



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar  
April 27, 2018

Presented by:  
Shannon King and  
Jonathan Scharlau

# Introduction

- Shannon King, CPA, CFP<sup>®</sup>, PFS, CIMA<sup>®</sup>, CPWA<sup>®</sup>, MBT  
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP<sup>®</sup>  
Partner and Lead Analyst

# Agenda

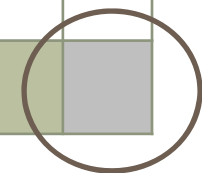
- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates and important reminders
- Questions

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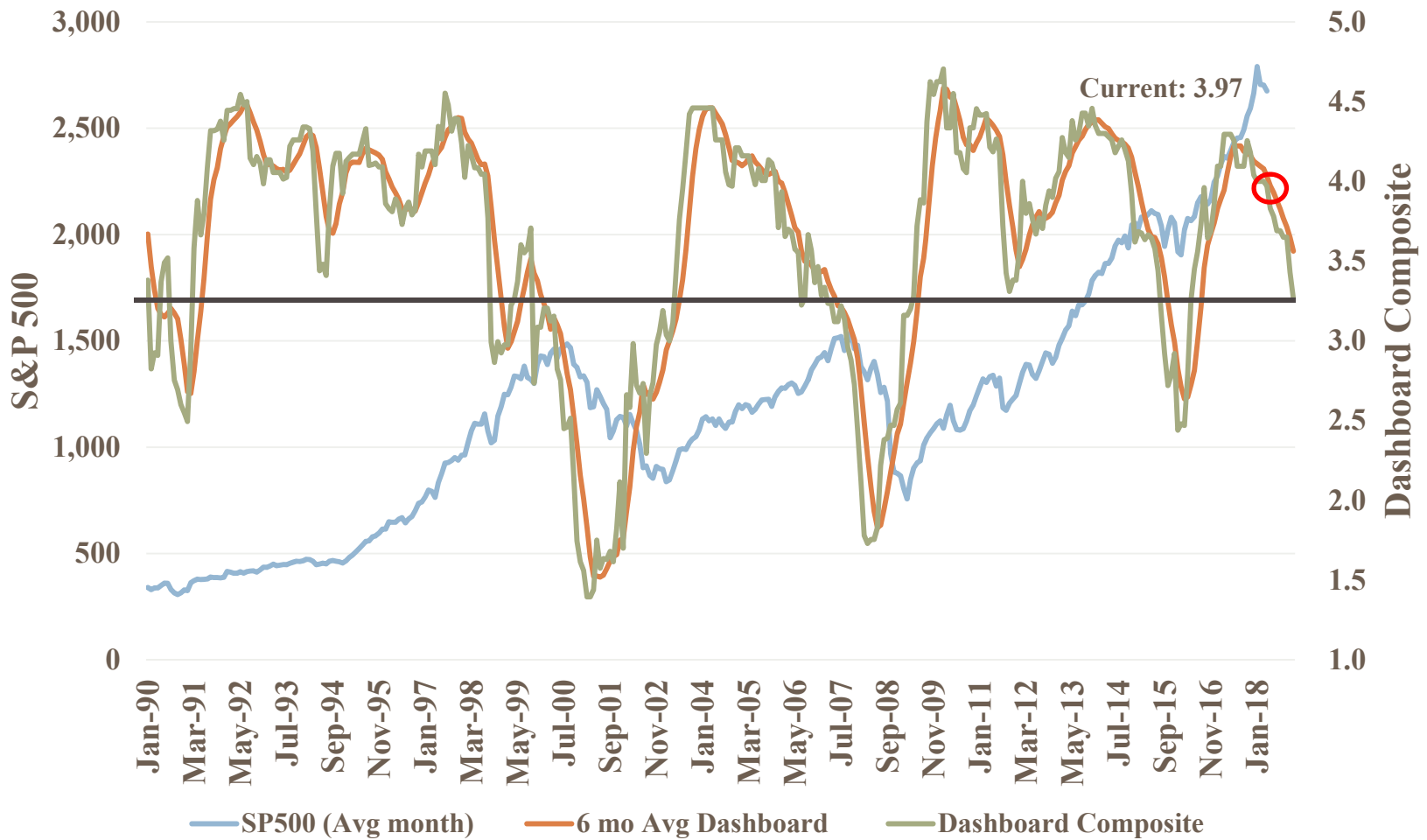
*Economy:  
Strong Growth  
During 1<sup>st</sup> Quarter*

# Market Dashboard

	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018
<b>Economy</b>	Green	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Grey
<b>Credit Markets</b>	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Valuations</b>	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
<b>Market Sentiment</b>	Green	Green	Grey	Grey	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey
<b>Composite</b>	Green	Green	Grey	Grey	Red	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey



# Market Dashboard



# Current Economic Factors

## Positive

Credit Conditions

Housing

Consumer Confidence

Employment

Corporate Sector ↑

## Neutral

Commodity Prices

Interest Rates ↓

U.S. Politics

U.S. Dollar ↑

U.S. Inflation

Global Growth

Geopolitics

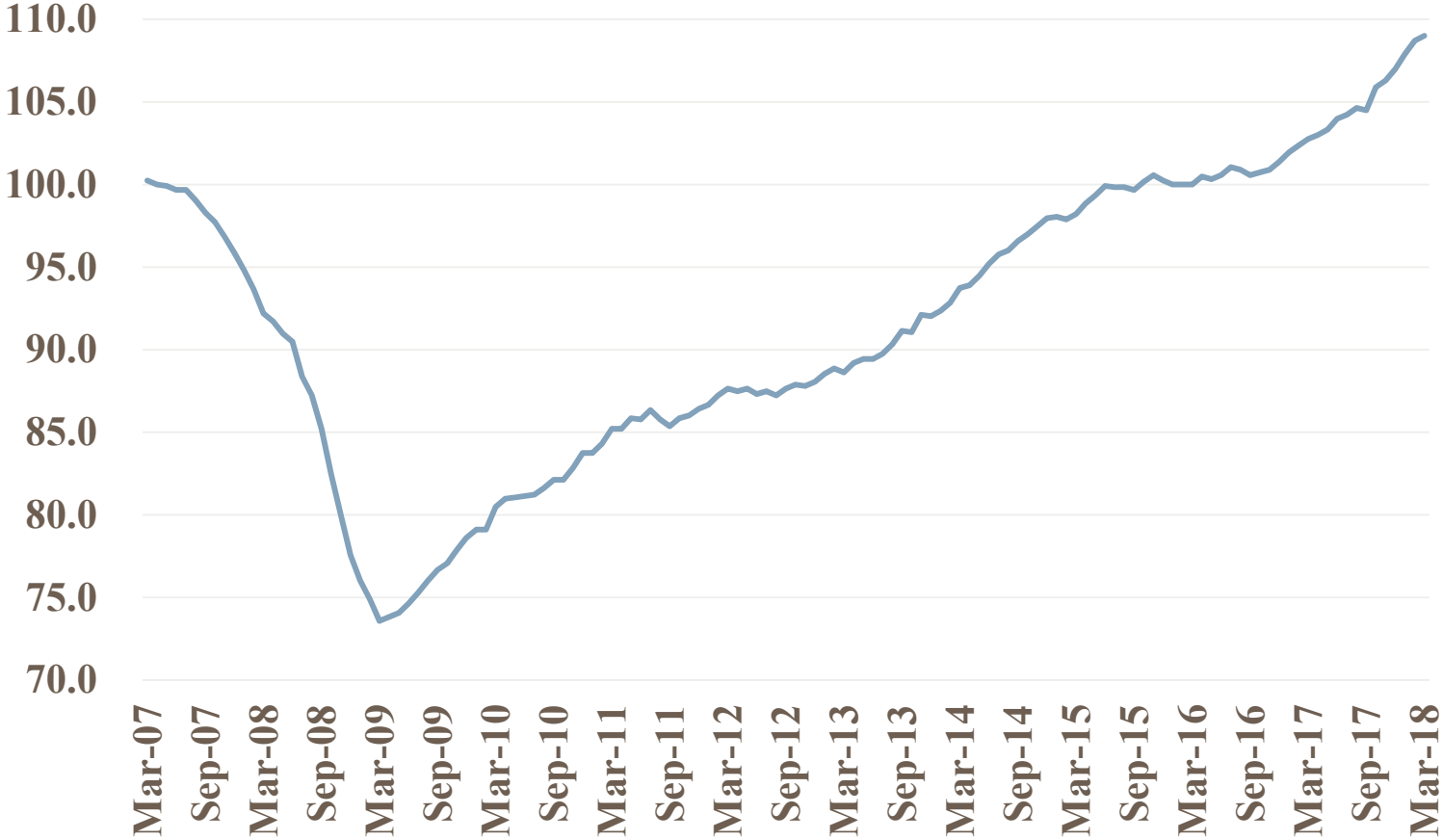
Eurozone

China

## Negative

# Leading Indicators Continue to Trend Higher

— Leading Economic Indicator Index

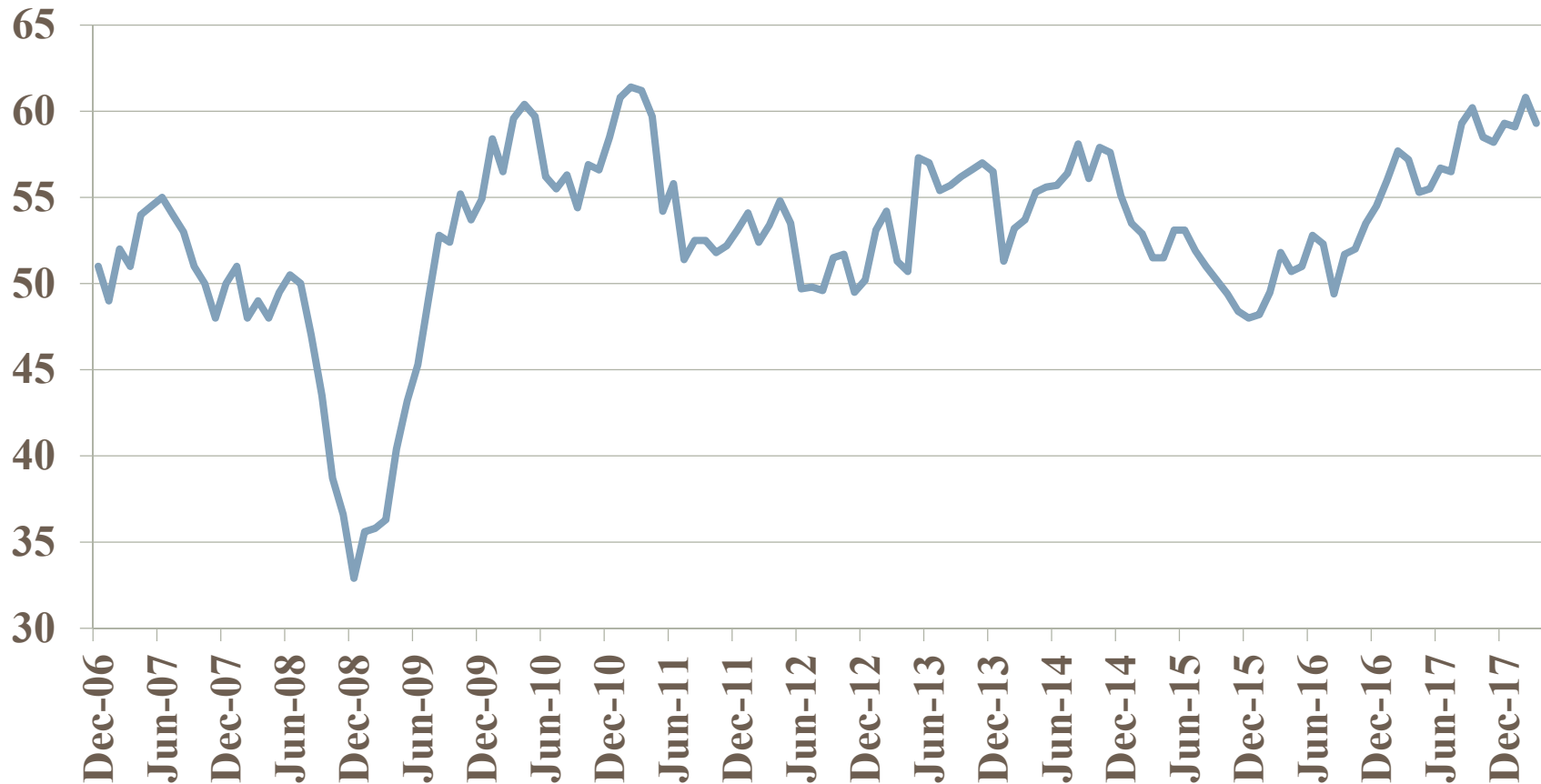


Source: The Conference Board



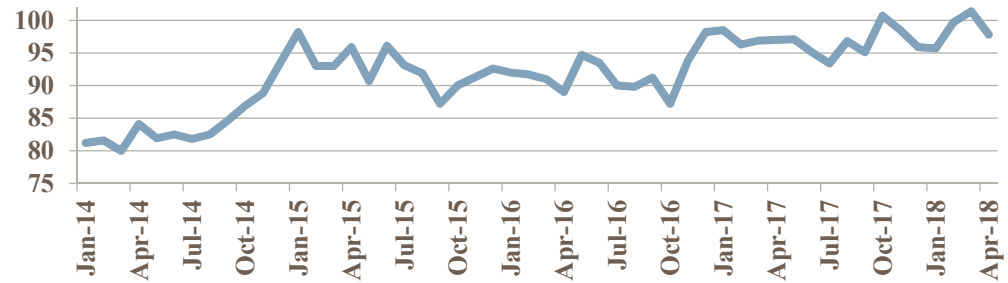
# Manufacturing Activity Remains Strong

## Purchasing Managers Index (PMI)

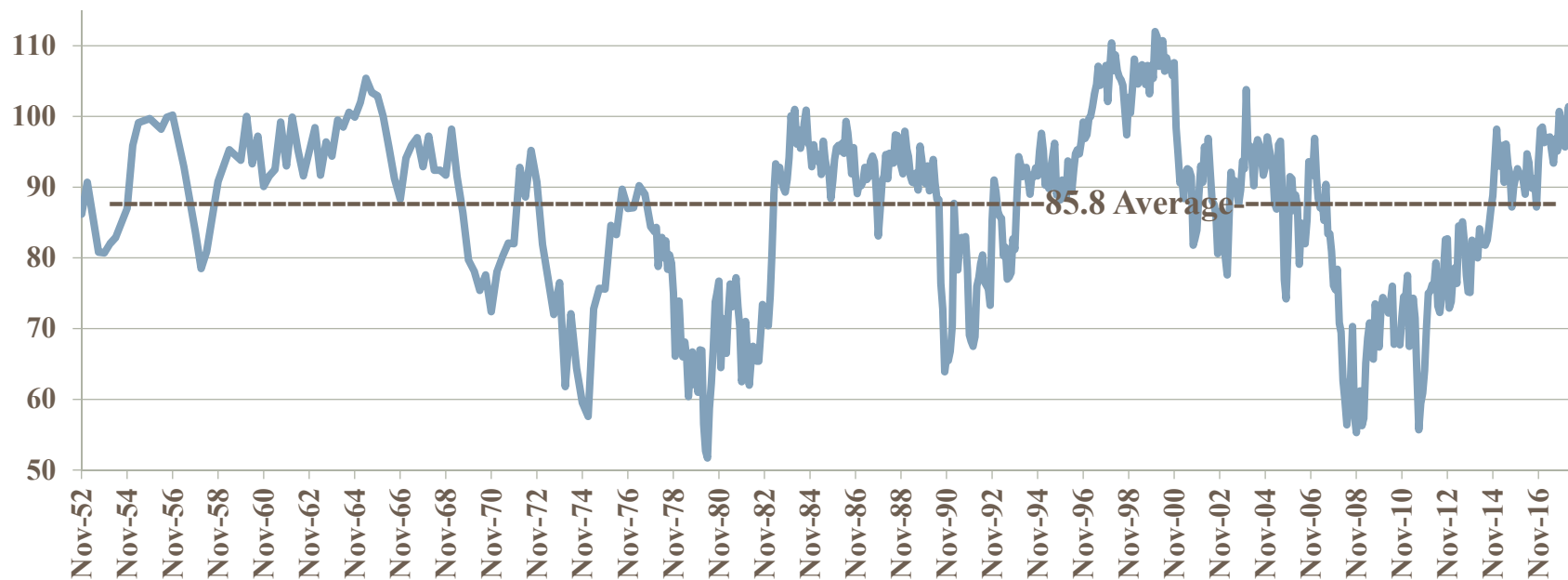


Source: Institute for Supply Management

# Consumer Confidence Remains High



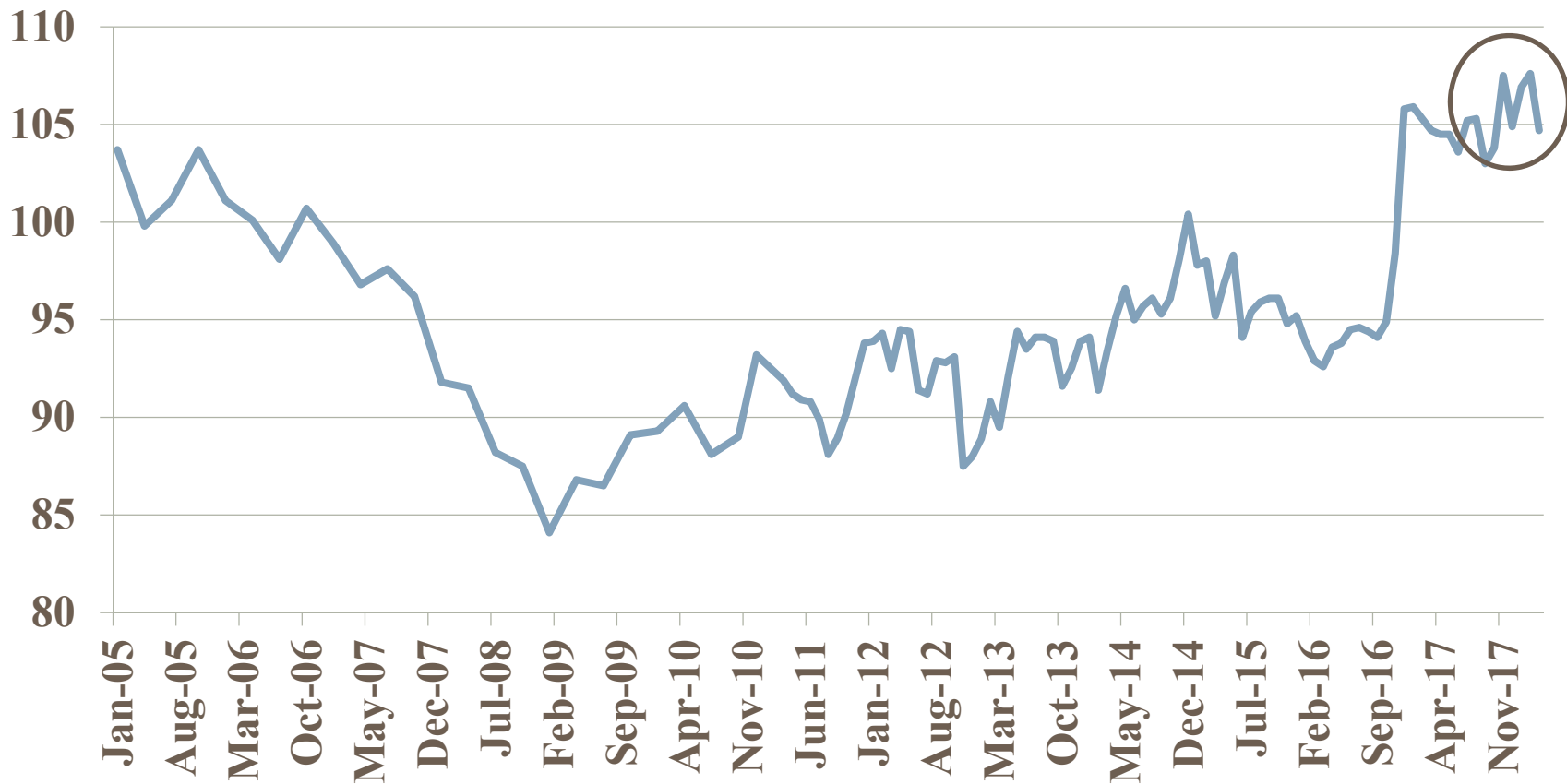
## University of Michigan Consumer Sentiment Index



Source: The University of Michigan

# Small Business Confidence Remains High

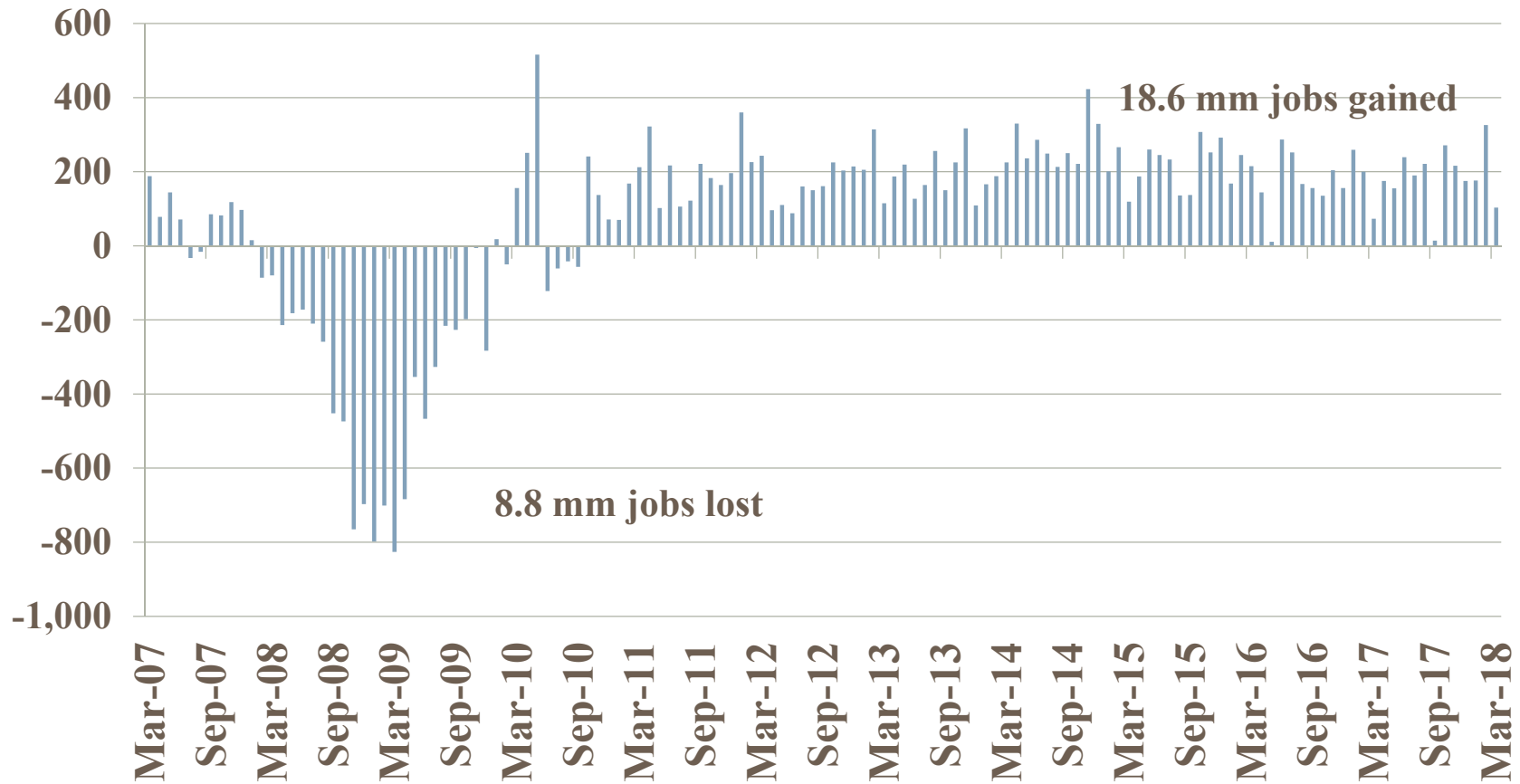
## NFIB Small Business Optimism Index



Source: National Federation of Independent Business

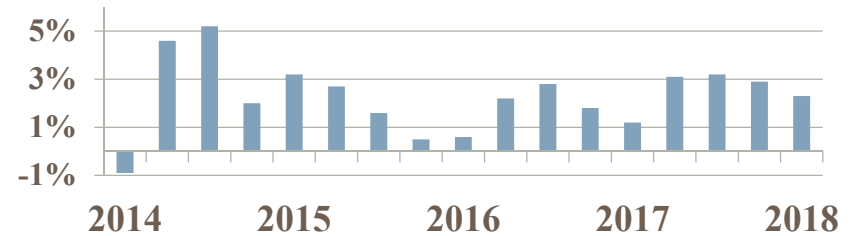
# Trend line Job Growth

## Monthly Change in Thousands of Jobs

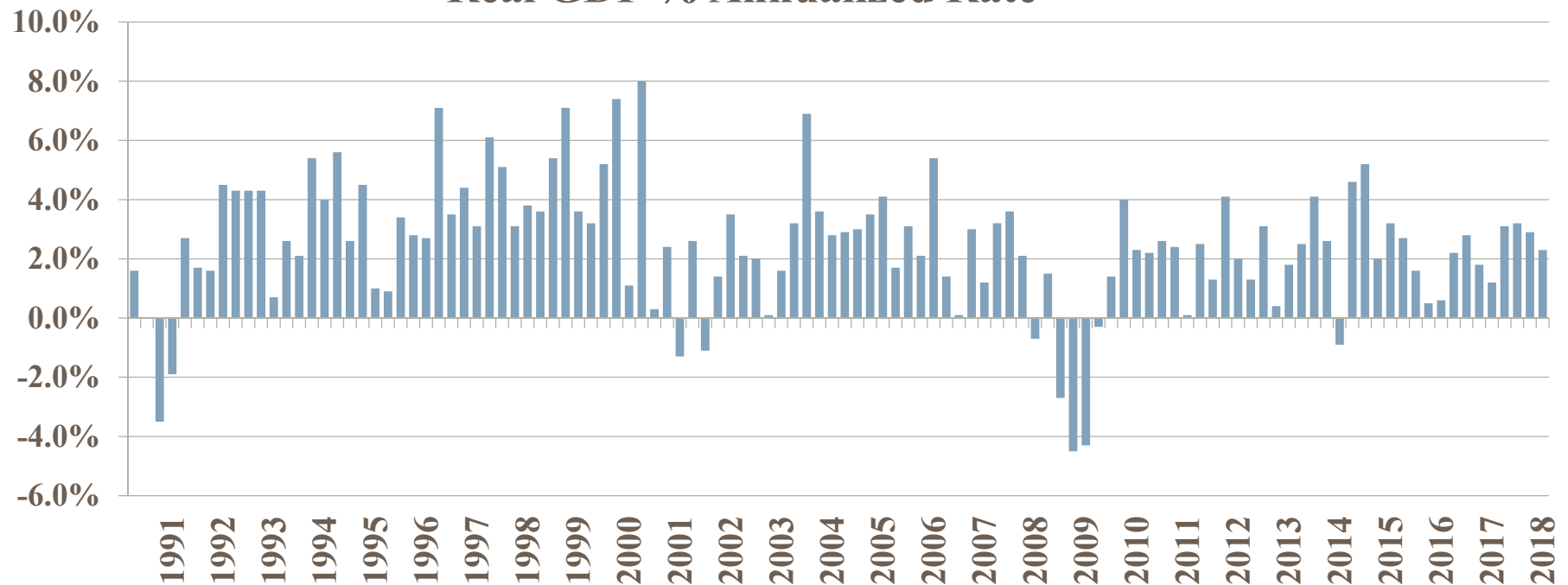


Source: Bureau of Labor Statistics

# Solid GDP Growth In the First Quarter



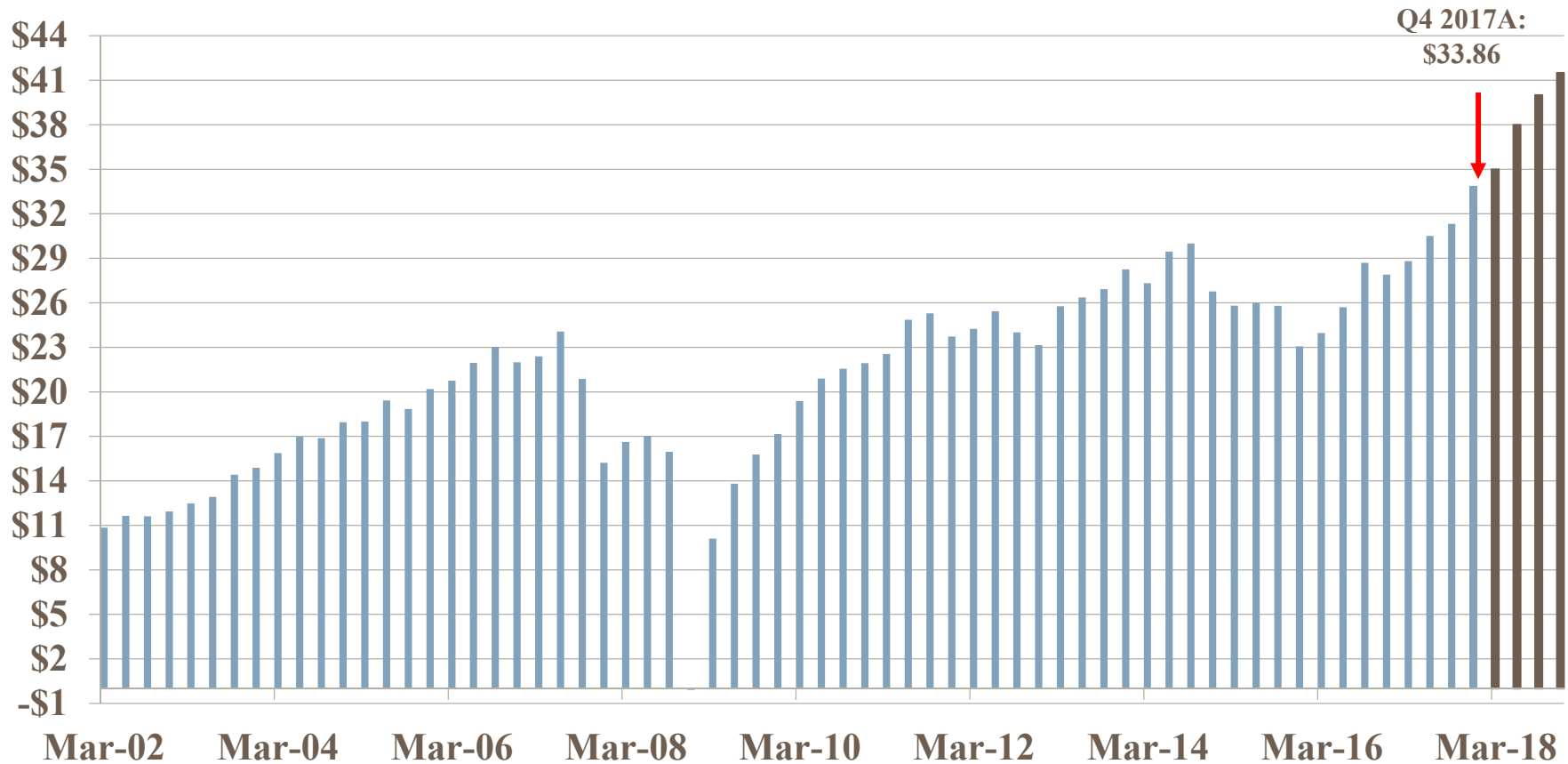
Real GDP % Annualized Rate



Source: Bureau of Economic Analysis

# Earnings Hit New Highs

## S&P 500 Quarterly Operating Earnings



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

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*Markets:  
Slightly Negative  
1<sup>st</sup> Quarter Returns  
But Strong 1-Year Returns*

# Market Summary

## ■ Equity market performance

	<u>Q1</u>	<u>1-Year</u>
– US large cap		
• S&P 500	-0.8%	+14.0%
– US mid cap		
• Russell Midcap	-0.5%	+12.2%
– US small cap		
• Russell 2000	-0.1%	+11.8%
– International equities		
• MSCI ACWI ex US	-1.2%	+16.5%
– International small cap		
• MSCI ACWI ex US SMID	-0.7%	+19.2%
– Emerging markets		
• MSCI Emerging Markets	+1.4%	+24.9%



# Market Summary

## ■ Bonds and other asset class performance

	<u>Q1</u>	<u>1-Year</u>
– US fixed income		
• Barclay's Aggregate	-1.5%	+1.2%
– Global fixed income		
• Barclay's Global ex US	+3.6%	+11.8%
– Commodities		
• Bloomberg Commodity TR	-0.4%	+3.7%
– Long short		
• Morningstar Long Short	-0.8%	+6.8%
– REITS		
• MSCI US REIT	-8.4%	-5.6%

# Equity Market Conditions

## ■ First Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	-2.8%	-0.8%	1.4%
Mid	-2.5%	-0.5%	2.2%
Small	-2.6%	-0.1%	2.3%

## ■ 1-Year

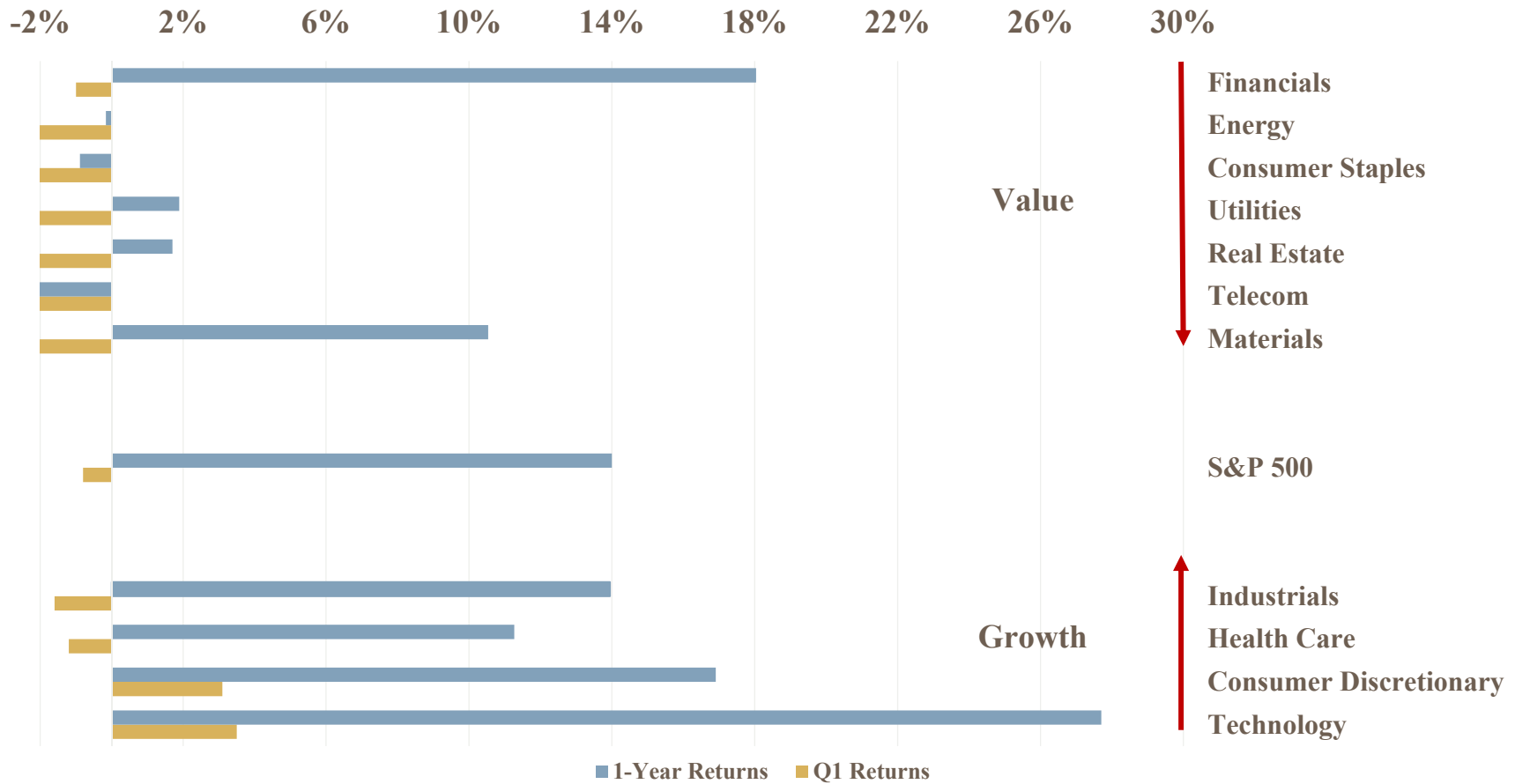
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	7.0%	14.0%	21.3%
Mid	6.5%	12.2%	19.7%
Small	5.1%	11.8%	18.6%

All calculations are cumulative total return as of 3/31/2018.

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

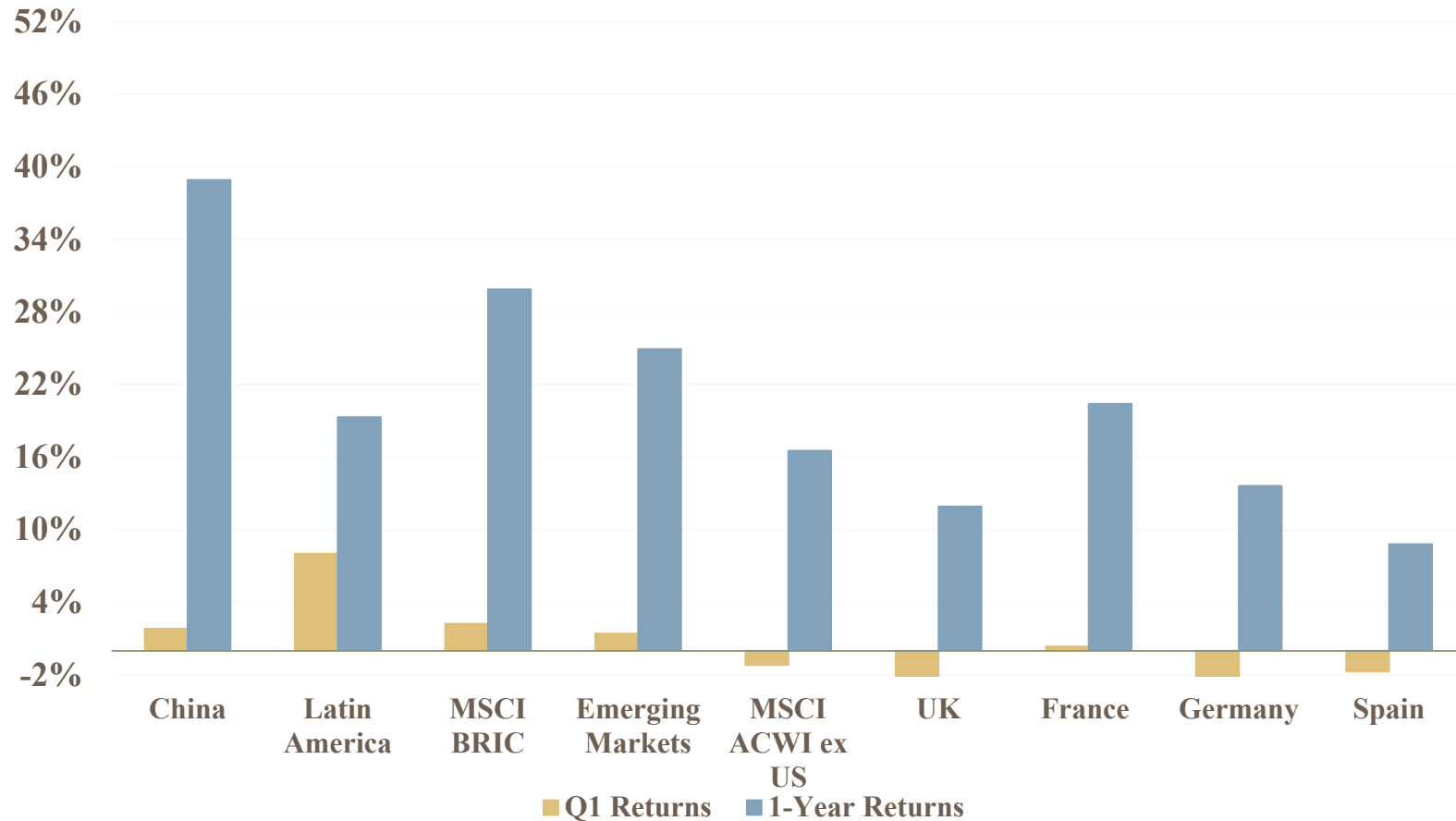
Past performance is no guarantee of future success.

# Growth Continues to Lead the Way



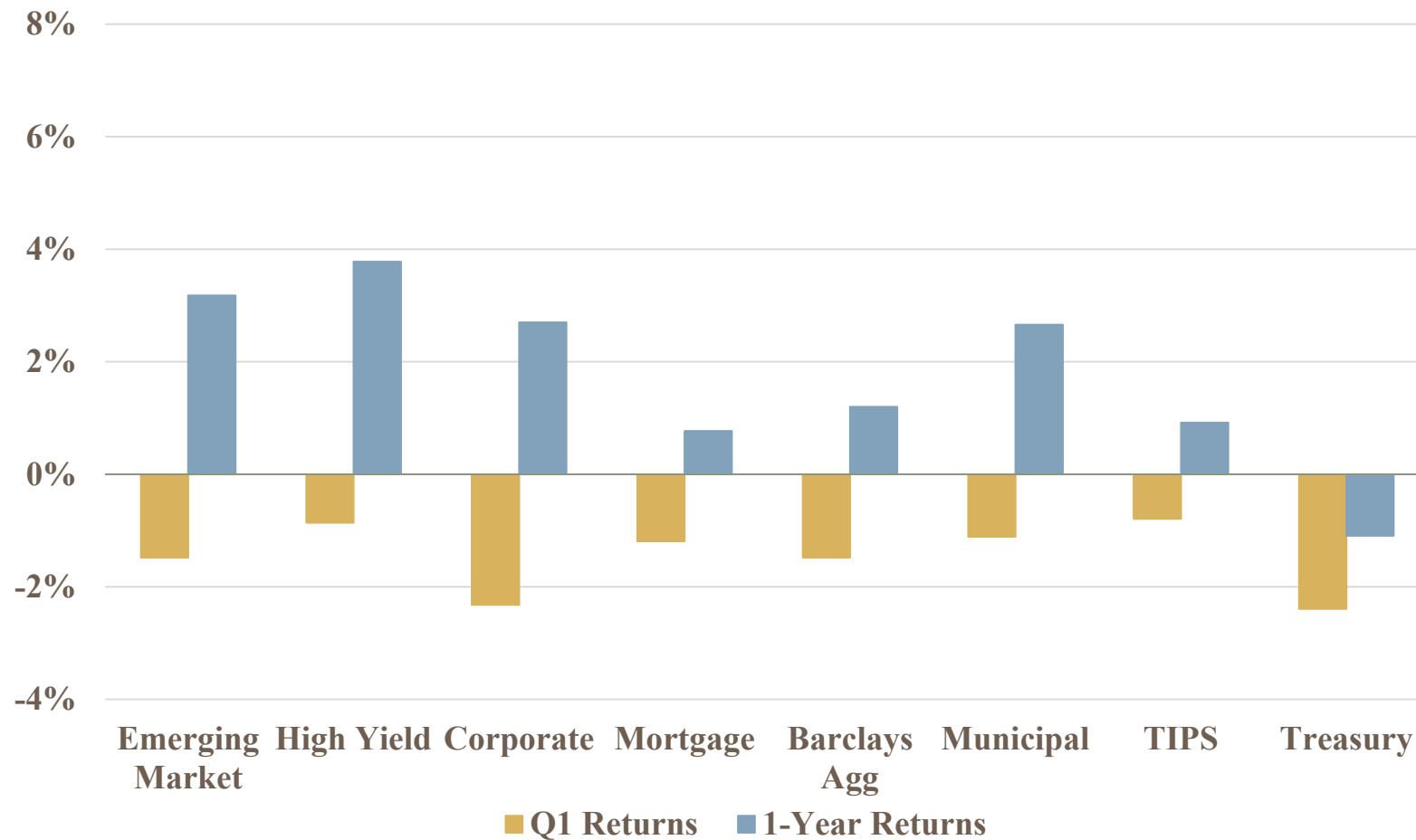
Past performance is no guarantee of future success.

# Stronger Returns in Less Developed Markets



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

# Higher Interest Rates Hit Q1 Bond Returns



Past performance is no guarantee of future success.

Returns in US dollars.

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# *SilverOak's Outlook*

# SilverOak's Outlook

## ■ U.S. Economy

- Growth pick-up in 2017 should continue into 2018
  - Most economic indicators point to continued solid growth
  - Recession risk appears to be very low
  - Corporate tax cut likely to add modestly to 2018 GDP
  - Strong Corporate earnings growth expected
- Faster growth could spur inflation and cause the Federal Reserve to be more aggressive in tightening rates

## ■ International Economy

- Global growth expected to be strong in 2018
- Global corporate earnings growth rebound expected to continue
- Other central banks likely to tighten modestly in 2018

# SilverOak's Outlook

- **Equity Market Outlook**
  - Recent increase in volatility likely to continue
  - Valuations above average
  - Further gains dependent on meeting relatively high corporate growth expectations
  - Risks continue to be an increase in interest rates and inflation as well as “wild” card events
  
- **Positioning**
  - Maintain diversified mix across equity sectors
    - Unlikely that the growth/value gap of 2017 will be repeated!
  - International equities offer compelling valuations and improving fundamentals
  - “Real assets” may offer protection against an upside inflation surprise



# SilverOak's Outlook

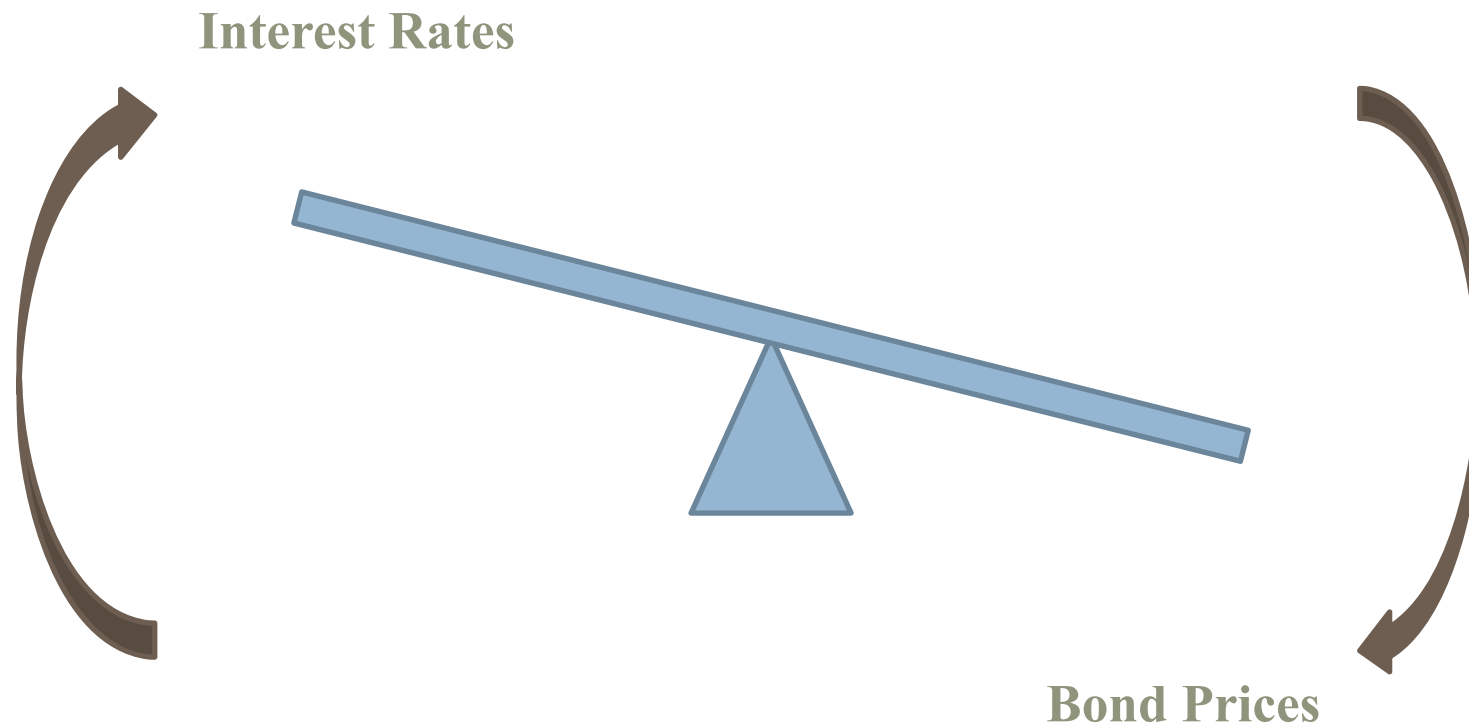
## ■ Fixed Income Outlook

- The Fed likely to raise rates at least an additional two times in 2018
- Bond yields could rise modestly, but a spike in rates not expected
- Volatility likely to continue as investors focus on inflation

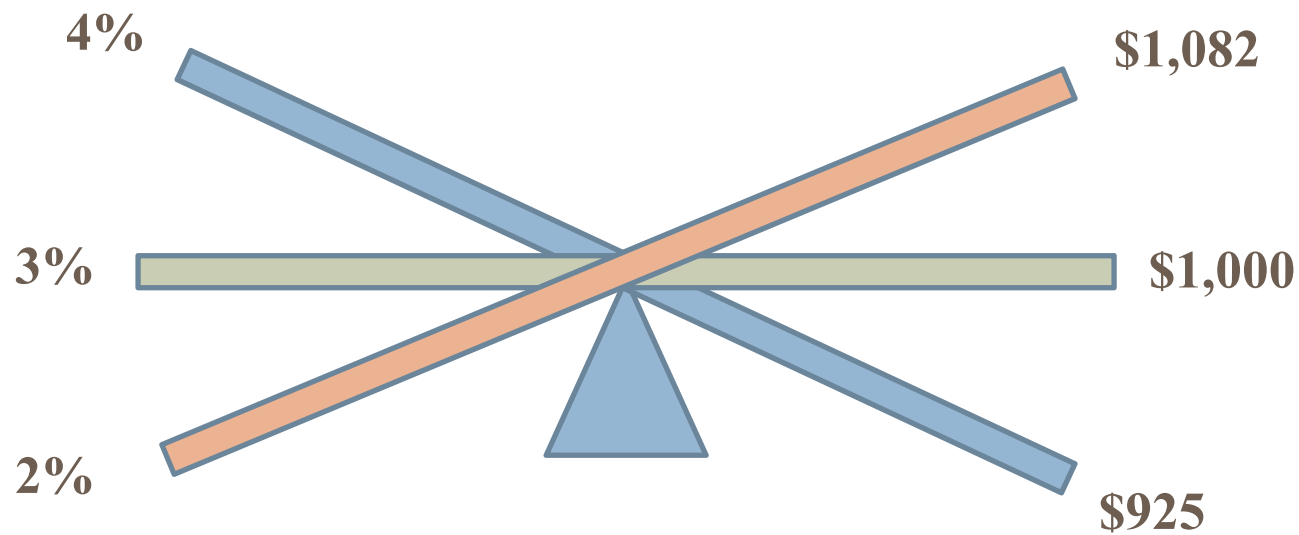
## ■ Positioning

- Bonds should provide protection when stock volatility increases
- Maintain diversified mix of bonds
- Focus on higher quality bonds as spreads are narrow
- Municipals still offer attractive taxable equivalent yields

# Relationship Between Yield and Bond Prices



# Why Do Bond Prices Change with Interest Rates?



# Reinvestment of Interest Can Be More Important Than Changes in Principal

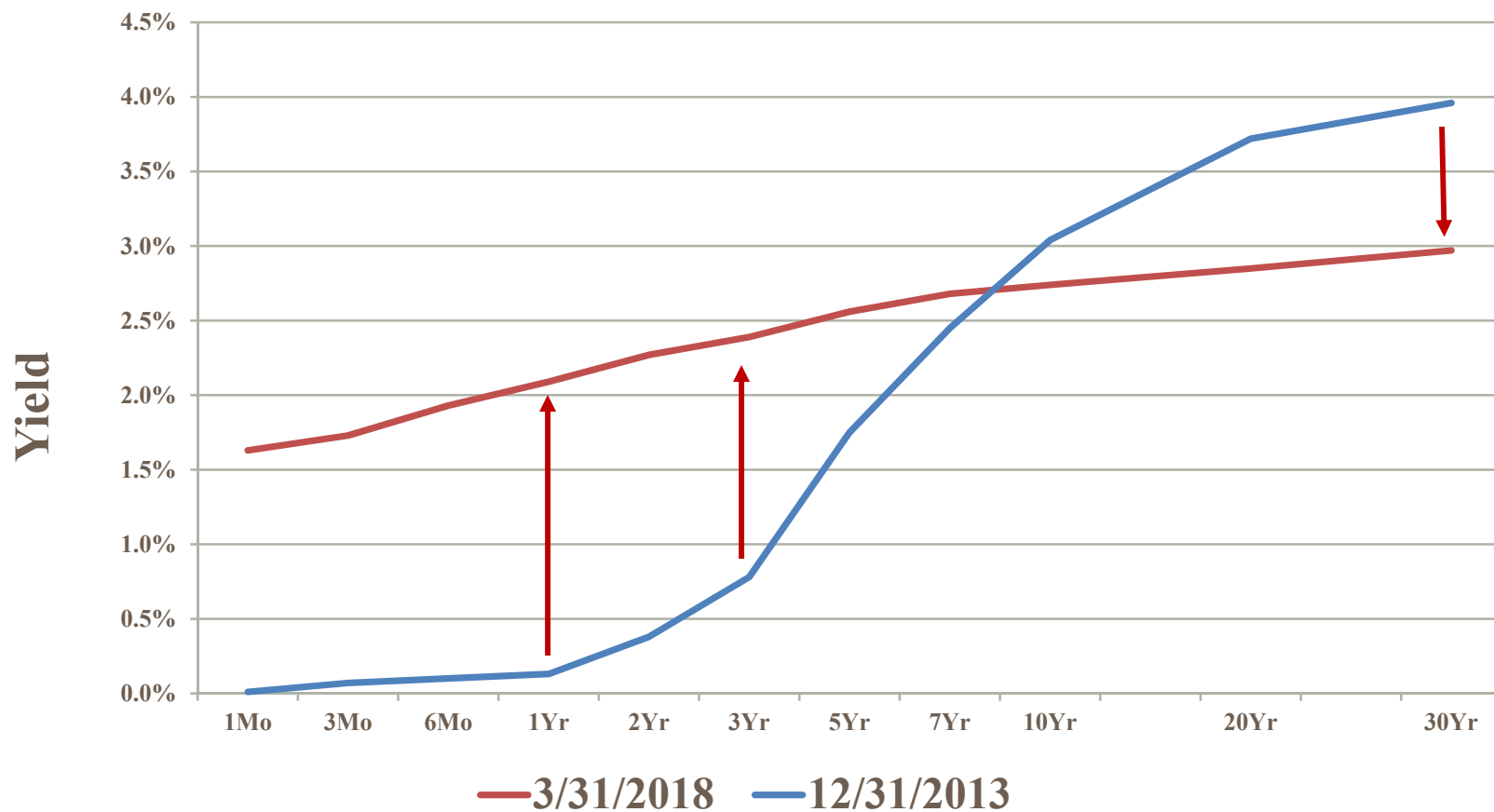
Reinvestment Rates							
Based on 5% coupon bond with 10 year maturity							
Assumes bonds held to maturity							
Components of Return	Rates Decline to 3%		Beginning Rate 5%		Rates Rise to 7%		
Principal	\$1,000	63%	\$1,000	60%	\$1,000	53%	
Interest	\$500	31%	\$500	30%	\$500	32%	
Interest on Interest	\$90		\$160		\$239	15%	
<b>Total Return</b>	<b>1,590</b>	<b>100%</b>	<b>1,660</b>	<b>100%</b>	<b>1,739</b>	<b>100%</b>	
<b>Effective Return</b>	<b>4.7%</b>		<b>5.2%</b>		<b>5.7%</b>		

Source: GW&K and Vanguard

Example is for illustrative purposes only

# Change in Interest Rates

## U.S. Treasuries Yield Curve



Source: U.S Department of the Treasury

# Increase in Volatility

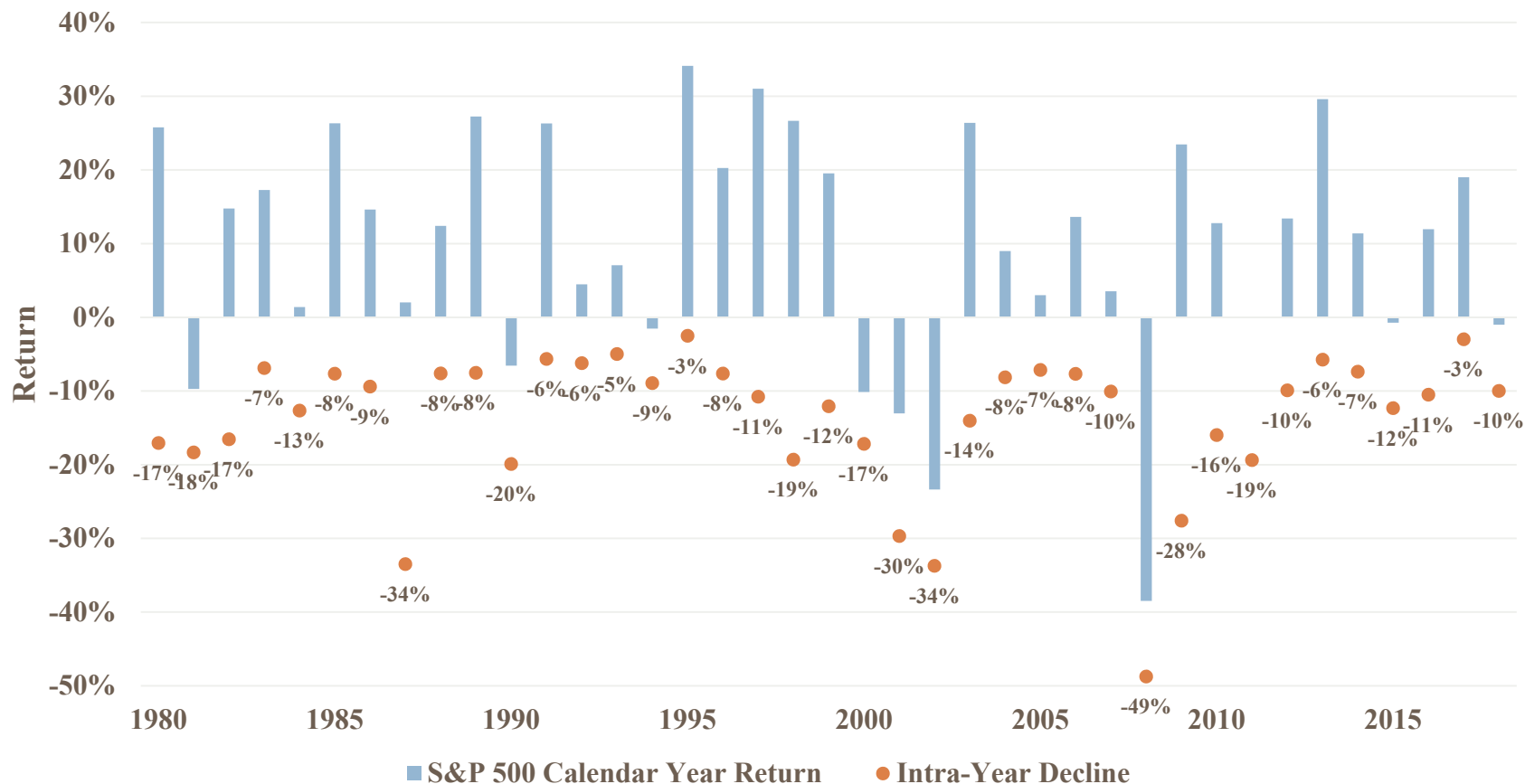
## CBOE Market Volatility Index (VIX) Level



Source: CBOE, J.P. Morgan Asset Management

# Annual Returns and Intra-Year Declines

Annual Returns Positive in 29 of 38 Years



Source: Morningstar, as of 12/31/16  
S&P 500 price returns

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# *SilverOak Update and Important Reminders*



# SilverOak Updates

- **IQSS<sup>tm</sup> (Investment Quality Scoring System<sup>tm</sup>)**
  - Replaced International Small Cap investment
  - Continuing to work on share class conversions to lower investment costs
  - Global asset allocation optimization project almost complete
  - Completing review of all IQSS<sup>tm</sup> passive investments

# Reminders

- **Take RMDs for the year (required minimum distributions)**
  - Consider gifting RMD to charity
- **First half Minnesota real estate taxes due in May**
  - Assuming you did not prepay these in 2017
- **Tax Season is over!**
  - Remember to keep good tax records for 2018
  - Complete a 2018 tax projection
  - Be sure to make quarterly estimated tax payments on time
  - Consider utilizing HSA accounts
  - Max out 401(k) contributions and catch-up contributions if you have attained age 50
  - Consider “bunching” charitable contributions, as discussed in webinar last quarter

# Reminders

- **Request your annual credit report**
  - [www.annualcreditreport.com](http://www.annualcreditreport.com)
- **Consider freezing your credit with the three credit bureaus**
  - Equifax  
[https://www.freeze.equifax.com/Freeze/jsp/SFF\\_PersonalIDInfo.jsp](https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp)
  - Experian  
<https://www.experian.com/freeze/center.html>
  - TransUnion  
<https://freeze.transunion.com/sf/securityFreeze/landingPage.jsp>
- **Remember, the IRS will NEVER contact you via a phone call**
  - If you think you have been a victim of identity theft, please contact your SilverOak advisor and/or CPA

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*Questions?*

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## *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](http://www.silveroakwealth.com)