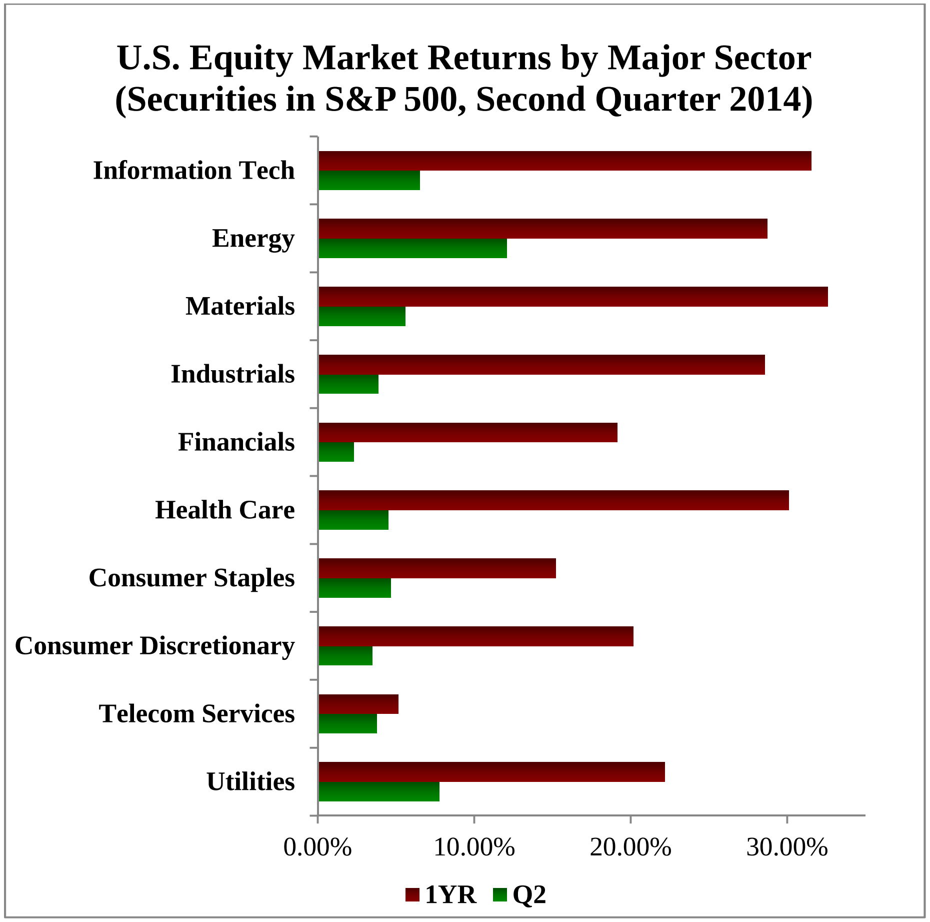




EQUITIES (continued)

- Developed international stocks performed slightly worse than U.S. domestic equities. The MSCI EAFE index of international markets stocks increased 4.09% during the quarter. On a year-over-year basis, the EAFE is up 23.57%. Japan was the strongest market during the quarter.
- During the quarter, emerging market stocks performed better than developed markets but still trail on a one year basis. The MSCI Emerging Markets Index increased 6.6% in the quarter and has increased 14.31% on a year-over-year basis. Returns were comparable across emerging market regions.
- The Russell 1000 Index of large capitalization stocks posted a total return of 5.12% during the quarter. On a year-over-year basis, the Russell 1000 Index has advanced 25.35%.
- Small capitalization stocks, as represented by the Russell 2000 Index, posted a gain of 2.05% during the quarter. On a year-over-year basis, the index has increased 23.64%.
- Energy and Utilities were the best performing sectors in the quarter while financials and consumer sectors lagged. High growth industries such as Biotech and Internet Software & Services struggled at the beginning of the quarter.





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