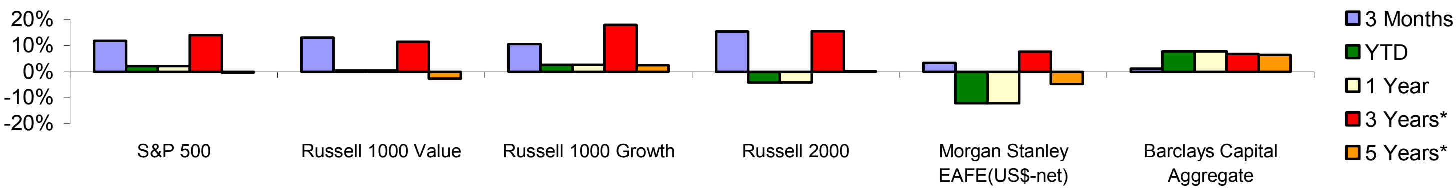
Timberline
Investment Management, LLC

MARKET OVERVIEW

Dec. 31, 2011

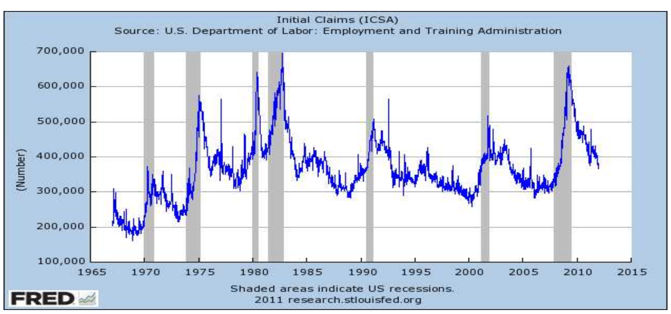
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	11.82%	2.11%	2.11%	14.11%	-0.25%
Large Company Value	Russell 1000 Value	13.11%	0.39%	0.39%	11.55%	-2.64%
Large Company Growth	Russell 1000 Growth	10.61%	2.64%	2.64%	18.02%	2.50%
Small Companies	Russell 2000	15.47%	-4.18%	-4.18%	15.63%	0.15%
International Stocks	Morgan Stanley EAFE(US$-net)	3.33%	-12.14%	-12.14%	7.65%	-4.72%
General Bond Market	Barclays Capital Aggregate	1.12%	7.84%	7.84%	6.77%	6.50%



ECONOMIC OVERVIEW

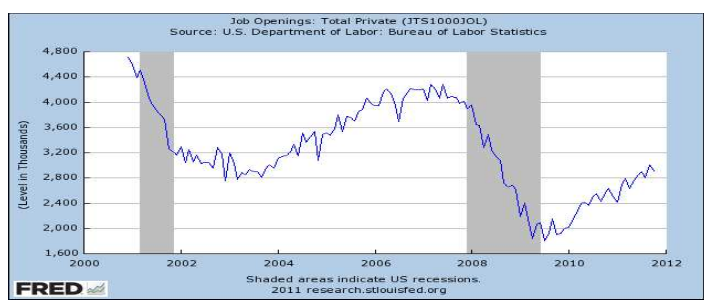
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	1.89%	1.92%	**-1.56%**	3.30%	**-42.73%**
Short-term Rates	Effective Fed Funds Rate	0.04%	0.08%	**-50.00%**	0.19%	**-78.95%**
Consumer Inflation	Consumer Price Index*	226.23	226.545	**-0.14%**	218.803	**3.39%**
Producer Inflation	Producer Price Index*	202.0	203.2	**-0.59%**	187.7	**7.62%**
Job Growth	Non-farm Payrolls	132,721	131,746	**0.74%**	131,050	**1.28%**
Average Workweek Hours	Avg. Weekly Work Hours	34.4	34.3	**0.29%**	34.2	**0.58%**
Economic Output	Industrial Production*	94.8263	94.4184	**0.43%**	91.4039	**3.74%**

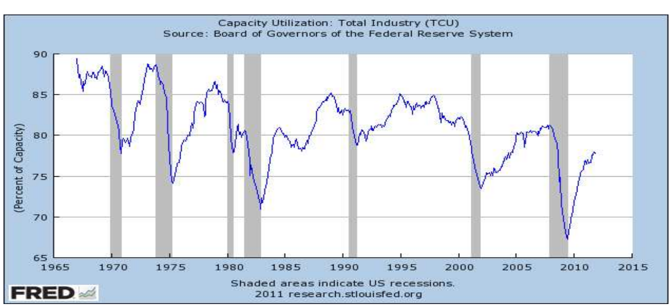
**Economic data for certain statistics are as of the prior month end. Data is from sources believed to be reliable but is neither guaranteed nor warranted and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.*



← **INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE** are nearing levels some may call normal.

PRIVATE JOB OPENINGS have been growing but not fast enough to make a notable improvement in the overall job market. If trends continue, however, it does appear to be only be a matter of time before general employment numbers will start to show improvement. →





← **CAPACITY UTILIZATION** has made remarkable improvement since the bottom of the great recession. Unfortunately, production has advanced without a comparable amount of employment growth.

Data Source: St. Louis Federal Reserve

Timberline
Investment Management, LLC

A volatile 2011 ended on a very strong note with the S&P 500 up 11.82% over the last three months. For the year, however, a modest total return of +2.11% does little to depict the dramatic market conditions of the period.

I think it is interesting to look at this contrast between the high market volatility during the year and the small annual return of the S&P 500. A turbulent year included the tragic tsunami that struck Japan, uncertainties of Europe (the potential economic collapse associated with the dysfunctional European Union), our domestic fiscal issues and debt downgrade, and Middle-East unrest (higher oil prices). These were and continue to be challenging issues that are keeping many investors on the sidelines and very willing to place funds in US Treasury bonds that offer minimal returns. On the other hand and throughout 2011, the underlying trend of the economy continued to be one of positive but slow growth. Along with this, most domestic companies are managing their situations quite well, the Federal Reserve remains very accommodative, and the European Union looks like it wants to sustain the common currency despite the bad financial behavior of some of its family members. Together, the S&P struggled but delivered an outcome that was very modest but positioned overall equities at a valuation level that offers potential if conditions continue to move in a positive direction. The S&P 500 also delivered the mentioned high level of volatility with a particularly weak third quarter. In hindsight, I think the fourth quarter recovery does a great deal to discredit the validity of the third quarter market decline. Furthermore, some of the mistakes made by investors in the third quarter were, I think, the interpretation of seasonally slow summer conditions as a serious cyclical slowdown and what looks to be a disregard of credit market indicators (corporate and interbank credit spreads) that appeared to have accurately discounted risk conditions and did not convey the alarm that the stock market unfortunately sent out.

As mentioned, I think the market's current valuation has potential if positive trends continue. Potential trends include economic and employment growth even if they are slow, some signs of life in the real estate market, well managed and innovative companies, accommodative interest rates from the Federal Reserve, and hopefully more stability in energy prices. To see this investment potential, it becomes a bit necessary to separate economic potential from investment potential with economic and employment growth to likely remain below desired levels. This return potential is also vulnerable to domestic fiscal and deficit developments, Middle-east unrest, European debt issues and the omnipresent risk of the unknown. Lastly, the final factor to be mentioned is the upcoming elections. This could be the most important development as it may go a long way in determining how this country will address important fiscal and deficit situations. From here, I don't think it matters which party wins as much as how decisive the election turns out. In other words, mixed control that we have now may not be looked upon as favorably as a strong showing by one of the parties. All said, I think the positives outweigh the negatives with volatility to be prevalent again over the next 12 months.

In closing, I would like to note a few other items. With all of the issues in Europe, unrest in the Middle-east and underlying uncertainties within China, international stocks had a difficult 2011 that stood in deep contrast to positive expectations early in the year. At this time, the U.S. markets appear to have potential favorable to overall international markets. Despite expectations and very low rates early in 2011, long-term Treasury rates fell further and made that asset class one of the best in 2011. Despite this surprise, this type of performance may be difficult to repeat given where rates are at now. Finally, I have attended investment presentations from several energy and pipeline companies. The amount of energy being discovered in this country is extraordinary and will, I think, have a major economic impact over time. In fact, there have already been major changes in the pipeline area where certain pipelines built to move imported energy from coastlines to internal locations have been reversed to move energy to the coastline for export or processing at existing refineries. In my mind this is a pretty powerful development that has not gained enough attention.

2012 should be another interesting year and the opportunity to work with you and be of service is deeply appreciated. A Happy New Year to you and yours.

Gregg Giboney

Gregg Giboney, CFA
President & Portfolio Manager
Investment Advisor Representative
Timberline Investment Management, LLC