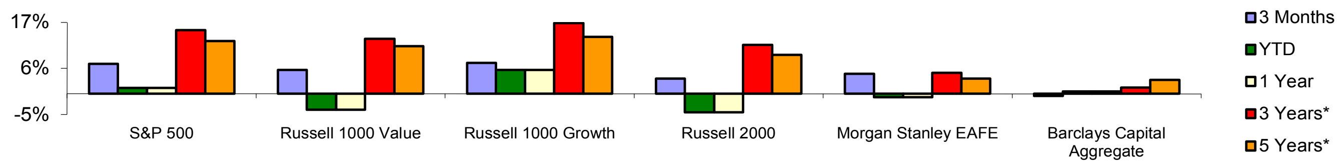
Timberline Investment Management, LLC

MARKET OVERVIEW

12/31/15

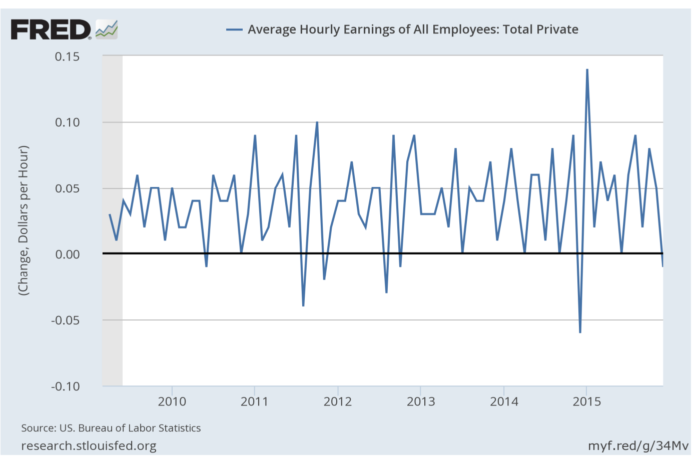
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	7.04%	1.38%	1.38%	15.13%	12.57%
Large Company Value	Russell 1000 Value	5.64%	-3.83%	-3.83%	13.08%	11.27%
Large Company Growth	Russell 1000 Growth	7.32%	5.67%	5.67%	16.83%	13.53%
Small Companies	Russell 2000	3.59%	-4.41%	-4.41%	11.65%	9.19%
International Stocks	Morgan Stanley EAFE	4.71%	-0.81%	-0.81%	5.01%	3.60%
General Bond Market	Barclays Capital Aggregate	-0.57%	0.55%	0.55%	1.44%	3.25%



ECONOMIC OVERVIEW

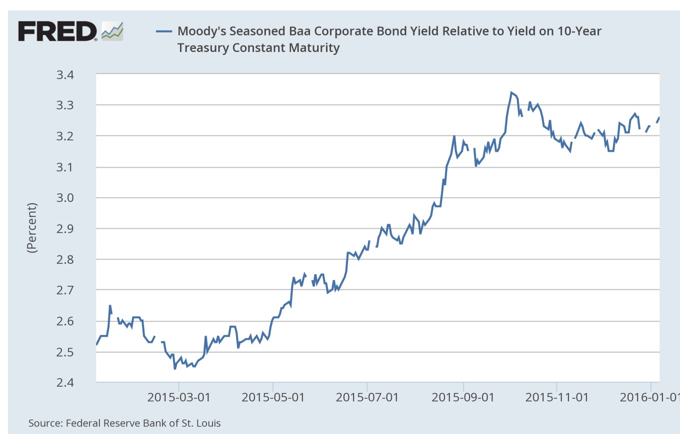
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.27%	2.06%	**10.19%**	2.17%	**4.61%**
Short-term Rates	Effective Fed Funds Rate	0.20%	0.07%	**185.71%**	0.06%	**233.33%**
Consumer Inflation	Consumer Price Index	237.336	238.316	**-0.41%**	236.151	**0.50%**
Producer Inflation	Producer Price Index	185.9	192.2	**-3.28%**	200.9	**-7.47%**
Job Growth	Total Non-farm Payrolls	143,242	142,391	**0.60%**	140,592	**1.88%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.5	**0.00%**	34.6	**-0.29%**
Economic Output	Industrial Production	106.534	107.673	**-1.06%**	107.800	**-1.17%**

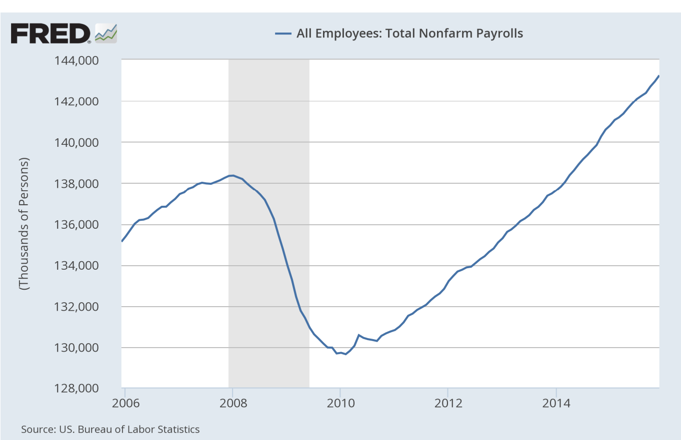
**Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.*



CHANGE IN AVERAGE HOURLY EARNINGS – Despite job growth, wage growth remains tepid.

CREDIT SPREADS – Worries in the energy patch have creditors and investors demanding more yield for the risk.





TOTAL NONFARM PAYROLLS – Payrolls are higher than prerecession levels which is good. It is curious that wage growth has not matched this level of improvement.

Data sources: Frank Russell, Ishares, St. Louis Federal Reserve, MSCI

Timberline
Investment Management, LLC

Volatility and performance differentiation describes much of 2015's investment markets.

For the S&P 500, volatility was not evident in an annual return of +1.38% but in quarterly returns that ranged from a +7.04% (4q15) to -6.44% (3q15). For 2016, the bright spot was in large-cap growth stocks that included the likes of Facebook, Google, Netflix and Amazon. Even with such strength, the Russell 1000 Growth index only up a modest 5.67%. By comparison, the Russell 1000 Value index was down 3.83%. Outside of equities, the haven of quality bonds was barely positive (Barclays Aggregate +.55%) while lower quality bonds experienced losses largely associated with distress in the energy field. The collapse of energy and commodity prices was also behind poor performance of many international and emerging markets dependent upon commodity related businesses. Lastly, several high profile private equity and hedge funds reported sizable losses as investment bets fared poorly. Even Warren Buffett's Berkshire Hathaway was down 12.5%

Headlines for the year were largely focused on energy prices and when the Fed would start normalizing short-term interest rates. After several false starts due to uneven economic conditions, the Fed made its first move in December with relatively little fanfare from a market already prepared for the decision. This limited focus took considerable attention from a pair of key fundamental factors that played a big role in market results for the year. Equity valuations at or slightly higher than historical averages and a lack of overall earnings growth kept investors from bidding prices higher but did open the door for traders to push prices around for other reasons such as the mentioned commodity prices, Fed speculations, and confusing developments out of China.

2016 will start with these factors remaining in play (China is already an example) and investment expectations generally looking for more-of-the-same (MOTS). For the Fed, another four increases of .25% are expected. Energy price expectations are low as are projections for corporate earnings growth. If uneven economic conditions persist, it becomes less likely that the Fed will move as much as expected. Earnings growth will remain difficult but there is potential for positive developments that may take some time to develop. Any and all rate increases should be helpful for bank net interest margins. Stability or reversal of dollar strength could be good for multi-national organizations. Lastly, most are pessimistic about energy for the upcoming year. Plentiful supplies and production, tight storage, falling production prices, and the fiscal needs of oil producing nations hardly suggest a rebound in prices. Nevertheless, we may be entering a very un-traditional or transitional period for the energy markets.

First of all, fiscal conditions of oil producing countries have created greater capital market needs to sustain programs. The wealthy state of Saudi Arabia is an example where borrowing and budget cuts have been used to cover oil revenue shortfalls. Conditions are already difficult for those lacking financial reserves. In time and in unpredictable ways, lenders and credit markets may drive production conditions more than expected and more than that of any cartel. I also think it will be hard to replicate the dire conditions of 2015 for oil and commodities in 2016.

With all this, MOTS makes some sense for a market outlook but MOTS is rarely right. Outside of MOTS, there are some provocative calls of another market collapse. Current domestic strength in earnings, corporate finances, personal finances, a friendly Fed, and overall banking conditions suggest that this is not likely. I don't see potential for the great equity returns of the past few years but I believe good potential remains within the market's current level of caution and long-term business prospects.

Many thanks to all of you for your trust and business in 2015 and best wishes for a happy and prosperous 2016.

Gregg Giboney

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