



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
July 23, 2021



Introduction

- Shannon King, CPA, CFP[®], PFS, CIMA[®], CPWA[®], MBT
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP[®], AEP[®], CAIA
Partner and Lead Analyst



Agenda

- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates
- Perspectives on cryptocurrencies
- Questions



Economy: Record Breaking Rebound



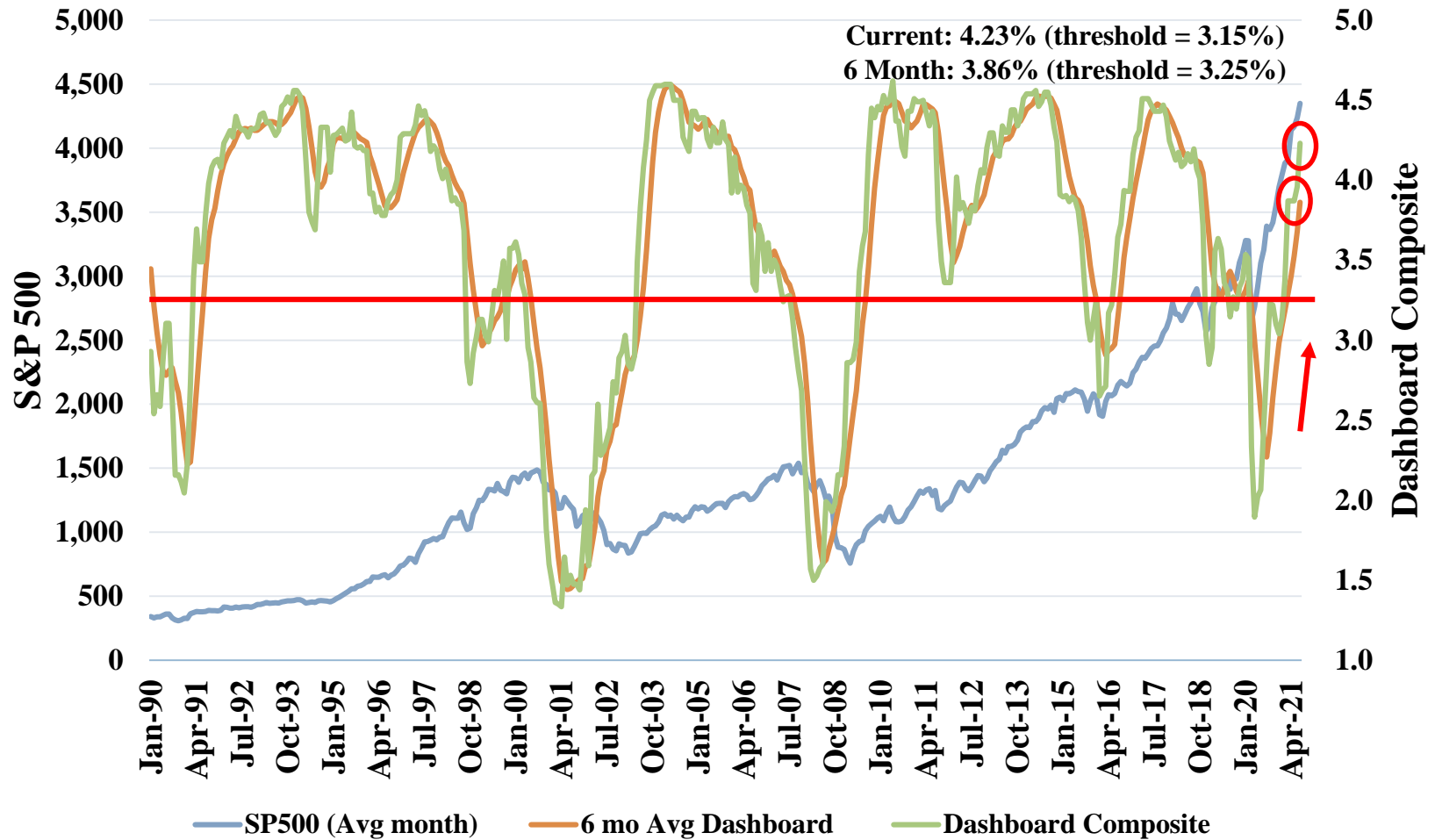
Market Dashboard

Projected

	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
Economy	Green	Green	Green	Grey	Grey	Grey	Red	Red	Red	Grey	Green	Green	Green	Green
Credit Markets	Green	Green	Grey	Green	Grey	Grey	Red	Red	Grey	Grey	Green	Green	Green	Green
Valuations	Red	Grey	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Red	Red
Market Sentiment	Green	Grey	Grey	Green	Green	Green	Grey	Red	Green	Green	Green	Green	Green	Green
Composite 6mo. Avg.	Green	Green	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Grey	Grey	Green	Green



Market Dashboard



Current Economic Factors Scorecard

Positive

Fiscal Policy
Monetary Policy
Interest Rates
Housing
Credit Conditions

Neutral

Commodity Prices
U.S. Politics
U.S. Dollar
Corporate Earnings ↑
Employment
Consumer Confidence
U.S. Inflation ↓
Global Growth (+)
Eurozone (+)

Negative

China
Tariffs
Geopolitics

(+)/(-) signifies upgrades/downgrades in categories
↑ ↓ signifies sentiment shifts within a category

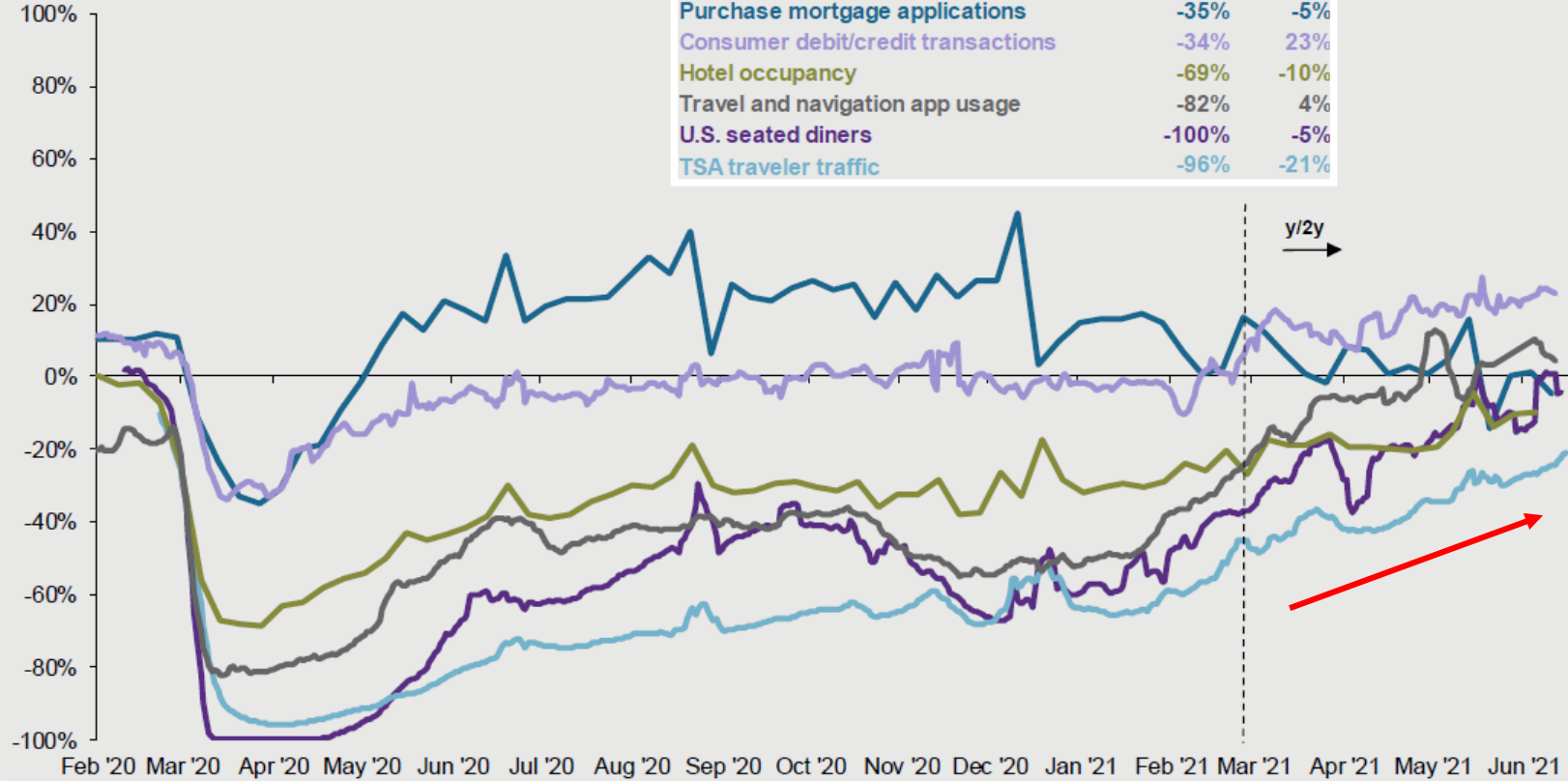


As of 6/30/2021

Consumer Activity Continuing to Recover

High-frequency data

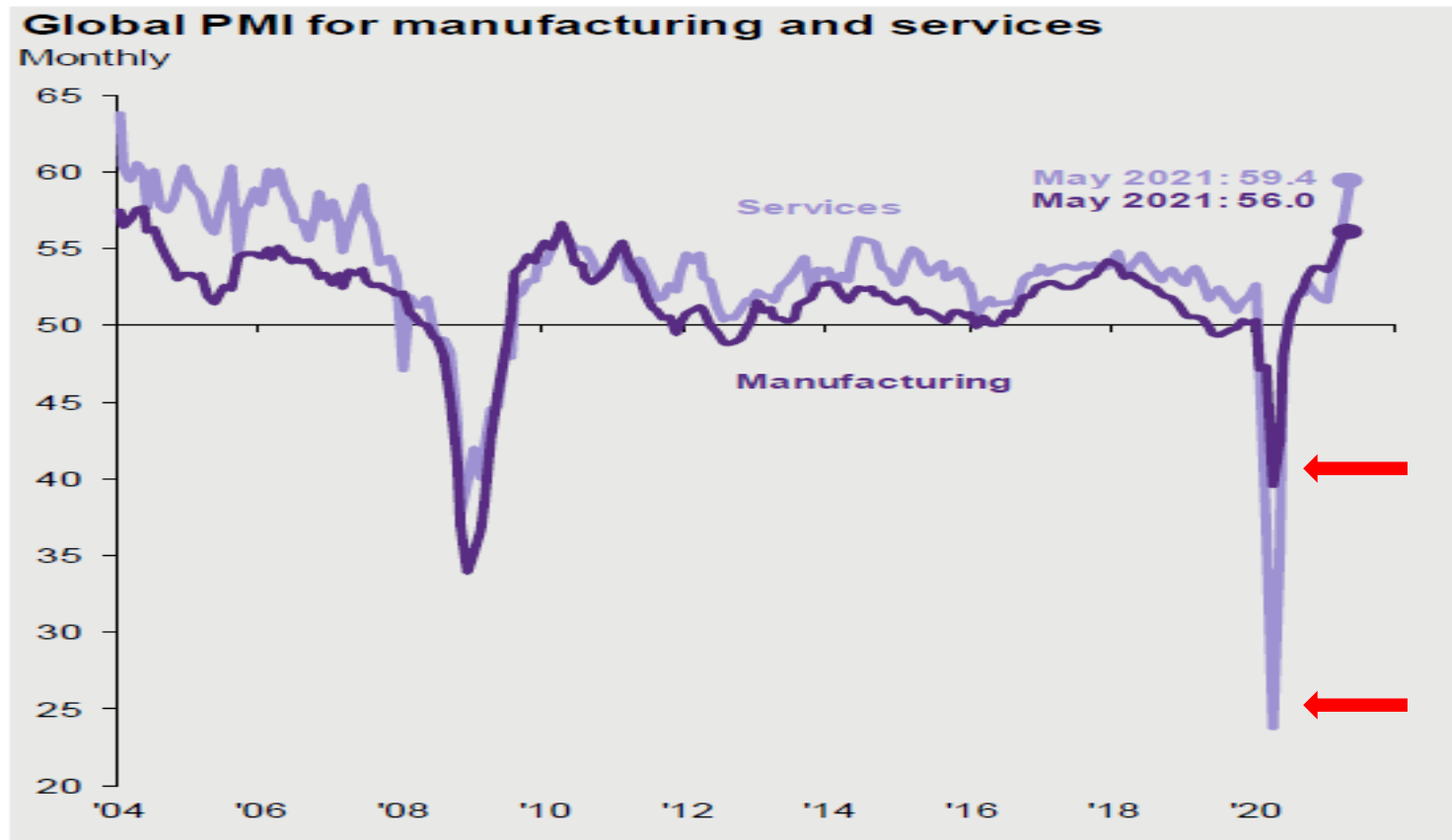
Year-over-year % change; Year-over-2 year after 3/15/21*



Source: App Annie, Chase, Mortgage Banker’s Association, Open Table, STR, TSA and J.P. Morgan Asset Management.



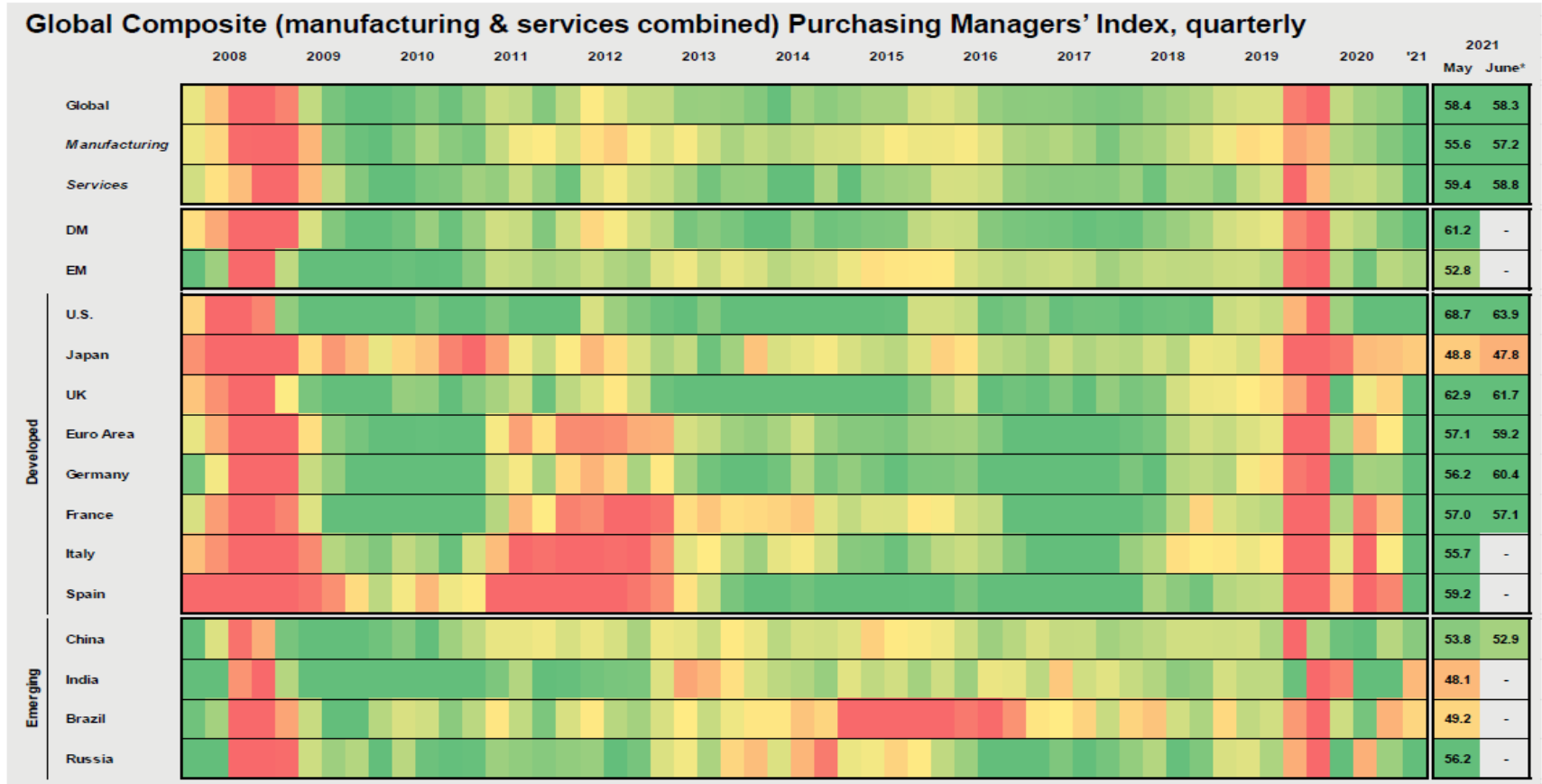
Global Economic Momentum Recovering



Source: JP Morgan Asset Management, Markit. Data as of 5/30/2021.



Global Economic Momentum Recovering



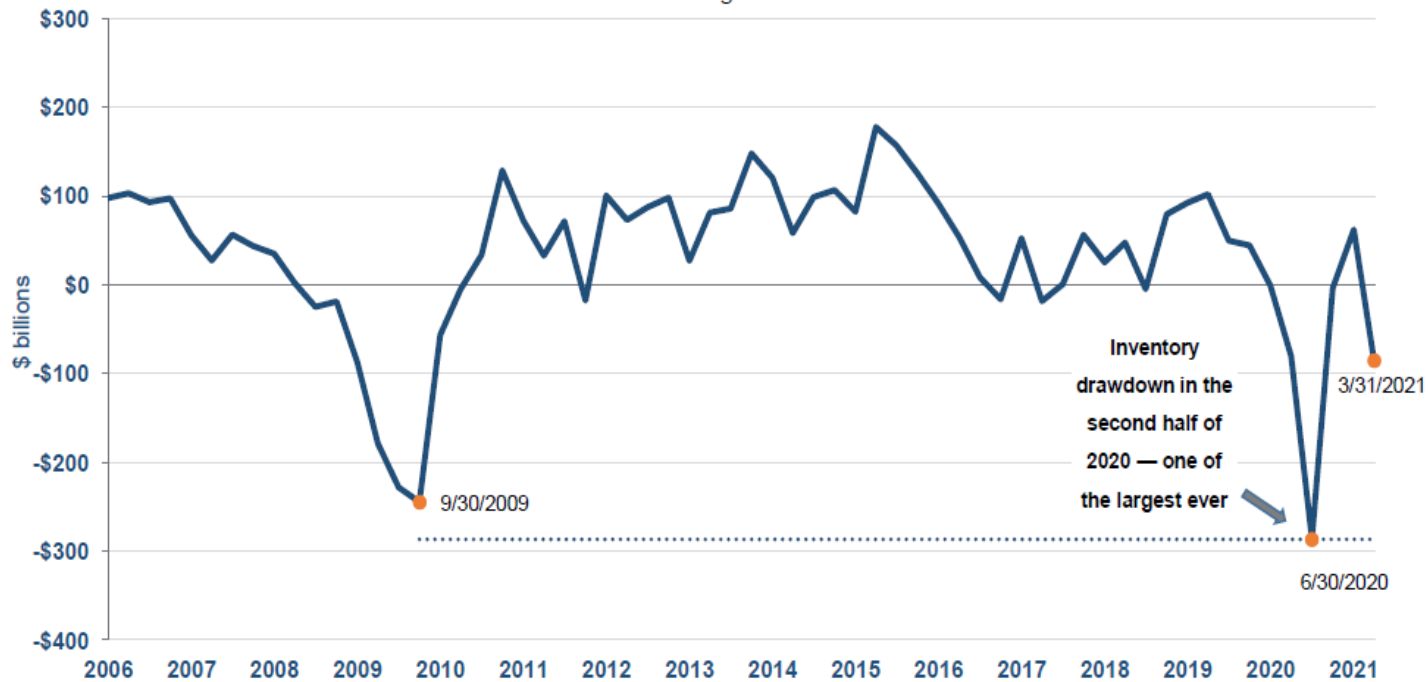
Source: JP Morgan Asset Management, Markit.



Inventories Are Tight

Inventories across industries sharply depleted last year

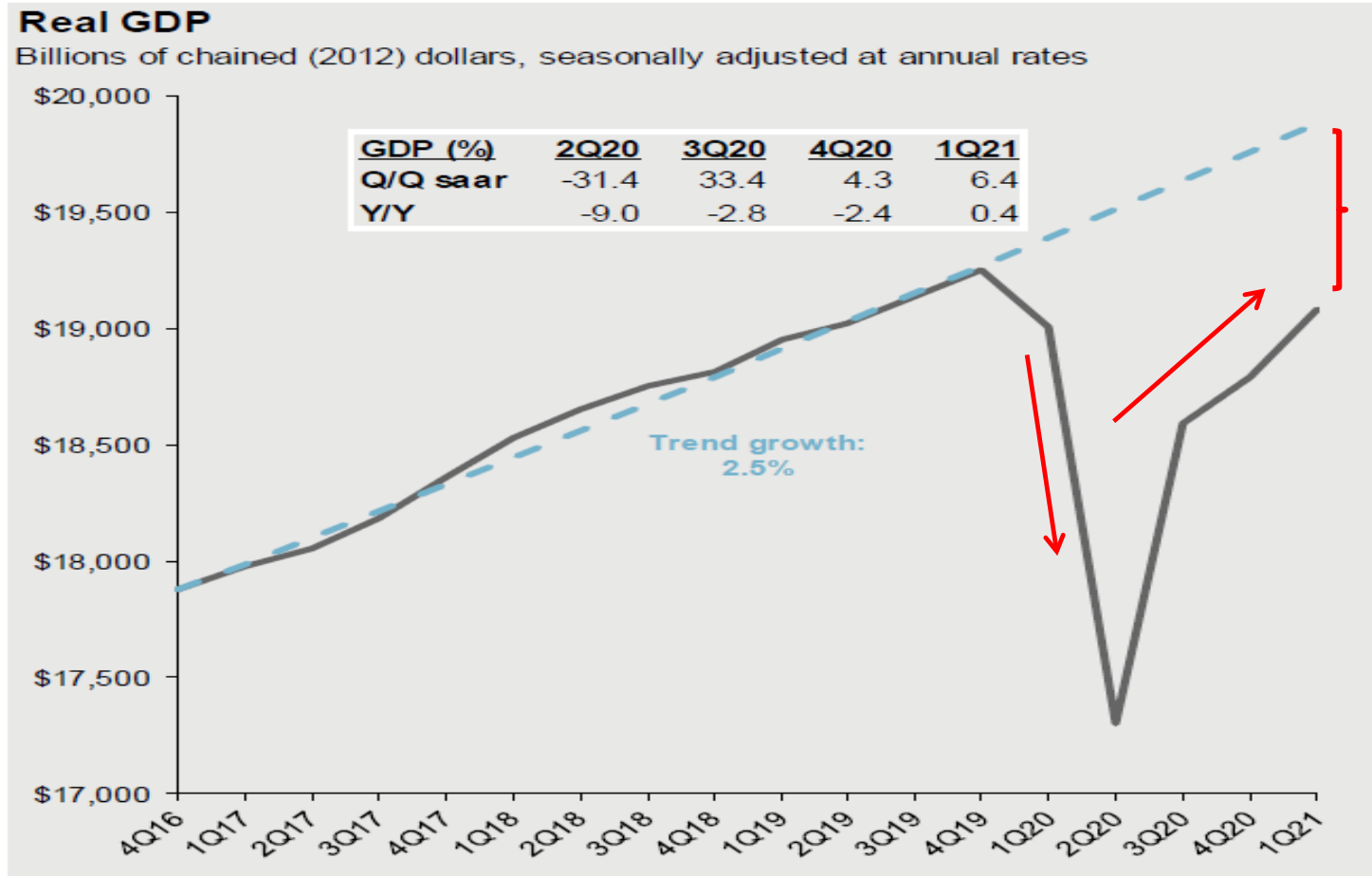
BEA Real GDP Change in Private Inventories



Source: Bureau of Economic Analysis (BEA), Amundi. Data as of March 31, 2021



GDP Recovery to Pre-Pandemic Level Continues



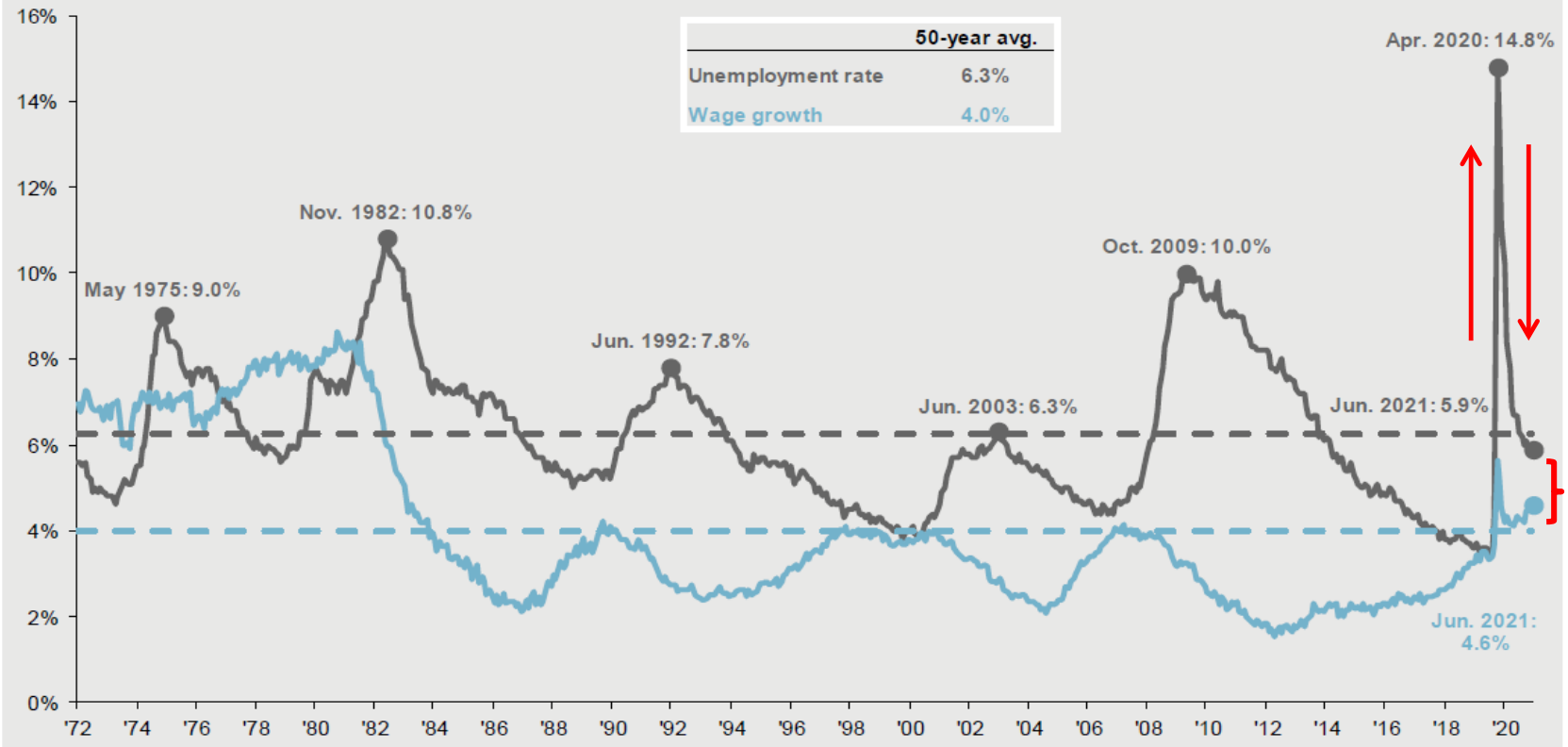
Source: Bureau of Economic Analysis, Factset, J.P. Morgan Asset Management. Data as of 6/30/2021



Jobs Market Tightens

Civilian unemployment rate and annualized y/2y growth for private production and non-supervisory workers

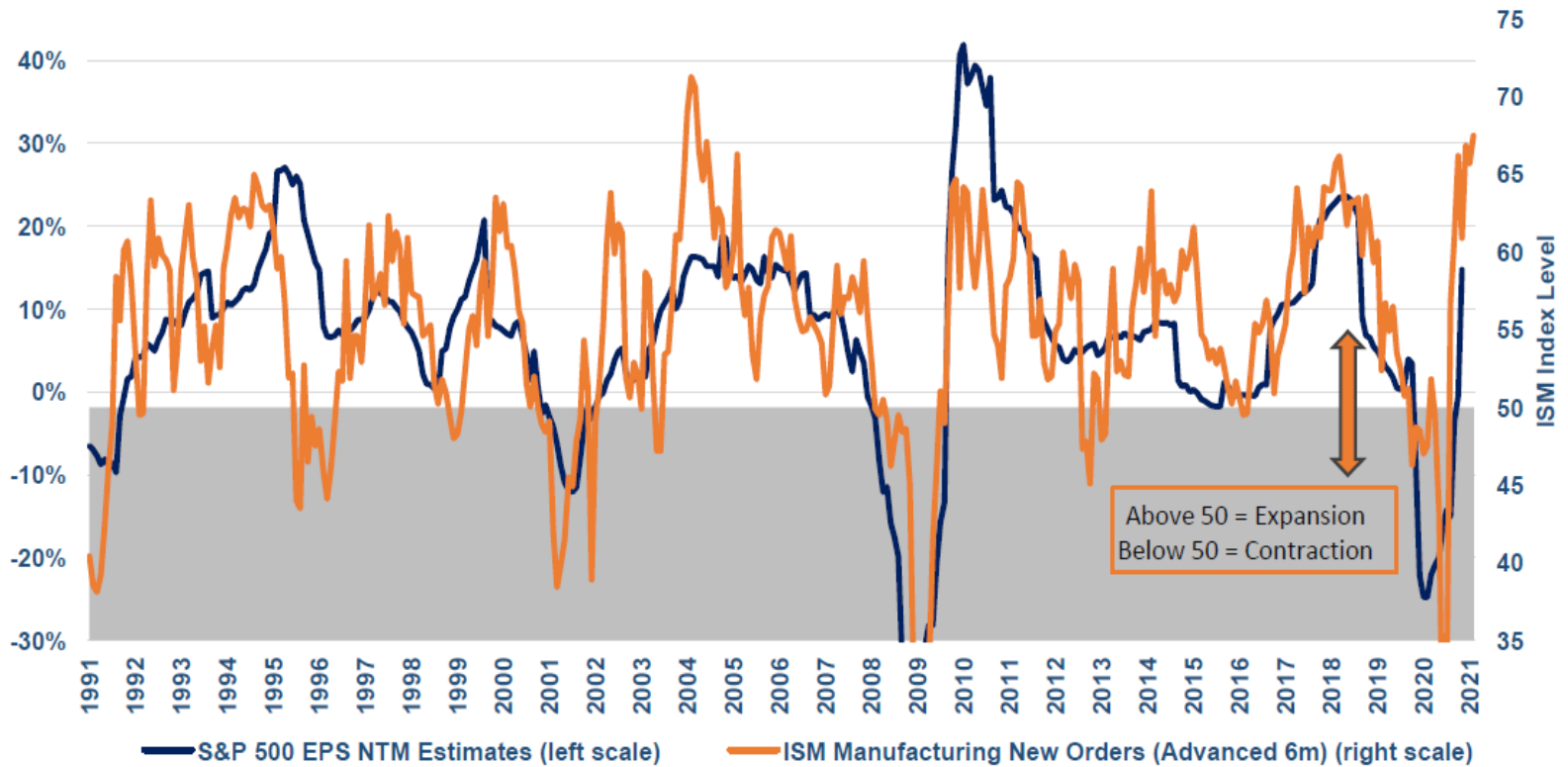
Seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of June 30, 2021.



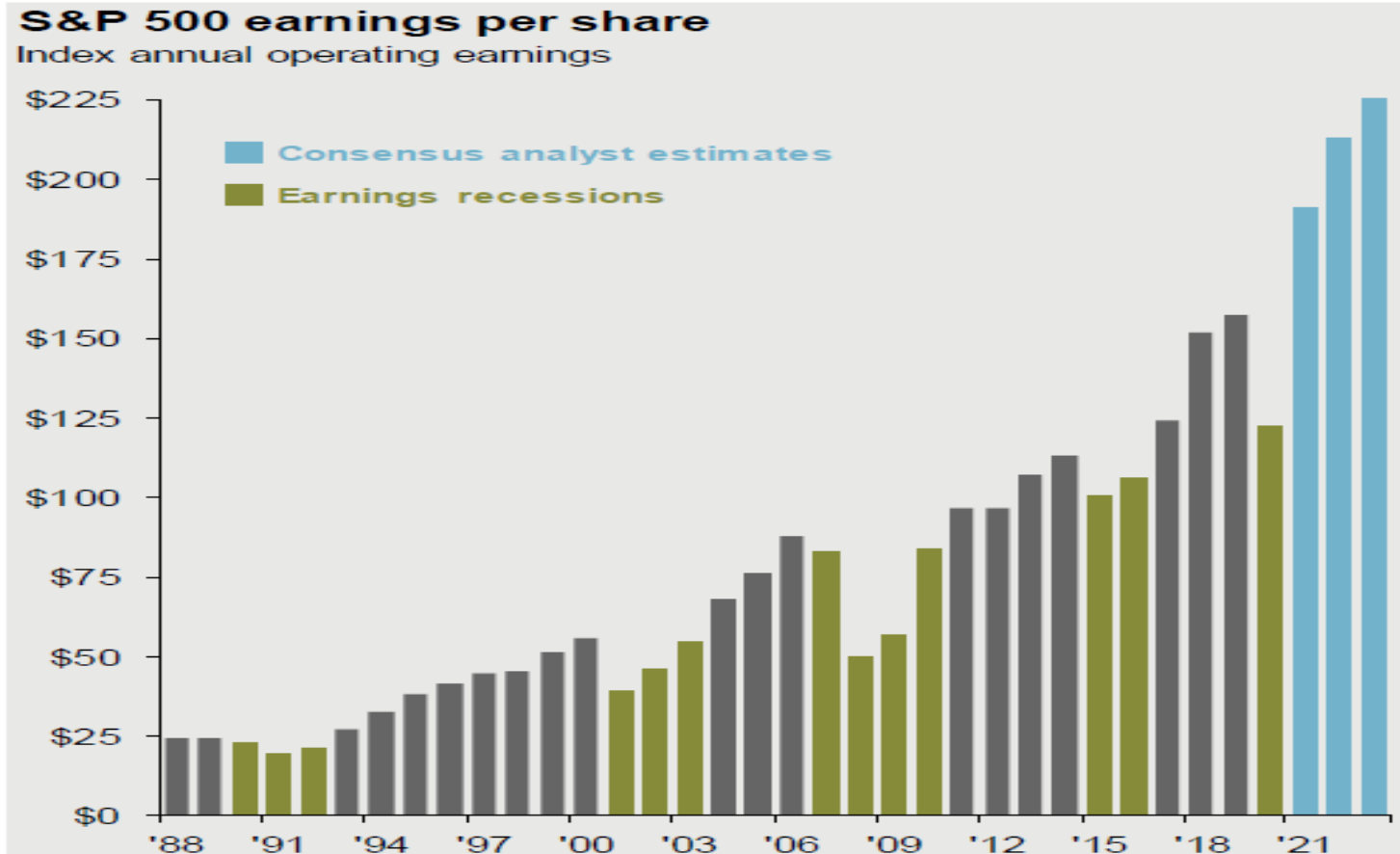
Earnings Expected to Rebound



Source: Bloomberg, Amundi.



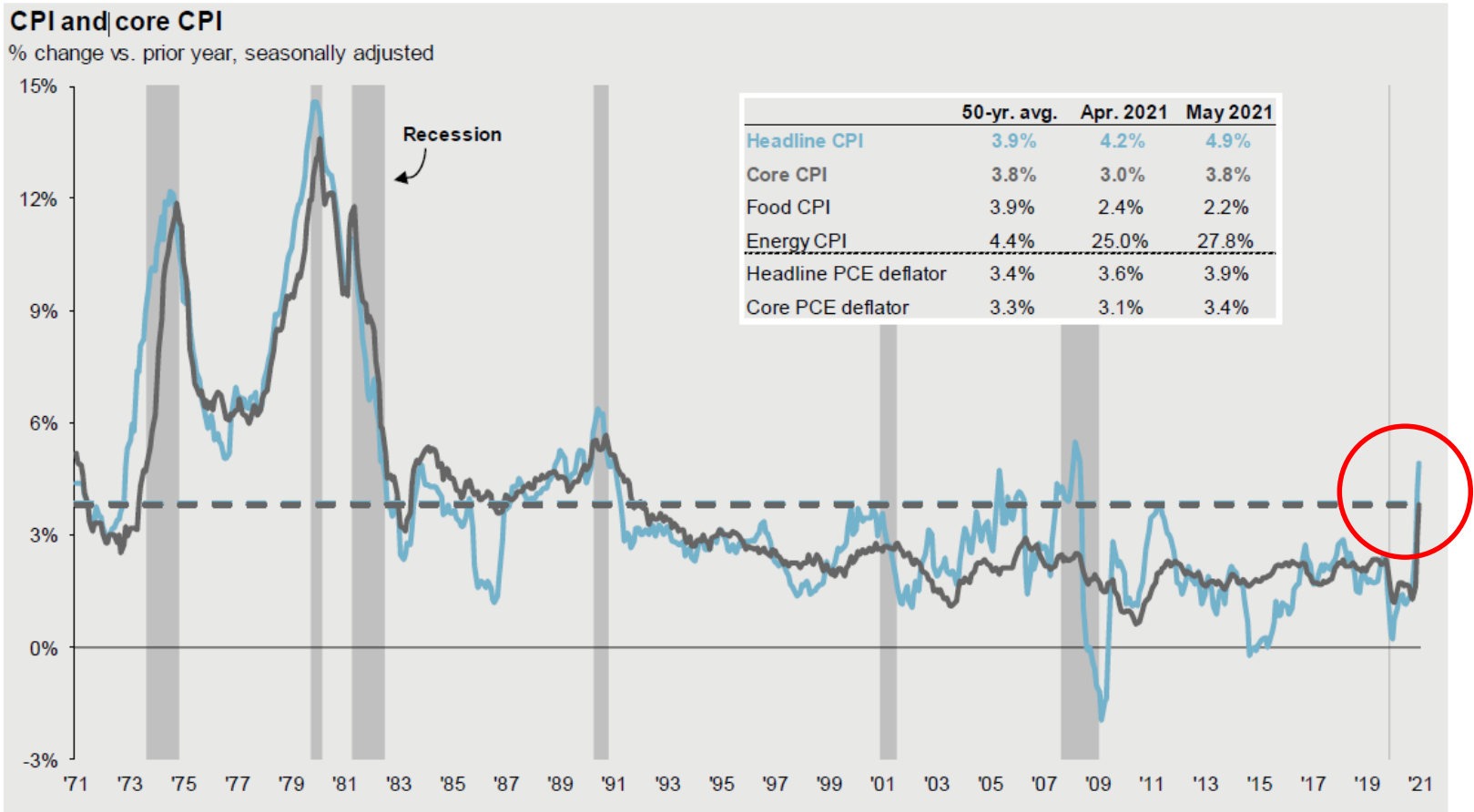
Earnings Expected to Rebound



Source: FactSet, Compustat, S&P, JP Morgan Asset Management. Data as of 6/30/2021



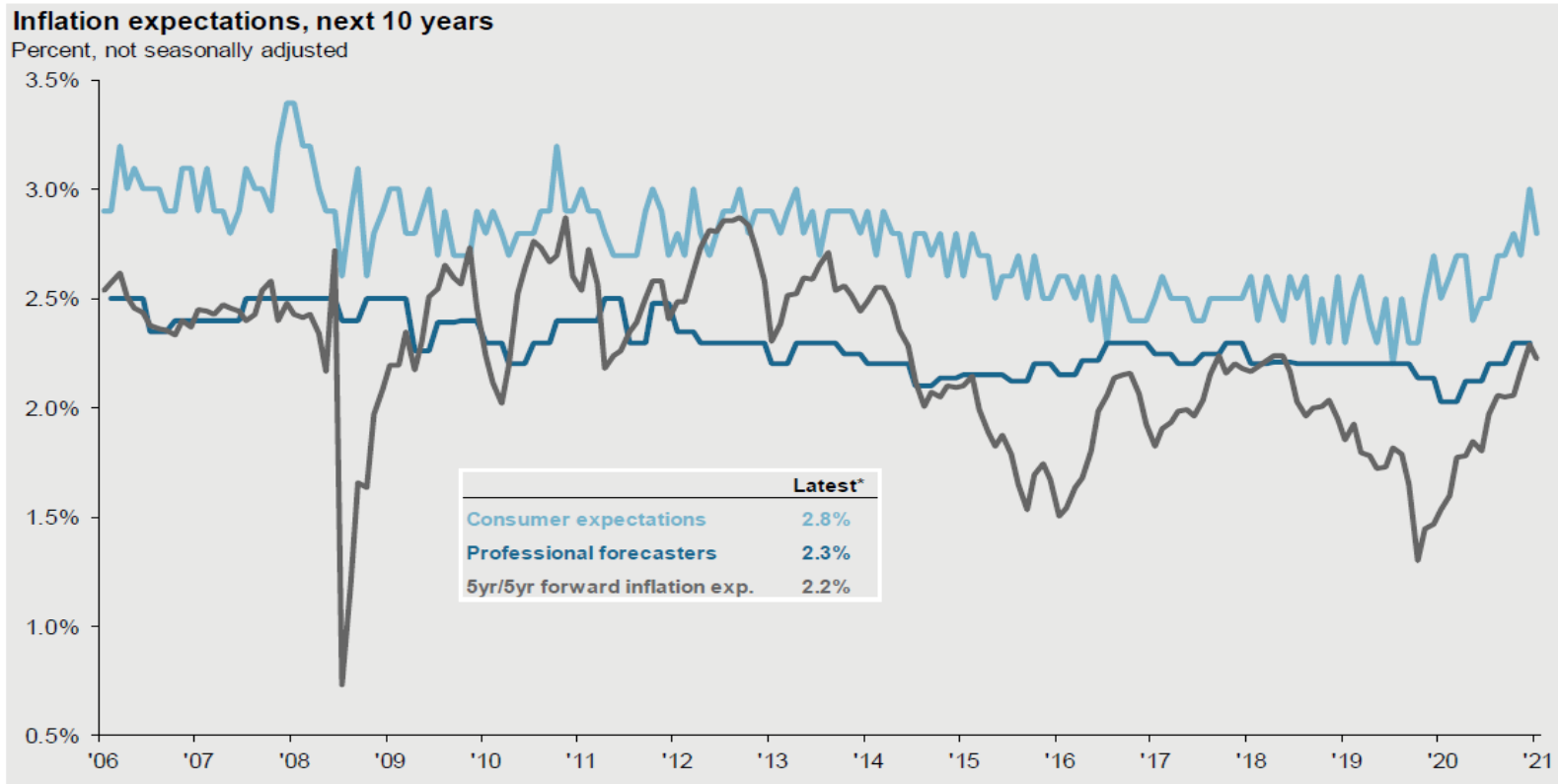
Inflation Currently A Bit High



Source: BLS, FactSet, JP Morgan Asset Mgmt. US Data as of 6/30/2021



Long-Term Inflation Expectations Still in Check



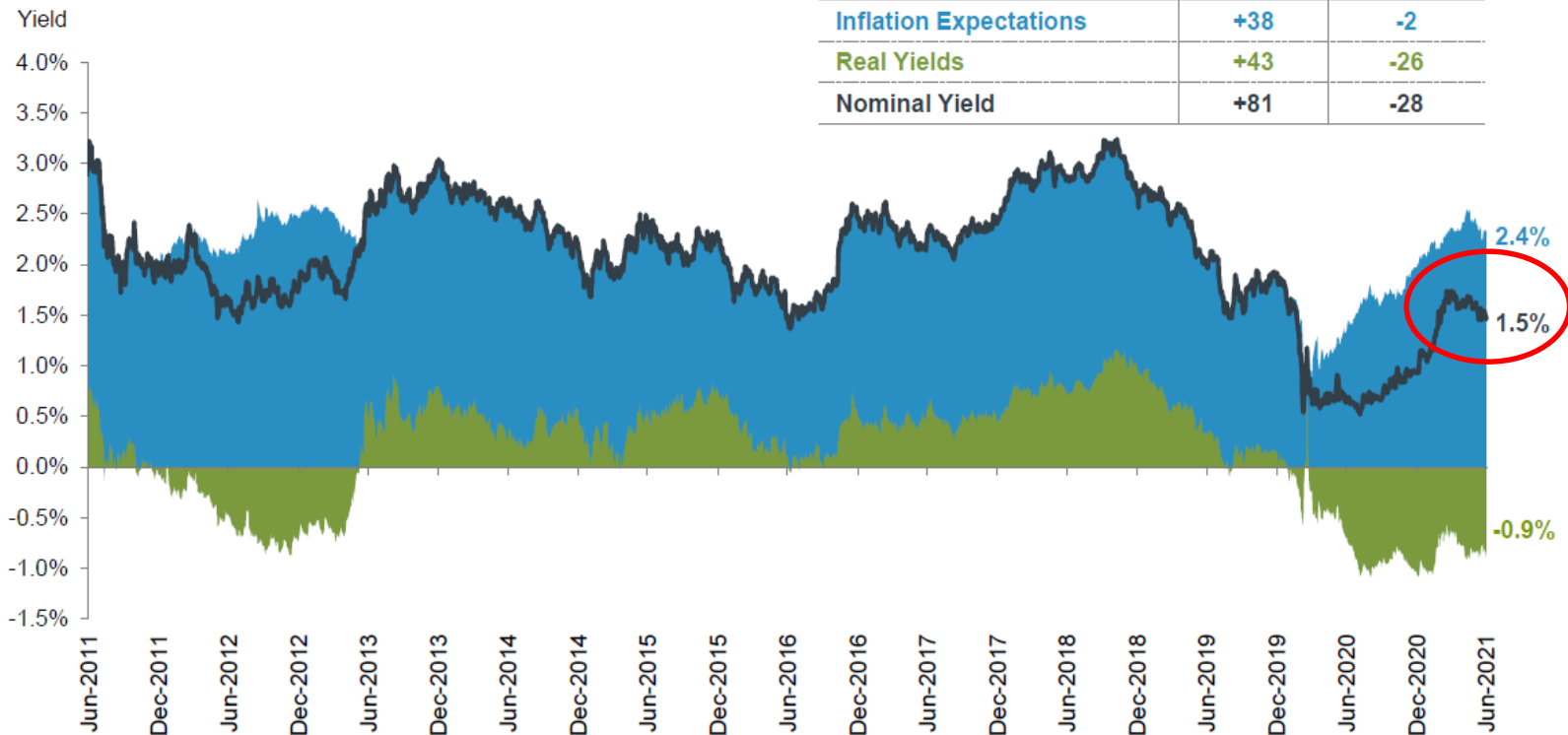
Source: FactSet, Federal Reserve Bank of Philadelphia and St. Louis, University of Michigan, JP Morgan Asset Management.
US Data as of 6/30/2021



Bond Yields Dipped Despite Inflation

10-Year U.S. Government Bond Yields

■ Inflation Expectations ■ Real Yields — Nominal Yield



Source: Bloomberg, Fidelity Investments. Data as of 6/30/2021



*Markets:
Continued Excellent
Performance*



Market Summary

■ Equity market performance

	<u>Q2 2021</u>	<u>YTD</u>
– US large cap		
• S&P 500	+8.6%	+15.3%
– US mid cap		
• Russell Midcap	+7.5%	+16.3%
– US small cap		
• Russell Smallcap	+4.3%	+17.5%
– International equities		
• MSCI ACWI ex US	+5.5%	+9.2%
– Emerging markets		
• MSCI Emerging Markets	+5.1%	+7.5%

Source: Morningstar



Market Summary

■ Bonds and other asset class performance

	<u>Q2 2021</u>	<u>YTD</u>
– US fixed income		
• Barclay’s Aggregate	+1.8%	-1.6%
– Global fixed income		
• Barclay’s Global ex US	+0.9%	-4.4%
– Commodities		
• Bloomberg Commodity TR	+13.3%	+21.2%
– REITS		
• MSCI US REIT NR	+11.7%	+21.2%

Source: Morningstar



Equity Market Conditions

■ Second Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+5.0%	+8.6%	+11.9%
Mid	+5.7%	+7.5%	+11.1%
Small	+4.6%	+4.3%	+3.9%

■ YTD

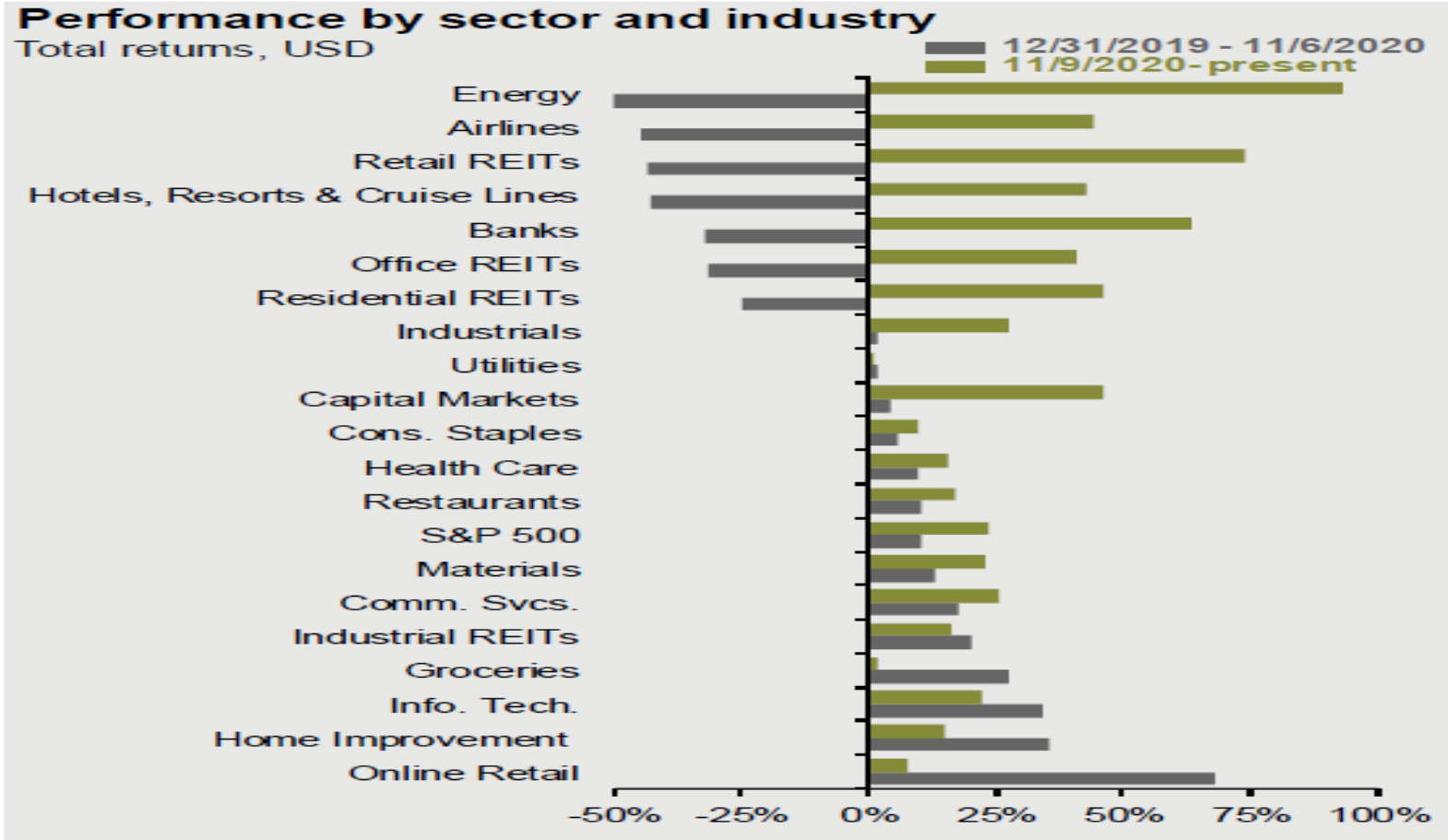
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+16.3%	+15.3%	+14.3%
Mid	+19.5%	+16.2%	+10.4%
Small	+26.7%	+17.5%	+9.0%

Source: Morningstar. All calculations are cumulative total return as of 6/30/2021.

Russell style indices utilized for all performance with the exception of large cap, which reflects the S&P 500 Index and its Value and Growth sub-components. Past performance is no guarantee of future success.

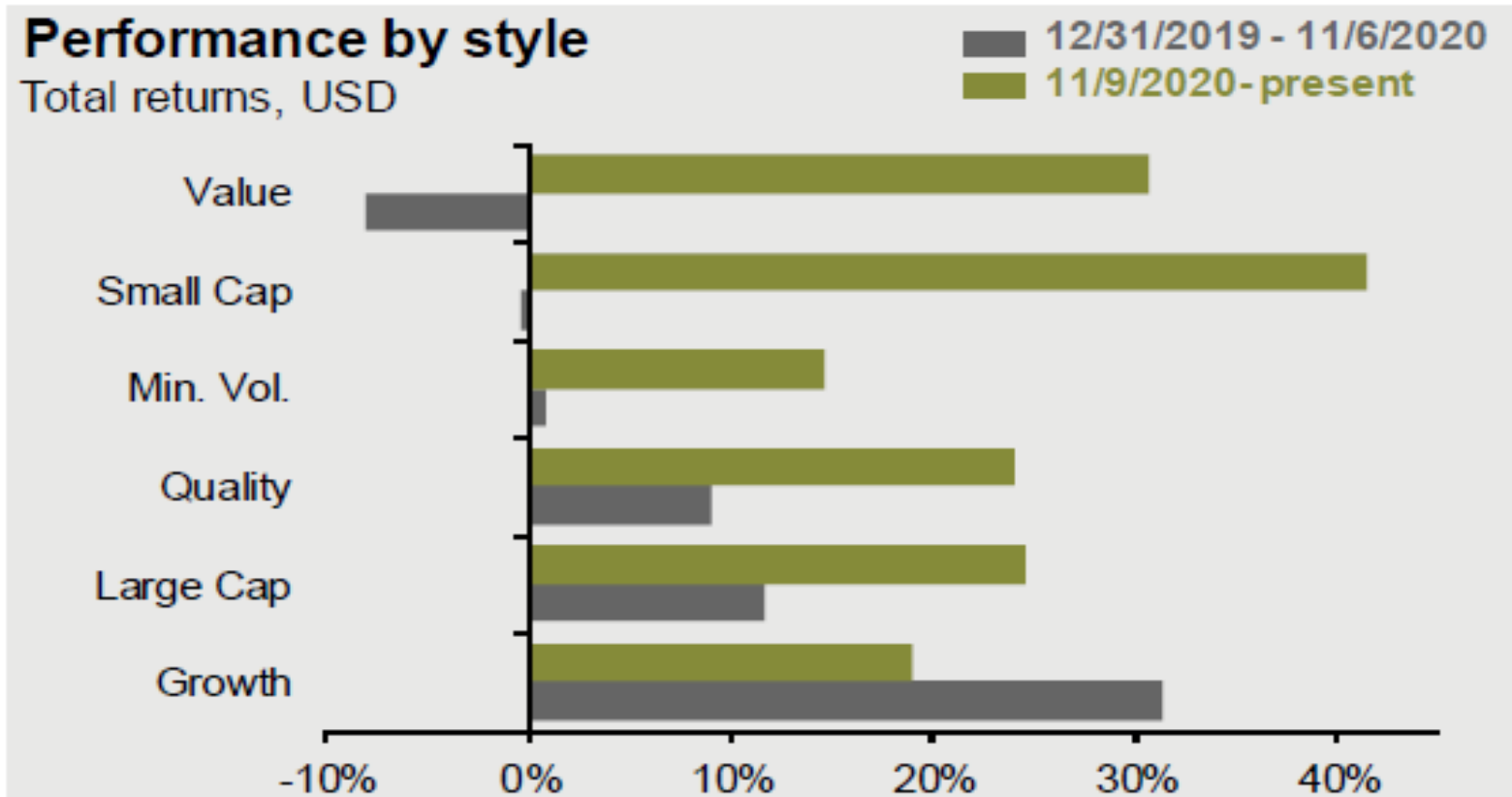


Pandemic Impact on Sector and Industry Returns



Source: JP Morgan Asset Management, FactSet, S&P.

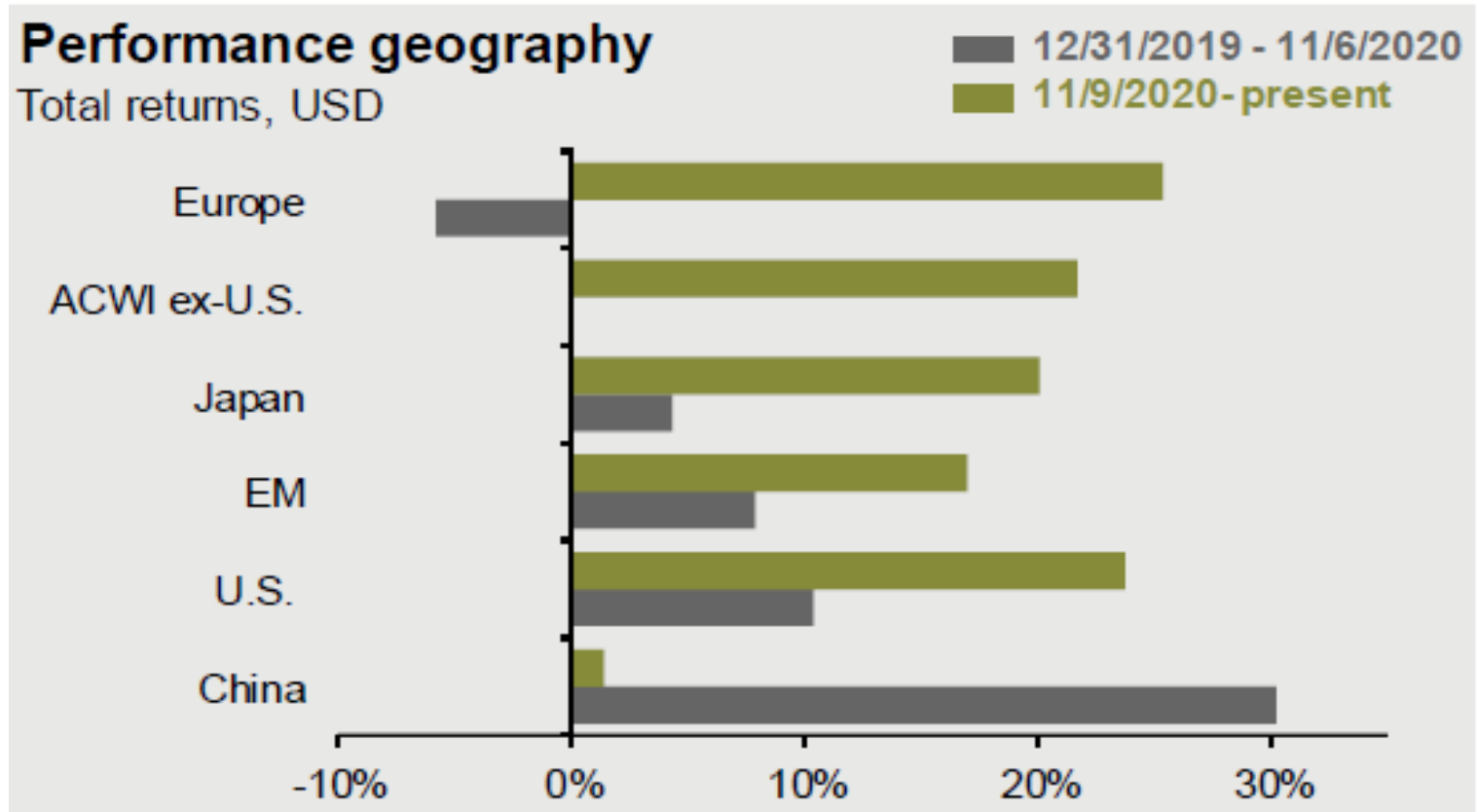
Pandemic Impact on Style Returns



Source: JP Morgan Asset Management, FactSet, S&P.



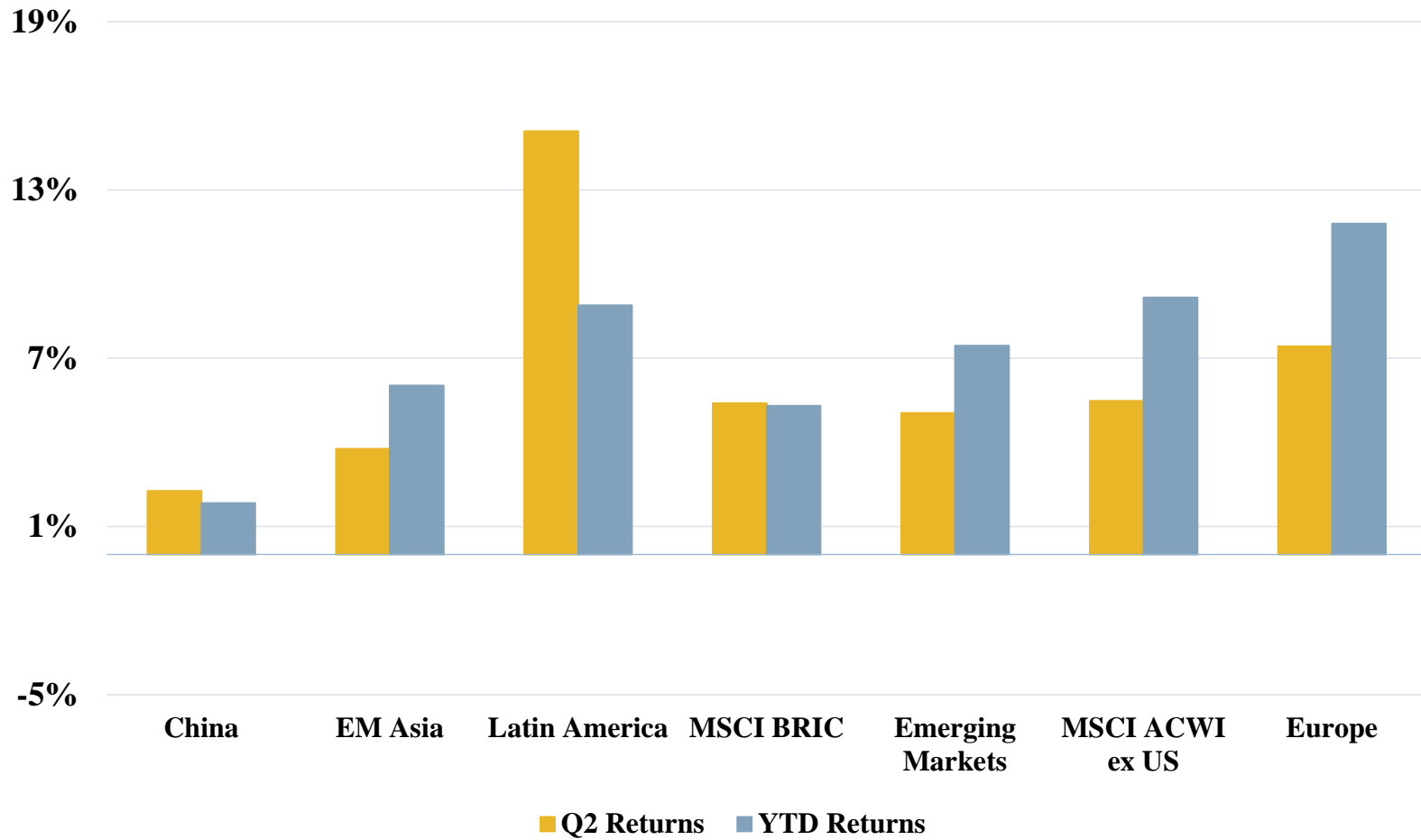
Pandemic Impact on Regional Returns



Source: JP Morgan Asset Management, FactSet, S&P.



Solid International Returns

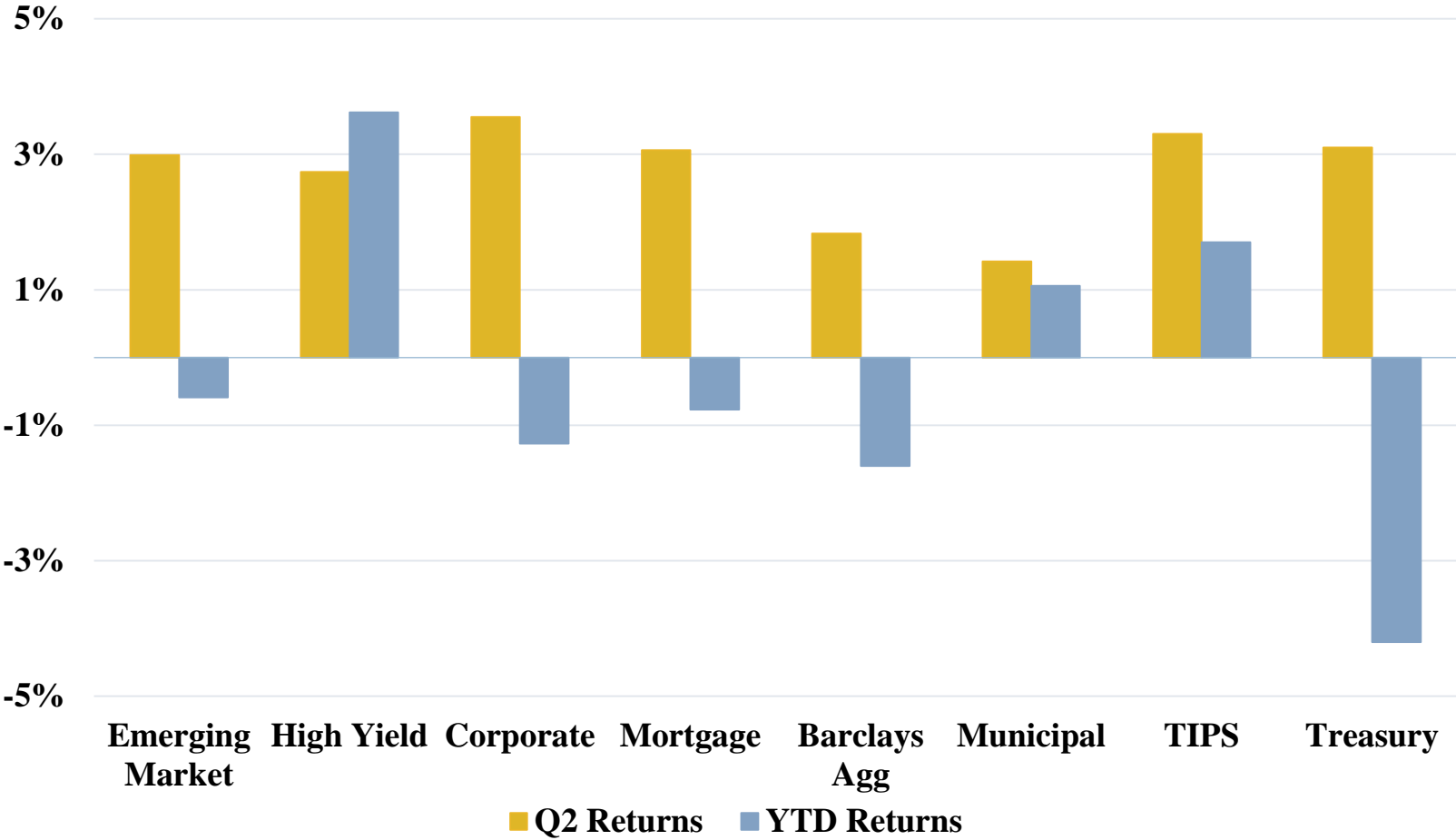


Past performance is no guarantee of future success. As of 6/30/2021

Returns in US dollars.



Surprise Dip in Interest Rates Helped Bonds



Past performance is no guarantee of future success. As of 6/30/2021

Source: Morningstar. Returns in US dollars.

SilverOak's Outlook



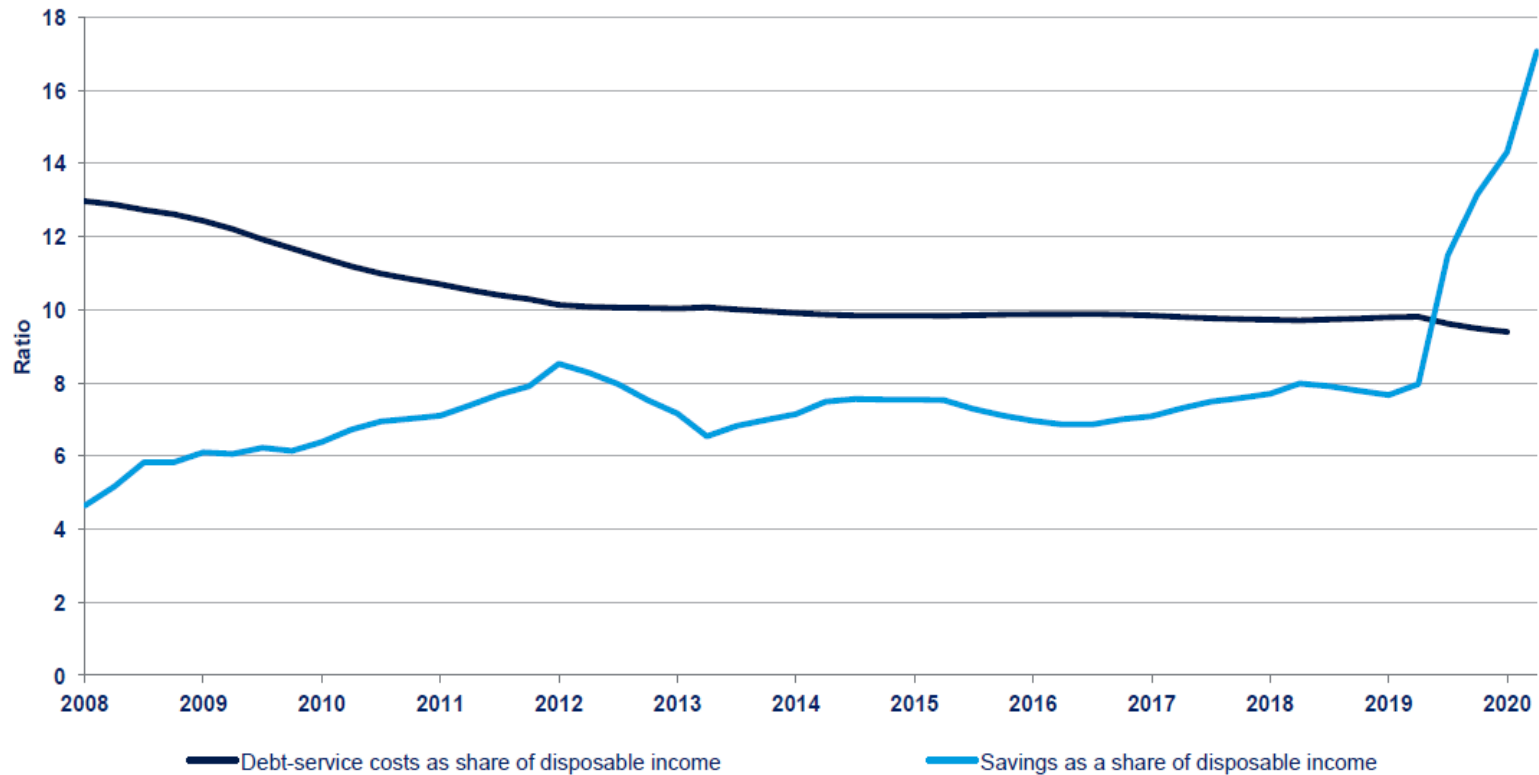
SilverOak's Outlook

■ U.S. Economy

- Economic recovery in full swing
 - Largely successful vaccine rollout has propelled the re-opening of the US economy
 - Recent Delta variant surge in the unvaccinated a potential risk to consumer confidence
- Inflation likely to be an issue through the rest of this year
 - Stimulus and pent-up demand
 - Constrained supply chains
 - Current debate is whether inflation is “transitory” or “permanent”
- Fiscal and Monetary policy likely to remain very accommodative
 - More fiscal stimulus?
 - At some point, Federal Reserve will need to signal a reduction in their bond purchases and an eventual normalization of rates
- Consumers in an excellent position to fuel future economic growth



US Consumers in Good Shape



Source: Commerce Department, Amundi, Bloomberg. Data as of March 31, 2021



SilverOak's Outlook

■ International Economy

- Most major countries should see economic recovery in second half as vaccine-related full economic reopening occurs
 - Europe starting to see signs of recovery
- Global fiscal and monetary policy likely to remain highly accommodative
- Global business cycle likely to enter early-cycle recovery mode in the second half of 2021
 - Global growth expected to exceed US growth in the second half of 2021 and in 2022

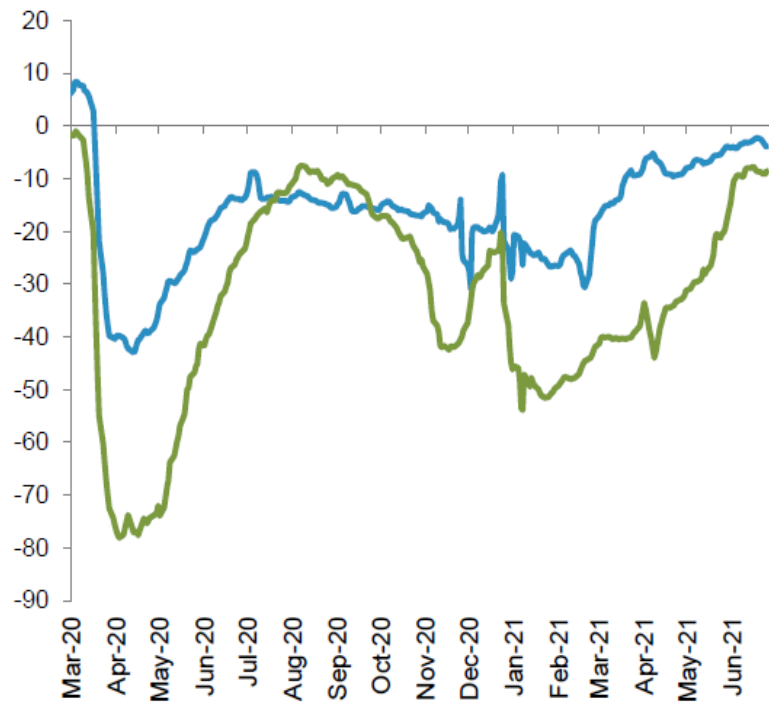


Europe Improving

Retail and Recreation Mobility

— United States — Major European Countries

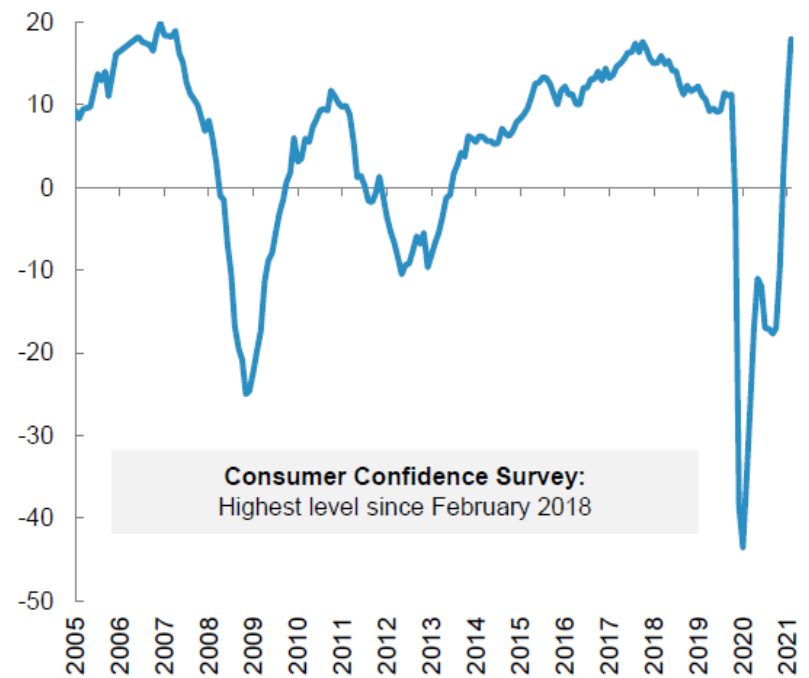
January 2020 = 0



Euro-Area Sentiment Surveys

— Service Industry Confidence

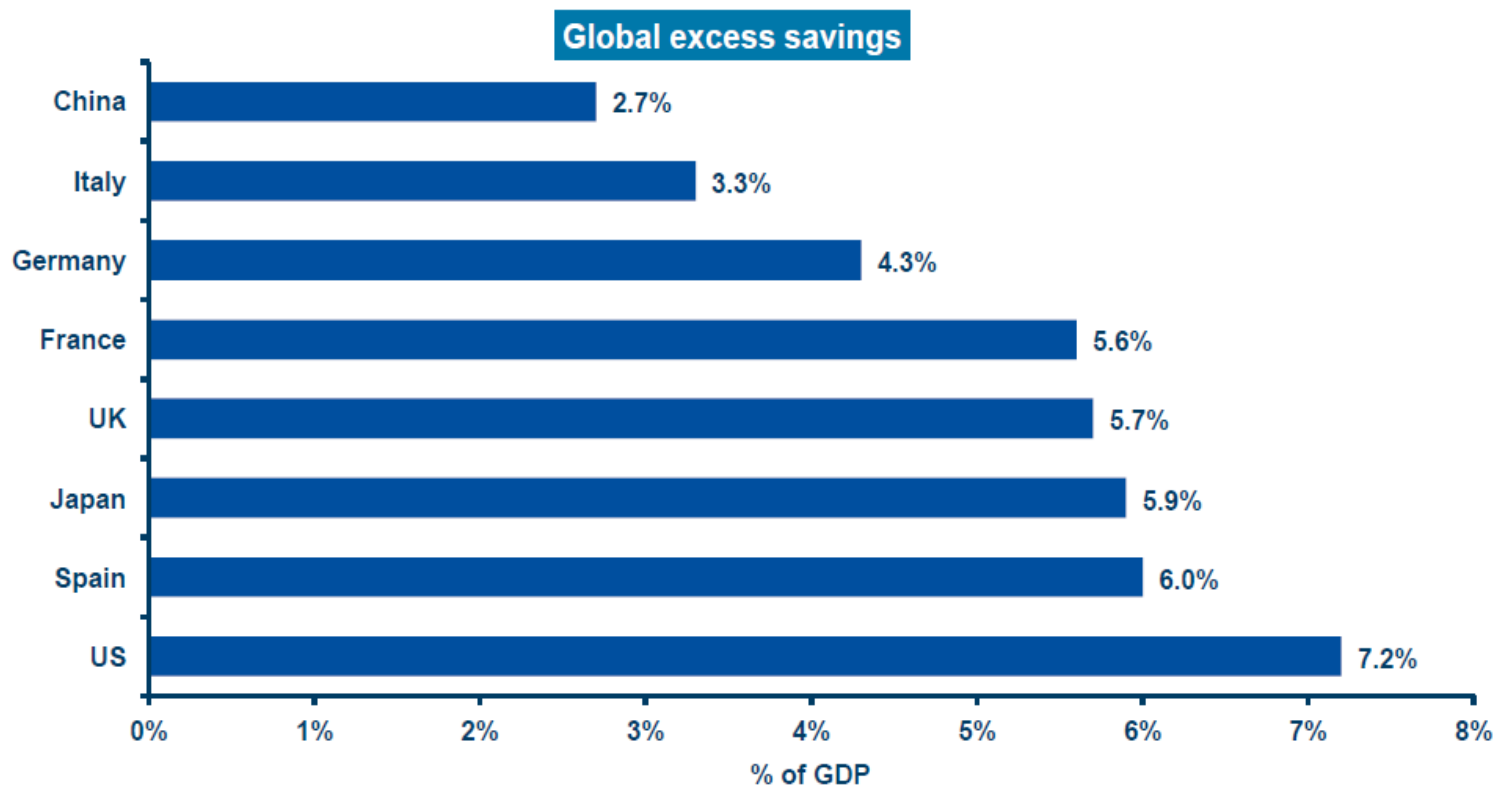
Index



Source: European Commission, Haver Analytics, Fidelity Investments. Data as of 6/30/2021



Strong Savings Could Lead to Strong Demand



Source: Amundi, Bloomberg. Data as of March, 2021



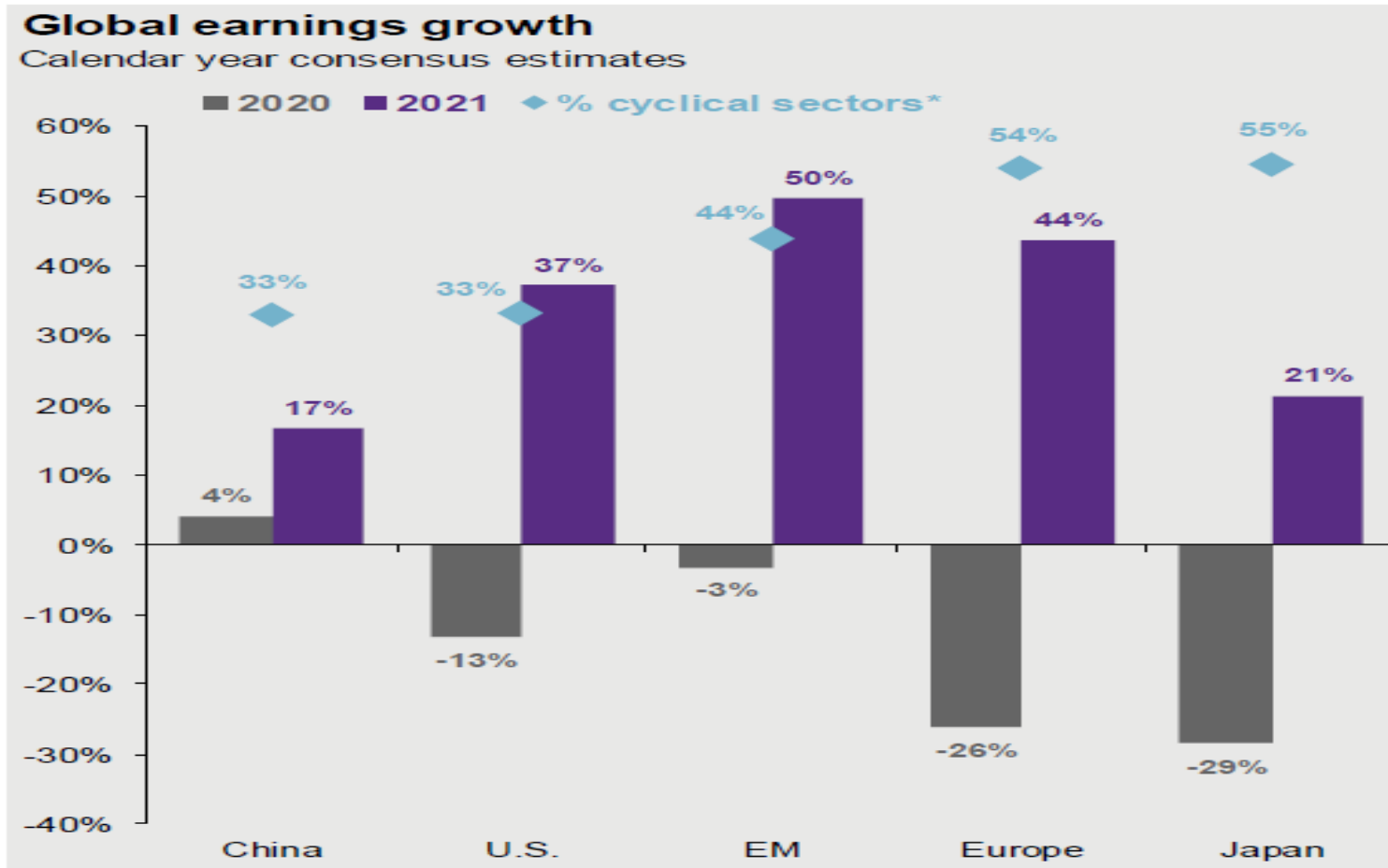
SilverOak's Outlook

■ Equities

- A broad-based earnings recovery likely to be supportive of stock valuation
- High asset valuations reflect positive expectations
 - Susceptible to pullback due to Delta variant
 - Also susceptible to possible changes in U.S. tax structure
- Volatility may increase as expectations adjust to a post-pandemic landscape
 - Potential for rising interest rates and inflation
 - Timing and magnitude of less Fed support an open question
 - Fiscal support will eventually wane
- Growth valuation is stretched
 - Rotation into value and international appears to be in early stage
- Cyclical outlook still remains constructive



Rebound in Earnings Could Spur International



Source: FactSet, S&P, Thomson Reuters, JP Morgan Asset Management.



SilverOak's Outlook

■ Bonds

- Returns dependent on interest rates and credit spreads
 - Likely to provide lower returns than in prior years
 - Very rarely see two years in a row of negative returns
- Fed providing unprecedented liquidity and support
 - Moved up the potential for rate hikes later in 2022 vs. prior guidance of 2023
- Rates could increase modestly in second half
- Continue to provide downside protection



SilverOak Updates



SilverOak Updates

- **IQSStm (Investment Quality Scoring Systemtm)**
 - Performance update
- **Upcoming white papers**
 - Moving checklist
 - Inflation
 - Behavioral
- **Update on SilverOak's business continuity plan**
 - Offices are open for in-person meetings
 - SilverOak team transitioning back into office



SilverOak Updates

- **New Team members**
 - We have added two new team members
 - Two new additional team members are expected by year-end
- **SilverOak will be moving in October/November**
 - Building next door



Perspectives on Cryptocurrencies



Cryptocurrency Basics

- **Digital assets/currencies**
 - Based on block chain technology
 - Facilitate electronic and peer-to-peer transactions
 - No intermediary, like a bank, required
 - Can transfer globally 24/7 quickly and with low fees
- **Stored in a “digital wallet”, on holder’s phone, computer or in the cloud**
 - “Wallet” serves as a bank account
- **Operate without central banks and are not backed by any government**
 - Lightly regulated



Cryptocurrency Examples

- **Bitcoin is the largest cryptocurrency by market cap**
- **Ethereum**
 - Currently 2nd largest market cap after bitcoin
 - Ether is used on the Ethereum network and is often used in DeFi transactions
 - Other cryptocurrencies are built on the platform as it enables developers to build applications such as “smart contracts” and NFTs (non-fungible tokens), which have been used for digital art and other virtual collectibles
- **Stablecoins are pegged to another cryptocurrency, fiat money or assets**
 - Tether and USD Coin are the largest stablecoins and are pegged to the U.S. Dollar
- **Altcoins**
 - Thousands of other altcoins that each have their own protocols (Dogecoin)



Bitcoin

- **Created in 2008**
- **Largest market cap**
- **Transactions have no counterparty risk due to blockchain technology**
- **Easily divisible**
- **Demand continues to grow while supply is approaching 21 million coin limit**
 - Miners continue to “create” new bitcoin by verifying blockchain



Bitcoin

- **Estimated 30-100 million holders in the United States**
 - Strong network effects have increased the interest and value
 - Starting to gain institutional investor acceptance
- **Popular in emerging countries**
 - Perceived as a more secure method of payment and store of value than local currency
 - Protection against inflation and currency devaluation
 - Efficient transferability makes it desirable for remittances
- **Potentially lower correlation to traditional financial assets**
 - Possibly similar to gold, art and other collectibles
- **Highly volatile**
 - Public float is estimated to be as little as 3 million coins



What Cryptocurrencies Are Not

- **Not a traditional currency**
 - Not widely accepted
 - Not a unit of account
 - Invoicing and contracts not currently quoted in digital currency units
 - Not necessarily a store of value
 - High volatility
 - Not backed by any central bank
 - Some central banks are working to digitize their own country's currency, including the U.S.



What Cryptocurrencies Are Not

- **Not a traditional commodity**
 - Not a physical raw commodity
 - Not a precious metal
- **Not a stock, bond or traditional real estate investment**
 - No dividends, interest or cash flow from rents
 - Valuation methods not as widely accepted
 - Volatility is higher
 - Correlation is low
 - Harder to hold as an investment



What are Cryptocurrencies?

- **Most optimistically, a future means to widely exchange goods and services**
 - If so, which will be “the one” - - - Does anyone remember AOL or Yahoo?
- **Potentially a “diversifier”**
 - Lower correlated asset to traditional investments
 - Possible inflation hedge
- **Certainly a more speculative investment**
 - High risk with potential for high reward



Cryptocurrency Risks

- **Extremely volatile**
- **No centralized pricing mechanism**
- **Potential competition from central bank digital currencies**
 - US Federal Reserve and Chinese central bank both studying digital currencies
- **Uncertain regulatory environment**
 - While more regulation likely, an outright ban may be difficult
 - Currently lightly regulated in part by SEC, CFTC, Treasury Department, Federal Reserve, IRS
 - Recent crackdown by China
- **Custody/Cybersecurity risks**
 - Exchanges have been hacked
 - Mismanagement of private keys could be costly



Cryptocurrency Criticisms

- **Concerns regarding illegal activity and money laundering**
- **Mining is energy intensive**
- **Taxation**
- **Media and Social Media confusion**
- **Polarized views**
- **Subject to behavioral biases**
 - FOMO (Fear of Missing Out)
- **Difficult to value**
 - Price is determined by supply/demand dynamics
 - Fundamental data is becoming more available but metrics and models are new to most investors



Cryptocurrency Opportunity

▪ Cryptocurrencies

- Store of wealth
 - Protection from seizure
 - Alternative to fiat currency for many in the emerging markets
- Alternative asset
 - Similar to art, music and other collectibles

▪ Blockchain

- Global settlement network
 - Block chain technology is being widely adopted
- Smart contracts
 - When agreed upon conditions are met, contract terms are automatically implemented
- Decentralized finance (DeFi)
 - Continues to challenge the existing centralized financial system



Should You Invest in Bitcoin??

- **May not be prudent for most investors!**
 - Understand the risk
 - “Play your own game”
- **Know why you want to own it**
- **If you choose to invest:**
 - Invest no more than you are willing to lose
 - Install limits such as 1% of your portfolio
 - Treat it as a learning experience
- **Prioritize other financial goals first**
- **Not available on most brokerage platforms, yet**



*Additional
Questions
and/or Topics?*



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

