SilverOak
WEALTH MANAGEMENT LLC

Fourth Quarter 2009 Market Summary

The Economy

Financial markets staged a significant decline and recovery in 2009, the work of unprecedented policy initiatives from governments around the world. Encouraged by government efforts to stimulate the economy and revitalize the financial system, investors anxiously look ahead to what 2010 has in store. Though the general outlook has become more positive, investors still have questions as to how the recovery will proceed. Two questions that remain are when the Fed will begin to unwind its accommodating monetary policy and how the markets will react to these initiatives.

There were plenty of reminders that we are likely still witnessing the transition from recession to recovery. While the official rhetoric is that we have “emerged from recession,” there is reason to believe we will experience a slow, choppy recovery as the economy continues to stabilize. Economic news was mixed during the fourth quarter while the equity markets continued to rise. Positives could be found in the labor market’s slow improvement and stronger-than-expected corporate earnings announcements, though the latter was mostly due to cost-cutting. On the flip side, housing data remained weak while the consumer remained under pressure. There continues to be uncertainty as to how the market will fare once the Fed begins to withdraw the unprecedented amounts of cash it has injected into financial markets in support of the economy. As investors look to close out a memorable 2009, there is no question that 2010 will be another eventful year.

Highlights

GDP

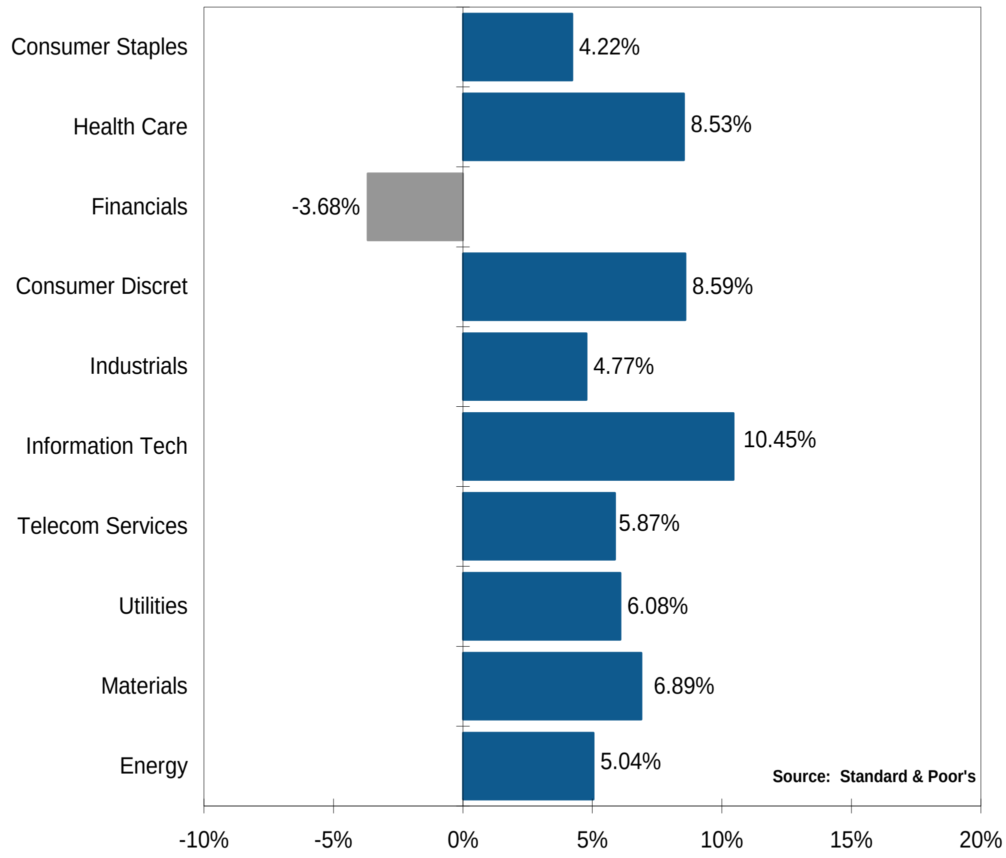
Originally announced at 3.5% on an annualized basis, the final revision for third quarter GDP was 2.2%, indicating that the economy was not recovering as quickly as previously thought. The revisions were primarily driven by lower estimates for inventories, government purchases and personal consumption. Nevertheless, this was the first positive number since the second quarter of 2008. Investors will look to a sizeable increase reported for 4Q 2009.

THE FED

The Fed, FDIC, and Treasury added $2.2 trillion of liquidity to the economy (15.5% of GDP) in 2008. In 2009, policy makers added an additional $479 billion (3.4% of GDP). Most of the "emergency" Fed programs have shrunk in size due to the lack of demand, though the Fed's balance sheet remains at approximately $2 trillion, as mortgage security purchases have increased. The increased support for the mortgage market is set to end in March 2010. As such, the Fed's exit strategy is becoming increasingly significant as we enter the New Year.

During the quarter, there was much speculation as to when the Fed may end some of the quantitative easing that has taken place, especially as the economy rebounds. Investors have been focusing on speeches by Fed officials in an attempt to determine the Fed's near-term policy. Still to be determined is the strength of the economy given strong headwinds and additional steps needed for a sustainable recovery as the Fed attempts to exit the financial markets.

U.S. Equity Market Returns by Major Sector
(Securities in S&P 500, 4th Quarter 2009)



At the beginning of the quarter, Fed members voted unanimously to leave the overnight lending rate at a range of zero to 0.25%. They stated that the rate would remain “exceptionally low” for an extended period of time. In similar fashion, December’s Federal Open Market Committee (FOMC) left the overnight lending rate unchanged. The FOMC voted unanimously to keep the Fed funds rate in a range between zero and 0.25% and stated that this rate would likely remain low for a long time.

However, some investors still worry that the Fed may risk a surge in inflation if rates are kept low for an extended period of time. Thus far, the weak economy has kept inflation concerns subdued. The October CPI was slightly higher than expected, rising 0.3% versus expectations of a 0.2% increase. CPI matched expectations and rose again in November, registering a 0.4% increase. The inflation outlook has been relatively benign given the economic expansion is expected to be slow in the coming year.

Also of note were the Treasury auctions throughout the quarter. October witnessed the Treasury issuing $44 billion in two-year notes at a yield of 0.80%, the lowest yield for a two-year auction on record. To close out the year, the Treasury sold $32 billion of seven-year notes, capping a record year of more than $2.1 trillion in debt sales.

CONSUMER SPENDING

Consumers continued to repair their personal balance sheets throughout the quarter, as evidenced by lower personal spending, which declined 0.5% in September. The driving factor behind the drop was the expiration of Cash for Clunkers, which ended in August. In keeping with lackluster consumer spending, consumer confidence wavered during the quarter. December’s University of Michigan Consumer Confidence survey came in at 72.5, down slightly from September’s survey of 73.5, though up significantly from December 2008’s reading of 60.1.

Entering October, consumer credit had declined for six consecutive months, the longest streak since the credit squeeze of 1991-indicating that consumers are borrowing less and therefore spending less, a strong headwind to economic growth. The contraction in consumer credit slowed in October, having fallen $3.5 billion and very short of expectations for a contraction of $9.4 billion. The report indicates that consumers continue to cut back on credit spending, but at a lesser pace than in previous months. In the midst of recovery, there is likely to be restrained demand from the over-extended consumer.

HOUSING

The housing market continued to struggle during the quarter as housing starts tumbled 10.6% in October to its lowest level since April. Sales of newly built homes fell 11.3% in November, a seven-month low. Reports such as these served to add doubts about the strength of the economic recovery.

The Wall Street Journal reported that the proportion of U.S. homeowners who owe more on their mortgages than their properties are worth reached almost 23%. Investors will watch the housing market closely going forward, as it has been propped up by the Fed’s efforts to keep mortgage rates low through the purchase of mortgage-backed securities.

EMPLOYMENT

Job losses continued to slowly grind lower during the quarter. Weekly claims peaked at around the 650,000 level this past spring and have been trending lower since then. Economists had predicted job losses of 170,000 in September, though the numbers came in worse that expected with a loss of 263,000, bringing the unemployment rate to 9.8%

The rate of job losses slowed during October, though the unemployment rate jumped to a higher-than-expected level, registering 10.2% for October. Though the figure was generally expected to reach double-digits, many believed it would not do so until the middle of 2010.

The moderating trend continued in November's employment report, as the loss in nonfarm payrolls was expected to number 125,000, but came in at 111,000. There were also positive revisions to previous months. The unemployment rate also dropped from 10.2% to 10.0%, though the rate is still expected to trend higher over the coming months.

The pace of job losses has slowed gradually in recent months as many hope for the economy to begin adding jobs within the next quarter or two. Though the bar is still low for employment improvement, the job market hopes to be on the verge of monthly payroll employment increases.

CURRENCY

After narrowing in August, the U.S. trade deficit widened again in September. Drivers for the increase were slight increases in U.S. exports due to improvements in global demand and a decline in U.S. imports. The rising deficit has led to a continued weakening of the U.S. dollar and has been a positive for gold prices.

Though the dollar ended slightly up for the quarter, it remained significantly down from its March highs. The first full week of October witnessed the U.S. dollar falling to its lowest level since August 2008, and served to drive commodity prices higher. Simultaneously, gold rose to a new record high and finished the week at $1,048/ounce. The large and ever-increasing U.S. deficit and looming supply in the U.S. bond markets have caused the dollar to weaken as funds have shifted out of the U.S. into higher-risk markets.

Continually hovering over markets is a fear that the large U.S. government deficit will lead to a steep decline in the dollar due to the risks associated with deficit spending on a large scale and keeping interest rates at zero for an extended period of time.

INSTITUTE FOR SUPPLY MANAGEMENT

As for other economic indicators, the service and manufacturing indicators remained positive during the quarter. The Non-Manufacturing Institute for Supply Management (ISM) index rose from 48.4 to 50.9 in September, passing the breakeven level of 50. A reading above 50 indicates that business experienced month-over-month gains and that the economy is expanding.

There was also a broad-based rise in the December Manufacturing ISM index, increasing from 53.6 in November to 55.9 in November. This places it at a healthy level and suggests that some momentum has picked up as the fourth quarter ended.

Events

- In December, Bank of America reached an accord to repay $45 billion in bailout funds, a move that will allow it to escape pay curbs imposed by the United States. Citigroup and Wells Fargo also won similar agreements later in the month. This is a positive sign that the banking sector is healing but even with the start of these repayments, TARP still holds $300 billion of exposure to autos, foreclosures, and AIG.

- Time Magazine's named Ben Bernanke "Person of the Year" as he was voted to a second term as Chairman of the Federal Reserve by a vote of 16-7. His second term will last into 2014.

- Dubai World, a state-controlled holding company of Dubai, admitted it was struggling with $59 billion in liabilities. This announcement led to large scale sell-offs in global equity markets and oil reached a six-week low. The yield on the 10-year U.S. Treasury plunged 16 basis points to 3.21% during the week.

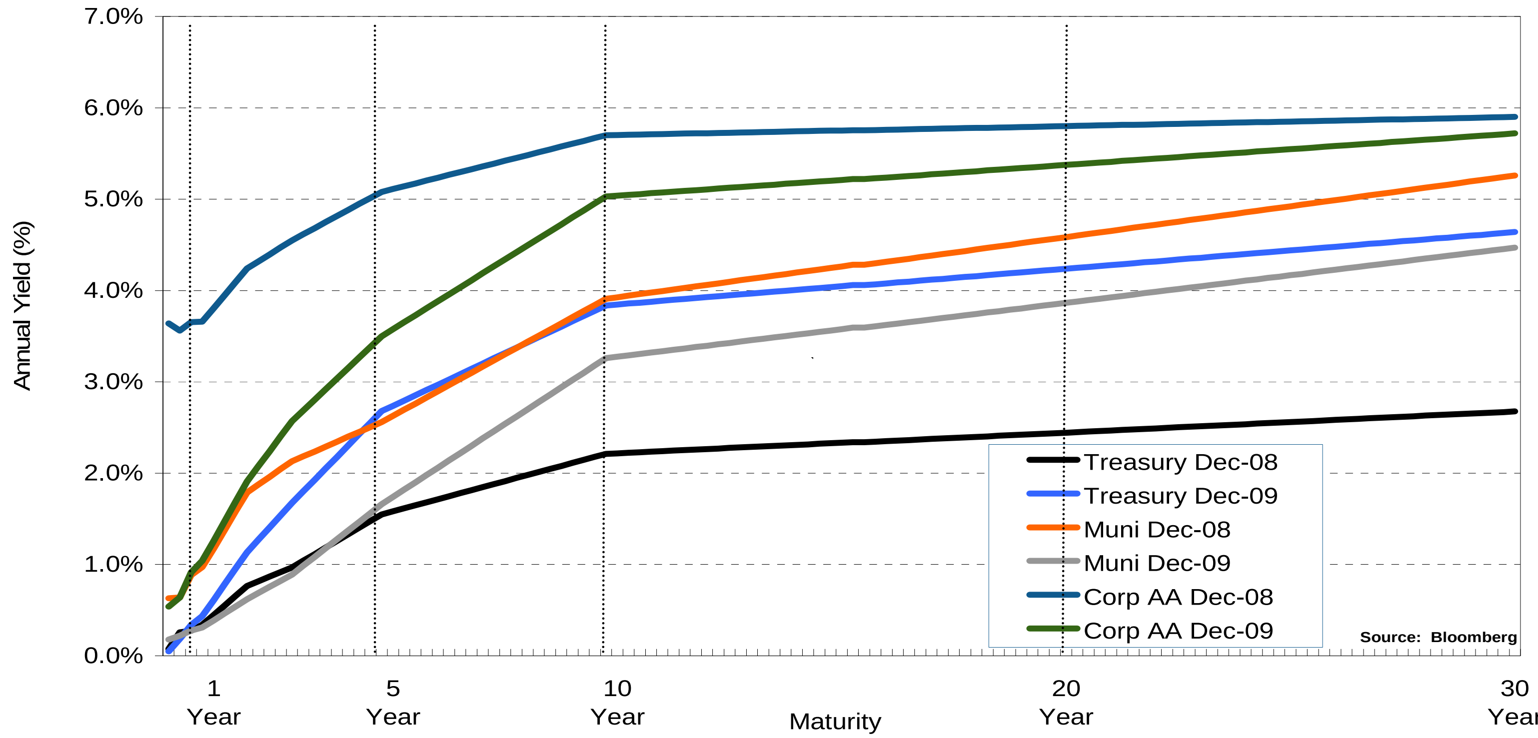
- In October, Federal authorities exposed an insider trading ring centering on Raj Rajaratnam, founder of Galleon Group. He has been accused of operating an elaborate insider trading operation through his hedge fund. Galleon Group had made Rajaratnam one of the wealthiest men in America with an estimated net worth of $1.3 billion.

- A focal point of President Obama's domestic agenda has been the $871 billion proposal that would provide access for 31 million Americans who do not currently have health care insurance. The Senate voted 60-39 on Christmas Eve for a bill that aims to extend insurance coverage to nearly every American. House and Senate negotiators are set to begin merging their two health bills in early January 2010.

Interest Rates

On the surface, the fixed income market exhibited relative calm in the fourth quarter, with interest rates for the most part ending the quarter only slightly higher than the previous quarter. However, price gains in October and November were offset by volatility and price declines in December, reflecting the market's digestion of improving economic data and an anticipation of an eventual unwinding of current Fed policies.

U.S. Treasury, Muni and Corporate 30-Year Yield Curves



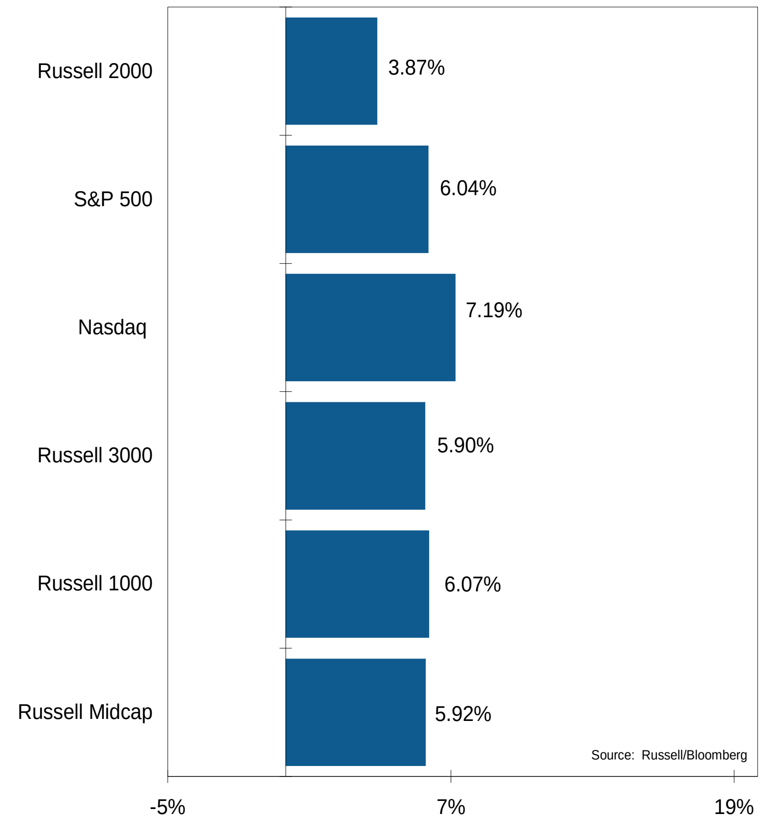
For the quarter, the Barclays Capital Aggregate Bond Index posted a total return of +0.20% even though its yield rose from 3.56% on September 30th to 3.69% on December 31st. The yield on the index on November 30th stood at 3.16%, demonstrating just how much prices fell during the last month of the quarter. Short-term Treasury obligations fared better during the quarter, with the Barclays 1-3 Year Treasury index gaining +0.48% on a drop in yield from 1.82% to 1.73%. Intermediate-term Treasurys also enjoyed slight price gains, with the Barclays 5-7 Year Treasury index generating a total return of +0.51% for the quarter.

In the credit segment of the fixed income market, gains during the fourth quarter were lower than in the previous two quarters, but still better than Treasurys. The Barclays US Intermediate Credit index advanced +1.61% during the quarter, while the short-term 1-3 Year Credit and intermediate 5-10 Year Credit indices posted returns of +1.31% and +1.75%, respectively. The continued economic recovery remained a positive for high-yield securities, which continued their torrid advance: the Barclays US Corporate High Yield index gained +6.19% for the quarter, resulting in a one-year advance of +58.21%.

The environment in the fourth quarter wasn't quite as favorable for municipal bonds. Shorter-term maturity munis posted gains of up to 0.80% for the quarter, but intermediate and longer term maturities declined. The Barclays Municipal Bond index posted a loss of -0.96% for the quarter, but still generated a +12.91% gain for the entire year.

Broad Market Index Returns

Fourth Quarter 2009



Equities

Equities ended 2009 on a positive note as the rally continued through the fourth quarter. The S&P 500 finished the quarter up 6.04%, bringing the index to a 26.46% year-to-date (YTD) return. The NASDAQ Composite index fared even better with a quarterly return of 7.19%. This brought the index to a 43.88% year-to-date return.

Emerging markets once again registered in positive territory as the MSCI Emerging Markets index posted a gain of 8.58% for the quarter. This comes on the heels of 21.04% third quarter gain and has left the index with a staggering 79.02% year-to-date return. Emerging Markets indices for Asia, Eastern Europe, and Latin America have posted year-to-date returns of 74.21%, 84.28%, and 104.19%, respectively.

Developed markets closed out a strong year as the MSCI EAFE, a major benchmark for international equity, posted a 2.22% gain for the quarter and 32.46% return for the year. The MSCI Europe index finished the year with a 36.81% year-to-date return. Japan continued to lag other major recoveries as it finished down -2.76% for the quarter (+6.39% YTD). Large-cap, mid-cap, and small-cap equity indices all posted positive returns as the Russell 1000, Russell Mid-Cap, and Russell 2000 posted gains of 6.07% (+28.43% YTD), 5.92% (+40.48% YTD), and 3.87% (+27.17% YTD), respectively.

Domestically within the S&P 500, Information Technology and Consumer Discretionary led the way with quarterly gains of 10.45% and 8.59%. Year-to-date, the strongest performers in the S&P were Information Technology (+59.92% YTD) and Materials (+45.23% YTD). The only sector to post a negative return for the quarter was Financials with a return of -3.68%. All S&P 500 sectors were in positive territory year-to-date.

Non-U.S. Equity Market Returns
By Country (U.S.Dollars)
4th Quarter 2009