SilverOak
WEALTH MANAGEMENT LLC

# Third Quarter 2008 Market Summary

## The Economy

The third quarter of 2008 was historic, as these months reshaped the landscape of our financial institutions and systems. The credit crisis that emerged during the second half of 2007 gained momentum over the last quarter, wreaking havoc on the world economy and requiring industry players and policy makers to significantly change the way they worked to address the situation.

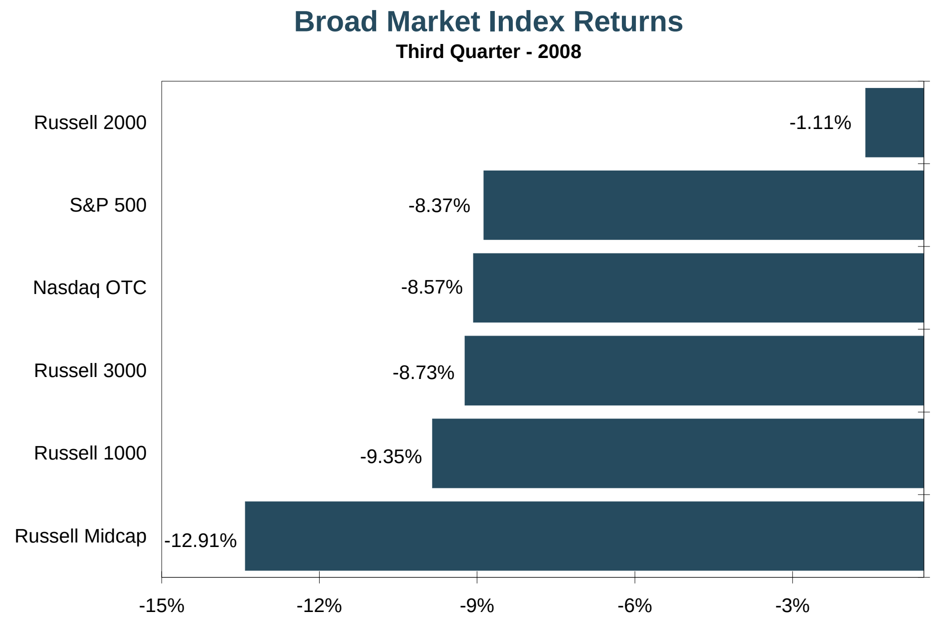
The quarter started with a string of negative economic news as unemployment continued to rise and oil spiked at $145.29 a barrel. The specter of recession loomed, and the S&P 500 began the quarter down 15% for the year, while the Treasury yield curve steepened as uncertainty brought in buyers to the short-end of the curve.

Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson were forced to become more active participants in the crisis that was unfolding on Wall Street. While the Fed held tight on interest rates over the quarter, they were called upon several times to inject liquidity into the financial system.

The Treasury began to become more active as a plan was outlined that would enact support of shareholder-owned giants Fannie Mae and Freddie Mac. In a briefing to Senate Republicans, worried about the cost to taxpayers for backstopping these two mortgage giants, Treasury Secretary Henry Paulson offered his now famous quote, “If you’ve got a squirt gun in your pocket, you may have to take it out. If you’ve got a bazooka, and people know you’ve got it … you’re not likely to [have to] take it out.” So while Secretary Paulson announced his plan as a contingency, the Treasury did not anticipate having to put the plan into action.

With events unfolding in Washington and on Wall Street, economic data continued to show signs of weakness. Home sales remained negative, the University of Michigan Consumer Sentiment reached the third lowest level in more than fifty years and unemployment continued to rise to 6.1% in August (near the current cycle peak reached in 2003).

All of the economic data and proposed solutions from Washington were merely a backdrop to what occurred in September. Early September was welcomed by collapsing share prices of Fannie Mae and Freddie Mac. On September 7th, the Treasury took over these companies guaranteeing $100 billion in debt for each institution. Soon afterwards, Lehman Brothers, long rumored to be the next most vulnerable firm, fell squarely in the sights of the market, and rushed to find a buyout partner in order to stave off bankruptcy. The Treasury decided not to intervene and no buyer was found, so Lehman filed for bankruptcy on September 15th. The night before, Wall Street pillar Merrill Lynch announced its acquisition by Bank of America for $50 billion. Within a day, American International Group (AIG), also facing the prospect of failing, reached out to the Treasury, desperate for government intervention. The Treasury concluded that AIG was "too big to fail" and rescued the firm with an $85 billion bailout, in which it also acquired 80% of the firm. The following Thursday, the Federal Reserve and global central banks pumped $300 billion into the credit markets. Meanwhile, the Dow surged 410 points on news that the government was planning to buy toxic mortgage-backed securities from financial institutions in what was termed the "Wall Street Bailout." That weekend, Morgan Stanley and Goldman Sachs petitioned the Federal Reserve to become commercial banks, which would provide them the ability to employ deposits for liquidity, but also subject them to a much higher degree of regulation.



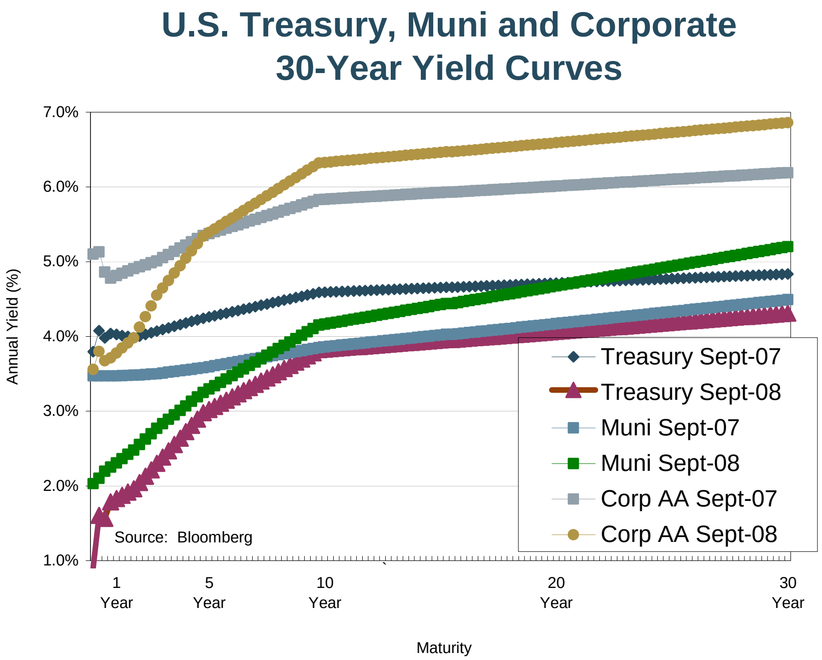

Within the next week, the biggest U.S. bank failure in history occurred as the Federal Deposit Insurance Co. (FDIC) seized Washington Mutual, which was in turn acquired by JP Morgan for $1.9 billion. The Washington Mutual situation was quickly followed by the rapid decline of Wachovia Bank, which also found itself on the brink of failure. In another dramatic weekend of events, Wachovia was acquired by Citigroup for $2.2 billion.

Finally, as all of these events unfolded, the government looked to step in and pass legislation to provide up to $700 billion to support a market for distressed mortgage related securities. The politics of Washington intersected with Wall Street and Main Street took notice. In an extraordinary series of events, the rescue plan was rejected in the House of Representatives with a vote of 228 to 205 as Republicans led opposition to the deal. The Dow Jones Industrial Average promptly fell more than 777 points, a record.

As we enter the new quarter, the legislation is going through another round of voting with the Senate passing the bill 75 to 25. If enacted, the legislation will provide a market that conceptually should ease the credit tightening that is beginning to dramatically impact the rest of the economy.

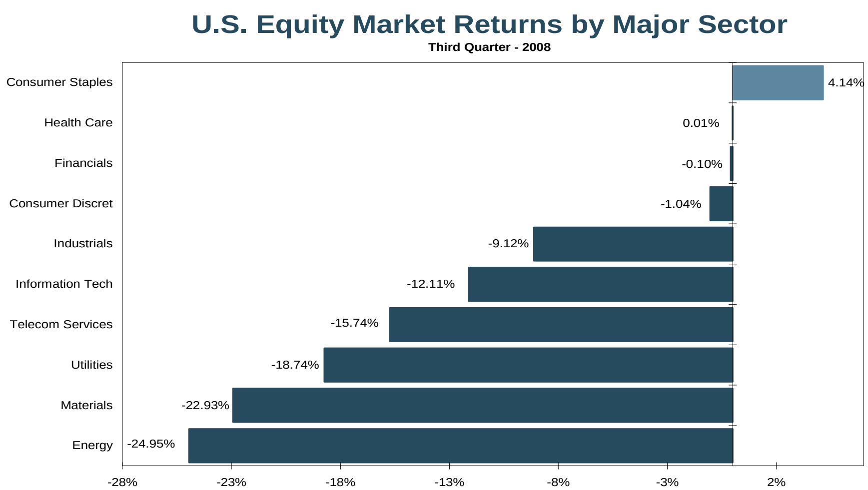
## Interest Rates

Concerns about the duration of the credit crisis and the outcome of a U.S. bailout for the financial industry were certainly visible in the fixed-income markets. The Treasury market was the recipient of a "flight to quality" trade as yields on the 10-year Treasury fell 16 basis points from the July 3rd rate of 3.98%. The 10-year ended the quarter yielding 3.82% as investors sought the safety of government-issued bonds and notes given the persisting volatility and uncertainty.




Corporate bonds are near the widest spreads in history, across all credit quality lines. Corporate bond issuance fell during the third quarter to the lowest levels since the last U.S. recession in 2001. It appears that some companies, reacting to the economic slowdown and current uncertainty, are delaying bond issuance. In addition, high yield issuance followed the same trend reporting the slowest quarter since the closing months of 2000.

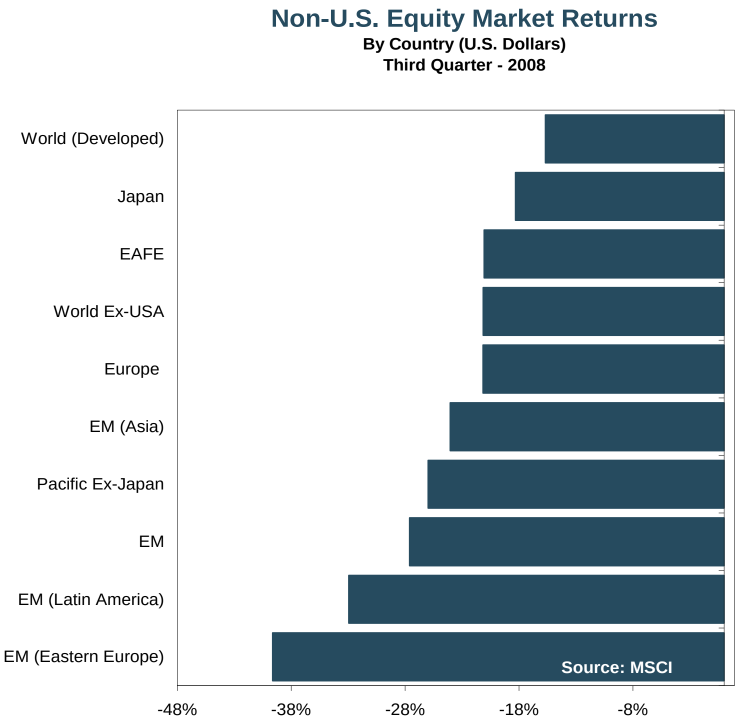
In the mortgage-backed securities market, there has been virtually no issuance of non-agency paper. Fannie Mae, Freddie Mac and Ginnie Mae accounted for approximately 99% of residential mortgage-backed security issuance in the month of August. The secondary market has essentially seized as dealers have become more risk-averse.




## Equity Markets

The dramatic events of the quarter were deeply reflected in equity markets around the globe. Major indices extended their 2008 losses with the S&P and NASDAQ Composite falling 8.37% and 8.57%, respectively. The only segment of the market to emerge from the third quarter relatively unscathed was small-cap stocks, with the Russell 2000 down 1.11% for the quarter.

The period witnessed extraordinary volatility, as declines accelerated through the month of September. Institutional and individual investor fear took hold and the market found itself in its most fragile state in many years. The CBOE Volatility Index (VIX), considered by many to gauge "investor fear," reached a 5 year high on September 29th.




Emerging markets proved to be the most affected by ongoing troubles, as the MSCI Emerging Markets Index fell 26.9% during the quarter. Comparatively, the MSCI EAFE index, which includes primarily developed markets equities, fell 20.5% during the third quarter. The problems that started here in the US have clearly now spread across the globe. Actions by central banks worldwide have been historic in their scope.

The difficulties headlined daily in the Financials sector (-0.10%), also spread to other sectors as the poorest performers within the quarter were energy (-24.95%), materials (-22.93%), and utilities (-18.74%). In fact, the only two sectors posting quarterly gains were Consumer Staples (4.14%) and a relatively flat Healthcare sector (0.01%)

## Outlook

Washington has finally turned its attention to addressing the heart of the problem: the housing and mortgaged-backed securities market. However, passage of the latest legislation does not signify an end to our economic woes.

The government has never dealt with the multiple and overlapping issues that currently confront us economically. We are witnessing a global slowdown, massive deleveraging, a banking crisis, tighter credit conditions, a broad decline in housing and a gathering storm of deflationary pressures. We will eventually survive all these circumstances, but the landscape will be quite different and the new environment will require adjustment. These issues will continue to affect the landscape well into 2009 and likely beyond.