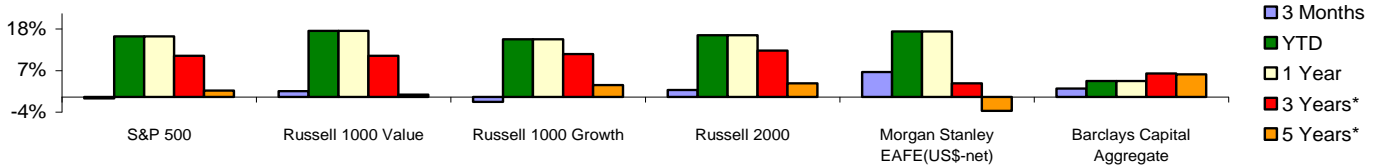


**MARKET OVERVIEW**

**Dec. 31, 2012**

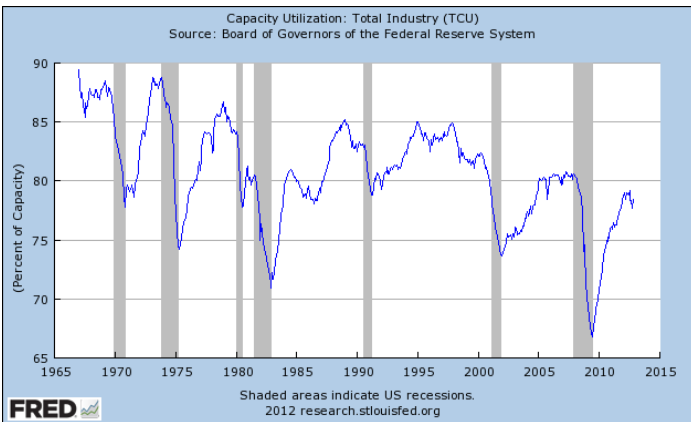
| Market Description   | Index                         | 3 Months | YTD    | 1 Year | 3 Years* | 5 Years* |
|----------------------|-------------------------------|----------|--------|--------|----------|----------|
| General Stock Market | S&P 500                       | -0.38%   | 16.00% | 16.00% | 10.87%   | 1.66%    |
| Large Company Value  | Russell 1000 Value            | 1.52%    | 17.51% | 17.51% | 10.86%   | 0.59%    |
| Large Company Growth | Russell 1000 Growth           | -1.32%   | 15.26% | 15.26% | 11.35%   | 3.12%    |
| Small Companies      | Russell 2000                  | 1.85%    | 16.35% | 16.35% | 12.25%   | 3.56%    |
| International Stocks | Morgan Stanley EAFE(US\$-net) | 6.57%    | 17.32% | 17.32% | 3.56%    | -3.69%   |
| General Bond Market  | Barclays Capital Aggregate    | 2.20%    | 4.22%  | 4.22%  | 6.19%    | 5.95%    |



**ECONOMIC OVERVIEW**

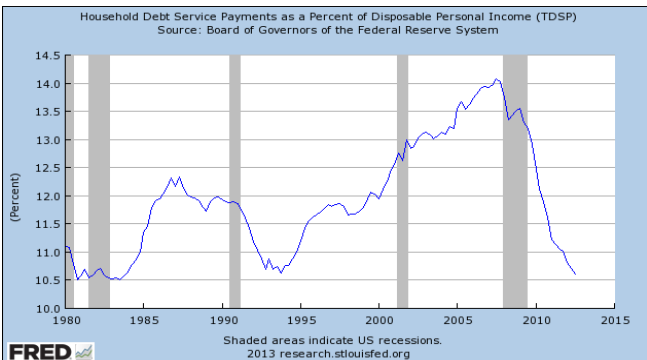
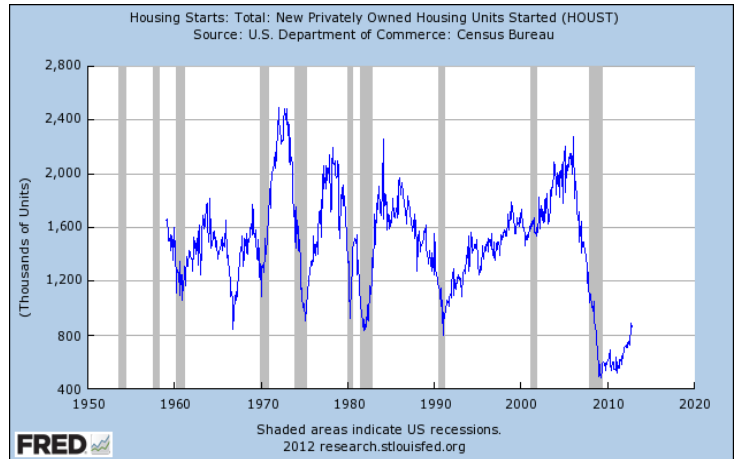
|                        | Statistic                | Most Recent* | 3-month Prior | 3-month Change | 12-month Prior | 12-month Change |
|------------------------|--------------------------|--------------|---------------|----------------|----------------|-----------------|
| Long-term Rates        | 10-year Treasury Yield   | 1.78%        | 1.65%         | <b>7.88%</b>   | 1.89%          | <b>-5.82%</b>   |
| Short-term Rates       | Effective Fed Funds Rate | 0.09%        | 0.09%         | <b>0.00%</b>   | 0.40%          | <b>-77.50%</b>  |
| Consumer Inflation     | Consumer Price Index*    | 230.221      | 230.379       | <b>-0.07%</b>  | 226.23         | <b>1.76%</b>    |
| Producer Inflation     | Producer Price Index*    | 201.8        | 202.6         | <b>-0.39%</b>  | 201.4          | <b>0.20%</b>    |
| Job Growth             | Non-farm Payrolls        | 134,892      | 133,866       | <b>0.77%</b>   | 132,965        | <b>1.45%</b>    |
| Average Workweek Hours | Avg. Weekly Work Hours   | 34.9         | 34.9          | <b>0.00%</b>   | 34.4           | <b>1.45%</b>    |
| Economic Output        | Industrial Production*   | 97.509       | 96.9554       | <b>0.57%</b>   | 95.1217        | <b>2.51%</b>    |

\*Economic data for certain statistics are as of the prior month end. Data is from sources believed to be reliable but is neither guaranteed 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.



← **FACTORY CAPACITY UTILIZATION** – Factories are working nearly as hard as they were prior to the meltdown. The discouraging news is that the production is getting done with fewer workers.

**HOUSING STARTS** – A turn in housing is under way but its relative economic impact remains subdued.



← **HOUSEHOLD DEBT SERVICE PAYMENTS AS A PERCENT OF DISPOSABLE INCOME** – Its nice to see debt service taking up less income but it also says consumers are still not spending like they used to.

An eventful year ended in an eventful way with an overtime performance provided by our government that carried the passage of 2012 fiscal cliff legislation into the first days of 2013. There was, however, more than this latest memory to a year that also provided strong equity returns at a time of mediocre economic growth.

Largely lost in the dialogue but extremely important is that fact that there has been some pretty good management by many business leaders. Facing uncertain political, regulatory and economic conditions, such leaders executed careful and effective operating strategies. The sustainable nature of this work was not lost on the markets with the S&P 500 gaining 16% for the year. Another interesting factor and in contrast to the mentioned lack of attention, Apple gained enormous attention in the form of very strong gains as the largest position in the S&P 500. It is highly unusual for a single stock like Apple to make such a large impact in any one year. 2012's performance also had something of a cyclical recovery element with the Fed and other central banks executing very aggressive monetary policies and remarkable recoveries made by the likes of Bank of America, Citibank and AIG that were clinging to life support not long ago. Lastly, European financial problems appear to have quietly eased but such situations have had a tendency to come and go over the past few years. This probably won't change.

Outside of these investment positives, the cautious nature of business created a less than robust level of job growth. Furthermore, uncertainties surrounding government tax policy and spending (also known as the fiscal cliff) has probably created a yet to be understood and adverse impact on the economy. It also needs to be noted that the recent passage of tax measures is not the end of political issues. Ahead of us lies another debate and a likely battle over government spending and authorization to increase the government's borrowing limit. This comes at the heels of an election that maintained a politically divided government which will likely limit the passage or intensity of measures desired by either party. While there are some negatives here, I don't think the severity of today's negatives are any worse than those faced in 2012. In 2012, the markets were able to do well with the Fed remaining a positive element, managers doing their jobs, and the economy growing, albeit at a slow rate. This may also be the template for 2013 within the specter of unknowns that always seem to come up. There is, however, a difference to 2012 in the form of recent legislation that made tax rates permanent (permanent meaning that there are no expiration dates as implemented in prior legislation) on capital gains and dividends. Though higher, such rates remain very favorable to ordinary income rates which should be attractive to investors and helpful to investment valuations. It is also worth noting that people remain rather pessimistic as investors maintain sizable balances in bond funds and most institutional asset allocation targets remain at conservative levels. Such pessimism is usually a good sign for the equity markets. As for the bond markets, rates remain unattractive but they are probably going to remain unattractive with the Fed openly stating that unemployment must show a sustainable decline before any normalization occurs.

In summary, I think there is room for optimism in the long-term investment outlook for equities. There are, however, some near-term concerns with earnings and economic outlooks affected by recent and upcoming political uncertainties. It is good that the upcoming debt ceiling negotiations has already captured some market attention. It will probably get more attention but an overly adverse outcome is unlikely in my mind.

Let me close this report with a sincere thank you and wishes for a great 2013. It is a pleasure and privilege to be of service.

Gregg Giboney

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