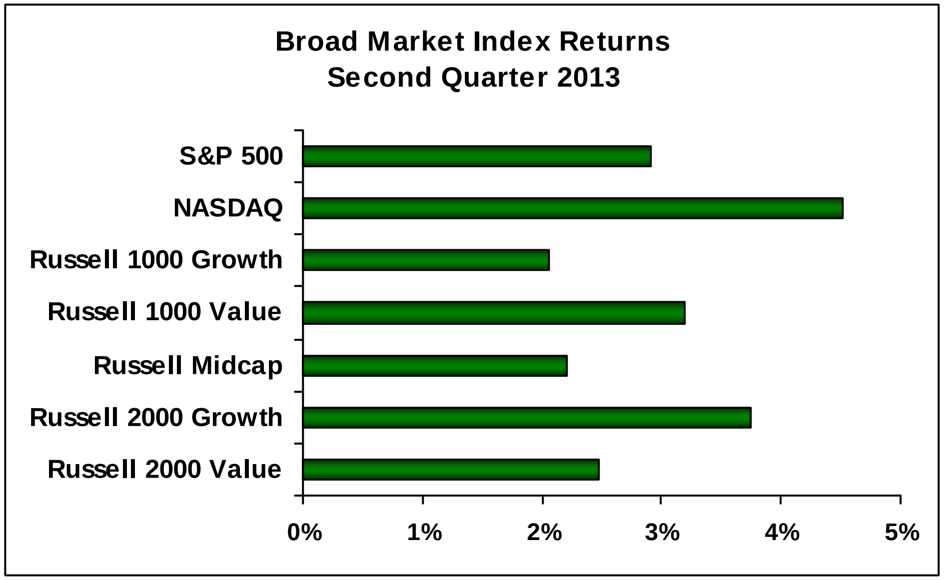
Second Quarter 2013 Market Summary

While equity markets started off strong during the second quarter, comments by the U.S. Federal Reserve on the potential "tapering" of the quantitative easing program caused volatility to pick up. As a result, the markets declined during the month of June. Despite this pullback, U.S. equity markets were up modestly during the quarter, adding to the already strong performance enjoyed during the first quarter. However, the environment continued to be difficult for bonds as interest rates increased and bond prices fell during the quarter.

The S&P 500 was up roughly 2.9% during the quarter and it is up 13.8% year to date, the strongest first half performance since 1998. While mid cap, stock performance was slightly below large cap stocks, small cap stocks were the top performers, logging in returns slightly above 3%. The U.S. equity markets have continued to outshine international markets as the MSCI EAFE index, a proxy for international stocks, was down roughly 1% during the quarter. Emerging markets were down 8% during the second quarter due to growth concerns in emerging economies and in China.

As mentioned above, bond performance was weak during the second quarter as interest rates spiked in reaction to the Fed comments indicating that quantitative easing may end sooner than expected. The yield on the ten-year Treasury bond rose during the quarter to roughly 2.5%, a level 0.75% higher than at year-end 2012. As a result, the Barcap Aggregate Bond Index, a proxy for the U.S. bond market, was down 2.3% during the quarter.

Unlike the economic slowdown seen over the past several summers, the economy generally performed well during the second quarter as many key economic data points continued to improve. Consumer sentiment has continued to increase, which has translated into much stronger auto sales.



The housing market continues to improve, which has positive implications for economic growth going forward. On the industrial side of the economy, conditions have also improved as capital goods orders have increased at a 15% annualized rate after a lull during the second half of 2012.

There were two interesting underlying market themes during the quarter that were masked by the moderate equity returns. First, yield-oriented investments performed the worst, reversing a strong trend over the past several years in which investors bid up higher-yielding stocks and bonds. While bond prices were down during the quarter, high-yielding equity sectors such as utilities and

REITs were also underwater. Second, inflation remains in check despite the steady growth in the economy. The consumer price index remains at fifty-year lows and gold prices, which often increase in tandem with inflation fears, have continued to fall dramatically.

One way to explain the heightened volatility during the second quarter is to look at the markets through the lens of risk. Fed stimulus programs over the past several years have lulled investors into taking on a lot of risk in both stocks and bonds. Recent Fed comments introduced uncertainty into the equation and caused many to believe that monetary stimulus will end sooner than originally expected. As a result, investors pared back on risk, sending both stocks and bonds down during June. Stocks came down due to the uncertainty of the future economic growth rate without monetary stimulus. Bonds came down because the Fed has kept short-term rates at artificially low levels and the end to the program itself would cause short-term rates to increase.

Highlights

GDP

- The Bureau of Economic Analysis released the third estimate of first quarter 2013 GDP, an increase of 1.8% versus fourth quarter 2012, revised down from the second estimate of 2.4%.
- Real GDP rose 1.6% from the first quarter of 2012 to the first quarter of 2013.
- The University of Michigan Consumer Sentiment Index in June was revised up from 82.7 to 84.1, which was a slight decrease from May. May was 84.5 up from 76.4 in April.
- ISM Manufacturing Index increased to 50.9 in June from 49.0 in May. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish.
- In May, Conference Board Leading Economic Index increased 0.1% month-over-month to 95.2. The Index has been increasing slowly over the past year.
- The price of WTI Crude Oil was $96.36 at the end of June, which is 0.9% lower than $97.24 at the end of March. The price of Brent Crude Oil declined 4.9% in the quarter to $103.19.
- Headline CPI was has been stable over the past few months. In May, the CPI came in at 1.4% year-over-year, up from 1.1% in April. Core CPI, which does not include food and energy, came in at 1.7%. Inflation levels have decreased over the past year and are less than historical averages.

HOUSING

- Preliminary existing home sales rose in May with an annualized rate of 5.18 million units from 4.97 million units in April. The May annualized rate is 12.9% above the 4.59 million units in May 2012 as existing home sales have been rising slowly since July 2011.
- Median existing home sale prices rose during the quarter. Prices have risen since the beginning of 2012 and in May; prices were 15.4% higher from the levels of one year ago.
- New home sales increased slightly in May with a seasonally adjusted annual rate of 476k homes sold versus 466k in April. Home sales have been trending up since August 2011, when 292k new homes were sold. The recovery has been led by the West and Northeast regions of the country. However, new home sales are still at depressed levels compared to long-term averages of above 600k units.
- S&P Case-Shiller 20-City Home Price Index (seasonally adjusted) showed home prices rose 12% year-over-year in April. This is the fifteenth month in a row that prices have risen after twenty months of falling prices.

EMPLOYMENT

- The labor market was stable in the second quarter as the April and May Nonfarm Payrolls increased by 199,000 and 195,000 respectively. In June, preliminary Nonfarm Payrolls increased by 195,000, which was higher than consensus expectation of 166,000 new jobs.
- The unemployment rate remained steady during the quarter at 7.6%.
- Initial Jobless Claims continue to decrease to levels last seen in 2008.

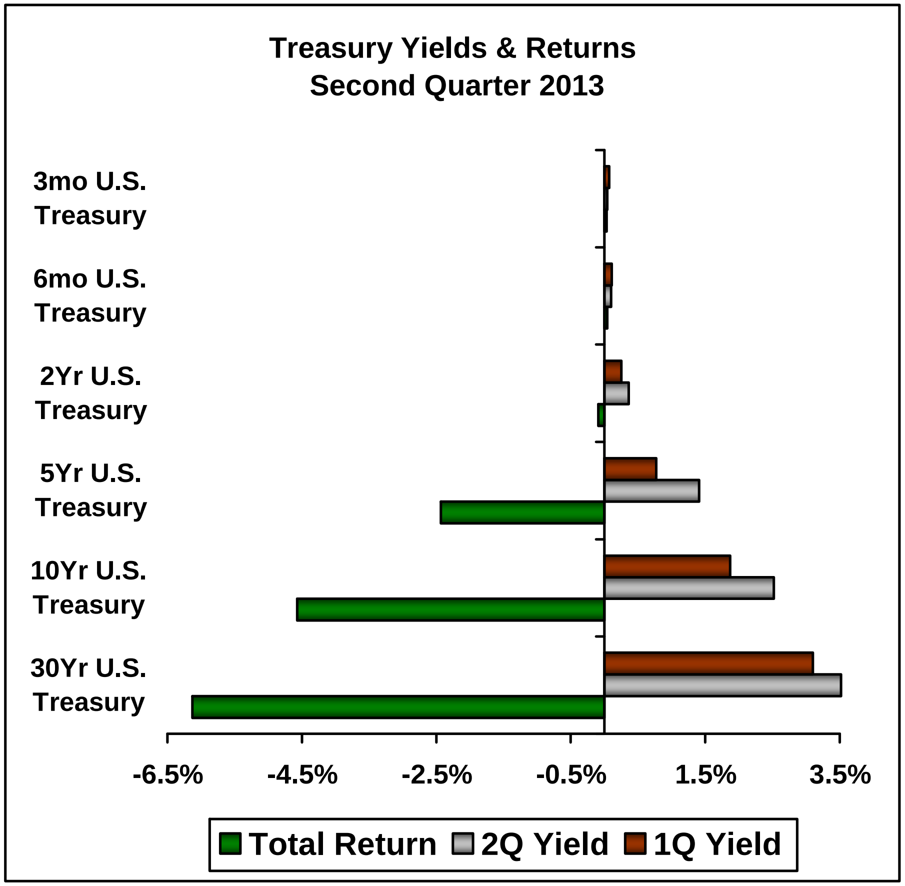
FIXED INCOME

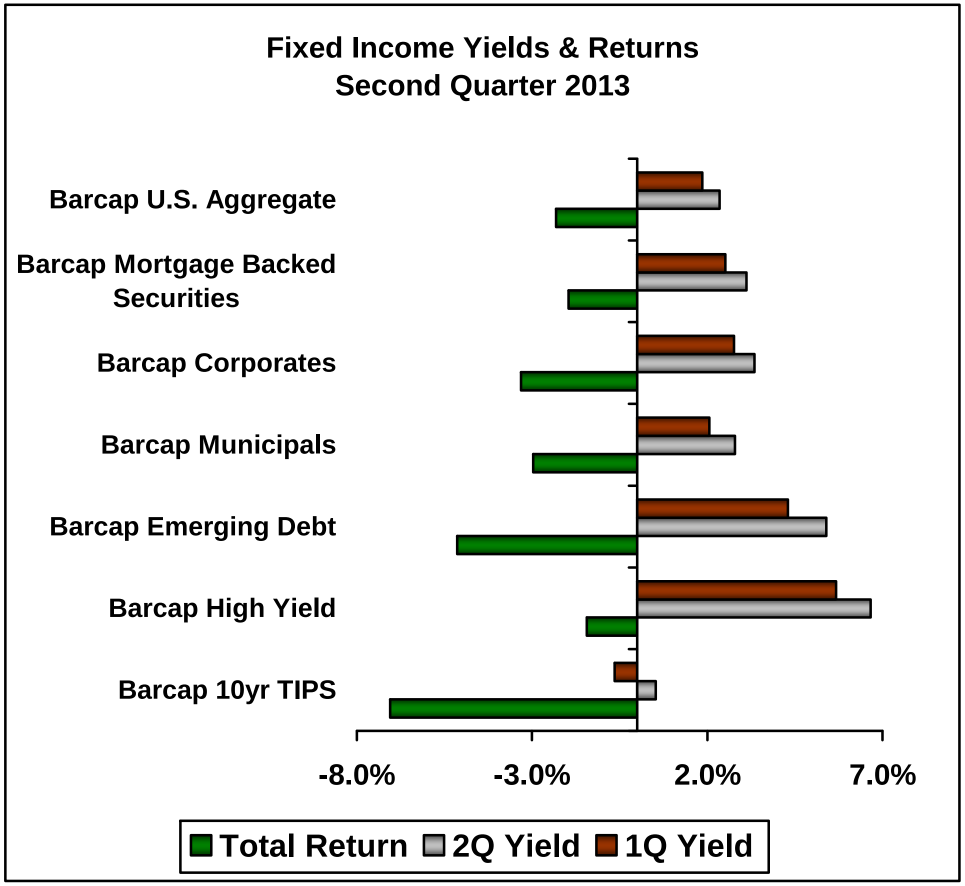
- The yields on Treasury securities increased on a quarter-over-quarter basis. The rising of longer-term Treasury yields caused the yield curve to steepen.
- Yields for all fixed income sectors rose during the quarter. In addition, the returns for all fixed income sectors were negative. Emerging Market Debt and longer-term duration securities were the worst performers. High Yield was the best performing sector.

- The TED Spread, which is the difference between the three-month LIBOR and three-month T-bill rates, has increased slightly from 0.19% in February to 0.23% at the end of May. A low TED Spread, like in May, indicates the perceived risk of bank defaults is low.

FED POLICY

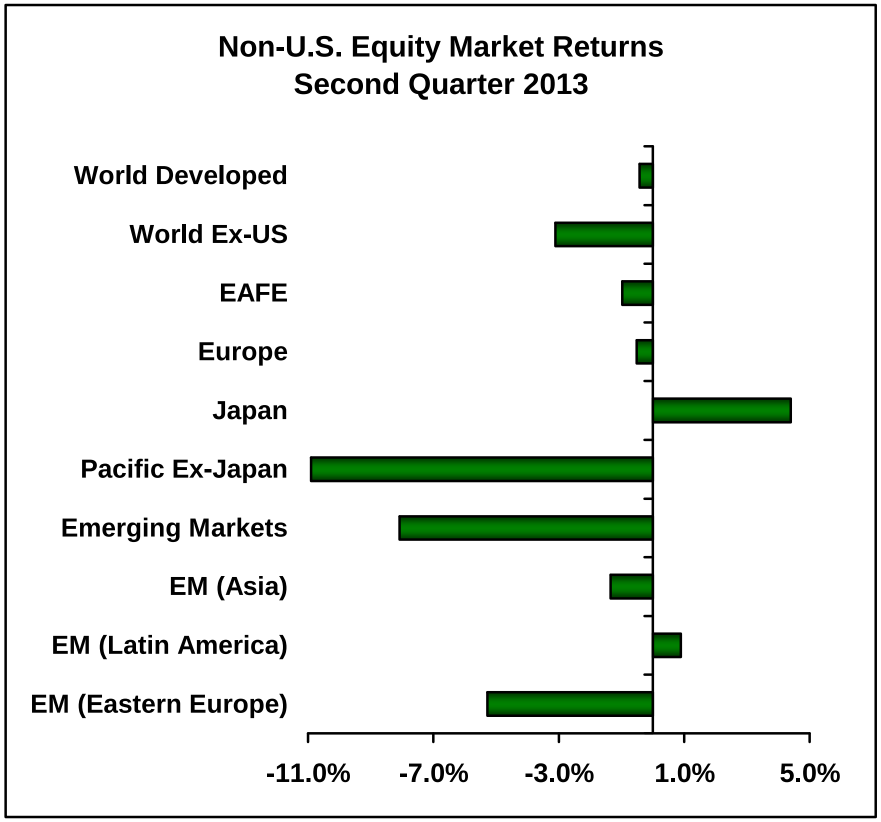
- In March, the Federal Open Market Committee (FOMC) announced they will leave the federal funds rate at 0% to 0.25% percent. They maintained the fed funds rate will remain at exceptionally low levels if the unemployment rate stays above 6.5% and inflation remains low.

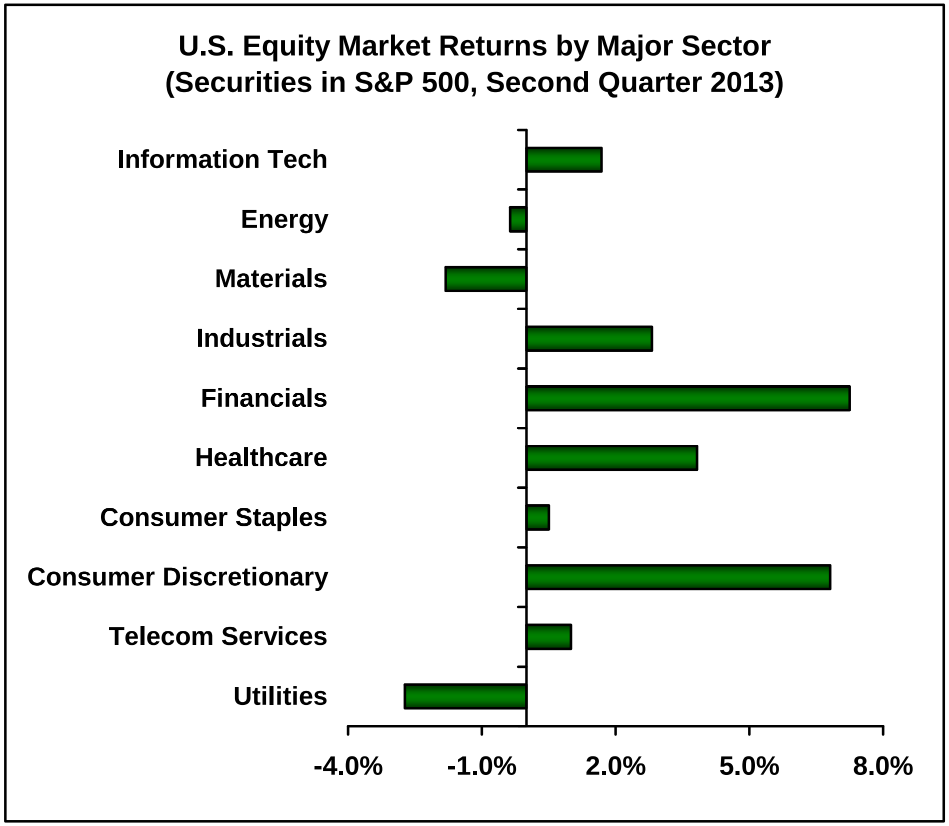




EQUITIES

- For the quarter, domestic stock prices ended higher. Performance in the U.S. was positive across the board and returns were similar across the market cap spectrum. Growth stocks performed better on a relative basis than value stocks except in the large capitalization area.
- The Russell 1000 Index of large capitalization stocks posted a total return of 2.65% during the quarter. On a year-over-year basis, the Russell 1000 Index has advanced 21.24%.
- Small capitalization stocks, as represented by the Russell 2000 Index, posted a gain of 3.08% during the quarter. On a year-over-year basis, the index has increased 24.21%.
- International stocks performed worse than U.S. domestic equities. The MSCI EAFE index of international markets stocks decreased 0.98% during the quarter. On a year-over-year, the EAFE is up 18.62%.
- During the quarter, emerging market stocks performed worse relative the developed markets. The MSCI Emerging Markets Index decreased 8.08% in the quarter; however, it is up 2.87% on a year-over-year basis.
- CBOE Volatility Index (VIX) increased in the quarter from 12.70 at the end of March to 16.86 at the end of June. The VIX spiked during the quarter to around 20 but retreated at the end of June. Low levels on the VIX are generally positive for the equity markets.





Disclaimer:

Information and analysis provided in this market summary are for general and educational purposes only. Any opinions expressed in this summary are not intended to be accounting, legal, tax or investment advice.

Information contained in this market summary has been gathered from third parties, which are believed to be accurate and reliable. However, SilverOak Wealth Management LLC does not guarantee the accuracy or completeness of the data.

Investment decisions should be made based on an investor's specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.