



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar
July 27, 2018

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

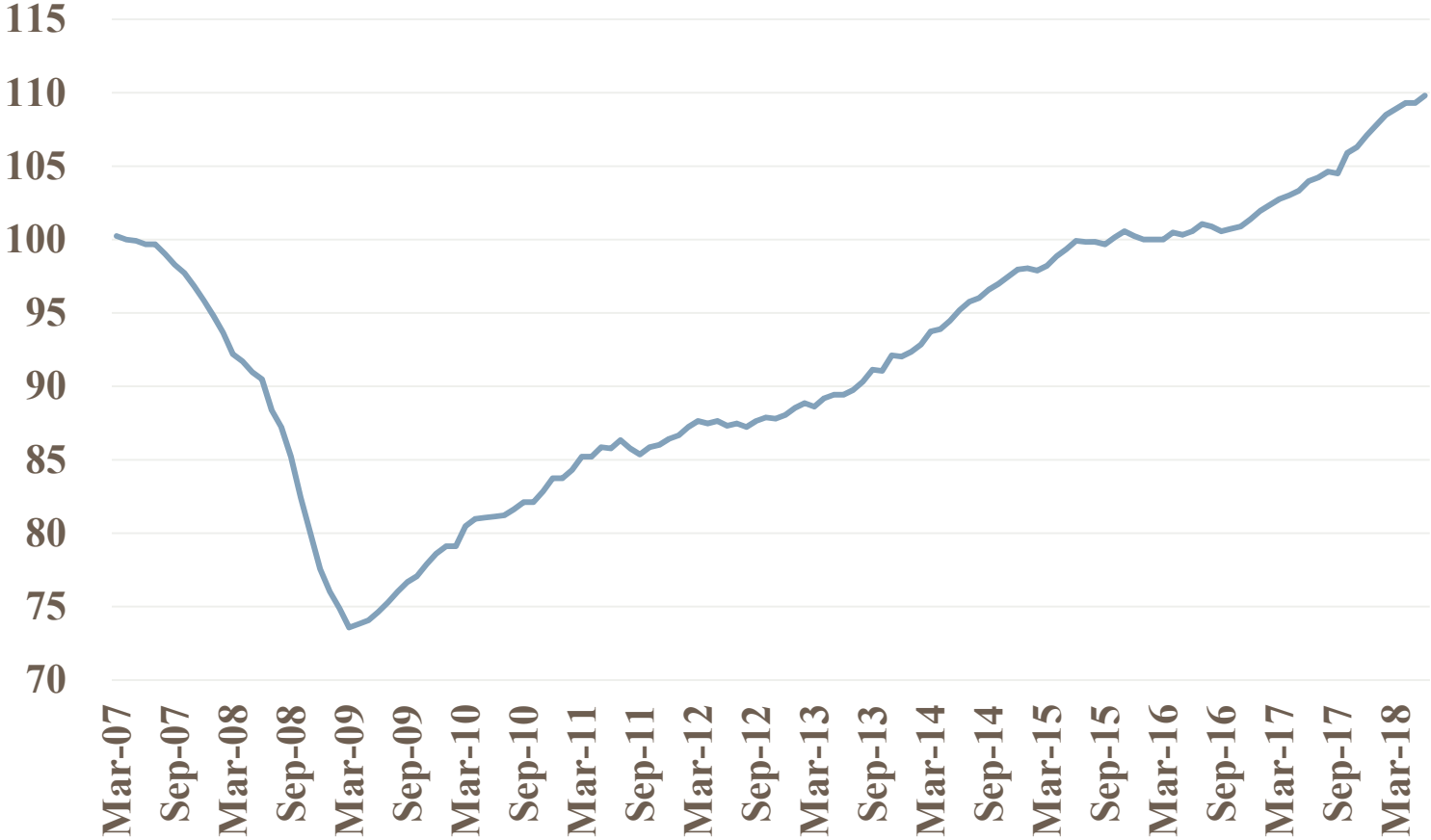
Agenda

- Economic data
- Market data
- Q&A Follow-up
 - Is SilverOak concerned about the increasing budget deficit and outstanding debt?
 - How could this impact investment decisions?
 - How does SilverOak decide where to invest money in client portfolios?
- Additional questions and/or topics

*Economy:
Strong Growth
During 2nd Quarter*

Leading Indicators Continue to Trend Higher

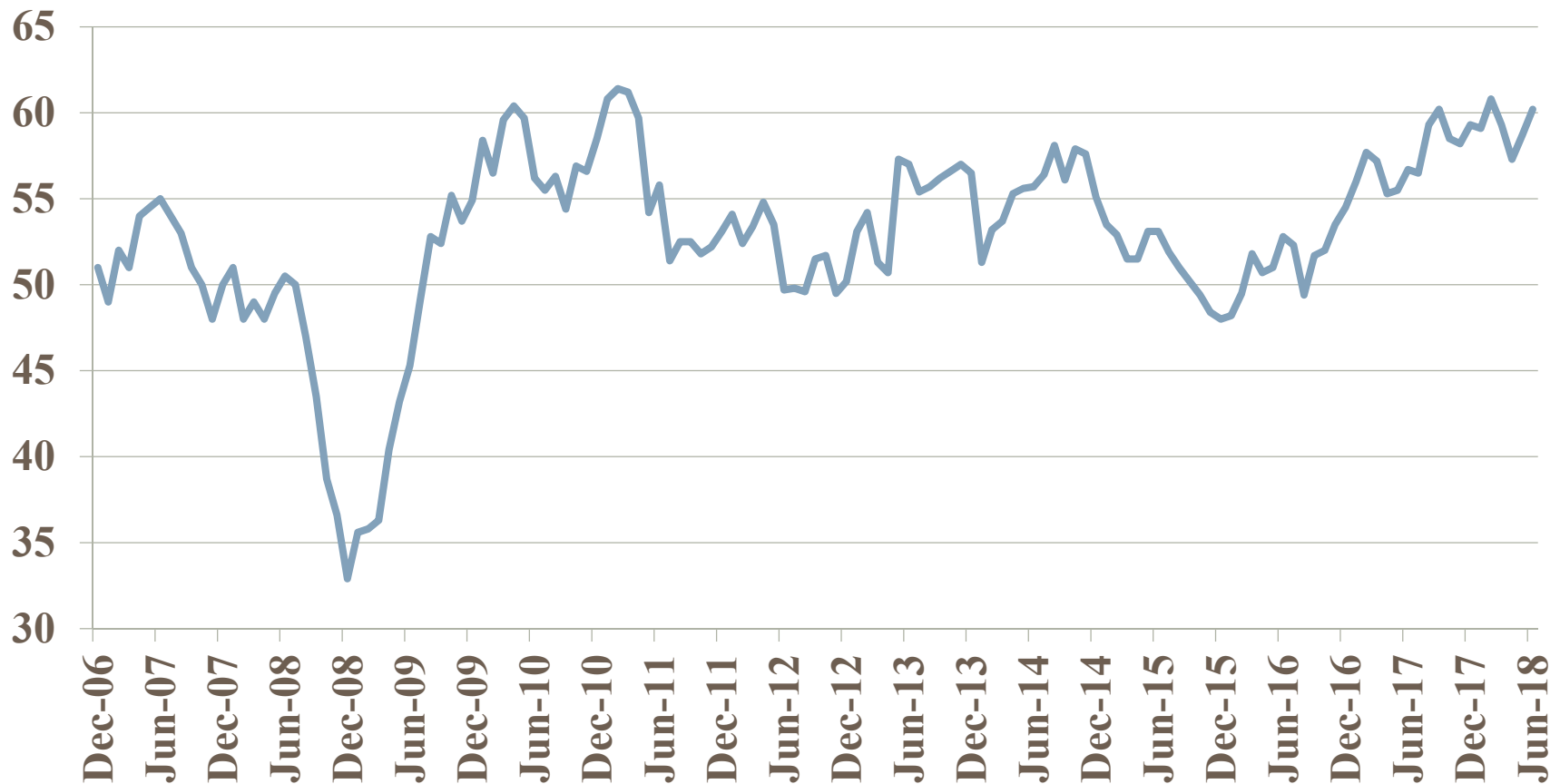
— Leading Economic Indicator Index



Source: The Conference Board

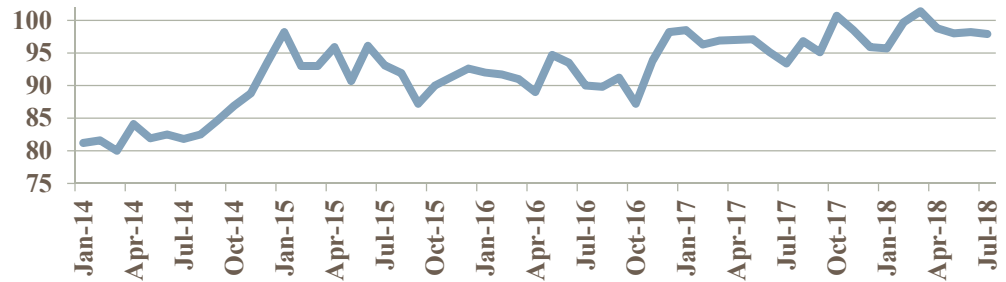
Manufacturing Activity Remains Strong

Purchasing Managers Index (PMI)

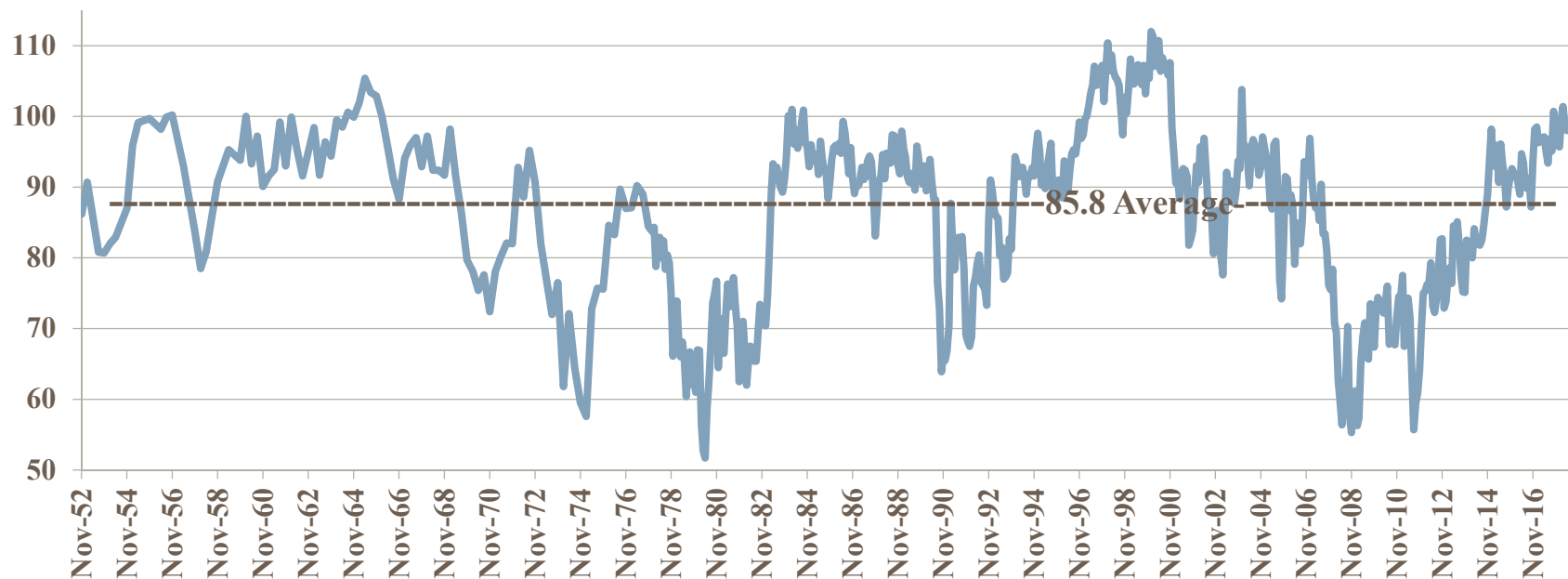


Source: Institute for Supply Management

Consumer Confidence Remains High

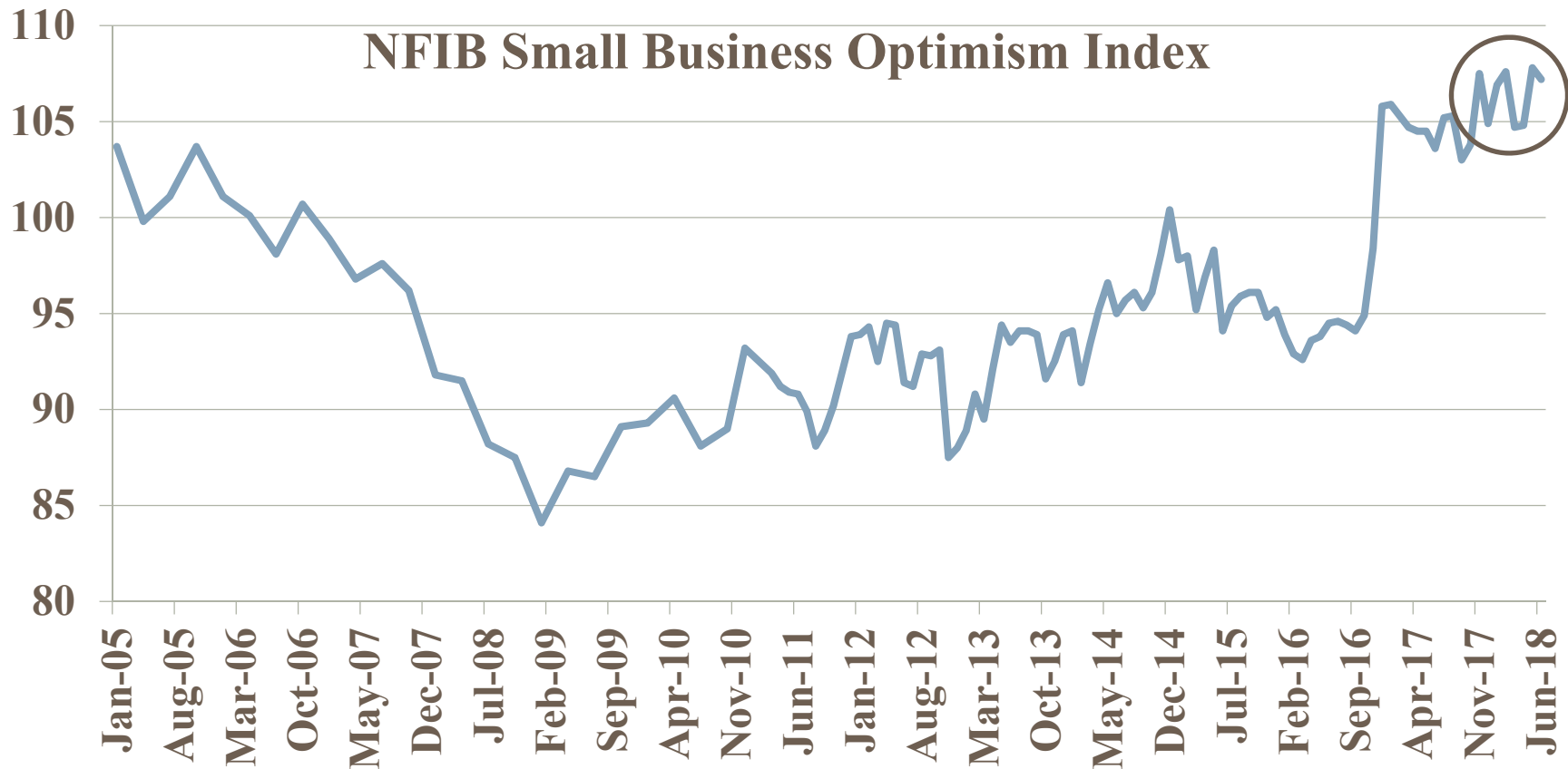


University of Michigan Consumer Sentiment Index



Source: The University of Michigan

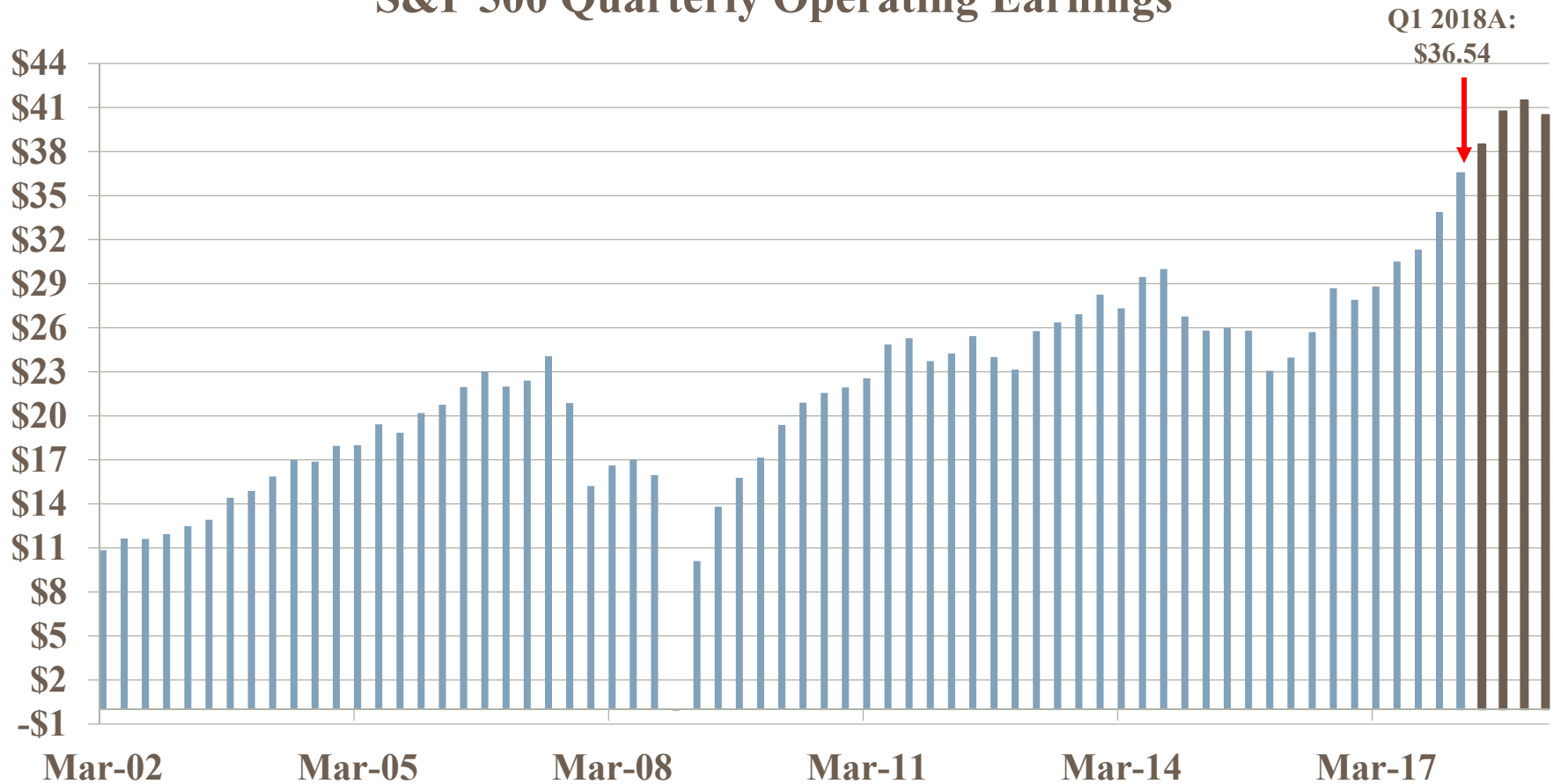
Small Business Confidence Remains High



Source: National Federation of Independent Business

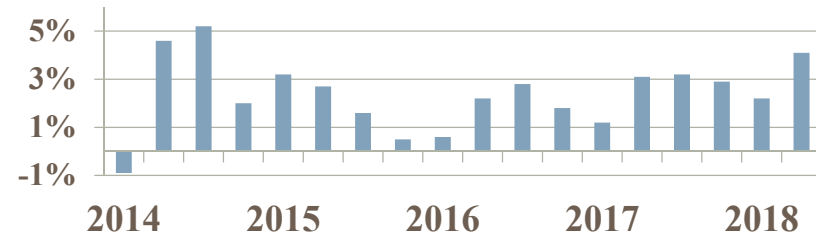
Earnings Hit New Highs

S&P 500 Quarterly Operating Earnings

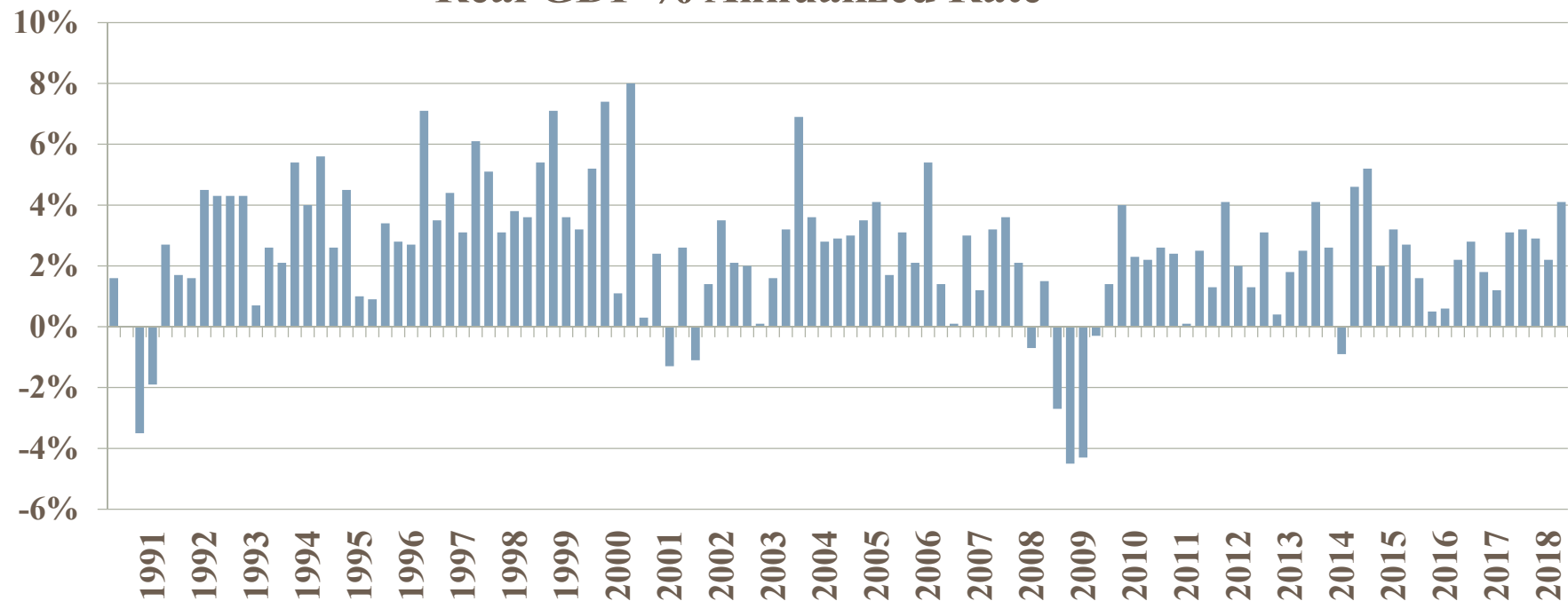


Source: Standard & Poor's, J.P. Morgan Asset Management

Strong GDP Growth In the 2nd Quarter



Real GDP % Annualized Rate



Source: Bureau of Economic Analysis

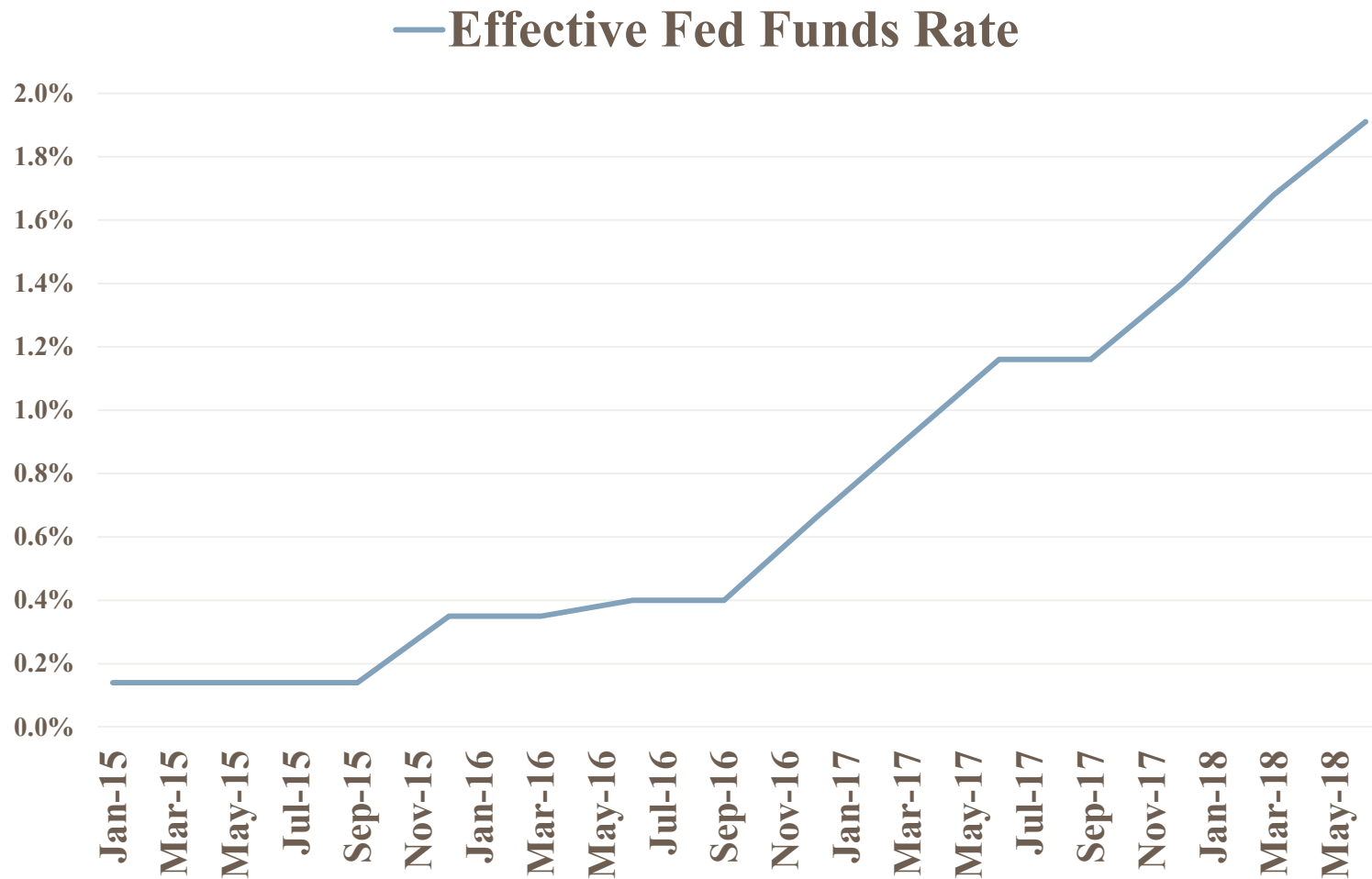
US Dollar Strong

U.S Dollar Index



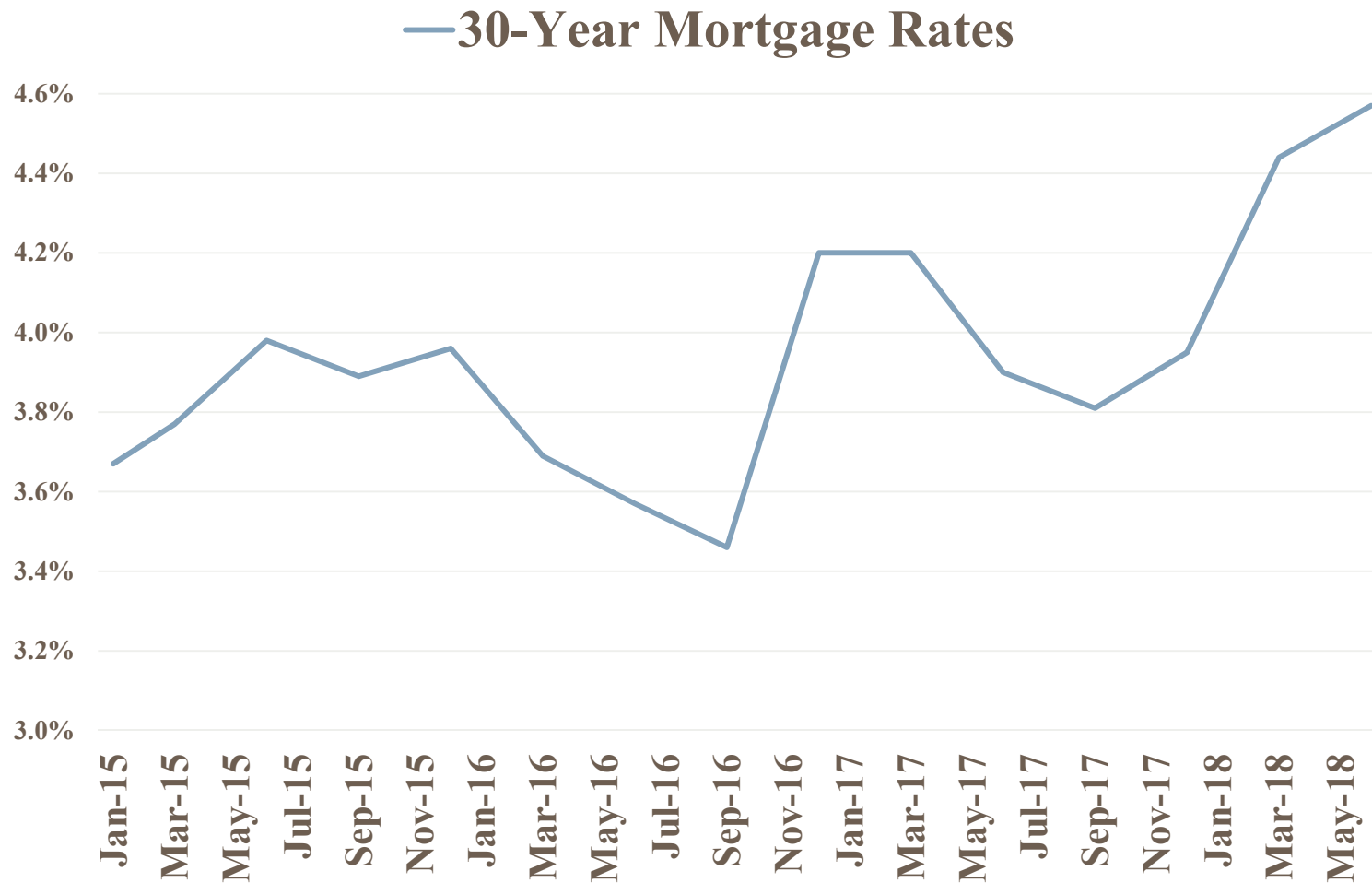
Trade Weighted U.S. Dollar Index: Major Currencies
Past performance is no guarantee of future success

Increase in Fed Funds Rate



Source: Board of Governors of the Federal Reserve System

Increase in Mortgage Rates



Source: Board of Governors of the Federal Reserve System

Current Economic Factors Scorecard

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

Eurozone ↓

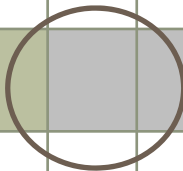
China

Negative

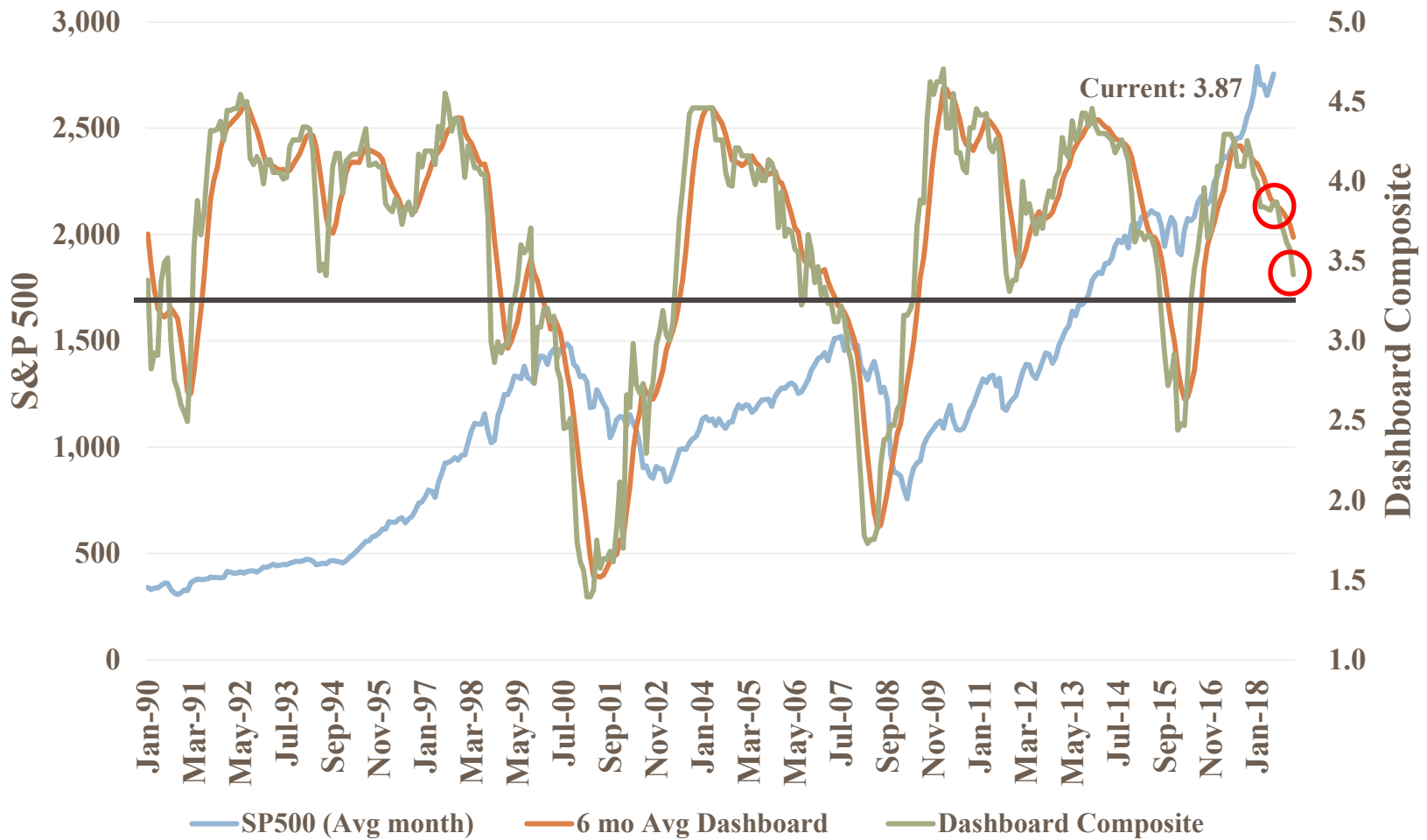
Geopolitics (-)

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
Economy	Green	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green
Credit Markets	Green	Green	Grey	Grey	Grey	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Valuations	Grey	Grey	Grey	Grey	Grey	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Market Sentiment	Green	Green	Grey	Grey	Red	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey
Composite	Green	Green	Grey	Grey	Red	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green



Market Dashboard



*Markets:
Mixed Returns
During 2nd Quarter*

Market Summary

■ Equity market performance

	<u>Q2</u>	<u>1-Year</u>
– US large cap		
• S&P 500	+3.4%	+14.4%
– US mid cap		
• Russell Midcap	+2.8%	+12.3%
– US small cap		
• Russell 2000	+7.8%	+17.6%
– International equities		
• MSCI ACWI ex US	-2.6%	+7.3%
– International small cap		
• MSCI ACWI ex US SMID	-2.2%	+9.7%
– Emerging markets		
• MSCI Emerging Markets	-8.0%	+8.2%

Market Summary

■ Bonds and other asset class performance

	<u>Q2</u>	<u>1-Year</u>
– US fixed income		
• Barclay's Aggregate	-0.2%	-0.4%
– Global fixed income		
• Barclay's Global ex US	-4.8%	+2.8%
– Commodities		
• Bloomberg Commodity TR	-0.4%	+3.7%
– Long short		
• Morningstar Long Short	+0.4%	+7.4%
– REITS		
• MSCI US REIT	+9.8%	+2.2%

Equity Market Conditions

■ Second Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	1.2%	3.4%	5.8%
Mid	2.4%	2.8%	3.2%
Small	8.3%	7.8%	7.2%

■ 1-Year

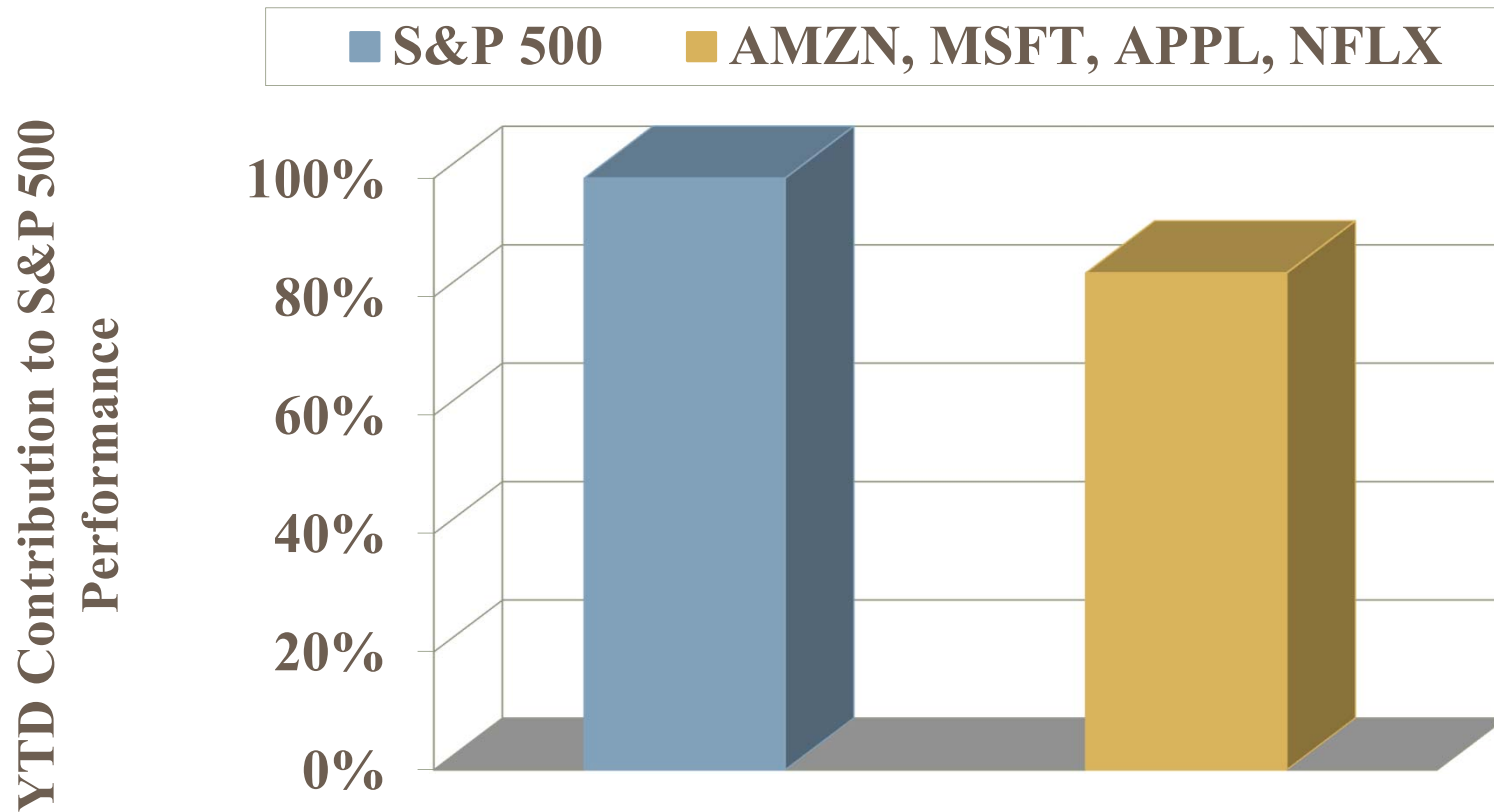
	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	6.8%	14.4%	22.5%
Mid	7.6%	12.3%	18.5%
Small	13.1%	17.6%	21.9%

All calculations are cumulative total return as of 6/30/2018.

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

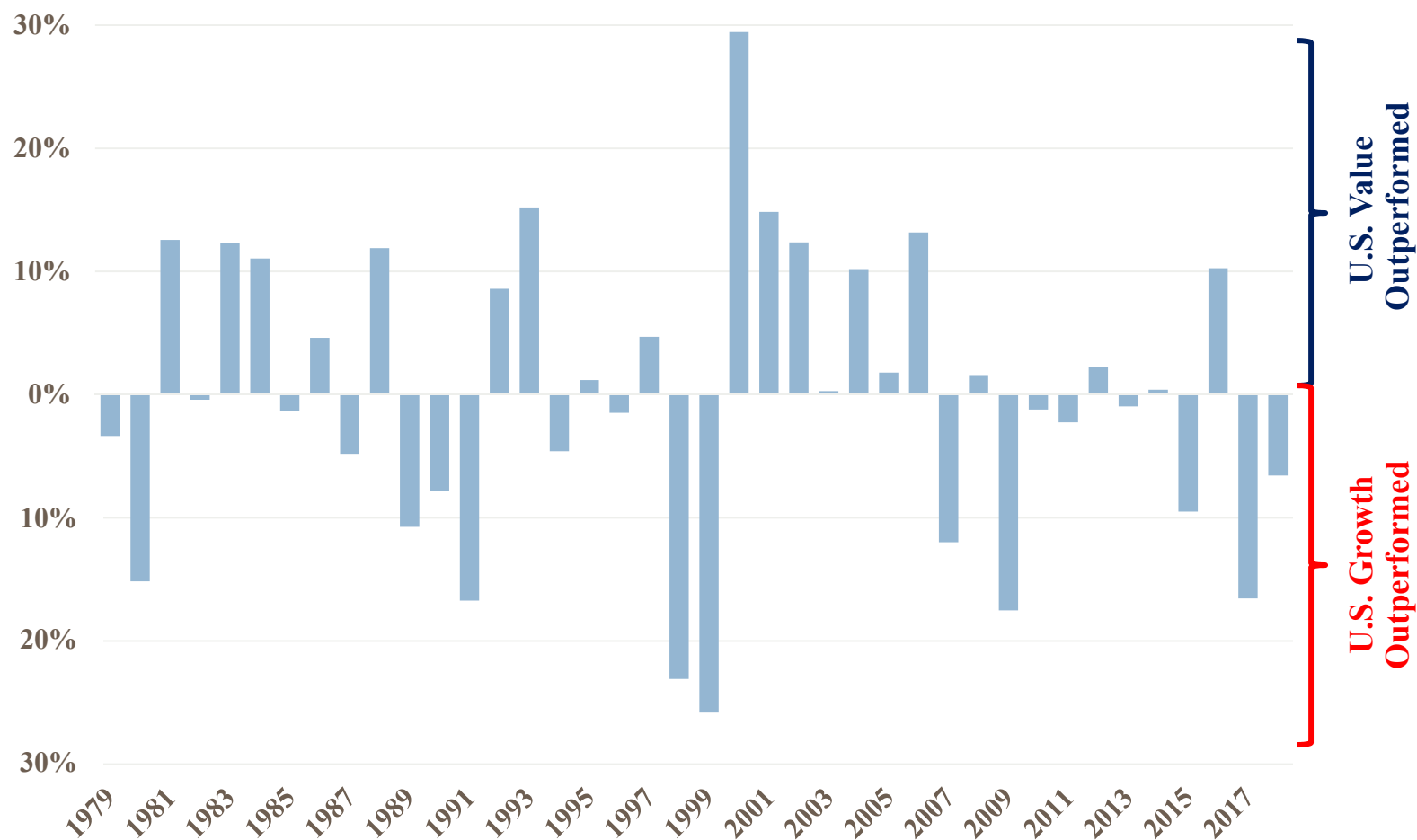
Past performance is no guarantee of future success.

S&P 500 Performance Was Extremely Narrow



Data as of 6/30/2018

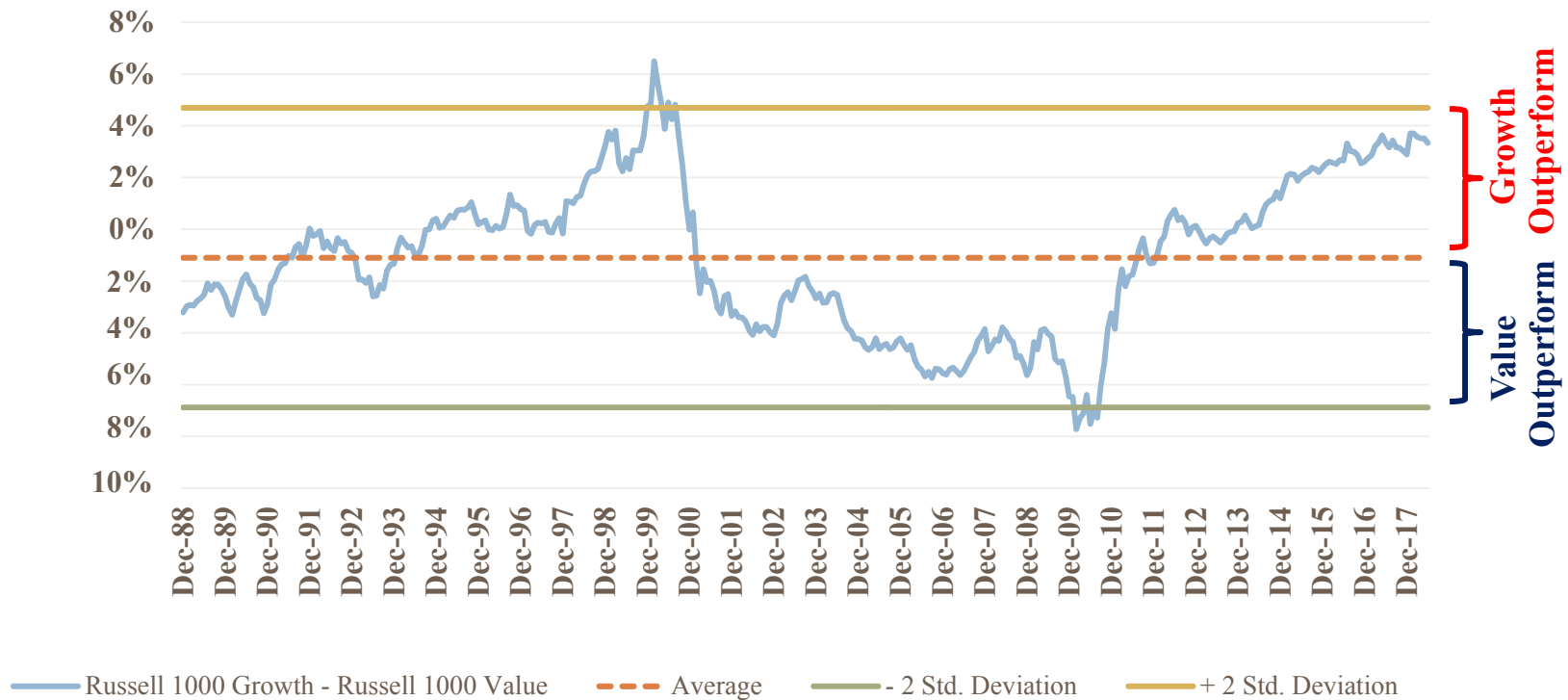
U.S. Value vs. Growth Equities



Based on Russell 1000 Value TR and Russell 1000 Growth TR Indices , as of 5/21/18

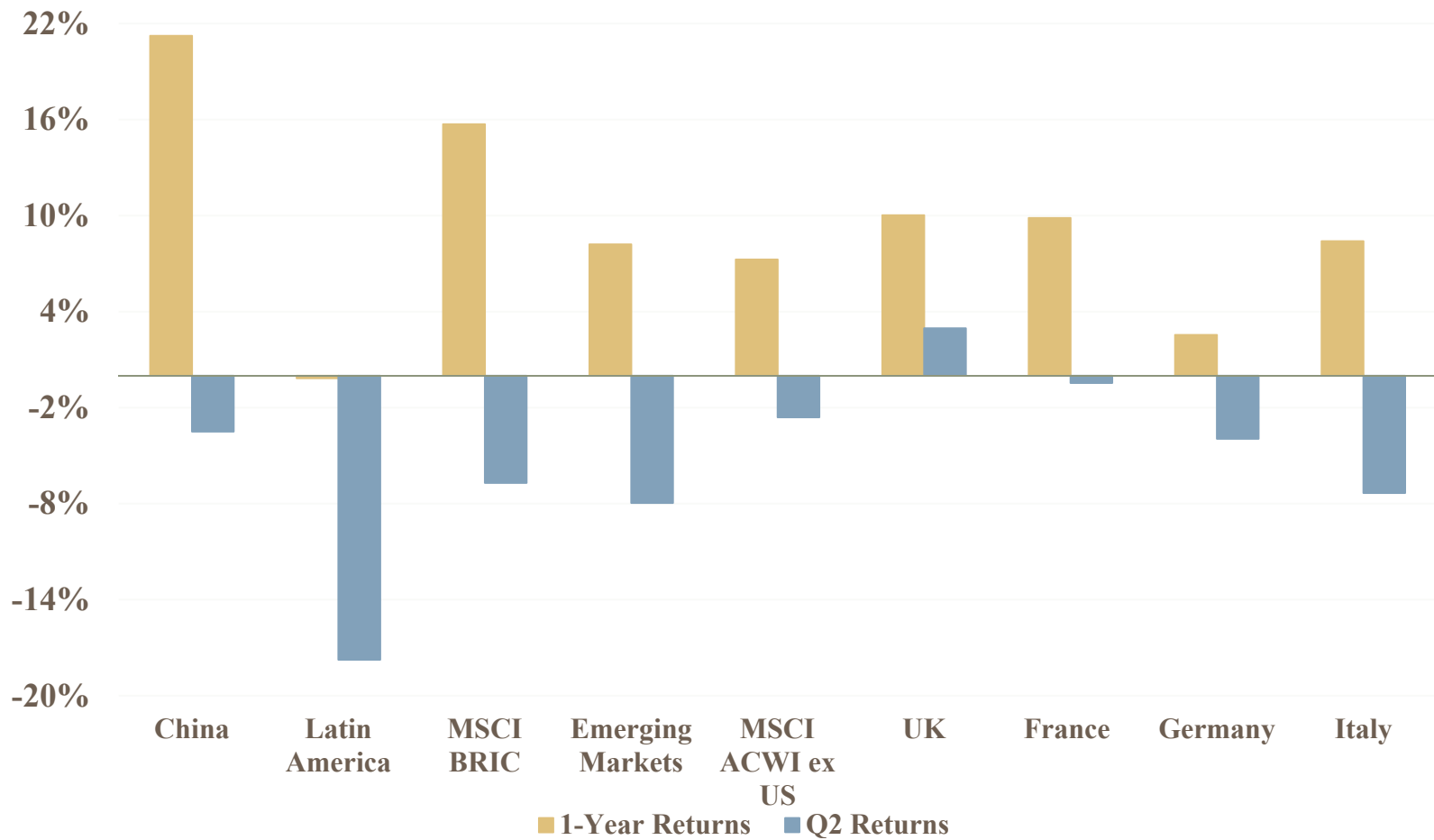
Growth Cycle Near a Peak?

Annualized Trailing 10-Year Relative Total Return
Russell 1000 Growth – Russell 1000 Value



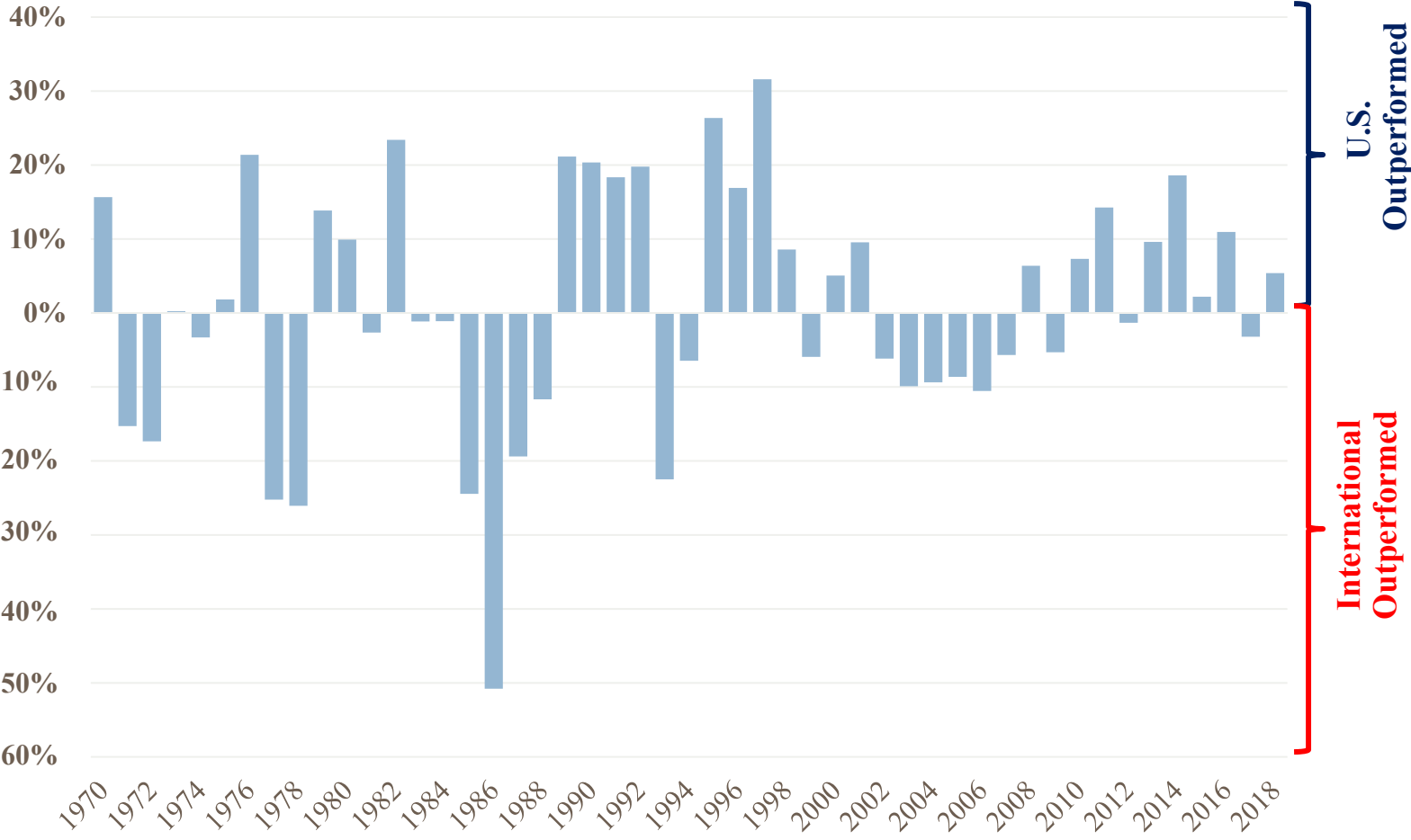
Source: Morningstar, as of 6/30/2018. Past performance is no guarantee of future success.

Strong Dollar and Tariffs Hit Int'l Equities



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

U.S. vs. International Equities



Based on S&P 500 TR and MSCI EAFE NR Indices, as of 6/30/18

Significant Performance Gap

MSCI All Country World ex-U.S. and S&P 500 Indices

Dec. 1996 = 100, U.S. dollar, price return



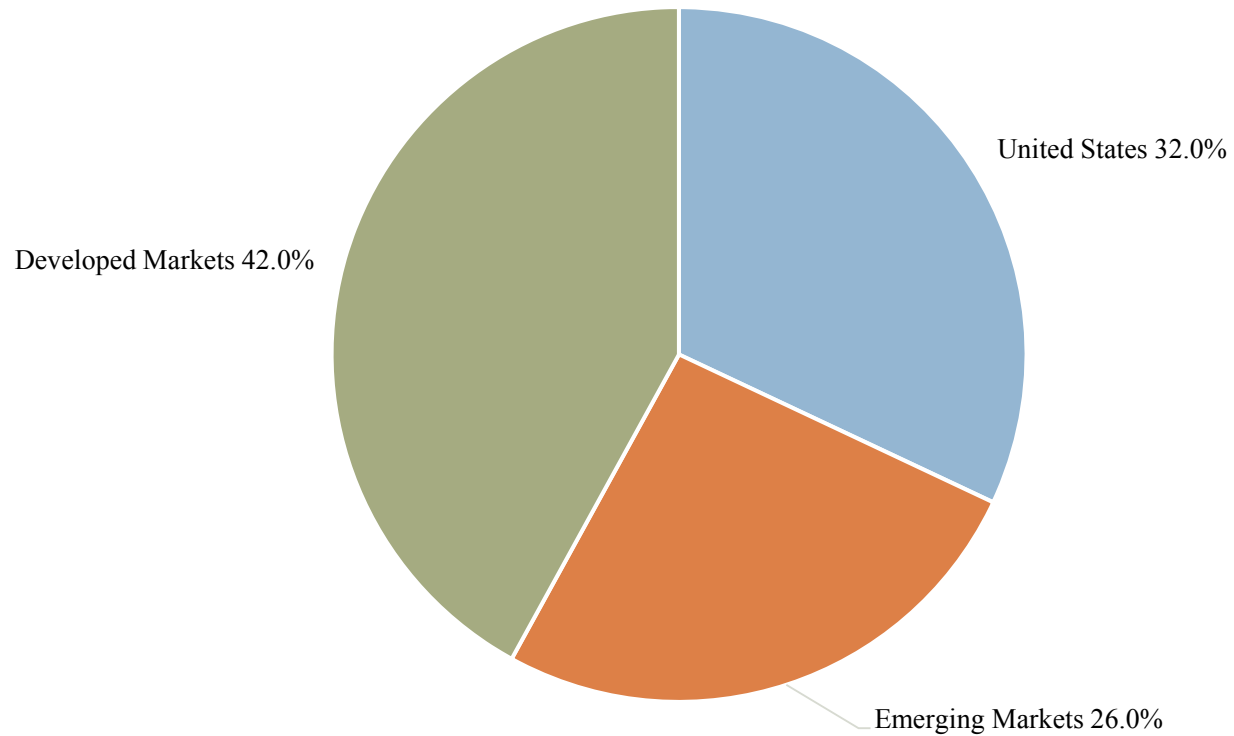
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – U.S. Data are as of June 30, 2018.

Global Equity Markets

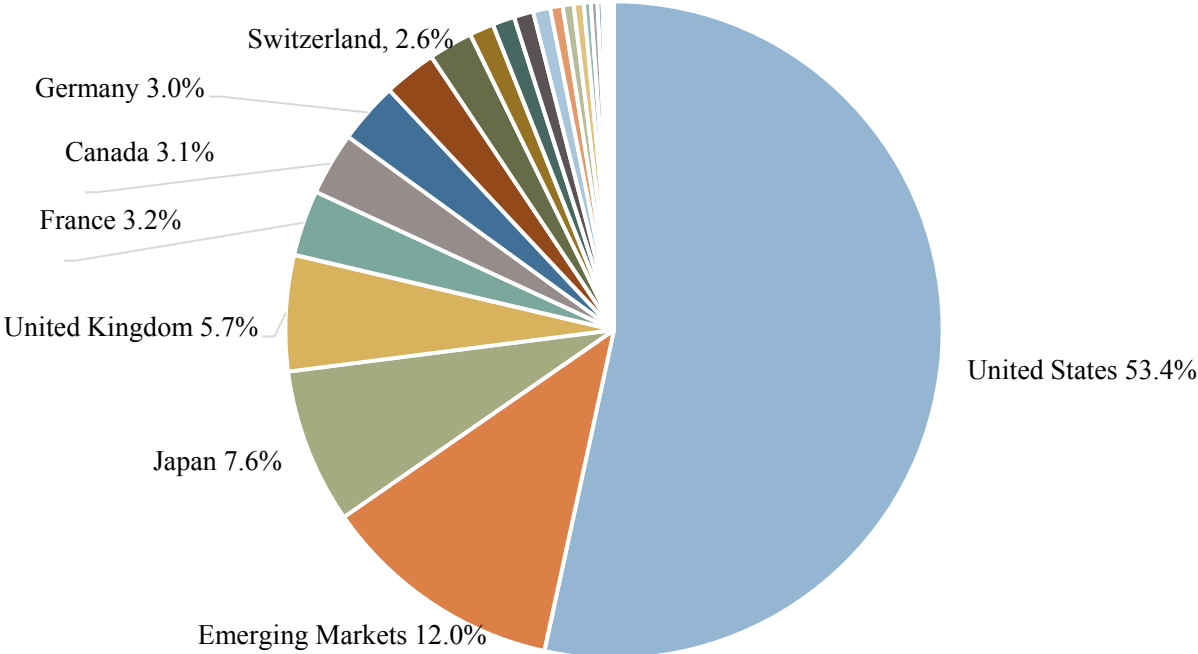
Total Global Market Capitalization



Source: Charles Schwab, Data as of 2015

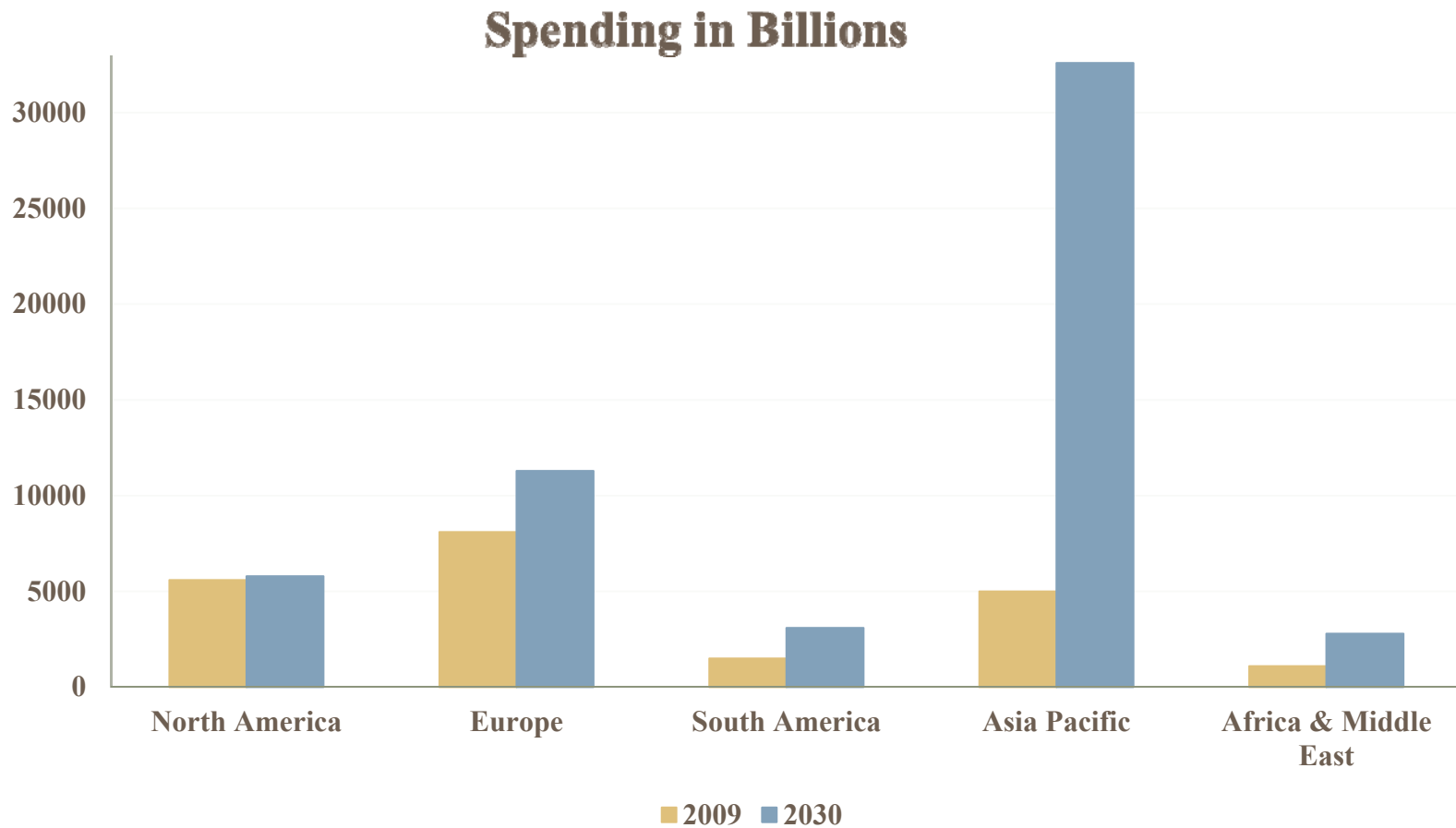
Global Equity Markets

Country Weighting in MSCI ACWI



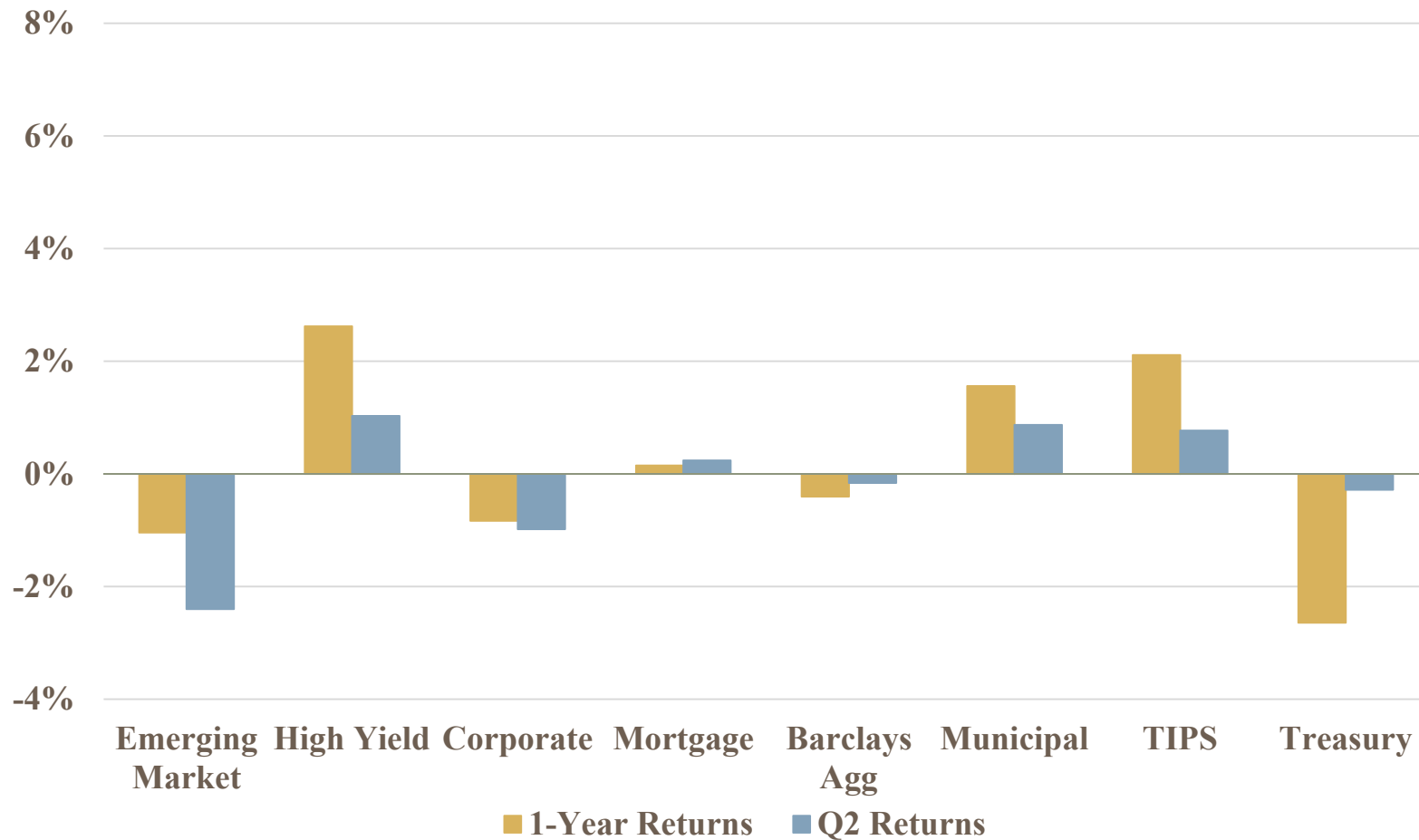
Source: MSCI, Data as of 7/20/2018

Rising Global Middle-Class Consumption



Source: Charles Schwab, data from *The Emerging Middle Class in Developing Countries*.

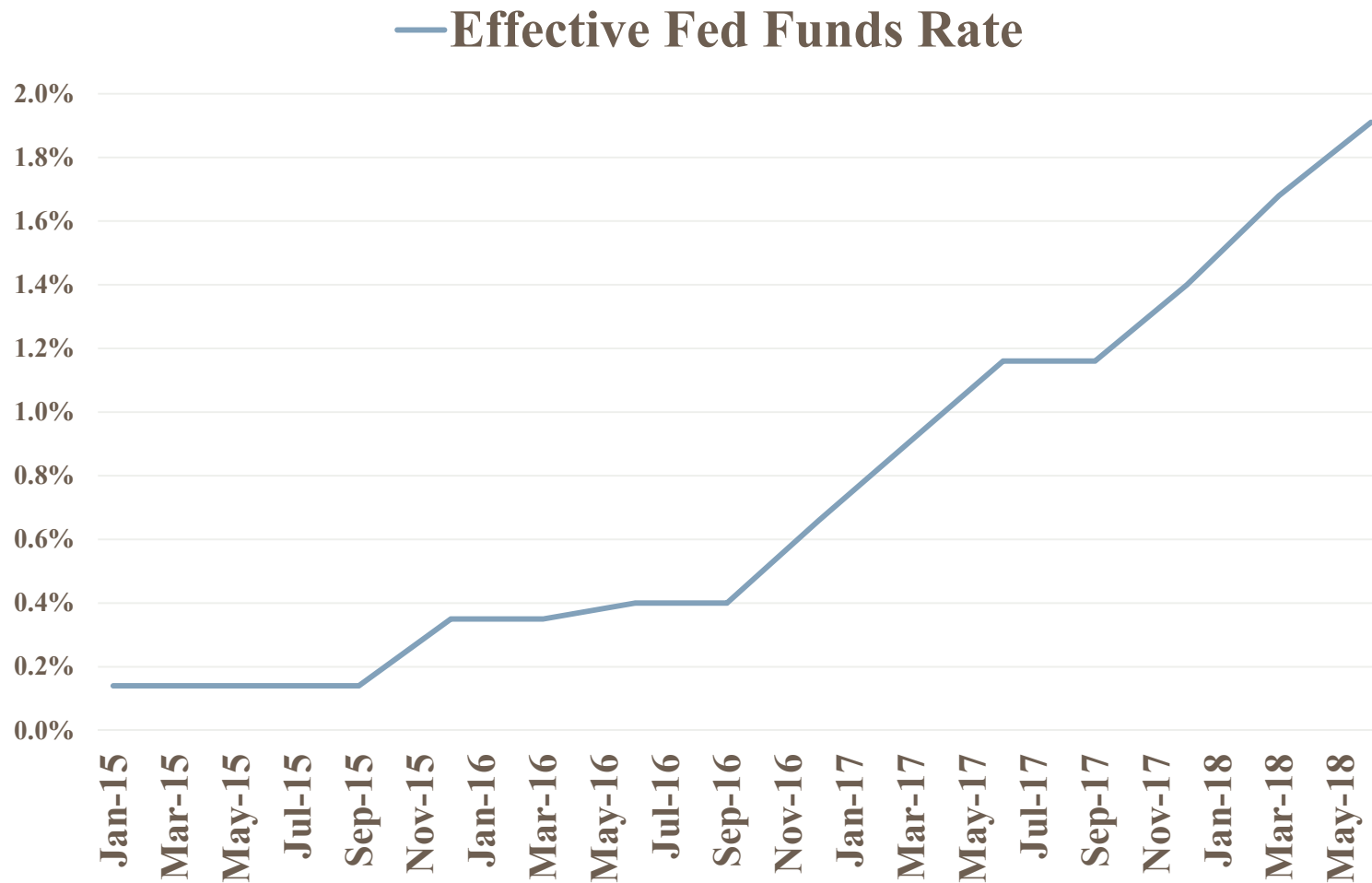
Bonds Relatively Flat During 2nd Quarter



Past performance is no guarantee of future success.

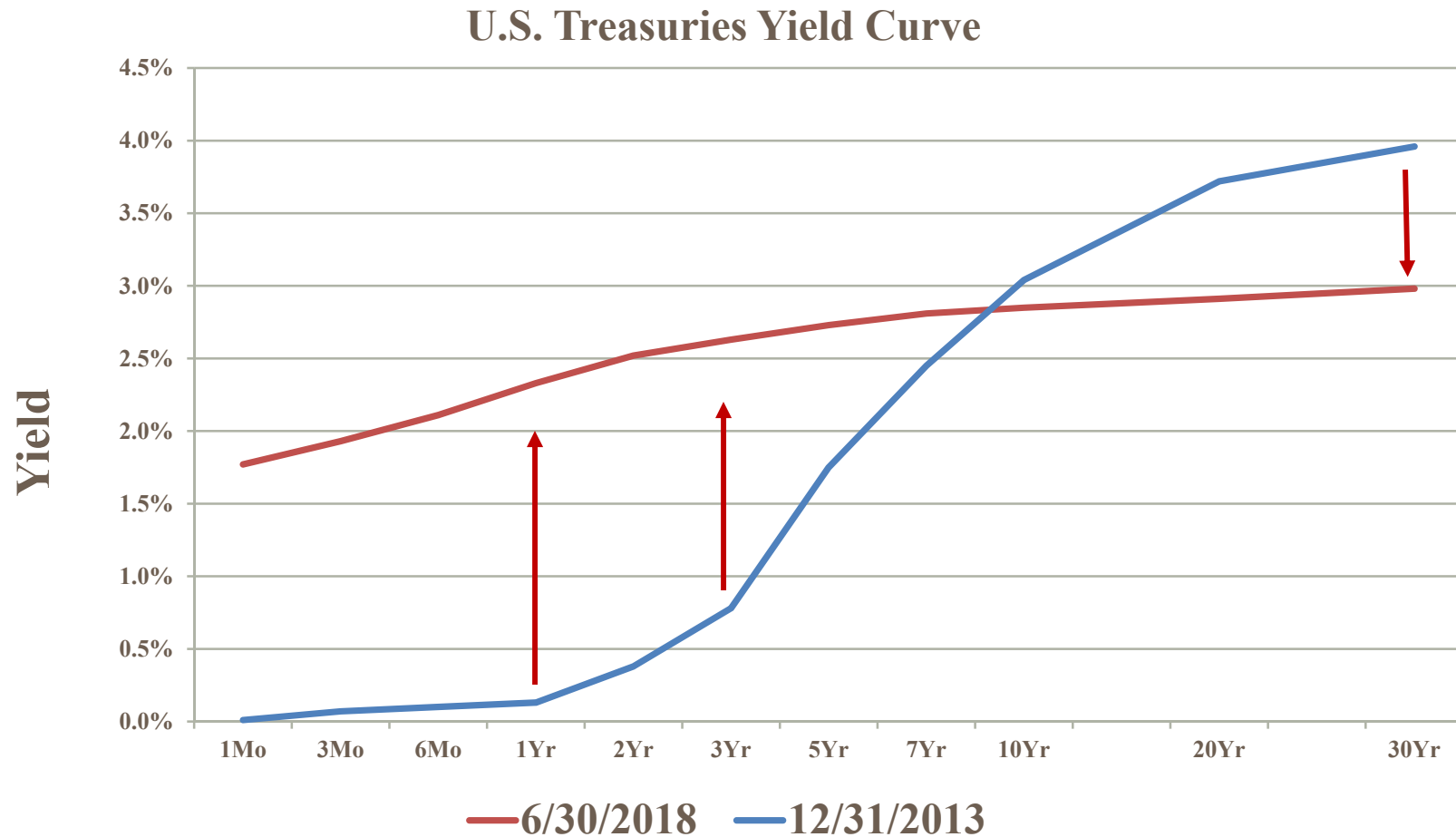
Returns in US dollars.

Increase in Fed Funds Rate



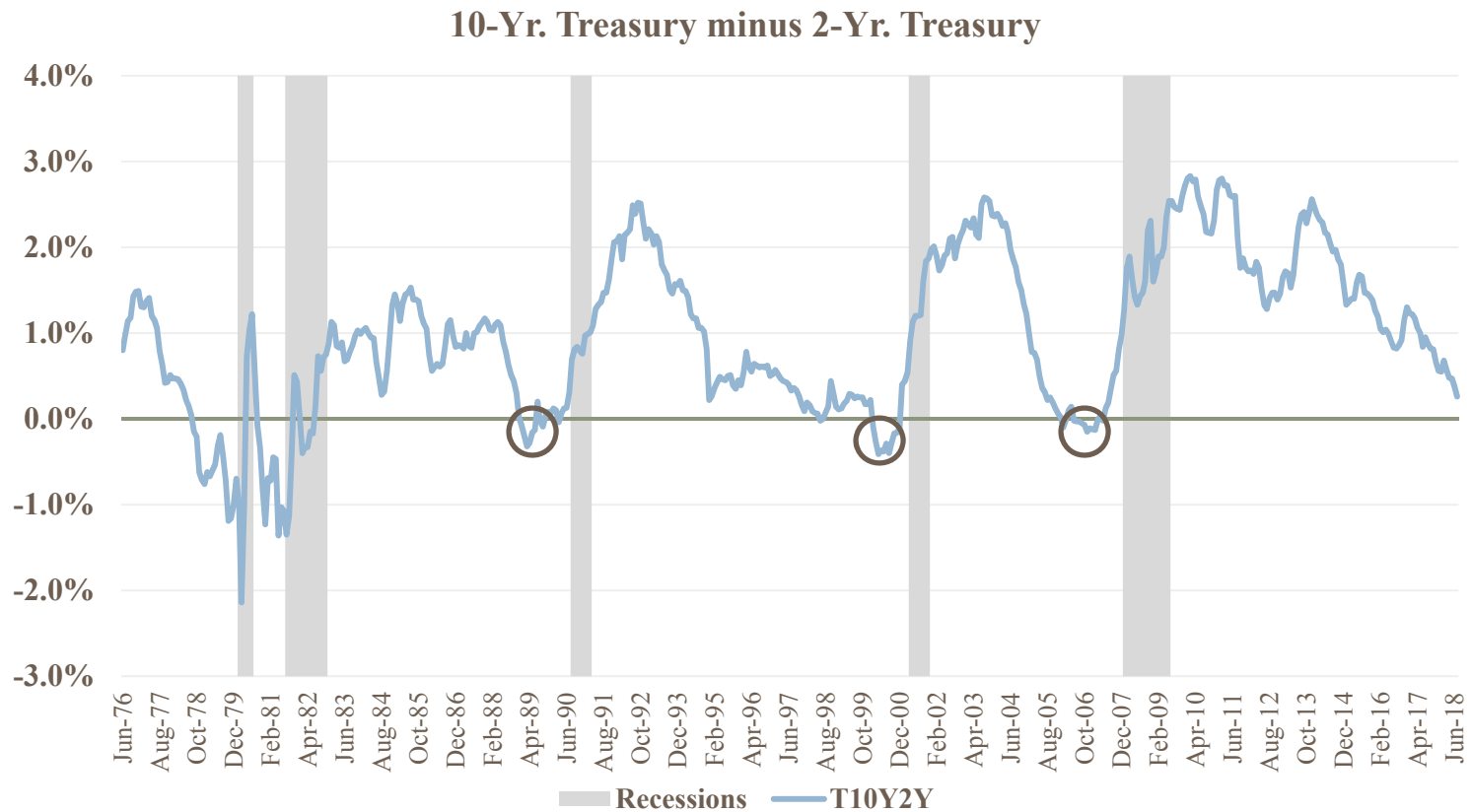
Source: Board of Governors of the Federal Reserve System

Yield Curve Flattening



Source: U.S Department of the Treasury

Inversion of the Yield Curve



Source: Federal Reserve St. Louis, as of 7/19/2018

S&P 500 Corrections After Past Five Inversions

Start of Inverted Yield Curve	Start of Market Correction	Lag Time (Months)	S&P 500 Correction Returns
Aug. 1978	Feb. 1980	19	-17.1%
Sept. 1980	Nov. 1980	3	-27.1%
Jan. 1989	Jul. 1990	19	-19.9%
Feb. 2000	Mar. 2000	2	-49.1%
Feb. 2006	Oct. 2007	21	-56.8%

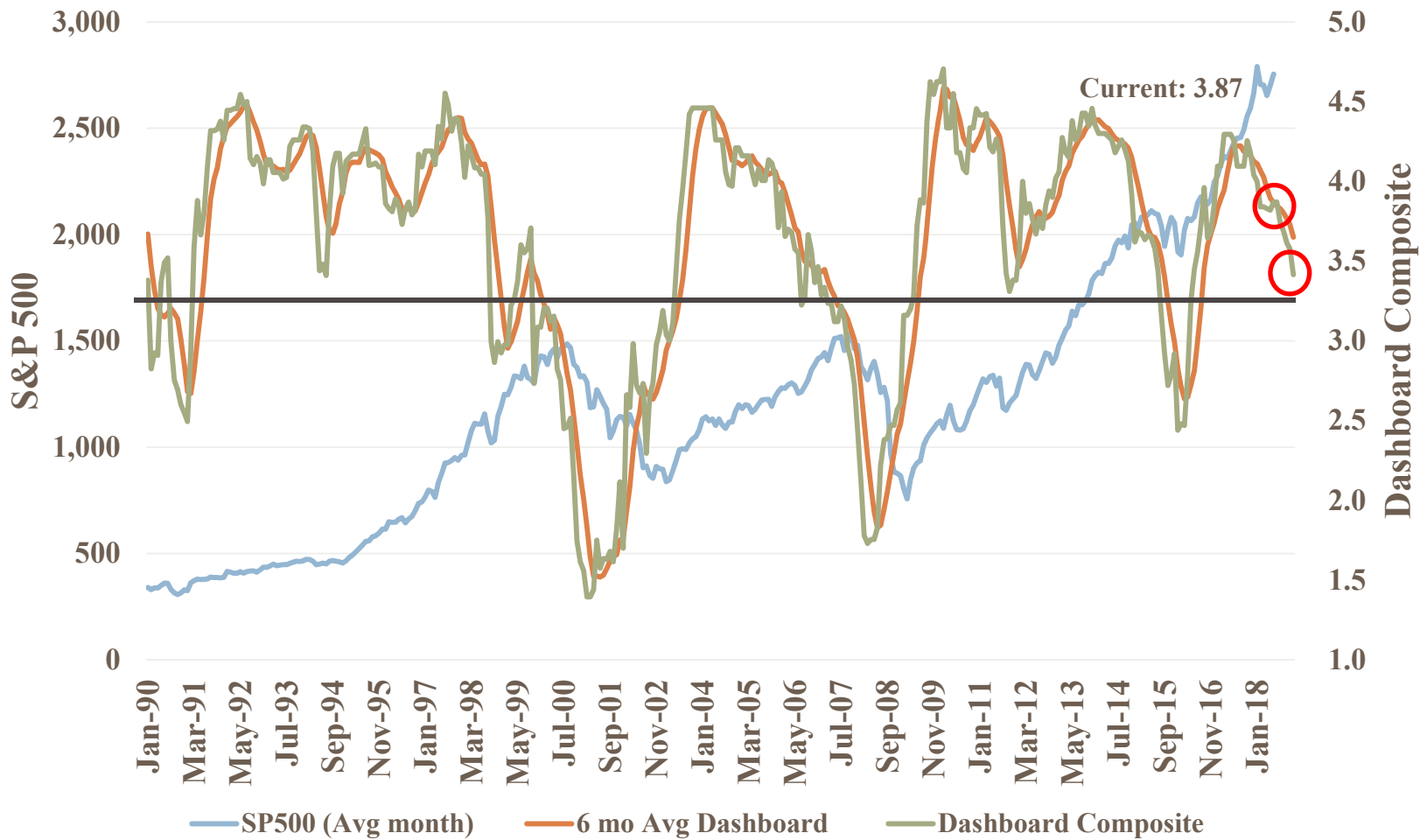
Source: Bloomberg

Strong Performance Before Inversion

Yield Curve Broke Below 35 bps	Date of Inversion	Date of Trough	S&P 500 Return	S&P 500 Return
			From 50 bps to inversion	From 50 bps to trough
Oct. 1977	Aug. 1978	Mar. 1980	12%	11%
Aug. 1980	Sept. 1980	Dec. 1980	3%	11%
Nov. 1988	Jan. 1989	Mar. 1989	9%	8%
Dec. 1994	June 1998	Apr. 2000	147%	216%
June 2005	Feb. 2006	Nov. 2006	7%	18%

Source: Charles Schwab

Market Dashboard



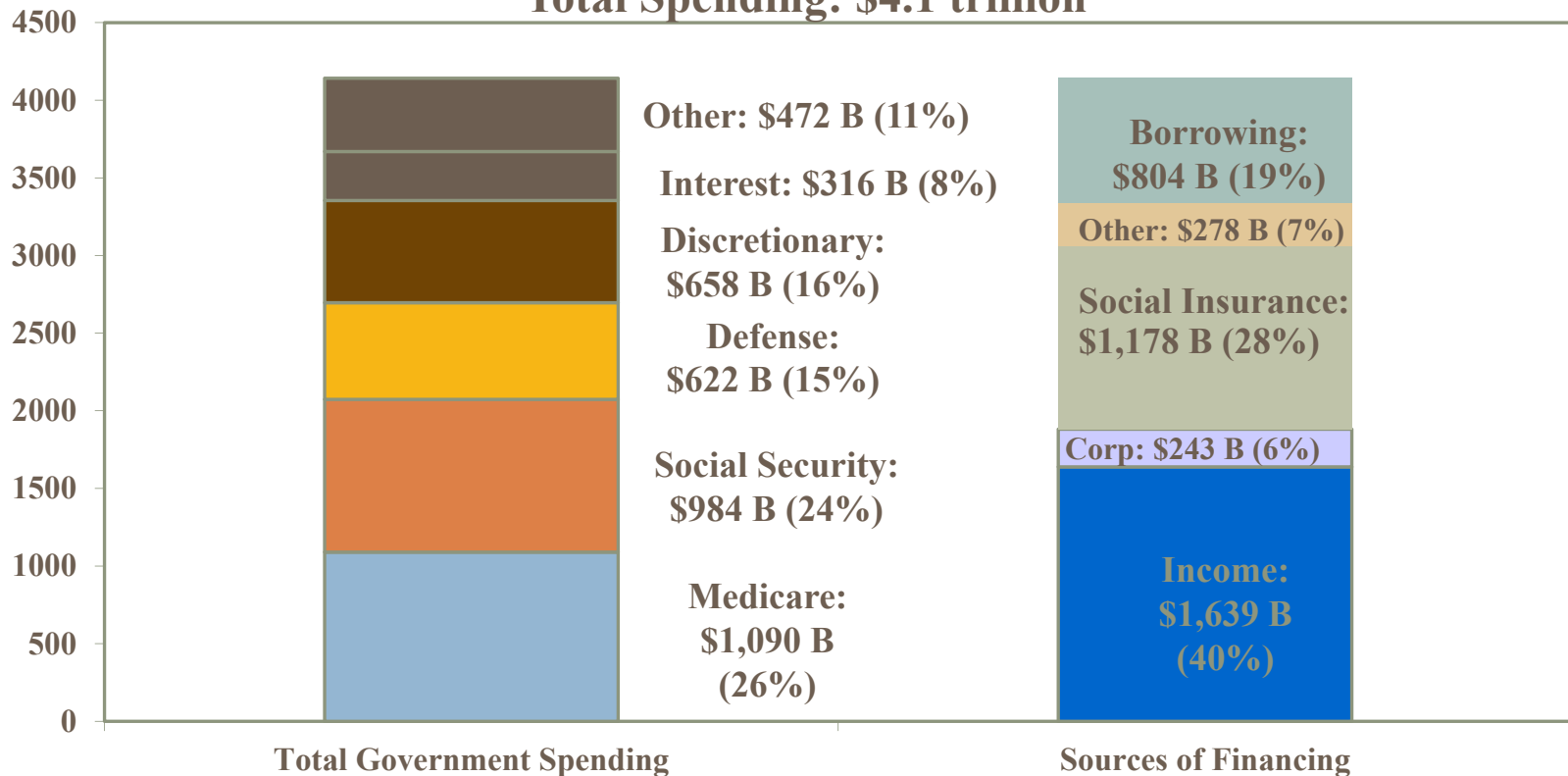
Q&A
Follow-up

Questions

- Is SilverOak concerned about the increasing budget deficit and outstanding debt?
 - How could this impact investment decisions?
- How does SilverOak decide where to invest money in client portfolios?

Budget Deficit An Increasing Problem

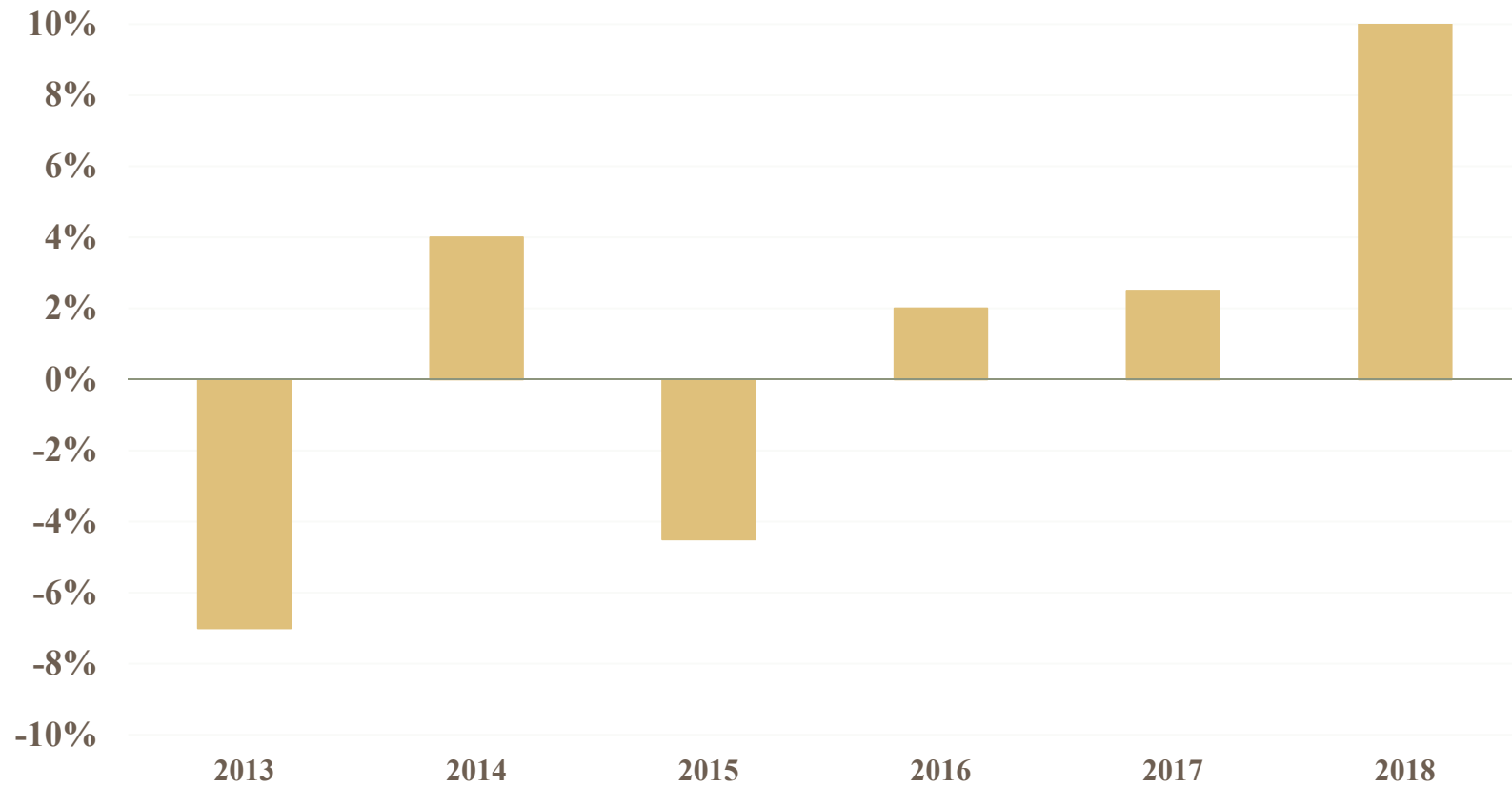
Billions, USD **The 2018 Federal Budget**
Total Spending: \$4.1 trillion



Source: Federal Reserve, J.P. Morgan Asset Management

US Treasury Bond Issuance

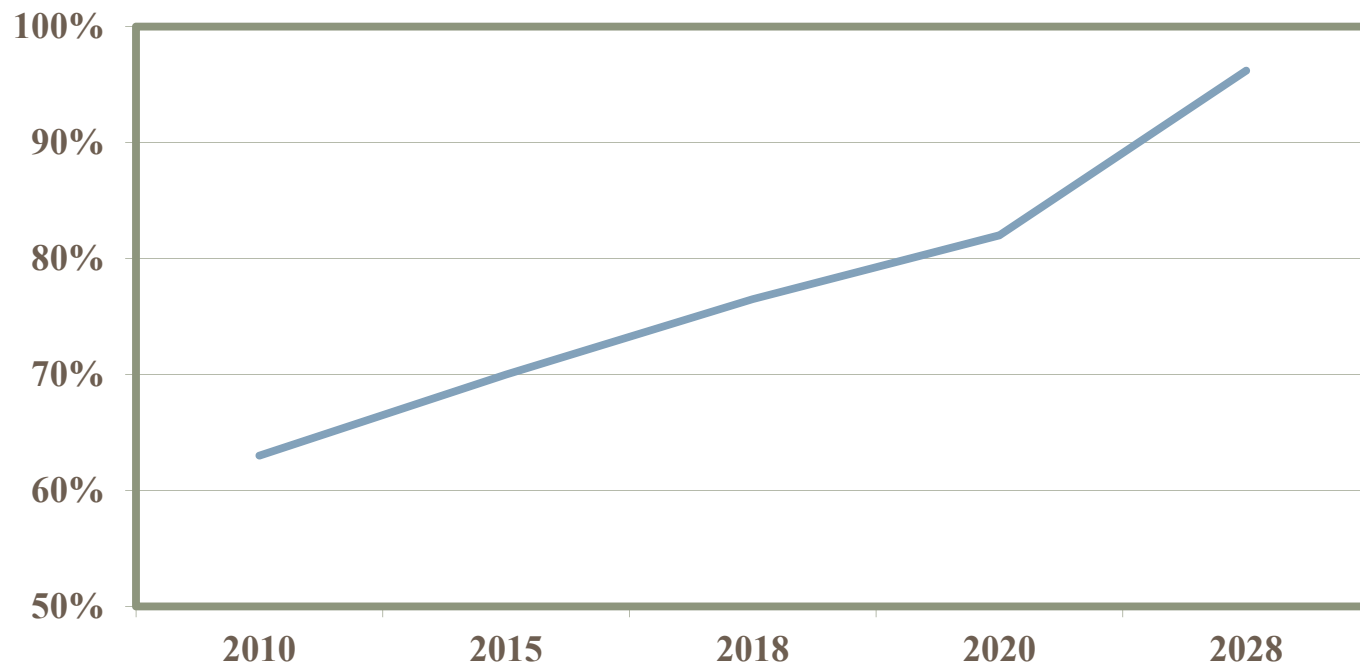
Annual Change in Net New Issuance



Source: SIFMA, Fidelity Investments, as of 5/31/18.

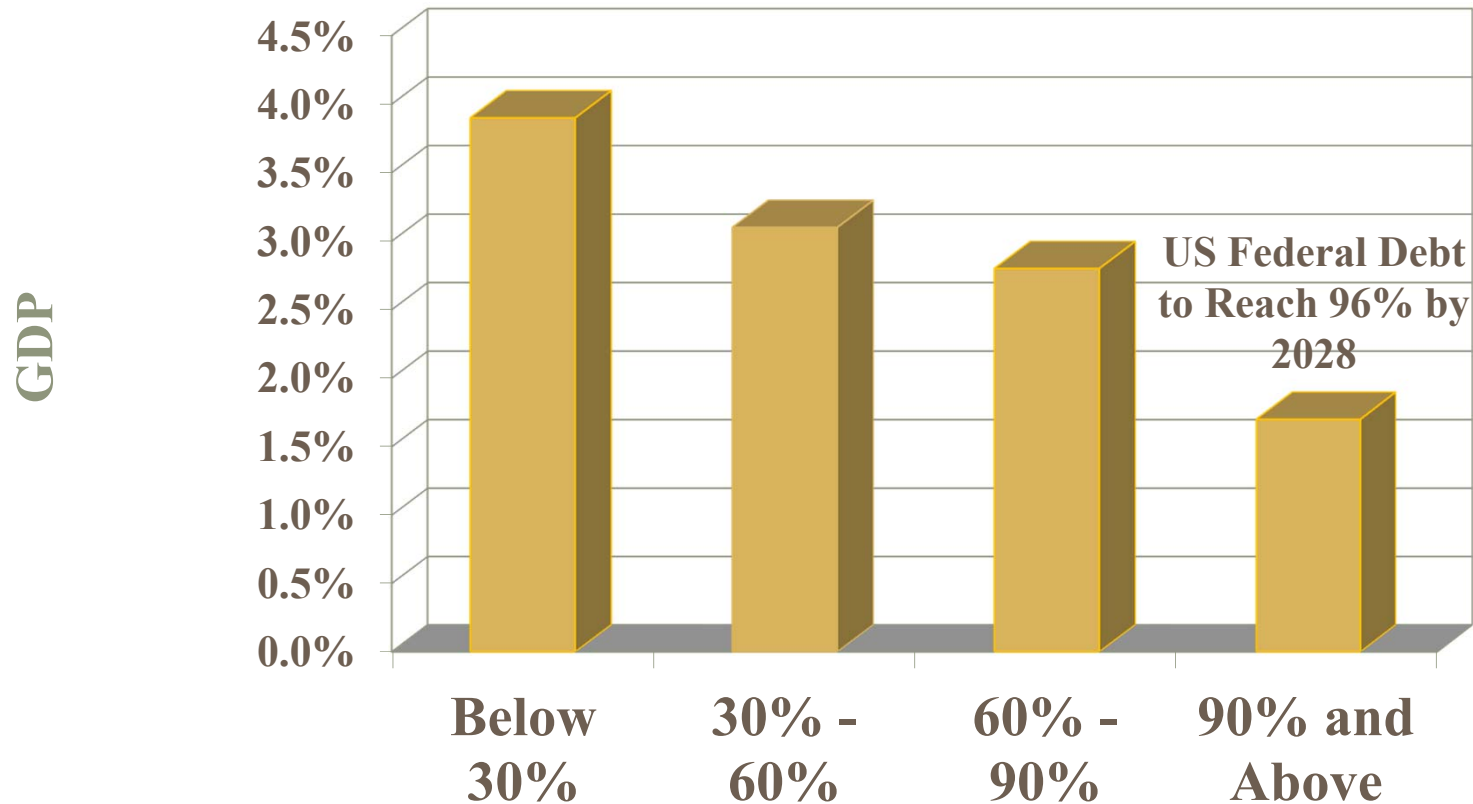
Federal Deficit as a % of GDP

Projected U.S. Debt-to-GDP %



High Debt Can Lead to Lower Growth

■ Below 30% ■ 30% - 60% ■ 60% - 90% ■ 90% and Above

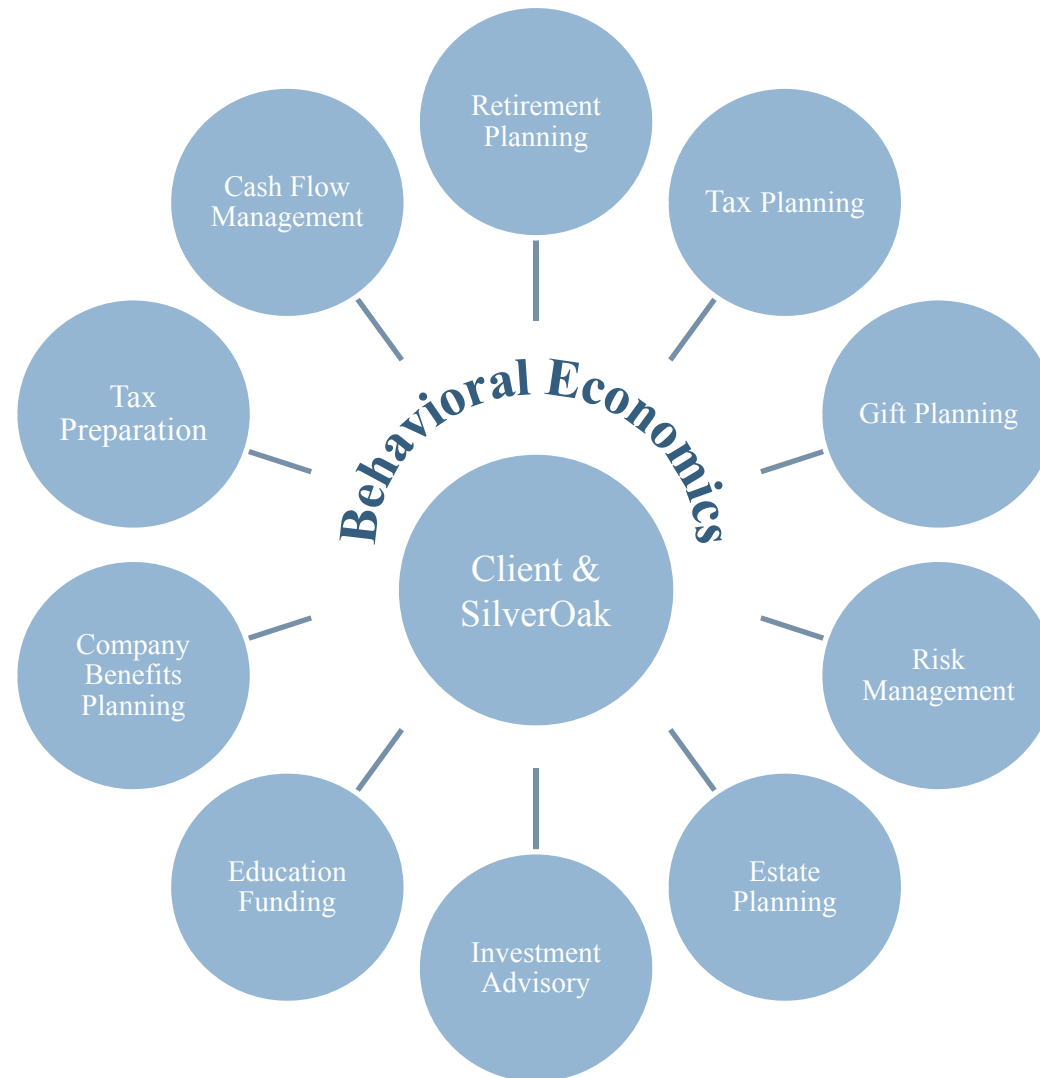


Source: "Growth in a Time of Debt" by Carmen Reinhart and Kenneth Rogoff, Charles Schwab

SilverOak Investment Philosophy

- **We customize each portfolio based on overall risk profile**
 - Ability to take risk:
 - Goals & objectives
 - Level of assets
 - Time horizon
 - Willingness to take risk
 - The “sleep at night” factor

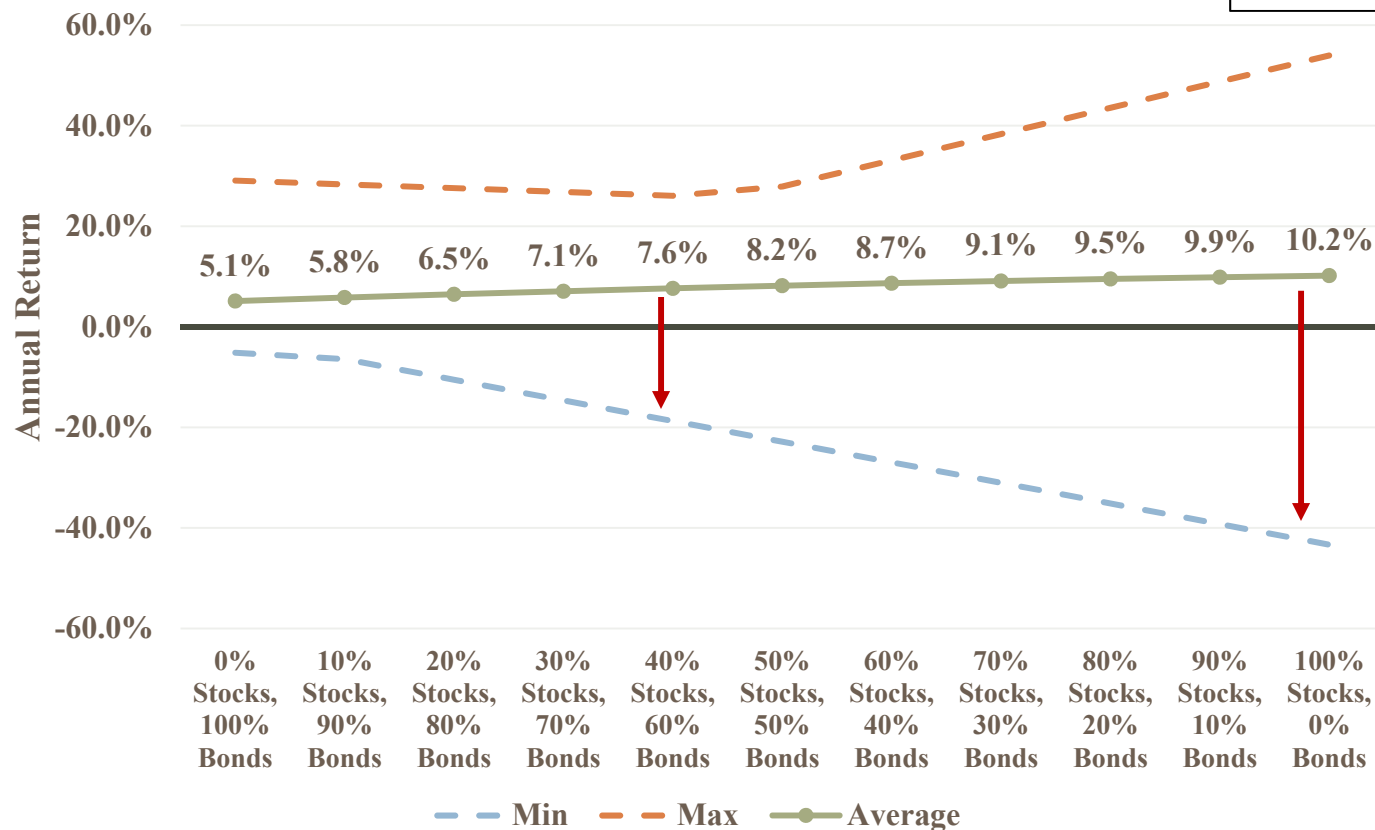
SilverOak Investment Philosophy



SilverOak Investment Philosophy

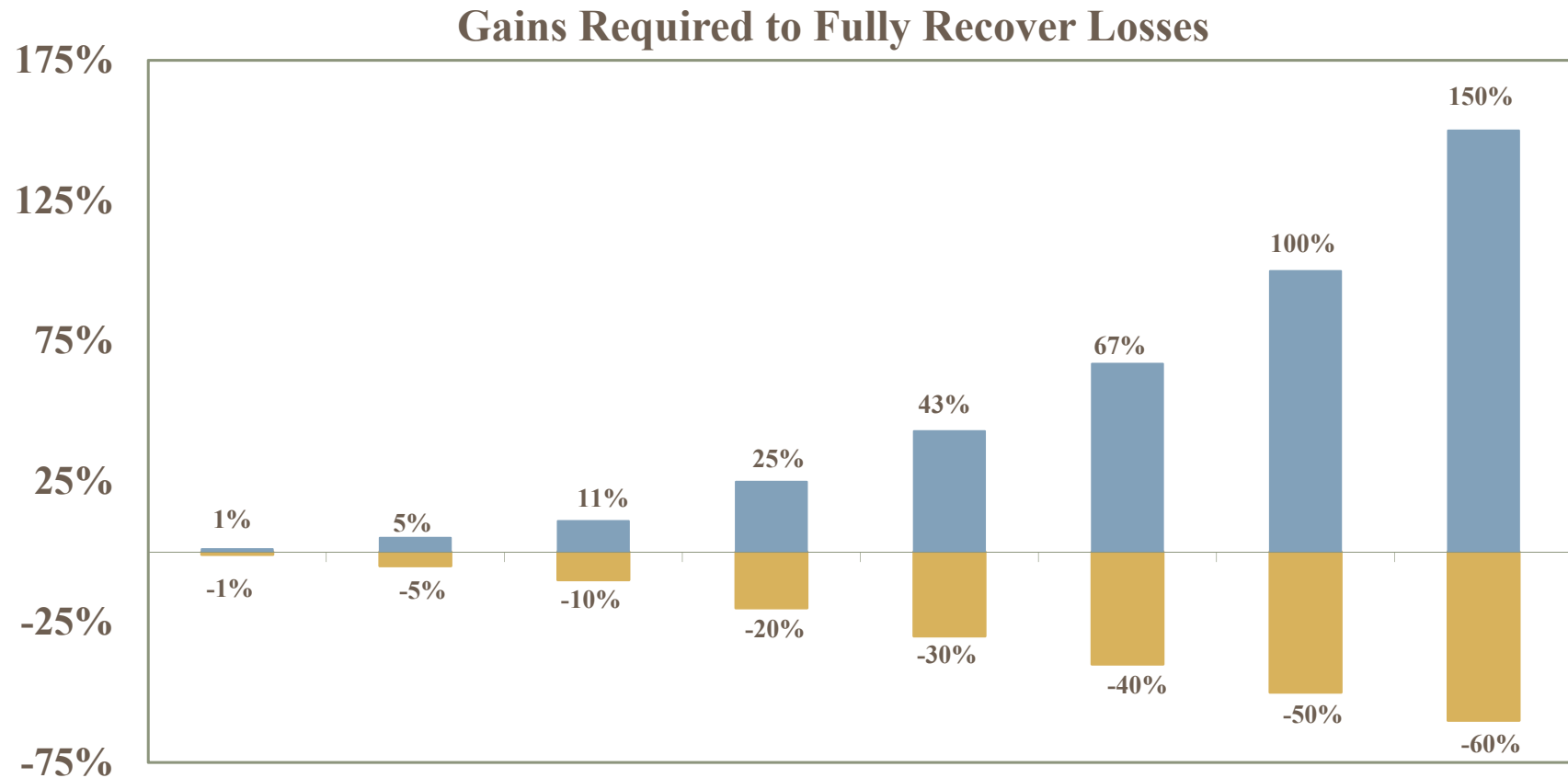
In any year, returns can vary greatly from the long term averages. Especially with a greater weighting to equities.

Range of annual return, 1926-2017



Source: Morningstar, as of 12/31/17. Stocks = Ibbotson SBBI US Large Stock TR, Bonds = Ibbotson SBBI US IT Govt TR

SilverOak Investment Philosophy



Source: JP Morgan Asset Management

SilverOak Investment Philosophy

- **Diversified global target allocation developed using results of risk profile**
 - Portfolio constructed using the framework of Modern Portfolio Theory
 - Diversification balances risks to achieve investment objectives
 - Diversify across asset classes, geographic regions, market capitalization, investment styles and strategies
 - Utilize a glide path so asset allocation adjusts over time

SilverOak Investment Philosophy

- Target allocation achieved using IQSS™ positions
- SilverOak's IQSS™ (Investment Quality Scoring System™)
 - Proprietary method to evaluate investments
 - Utilizes quantitative and qualitative processes
 - Enables SilverOak to evaluate all managers in a category with the same methodology
 - Enables SilverOak to narrow the potential candidates down to a “best of the best” list

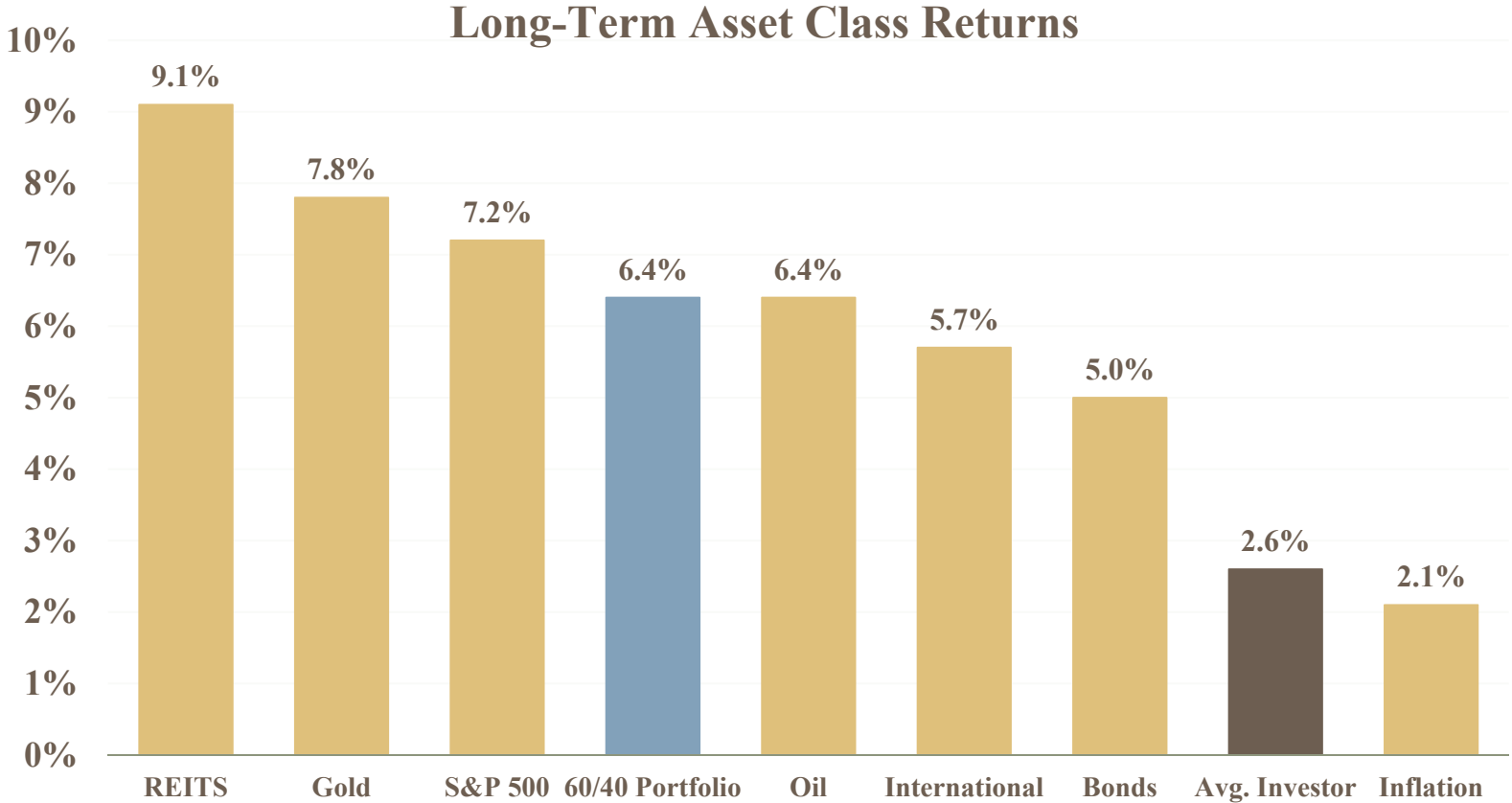
SilverOak Investment Philosophy

- All IQSStm positions must be:
 - Approved by the SilverOak Investment Committee
 - To do so, they must show ability to consistently meet rigorous due diligence criteria
 - Low cost
 - In the bottom half of category
 - Transparent
 - Tax efficient
 - Continually monitored and evaluated

SilverOak Investment Philosophy

- **Ongoing monitoring of portfolios and underlying positions**
 - Adjustments are made based on a variety of factors:
 - Sector allocation weightings get out of line
 - Underlying issue with position
 - Quality of position impaired
 - Original investment thesis materially and permanently impaired
 - Change in management team
 - Mid/long term macroeconomic conditions
 - Overall risk profile changes
 - Profile measured through market cycles
 - Behavioral biases are discussed

SilverOak Investment Philosophy

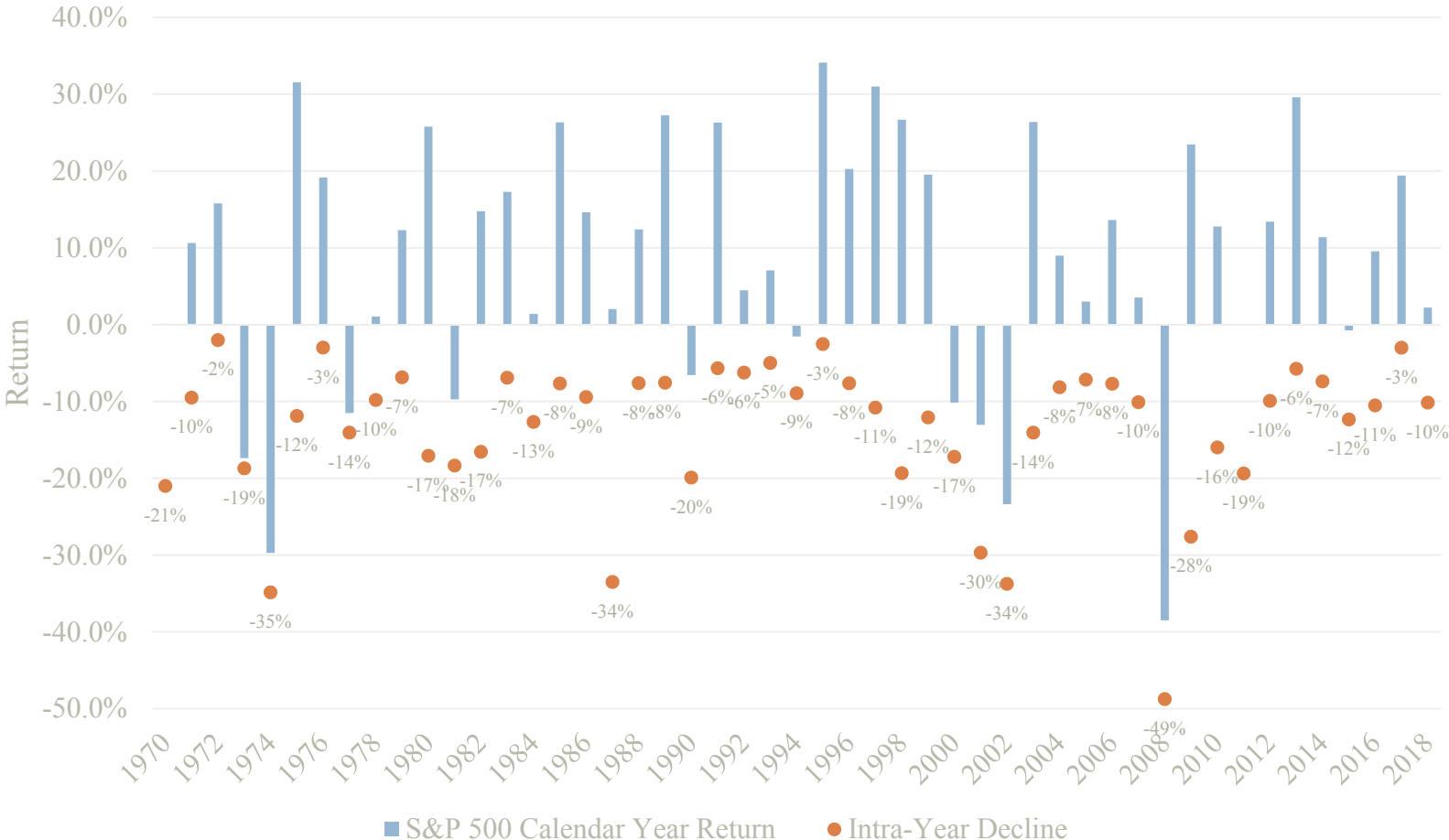


Source: JP Morgan Asset Management. 20-year return data as of 6/30/2018.

Past performance is no guarantee of future success.

SilverOak Investment Philosophy

Annual Returns vs. Intra-Year Declines



Source: Morningstar, as of 5/21/18
S&P 500 price returns

SilverOak Investment Philosophy

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Returns of S&P 500

Performance of a \$10,000 investment between January 2, 1996 and December 31, 2015



PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do consistently. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

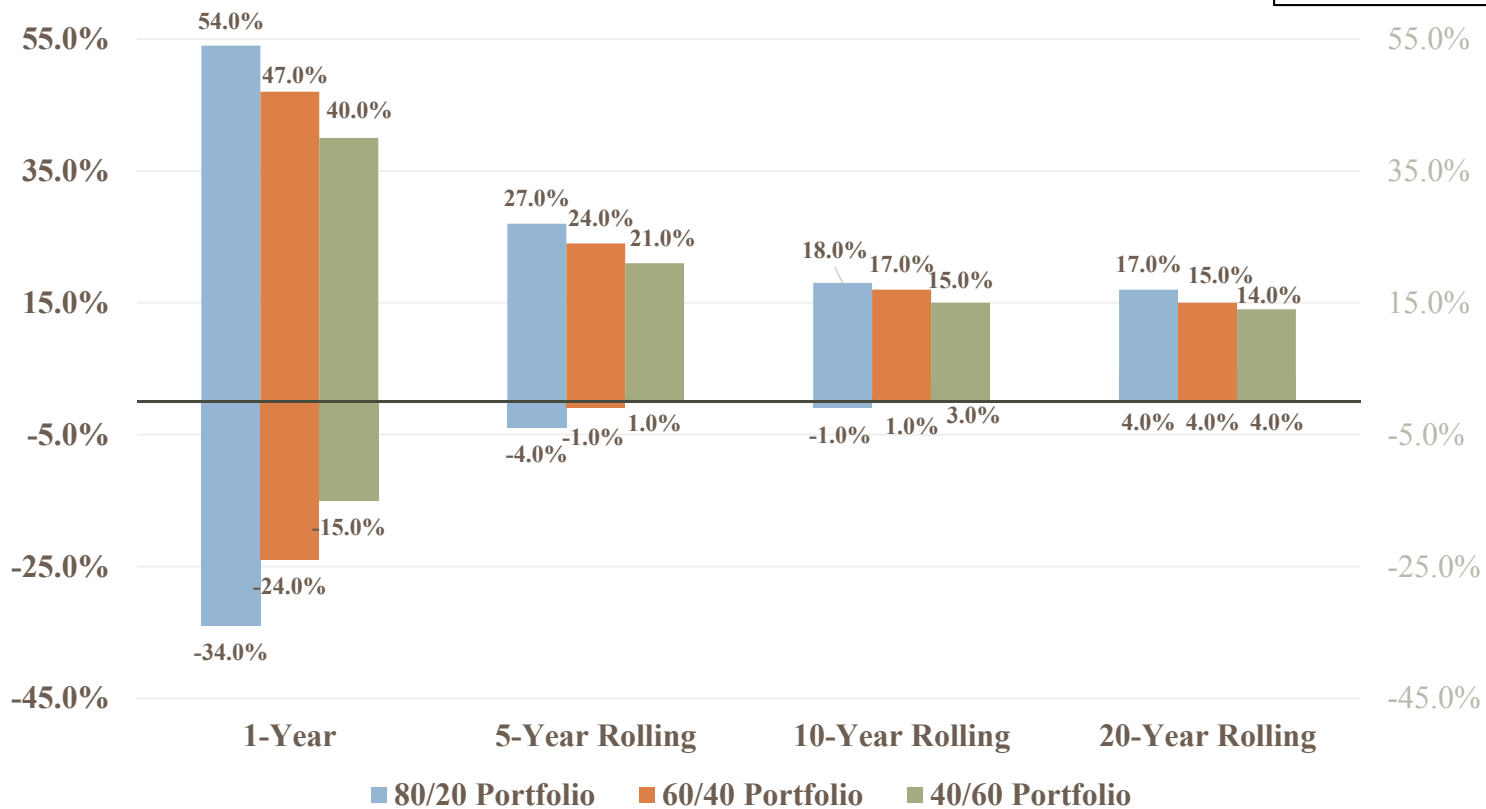
This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Source: J.P. Morgan Asset Management analysis using data from Morningstar Direct. 20-year annualized returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2015.

SilverOak Investment Philosophy

Volatility of Returns Over Time Annual Total Returns, 1950-2018

As the time horizon extends, the range of returns narrows considerably.



Source: Morningstar, as of 5/31/18. Stocks = Ibbotson SBBI US Large Stock TR, Bonds = Ibbotson SBBI US IT Govt TR, returns rounded

SilverOak Investment Philosophy

- **Keys to a Successful Investment Strategy**
 - Identify true risk profile
 - Develop strategic allocation on the “Efficient Frontier”
 - Select IQSStm positions to fill the allocation
 - Continually monitor portfolio and underlying IQSStm positions
 - Reassess risk profile through market cycles
 - Manage behavioral biases and stay invested!

*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