SilverOak
WEALTH MANAGEMENT LLC

Quarterly Webinar
July 28, 2017

Presented by:
Shannon King and
Jonathan Scharlau

Introduction

- Shannon King, CPA, CFP®, PFS, CIMA®, CPWA®, MBT

  President, Partner and Chief Compliance Officer

- Jonathan Scharlau, CFA, CFP®

  Partner and Lead Analyst

Agenda

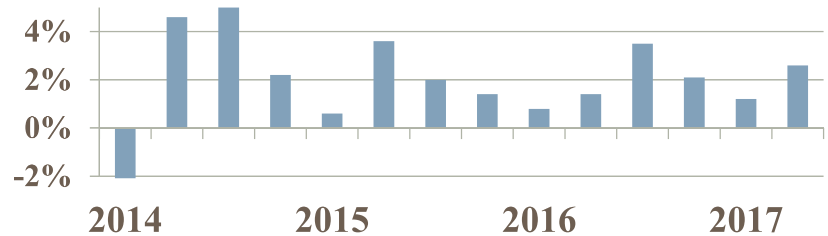
- Economic data
- Market data
- SilverOak's outlook
- Federal estate and gift tax updates
- Minnesota tax updates
- SilverOak updates
- Questions

Economy: Modest Growth During the Second Quarter

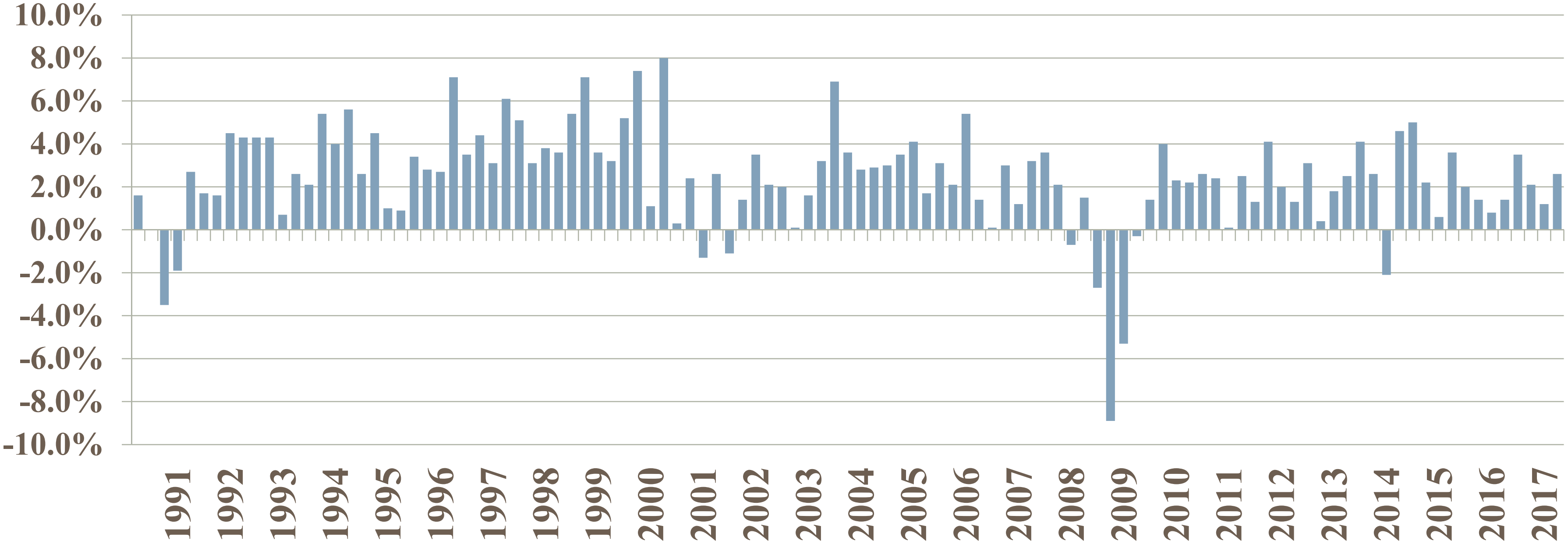
Current Economic Factors

Positive	Neutral	Negative
Credit Conditions	Commodity Prices	
Housing	Interest Rates	
Consumer Confidence↓	U.S. Politics↓	
Employment	U.S Dollar	
Corporate Sector	U.S. Inflation	
	Global Growth↑	
	Geopolitics (+)	
	Eurozone (+)	
	China (+)	

GDP Growth Remains at Long Term Trend

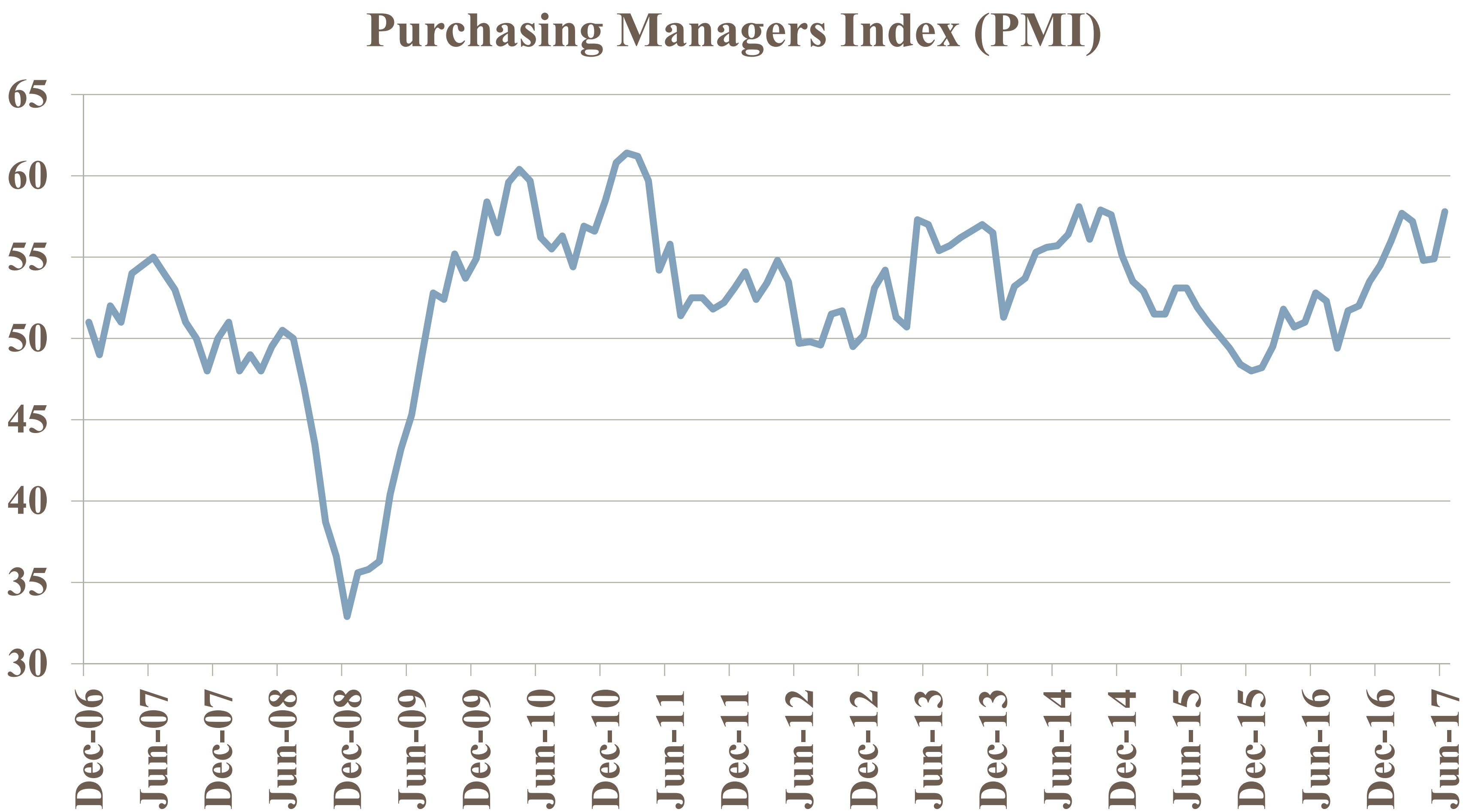


Real GDP % Annualized Rate



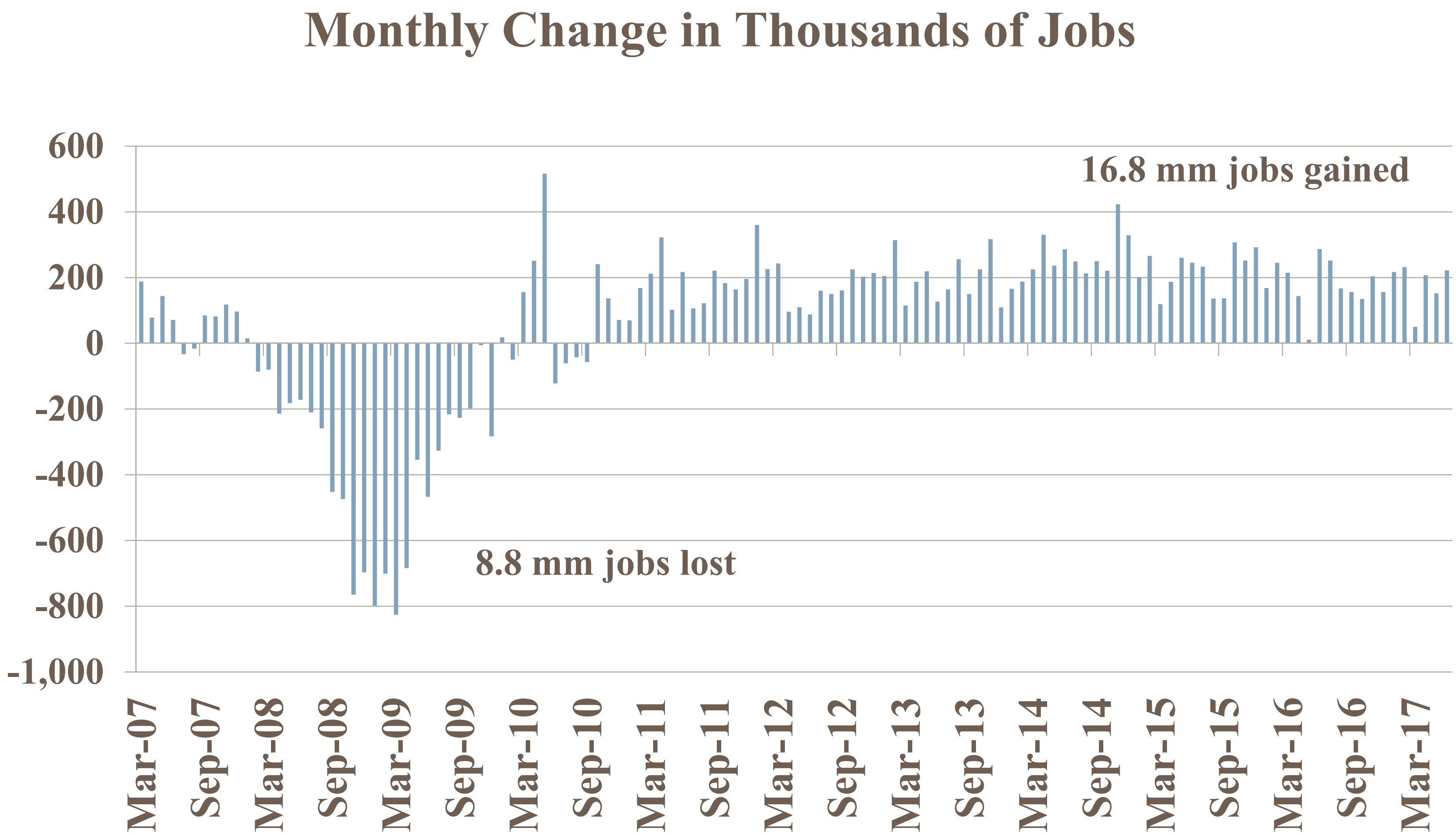
Source: Bureau of Economic Analysis

Robust Manufacturing Activity



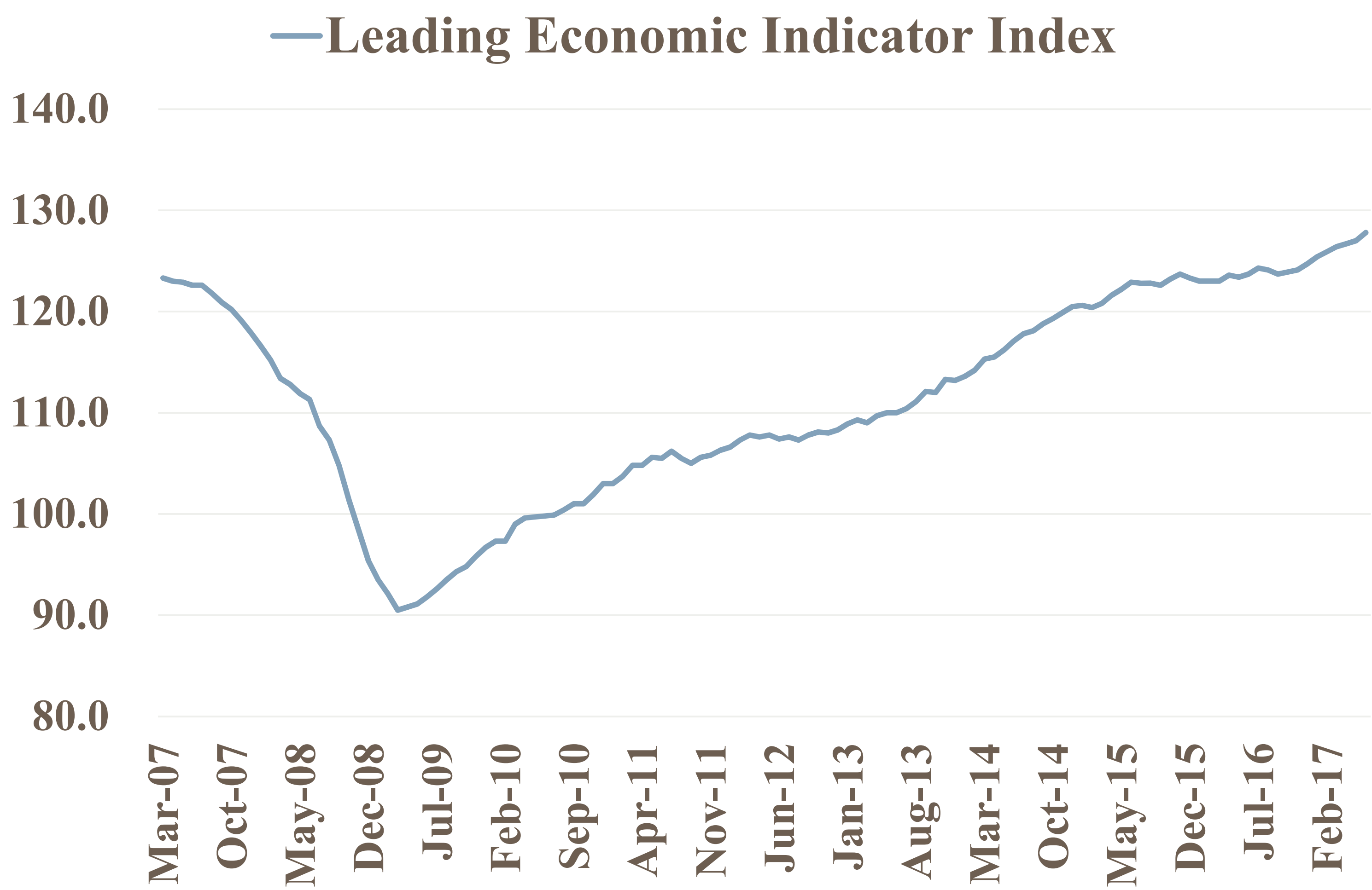
Source: Institute for Supply Management

Job Growth Recovers



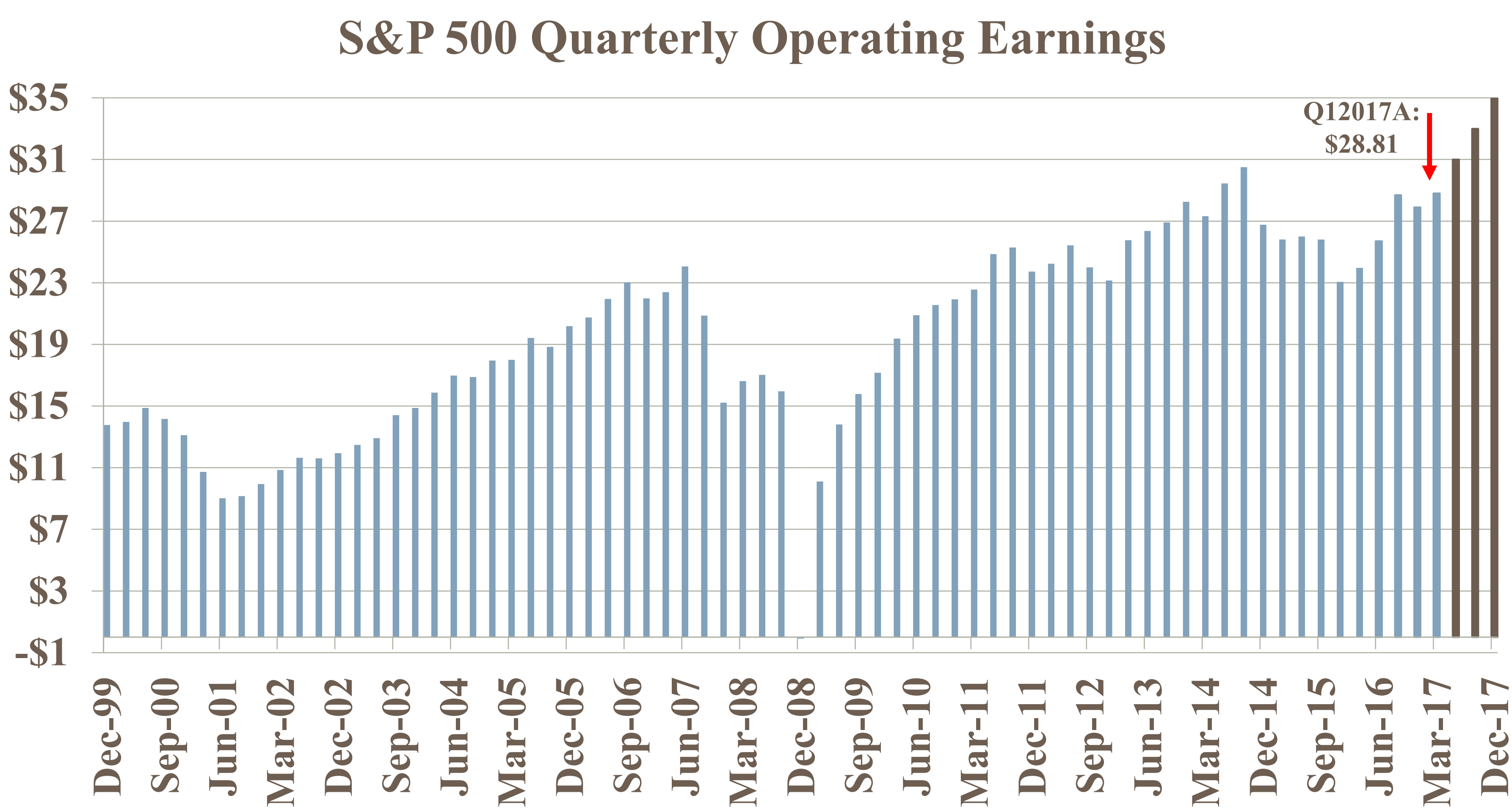
Source: Bureau of Labor Statistics

Leading Indicators Continue to Trend Higher



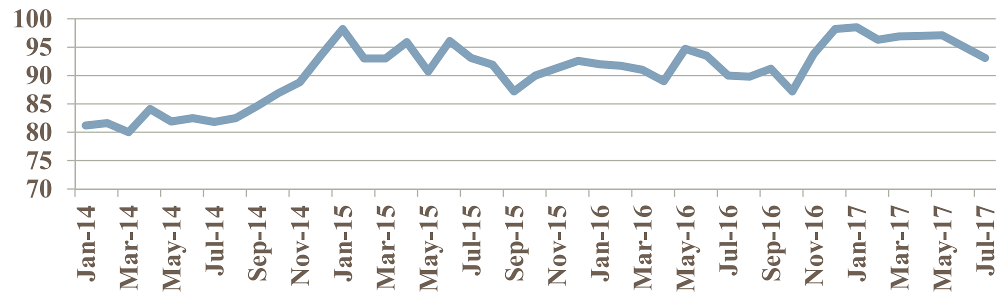
Source: The Conference Board

Big Earnings Ramp Expected

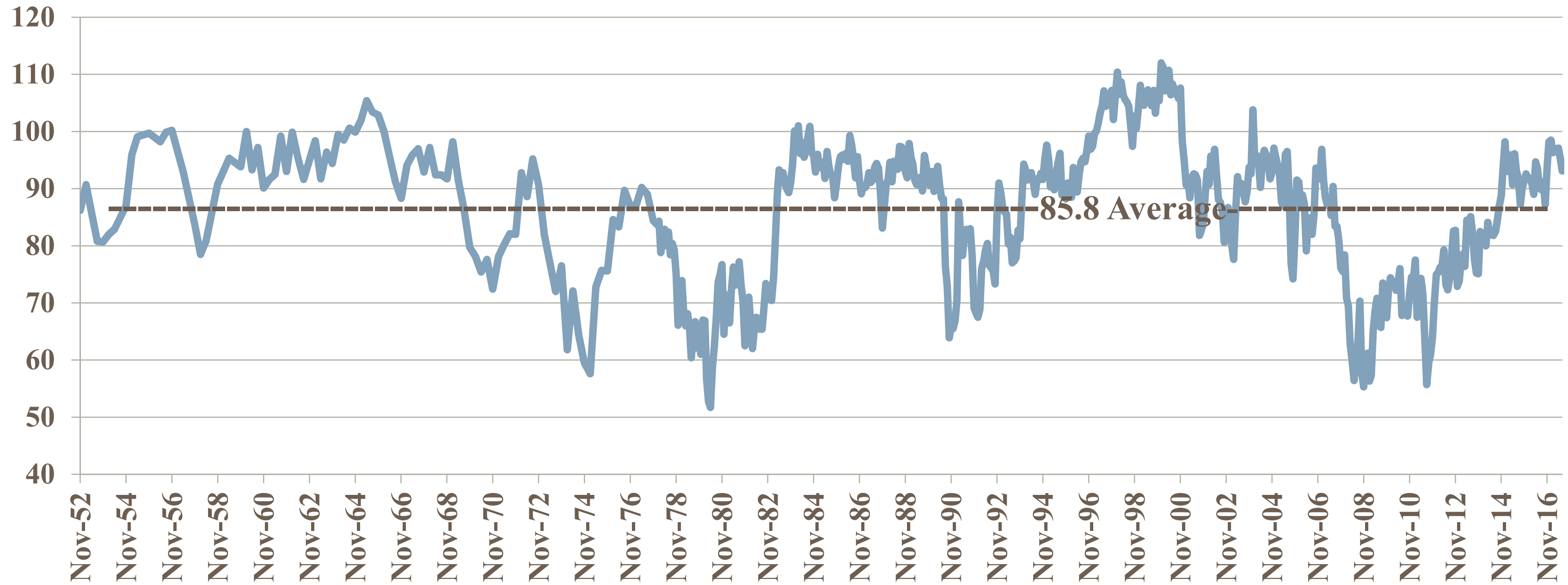


Source: Standard & Poor's, J.P. Morgan Asset Management

Post Election Confidence Surge Waning

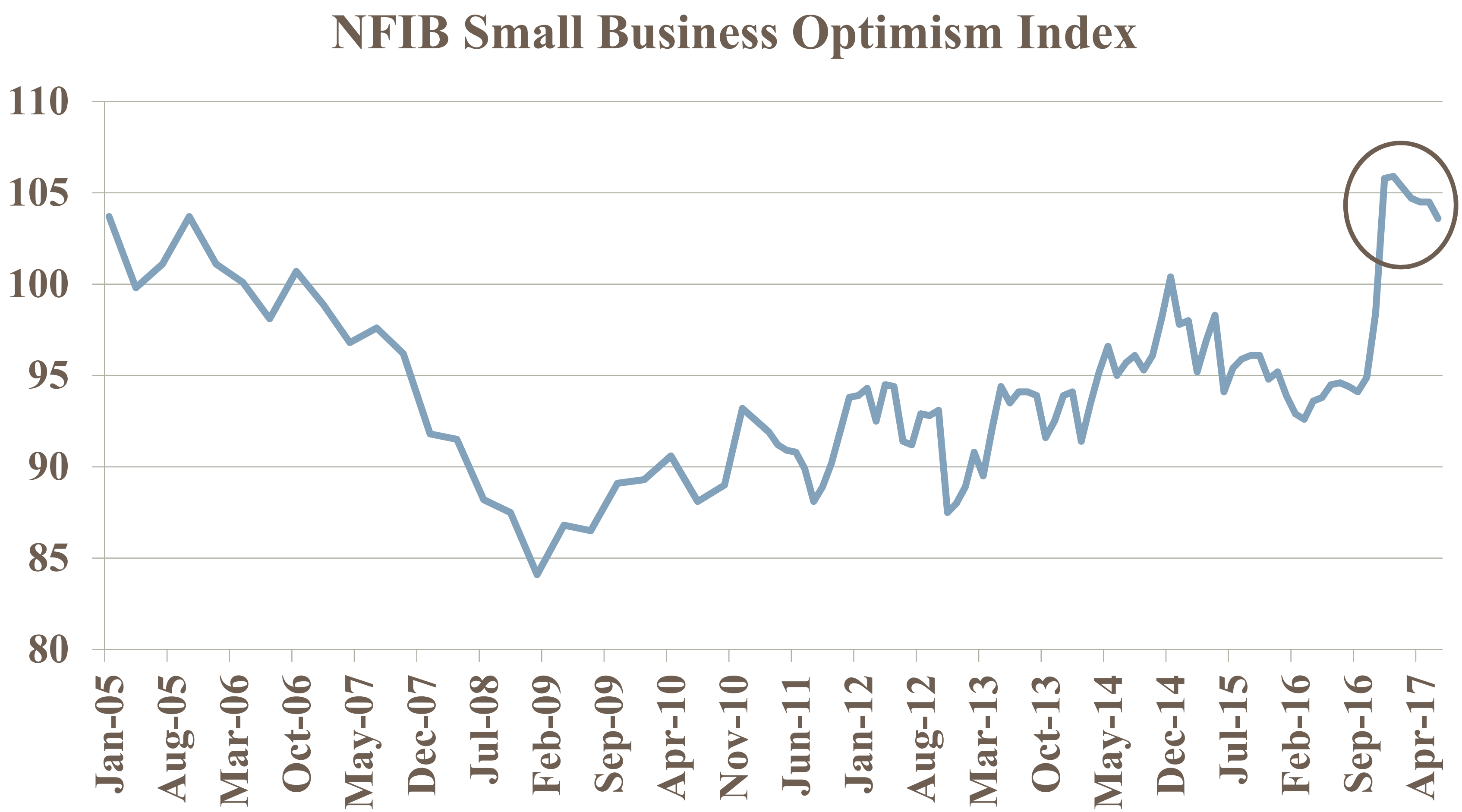


University of Michigan Consumer Sentiment Index



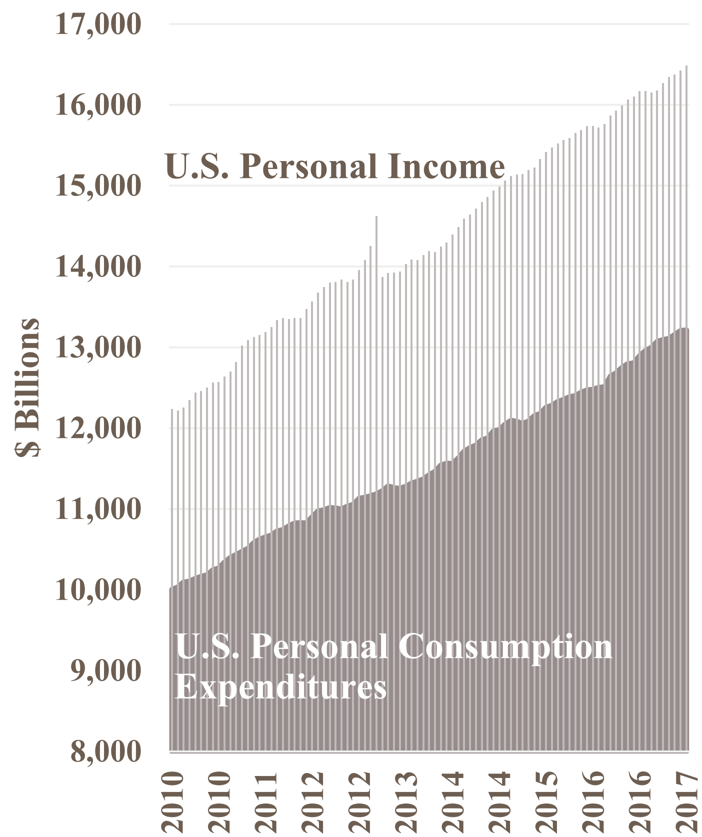
Source: The University of Michigan

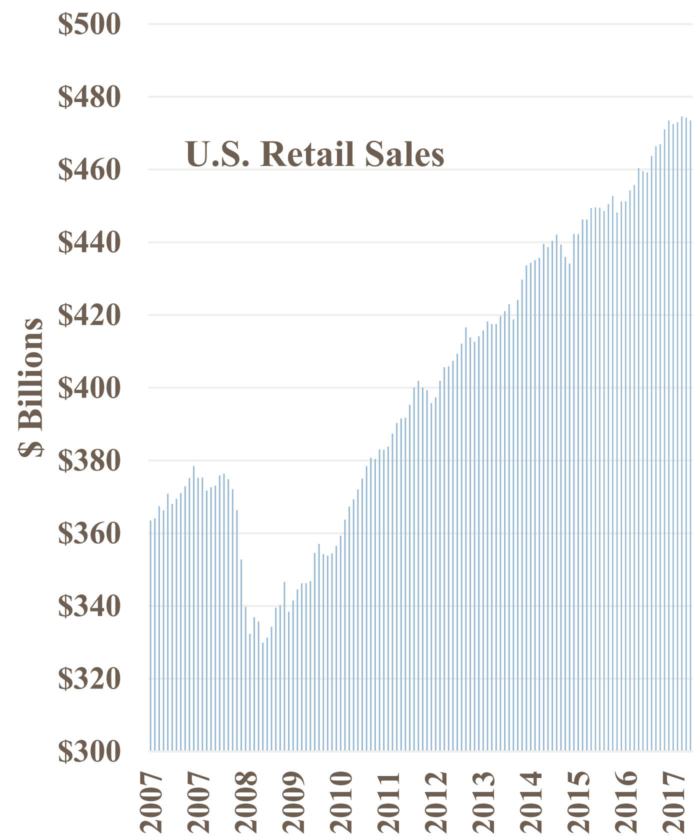
Small Business Confidence Off of Highs



Source: National Federation of Independent Business

Consumers Account for 70% of GDP



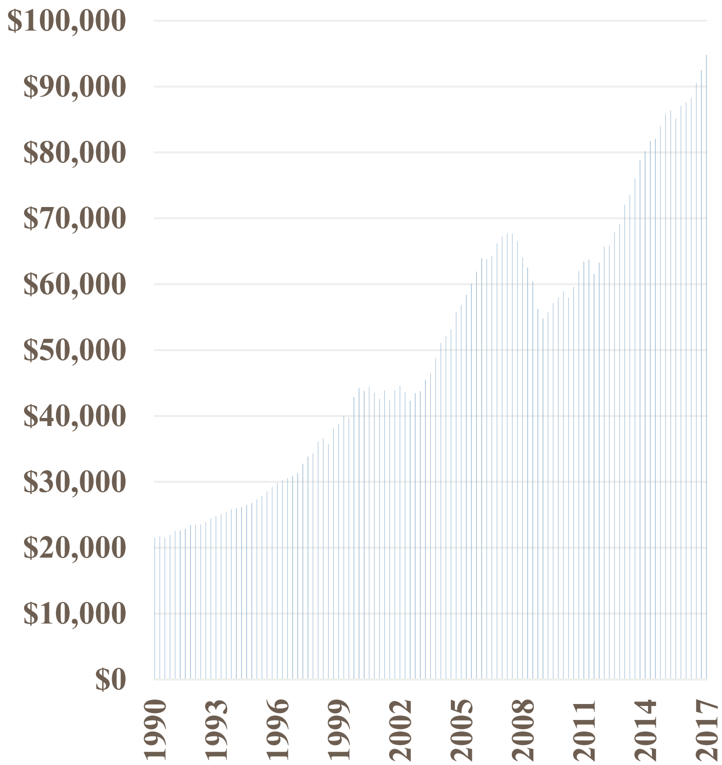


Source: Federal Reserve Bank of St. Louis

Consumer Balance Sheet is Healthy

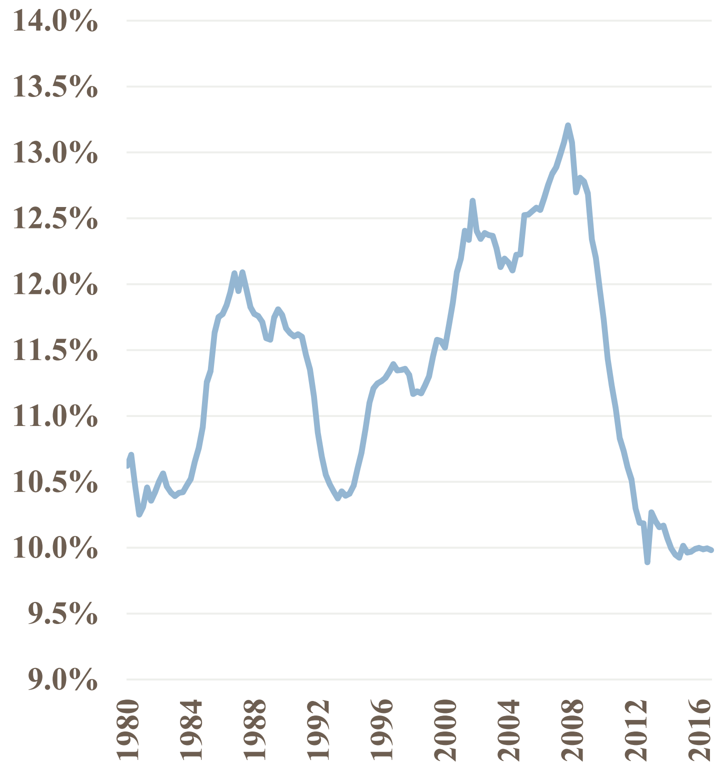
Household Net Worth

Not seasonally adjusted, USD billions



Household Debt Service Ratio

Debt payments as % of disposable personal income



Source: Federal Reserve Bank of St. Louis

Markets:

Equity Market Strength Continues

Market Summary

- **Equity market performance**

	Q2	1-Year
– US large cap		
• S&P 500	+3.1%	+17.9%
– US mid cap		
• Russell Midcap	+2.7%	+16.5%
– US small cap		
• Russell 2000	+2.5%	+24.6%
– International equities		
• MSCI ACWI ex US	+5.8%	+20.5%
– International small cap		
• MSCI ACWI ex US SMID	+6.3%	+19.9%
– Emerging markets		
• MSCI Emerging Markets	+5.1%	+23.8%

Market Summary

- **Bonds and other asset class performance**

	Q2	1-Year
– US fixed income		
• Barclay's Aggregate	+1.6%	-0.3%
– Global fixed income		
• Barclay's Global ex US	+3.2%	-3.8%
– Commodities		
• Bloomberg Commodity TR	-3.0%	-6.5%
– Market neutral		
• Morningstar Market Neutral	-0.1%	+3.3%
– REITS		
• MSCI US REIT	+1.3%	-3.1%

Equity Market Conditions

▪ Second Quarter

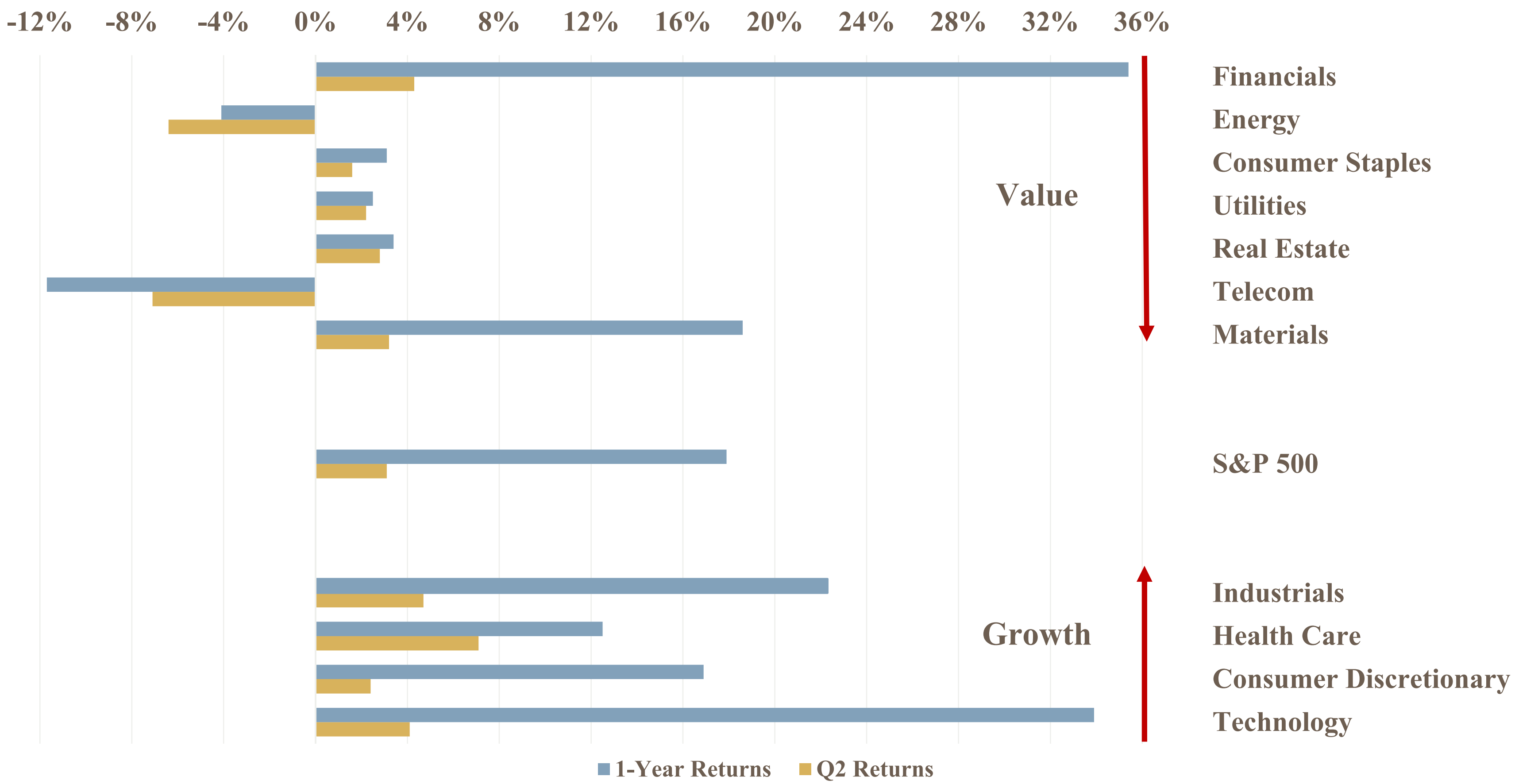
	Value	Blend	Growth
Large	1.3%	3.1%	4.7%
Mid	1.4%	2.7%	4.2%
Small	0.7%	2.5%	4.4%

▪ One Year

	Value	Blend	Growth
Large	15.5%	17.9%	20.4%
Mid	15.9%	16.5%	17.1%
Small	24.9%	24.6%	24.4%

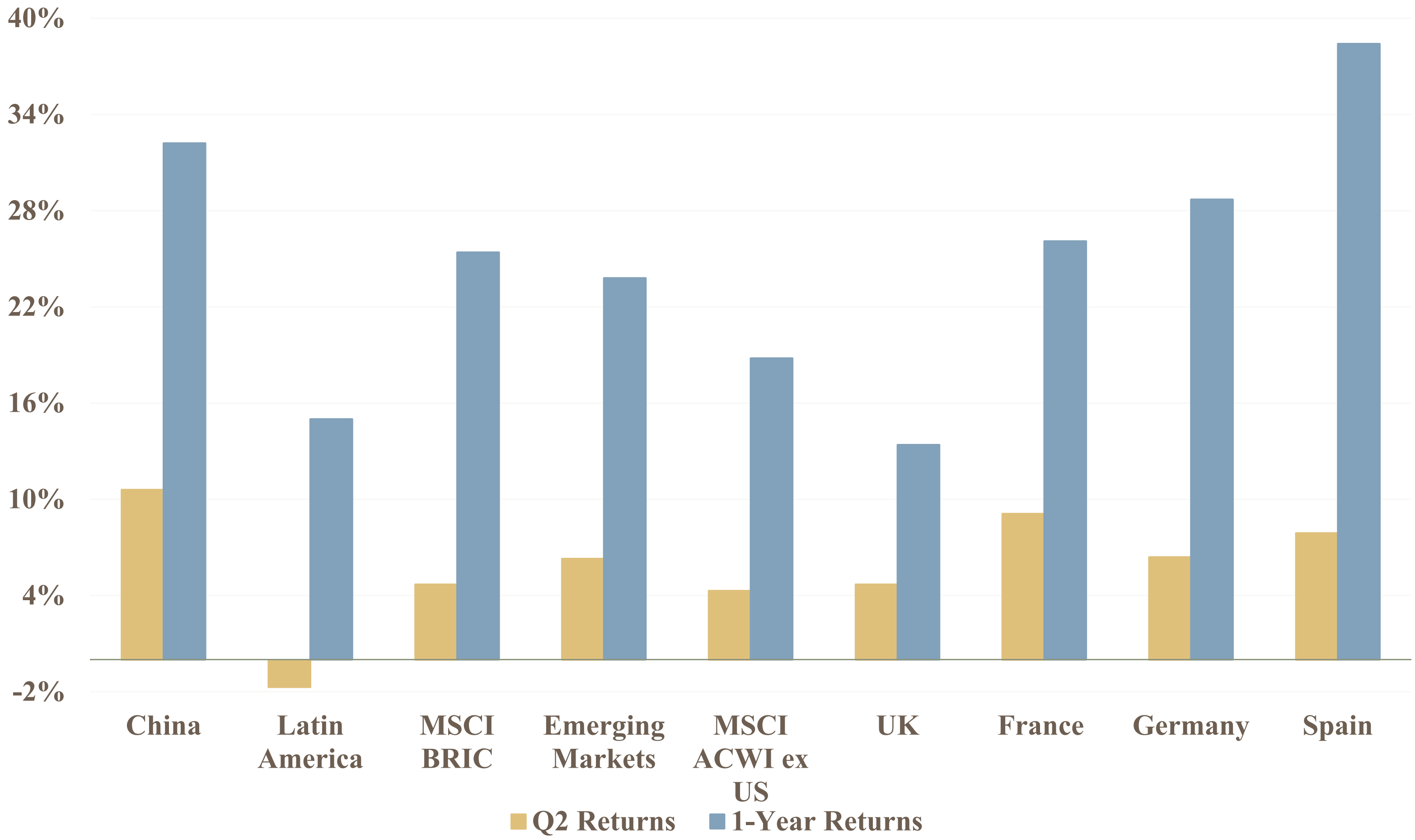
All calculations are cumulative total return as of 6/30/2017.
Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.
Past performance is no guarantee of future success.

Growth Sectors Lead the Way



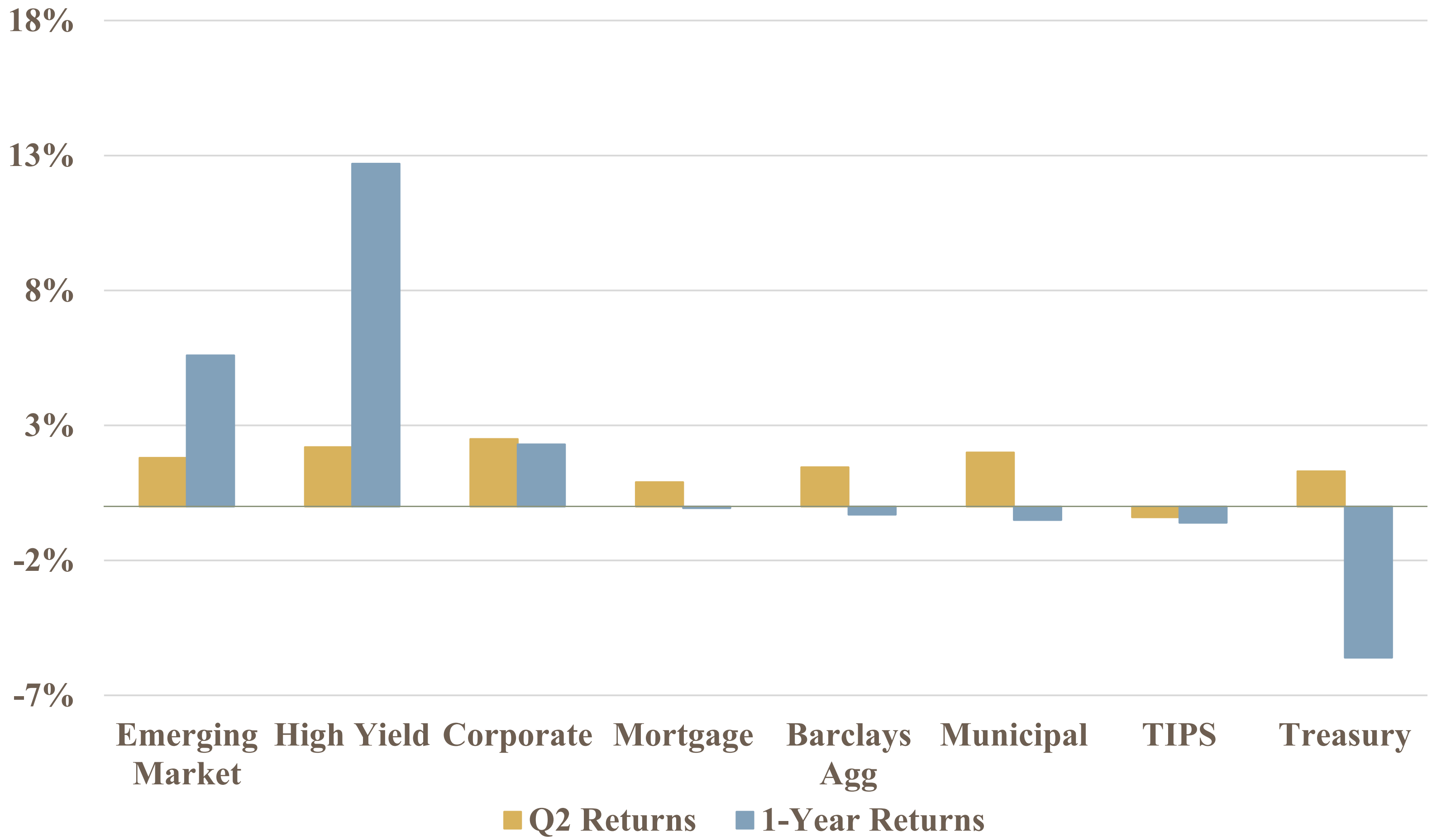
Past performance is no guarantee of future success.

Europe Leads Strong International Returns



Past performance is no guarantee of future success.
Returns in US dollars.

Bond Recovery Continues in Q2



Past performance is no guarantee of future success.
Returns in US dollars.

SilverOak's Outlook

SilverOak's Outlook

- **U.S. Economy**
  - Growth continues at expansion trend
    - "Hard" data not matching the very strong "soft" data
    - Acceleration beyond seasonal strength not likely
  - Corporate earnings rebound continues
    - Strongest increases from Energy and Technology in first quarter
    - Expectations for second quarter and second half are very high
  - Inflation moderated with the decline in oil prices
    - Wage inflation in check despite tight labor markets
- **International Economy**
  - Synchronized global expansion continues
  - Global monetary policy becoming less accommodative
  - Political uncertainty in Europe has declined

SilverOak's Outlook

- **Equity Market Outlook**
  - Further U.S. market upside could be dependent on meeting high earnings expectations and legislative progress
  - Synchronized global recovery likely to continue to fuel strong international returns
  - Low volatility likely to rise and could be driven by a geopolitical wild card event, lack of legislative progress or the Fed tightening too aggressively
- **Positioning**
  - Maintain diversified mix across equity sectors
  - International equities offer compelling valuation and improving fundamentals
  - "Real" assets may offer protection against an upside inflation surprise

Current Equity Valuation

- **Current P/E as a % of 15-year avg. P/E**

	Value	Blend	Growth
Large	119%	121%	123%
Mid	116%	115%	116%
Small	113%	122%	135%

All calculations are cumulative total return as of 6/30/17.

Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.

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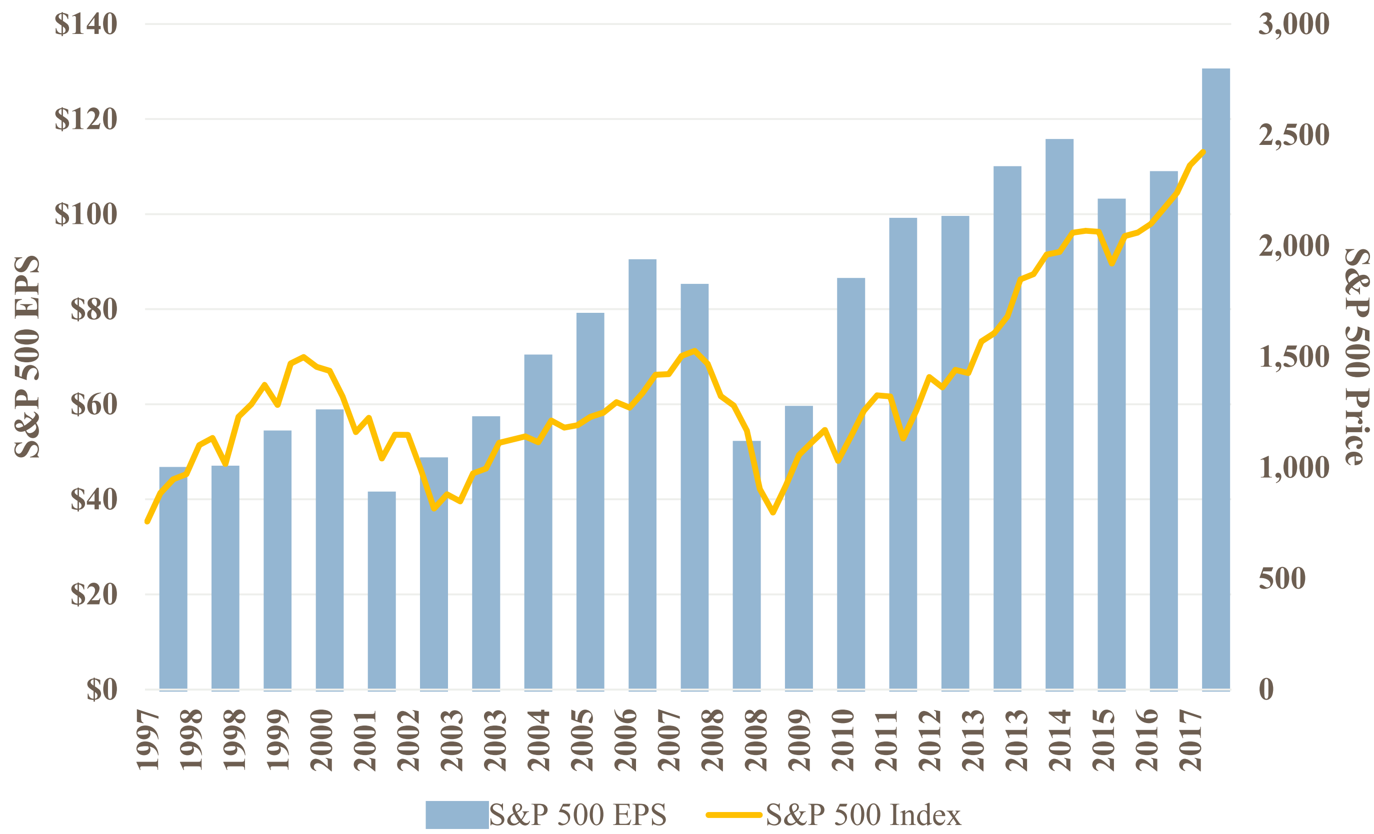
Earnings Per Share vs. S&P 500 Prices



Source: S&P

The Possibility of Higher Volatility Emphasizes the Importance of Diversification

Asset Class Performance

Best ↑ … ↓ Worst

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD	10-yrs '07-'16 Return	10-yrs '07-'16 Volatility
Emerging Markets 39.8%	Fixed Income 5.2%	Emerging Markets 79.0%	Real Estate 27.9%	Real Estate 8.3%	Real Estate 19.7%	Small Cap 38.8%	Real Estate 28.0%	Real Estate 2.8%	Small Cap 21.3%	Emerging Markets 18.6%	High Yield 7.4%	Real Estate 25.4%
Commodities 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	International 14.2%	Small Cap 7.1%	Emerging Markets 23.4%
International 11.6%	Asset Allocation -25.4%	International 32.5%	Emerging Markets 19.2%	High Yield 3.1%	Emerging Markets 18.6%	International 23.3%	Fixed Income 6.0%	Fixed Income 0.6%	Large Cap 12.0%	Large Cap 9.3%	Large Cap 7.0%	Small Cap 20.1%
Asset Allocation 7.1%	High Yield -26.9%	Real Estate 28.0%	Commodities 16.8%	Large Cap 2.1%	International 17.9%	Asset Allocation 14.9%	Asset Allocation 5.3%	Cash 0.0%	Commodities 11.8%	Asset Allocation 6.8%	Real Estate 5.1%	International 18.6%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	International -0.4%	Emerging Markets 11.6%	High Yield 6.5%	Asset Allocation 4.9%	Commodities 18.0%
Large Cap 5.5%	Commodities -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Allocation -0.7%	Large Cap 16.0%	Real Estate 2.9%	Cash 0.0%	Asset Allocation -2.0%	Real Estate 8.6%	Small Cap 5.0%	Fixed Income 4.3%	Large Cap 15.3%
Cash 4.8%	Large Cap -37.0%	Asset Allocation 25.0%	Asset Allocation 13.3%	Small Cap -4.2%	Asset Allocation 12.1%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allocation 8.3%	Real Estate 4.9%	Emerging Markets 2.2%	High Yield 11.4%
High Yield 3.2%	Real Estate -37.7%	Commodities 18.9%	International 8.2%	International -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -1.8%	Small Cap -4.4%	Fixed Income 2.7%	Fixed Income 2.3%	International 1.2%	Asset Allocation 11.1%
Small Cap -1.6%	International -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.3%	International -4.5%	Emerging Markets -14.6%	International 1.5%	Cash 0.3%	Cash 0.7%	Fixed Income 3.3%
Real Estate -15.7%	Emerging Markets -53.2%	Cash 0.1%	Cash 0.1%	Emerging Markets -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Commodities -5.3%	Commodities -5.6%	Cash 0.4%

Performance of all sited indices is calculated on a total return basis and includes dividend reimbursement. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent in any investment and there is no assurance that any asset class or index will provide positive performance over time.

* Large Cap – S&P 500 Index
* Small Cap – Russell 2000 Index
* International – MSCI EAFE GR Index
* Emerging Markets – MSCI EM GR Index
* Fixed Income – Barclays Capital Aggregate Bond Index
* Real Estate – FTSE NAREIT All Equity REIT Index
* Commodities – Bloomberg Commodity Index
* High Yield – Barclays Global High Yield Index
*Cash – Barclays 1-3m Treasury Index

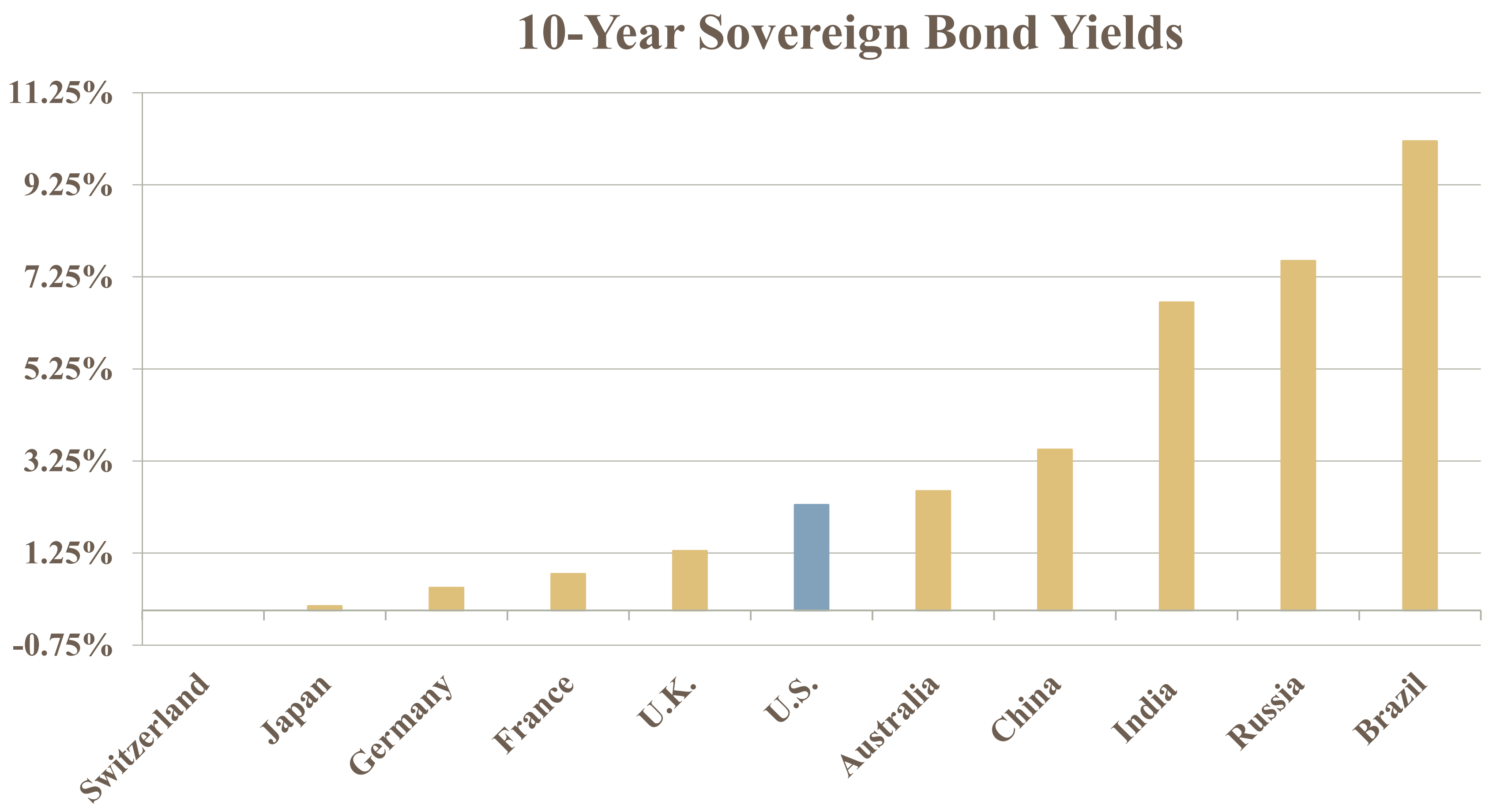
The "Asset Allocation" portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays Agg, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield Index, 5% Bloomberg Commodity Index, 5% FTSE NAREIT All Equity REIT Index

Source: Morningstar, through 6/30/2017

SilverOak's Outlook

- **Fixed Income Outlook**
  - Bond yields likely to remain in a trading range
  - The Fed likely to raise rates one to two times in 2017 and begin the process of lowering its balance sheet
  - Volatility likely to continue as fixed income markets react to wide range of policy outcomes
- **Positioning**
  - Bonds should continue to provide protection when stocks are more volatile
  - Maintain diversified mix of bonds
  - Stay away from lower quality bonds as the yield pick-up does not offset the much higher risk
  - Municipals still offer attractive taxable equivalent yields

Comparison Of Yield Globally



Source: Bloomberg, Factset, Voya Investment Management. Data as of 6/30/17

Federal Estate and Gift Tax Updates

The History of Estate and Gift Taxes

- **1916 – The Revenue Act of 1916**
  - Enacted the modern estate tax system
- **1924 – The Revenue Act of 1924**
  - Enacted the gift tax, which was later repealed in 1926
- **1976 – The Tax Reform Act of 1976**
  - Unified the Estate taxes and Gift taxes
  - Enacted Generation-Skipping Transfer (GST) tax
- **2001 – EGTRAA (Economic Growth and Tax Reconciliation Act) of 2001**
  - Reduced tax rates on estates, gifts and GSTs
  - Repealed estate taxes and GST taxes for 2010 only

The History of Estate and Gift Taxes

- **2010 – TRA (The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act) of 2010**
  - Reinstated estate taxes and GST taxes
    - For 2010 only, the GST tax rate was zero and estates could opt not to be subject to estate taxes, but then would be subject to modified carryover basis rules
  - Effective through 2012
  - Established a $5 million exemption level, indexed for inflation
- **2012 – The American Tax Payer Relief Act of 2012**
  - 2012 estate rules permanently extended
  - Tax rate increased to 40% from 35%
  - Enacted “spousal portability” of unused estate tax exemption

Federal Estate Taxes

- **Estate tax exemption**
  - Currently $5.49 million per individual for 2017
  - Exemption level rises with inflation
- **Estate tax rate**
  - 40% maximum rate
- **Unified Estate Tax and Gift Tax system**
  - Gifts made above the annual gift tax exclusion level count against your lifetime gift exemption
    - Taxes only when your combined lifetime gifts and transfers at death exceed your lifetime gift and estate tax exemption

Federal Gift Tax

- **Annual gift tax exclusion limit**
  - Currently $14,000 per recipient per year
  - At this level since 2014
  - Annual gifts not exceeding the annual exclusion do not count against your lifetime exemption
- **Exclusion for education and health care costs**
  - Expenses paid directly to educational institutions or health care providers for the benefit of another person are not considered gifts
- **Lifetime gift exemption**
  - $5.49 million per donor
    - Single exemption amount is shared between gift taxes and estate taxes

Federal Generation Skipping Tax

- **GST (Generation-Skipping Transfer) Tax**
  - An additional tax on a transfer that skips a generation
- **GST lifetime exemption**
  - Currently $5.49 million per individual for 2017
    - Amount is not unified with gift and estate exclusion
  - Exemption level rises with inflation

State Estate, Gift and GST Taxes

- **Each state may impose their own form of taxes**
  - Examples
    - Arizona – None
    - California – None
    - Florida – None
    - Iowa – Inheritance tax
    - Minnesota – Estate tax
    - Texas – None
    - Wisconsin – None

Minnesota Tax Updates

Minnesota Estate Taxes

- **In 2015, Minnesota increased the state exemption level from $1 million**
  - 2015: $1.4 million
  - 2016: $1.6 million
  - 2017: $1.8 million
  - 2018: $2.0 million
- **MN Omnibus Tax Bill passed on May 30, 2017**
  - New exemption levels enacted retroactive to January 1, 2017
    - 2017: $2.1 million
    - 2018: $2.4 million
    - 2019: $2.7 million
    - 2020+: $3.0 million
- **No portability of exemption!**

MN Omnibus Tax Bill

- **Other significant components of the MN Omnibus Tax Bill passed on May 30, 2017**
  - Components of the Bill retroactively applied to January 1, 2017
  - Social Security
    - Residents can subtract up to $4,500 (married filing jointly) or $3,500 (single, head of household) of taxable Social Security benefits
      - Reduced by up to 20% based on income
  - 529 College savings plan subtraction
    - Taxpayer's can subtract up to $1,500 ($3,000 for joint filers) of contributions made to any state's 529 college savings plans.
  - 529 College savings plan credit
    - Credit equal to half of contributions made for year (up to $500 credit)
      - Subject to phase-outs
    - Non-refundable

MN Omnibus Tax Bill

- **Other significant components of the MN Omnibus Tax Bill passed on May 30, 2017**
  - Education loan subtraction
    - Discharged student loan debt can be subtracted
  - Student loan credits
    - For principal and interest payments on higher education loans
  - Modifications for first-time home buyer accounts
    - Contributions limited to $14,000 per year ($28,000 married filing joint)
    - Interest and dividends earned claimed as subtraction
  - Determination of MN residency not impacted by location of individual's
    - CPA
    - Attorney
    - Financial advisor
    - Bank are not considered when determining residency

Minnesota Residency Requirements

- **Residency generally defined by:**
  - Domicile (permanent residency) or
  - The 183-day rule
- **Domicile**
  - Place you intend to make your permanent home indefinitely
  - 26 factors to determine domicile fall into these categories
    - Physical presence
    - Family and community connections
    - Professional and business
    - Housing
    - Statements and declarations of legal residence
  - No single factor determines domicile

Minnesota Residency Requirements

- **Factors NOT considered in determining domicile**
  - Location of charities you make donations to
  - Location of CPA, attorney, financial advisor or bank
- **183-Day rule**
  - Considered MN resident if you meet following 2 conditions
    - You spend 183 days in MN during year (part days count as full days)
    - You or your spouse rent, own, maintain, or occupy a residence in MN
  - If you meet first condition, but second condition applies for less than full year, then you are a part-year resident

Minnesota Residency Requirements

- **Remember**
  - Non-residents must file income tax returns for income earned in MN
  - Stock options and other forms of deferred compensation earned while in MN will be taxed by MN regardless of your state of residency when paid
    - Exceptions include payments made as part of a series of substantially equal periodic payments or payment received after termination of employment and under a plan maintained solely for the purpose of providing retirement benefits in excess of the limitations imposed by 1 or more of sections 401(a)(17), 401(k), 401(m), 402(g), 403(b), 408(k), or 415

Minnesota Residency Requirements

- **Changing residency**
  - Requires both:
    - Physical presence in new location
    - Intent to remain there permanently or indefinitely
- **Reciprocity**
  - Agreements with these states cover personal service income, such as wages, salaries, tips, commission and bonuses
    - Michigan
    - North Dakota

SilverOak Updates

SilverOak Updates

- **Personnel**
  - Emily (Operations Manager) will be going on maternity leave in mid-August
  - Director of Tax Services role added
- **IQSS™ (Investment Quality Scoring System™)**
  - Global asset allocation optimization project under way
  - Added two additional international investments
  - Will be reviewing all of the IQSS™ passive investments

SilverOak Updates

- **Tax Planning**
  - Mid-year tax projections are underway
  - Begin to think about enrollment in 2018 deferred compensation plans
  - Year-end portfolio adjustments, including “tax loss harvesting” not far away
- **SilverOak website under construction**
- **SilverOak named one of Financial Times Top U.S. Investment Advisers**

Questions?

End of Quarterly Webinar

Please contact your SilverOak Advisor
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free
to contact us at 952-896-5701 to learn more about our services.
www.silveroakwealth.com