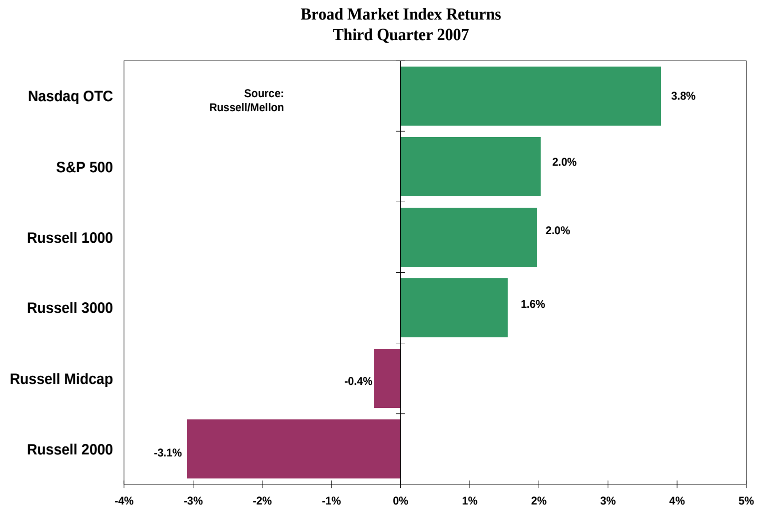
SilverOak
WEALTH MANAGEMENT LLC

Third Quarter 2007 Market Summary



Economy

As measured by gross domestic product (GDP), the final revision of U.S. economic growth during the second quarter showed that the economy accelerated at a 3.8% rate. GDP growth during the second quarter was led by exports and business investments and was the sharpest overall increase in over a year. Many economists viewed the relatively high second quarter growth rate as an anomaly; was a substantial increase from first quarter growth of just .6%.

When third quarter GDP estimates post, it is expected that the U.S. economy will have slowed its rate of growth versus the second quarter. The median forecast for the third quarter is 2.3% growth, with continued slower growth expected for the fourth quarter at 1.5%. Net exports won't be as strong going forward and consumer spending will start to weaken. Evidently, in the last 12 months, GDP growth has been 1.9% lower than the long run average of 3%.

On September 18th, the Federal Open Market Committee (FOMC) cut the fed funds rate from 5.25% to 4.75%. The Fed's half-percentage-point reduction in its target short-term rate is the first cut since 2003.

The Federal Reserve's attention seems to have shifted away from fighting inflation toward a growing concern about continued economic growth. By cutting the overnight lending rate by .50% to 4.75%, the FOMC was acting to preempt a bigger slowdown stemming from the collapse of the housing market and credit squeeze in financial markets.

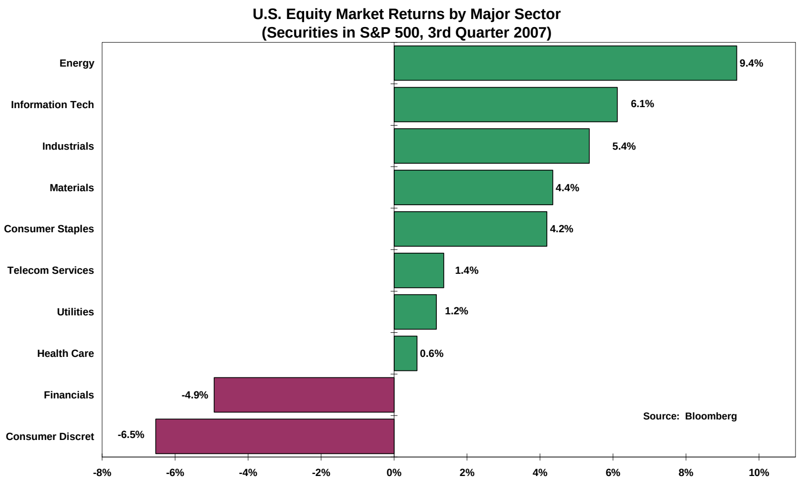
The next scheduled Fed meetings are October 30th-31st and December 11th.

The Fed's apparent shift from fighting inflation to preventing economic slowdown proved to be the correct move as inflation data came in tame after the rate cut. The core inflation rate continues to improve with the latest reading within the Fed's target range. During the third quarter, the Commerce Department reported the largest monthly increase in consumer spending in two years, with core inflation retreating the most in three years.

Core personal consumption expenditures (PCE) prices, which exclude volatile food and energy prices, rose at a 1.4% annual rate during the third quarter which is the lowest level since 2004. This tame inflation data offered support for the Fed's decision to focus on the economy and set aside some of its concerns about inflation.

U.S. Equity Markets

The modest gains logged by some market indices belied the fact that the third quarter was one of the most volatile periods in years. Indeed, investors may have felt like they were on a roller-coaster ride, especially earlier in the quarter. At the end of July, the Dow Jones Industrial Average hit an all-time closing high of 14,000.41. However, the Dow promptly plunged more than 10% off of the high point. The correction ran through August 16th, when the Dow touched 12, 517.94. The Dow then proceeded to rebound, bouncing back 1,400 points.



As has been well-documented, the primary culprits that triggered the market sell-off were a confluence of significant problems in the mortgage, housing and the credit markets. While these problems are still being digested, the Federal Reserve did its part to help cushion the markets during the third quarter. Interestingly, the big rebound began shortly after the Fed announced that it had cut the discount rate by 50 basis points. This served two purposes: to reassure investors that the Fed was concerned and would provide further assistance if necessary, as well as to help provide liquidity to banks. Later in the quarter, the Fed again stepped in by cutting the federal funds rate by 50 basis points. It was the first federal funds rate cut in four years, and was a bigger cut than many investors had expected.

In reviewing the performance of various areas of the U.S. equity markets during the third quarter, large cap stocks clearly weathered the turbulence better than their smaller cap counterparts as investors sought the safety and growth potential of big companies. These large companies are able to take advantage of the falling dollar and overseas sales growth (where economies have been generally stronger). As such, the Dow, S&P 500 and Russell 1000 Indices all eked out gains for the quarter. However, the Russell Midcap Index lost .39%. Small cap stocks fared the worst, dropping 3.09% for the quarter. Small caps didn't rebound nearly as well during August.

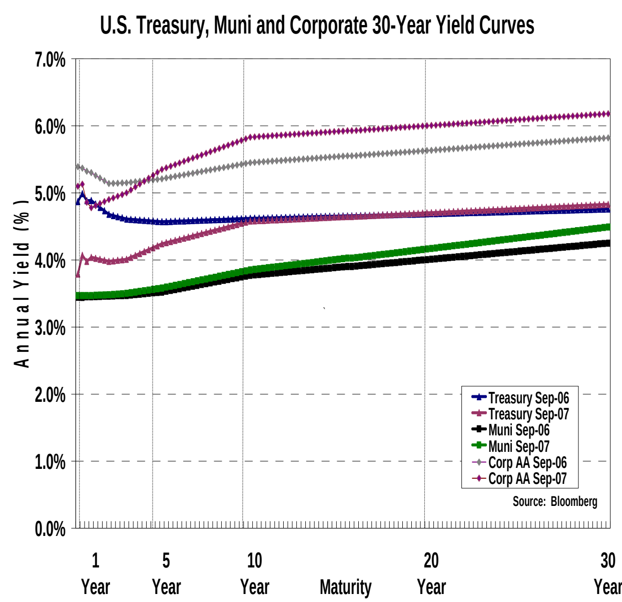
Not surprisingly, financial services companies fared poorly during the third quarter, given the problems in the subprime and lending areas. The worst-performing S&P 500 stock was Countrywide Financial, which dropped 48.1% for the quarter and is down 55.5% during 2007 (through Sept 28th). Industrials stocks fared well in the third quarter. Also, rising gold and oil prices boosted shares of companies in these industries.

U.S. Fixed Income Markets

During the third quarter, bond yields dropped thus increasing bond prices. This resulted in surpassing total returns for the period as inflationary concerns faded. The Lehman Brothers U.S. Aggregate Index returned nearly 3% during the period, and is up 4% year-to-date.

The Treasury yield curve finished the third quarter with a return to its normal, upward slope. One year ago the yield curve was slightly inverted with the 90 day T-Bill at 4.87%, 2–year at 4.68% and 10-year at 4.63%. On the short-term end of the curve, the 3 month T-Bill yield dropped to 3.80% on the last day of the quarter. The 2-year Treasury yield closed at 3.98% and 10-year Treasury yield closed at 4.59%. Shorter term bonds have lost yield due to the Fed's activities, and selling by foreign investors drove the yield up on the longer term Treasury notes. Longer-term bonds tend to be priced based on inflation expectations, while shorter-term bonds reflect expectations for the fed funds rate.

High quality investment grade corporate bonds finished the third quarter with the 2-year AA rated issues yielding 4.91%, while the 10-year AA corporates closed the third quarter at a 5.83% yield. This curve steepened as a result of the short end moving down over the last year and the longer term yield increasing. One year ago, the 2-year yield was at 5.14% with a 10-year yield of 5.46%.



Tax free AAA rated municipal bonds ended the third quarter with the 2-year yield at 3.48% and the 10-year at 3.85%. This is very much in line with the municipal curve from one year ago.

High current yield funds, which invest in junk bonds, finished flat for the quarter, but with higher yield than a year ago reflecting increased risk premiums. The Lehman US High Yield closed the third quarter yielding 8.72% up from 2006 yield of 8.18%.

Real Estate

REITs started the third quarter continuing the downward trend that began in June. In July, the Dow Jones Wilshire REIT (DJWR) index gave up another 7.87%, bringing the July 31st year-to-date return to -13.57%. Although second quarter earnings results were strong for commercial real estate, global concerns over credit weighed heavily on financials, bringing down the REIT index.

Thanks to a larger than expected rate cut by the Federal Reserve, the REIT index began to recover with the rest of the markets in mid-August. Overall, the DJWR returned 1.42% for the third quarter. The index is still down 4.64% year-to-date.

In July and August, merger and acquisition activity began to slow across the entire US Market. This deal making activity served as an important catalyst for REIT stock price appreciation in recent years. With rising credit concerns from the subprime fallout, buyers now face greater difficulties obtaining financing for planned privatizations due to a lack of liquidity.

In addition to decreased M&A activity, weakening credit conditions have led to a tightening in commercial real estate supply as developers are reluctant to begin new projects until credit markets have settled. The pullback should contribute to a favorable supply/demand balance in commercial real estate over the next year or two.

With the total effect of the subprime fallout yet to be determined, properties with shorter term leases continued to suffer, while those with longer term leases outperformed. Retail was the best performing broad sector this quarter with a 7.36% return. Retail benefited from the long term nature of their leases, despite concerns over slowing consumer spending. Hotels, with the shortest term leases, were the worst performing broad sector, dropping -4.76%.

International Equity Markets

Non-U.S. stocks generally performed well during the third quarter. The MSCI EAFE (Europe, Australia, and Far East) Index gained 2.2%. (Unless otherwise noted, all returns are stated in terms of U.S. dollars.) Solid third quarter returns helped to maintain the high average annual return of the benchmark during the past 5 years. However, the appreciation level within developed markets slowed a bit compared to recent quarters. The MSCI EAFE Index has averaged a 24.05% annualized return during the past five years. The appreciation level during this time frame is well above historical rates of return for this index.

In general, most of the major regions within the MSCI EAFE Index performed in the 1%-3% range. For example, the MSCI Europe Index gained 1.7% and the G7 Index was up 1.72%. There were a few notable exceptions. For instance, the Nordic Countries Index continued to do well, gaining 8.68% during the quarter. This index is up an amazing 52.77% during the past 12 months.

The MSCI Japan Index again lost ground during the third quarter. The index lost .80%. This is the second consecutive quarter that Japan posted a fractional loss. The MSCI Japan Index has gained just over 7% during the past 12 months.

Meanwhile, emerging markets stocks continued to produce incredible returns. For example, the MSCI Emerging Markets Free Index was up 14.5% for the period. The MSCI BRIC Index (Brazil, Russia, India and China) returned 24.3% during the third quarter. Individually, on the heels of China's 24.5% gain during the second quarter, China again delivered robust performance, gaining 41.8% in the third quarter. This helped to increase the performance of the MSCI Emerging Markets Free (Asia) Index, which gained 19% during the third quarter.