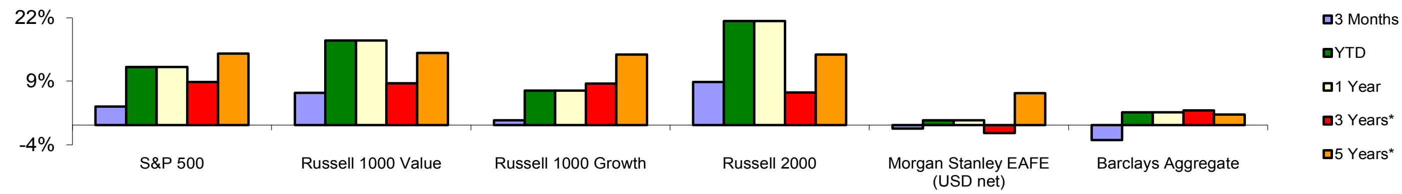
Timberline
Investment Management, LLC

MARKET OVERVIEW **12/31/16**

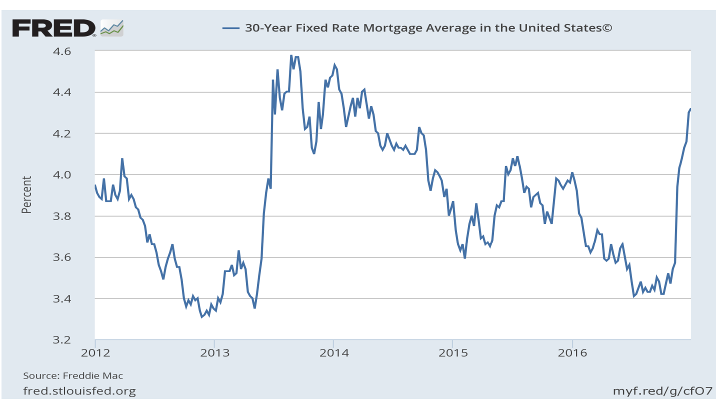
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	3.82%	11.96%	11.96%	8.87%	14.66%
Large Company Value	Russell 1000 Value	6.68%	17.34%	17.34%	8.59%	14.80%
Large Company Growth	Russell 1000 Growth	1.01%	7.08%	7.08%	8.55%	14.50%
Small Companies	Russell 2000	8.83%	21.31%	21.31%	6.74%	14.46%
International Stocks	Morgan Stanley EAFE (USD net)	-0.71%	1.00%	1.00%	-1.60%	6.53%
General Bond Market	Barclays Aggregate	-2.98%	2.65%	2.65%	3.03%	2.23%



ECONOMIC OVERVIEW

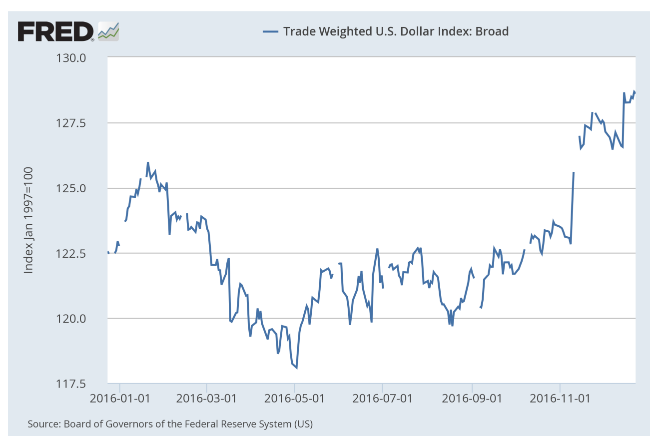
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.45%	1.60%	**53.13%**	2.27%	**7.93%**
Short-term Rates	Effective Fed Funds Rate	0.55%	0.29%	**89.66%**	0.20%	**175.00%**
Consumer Inflation	Consumer Price Index	241.353	240.849	**0.21%**	237.336	**1.69%**
Producer Inflation	Producer Price Index	186.4	186.2	**0.11%**	185.7	**0.38%**
Job Growth	Total Non-farm Payrolls	146,148	145,052	**0.76%**	144,116	**1.41%**
Average Workweek Hours	Avg. Weekly Work Hours	34.3	34.4	**-0.29%**	34.5	**-0.58%**
Economic Output	Industrial Production	103.859	104.454	**-0.57%**	104.487	**-0.60%**

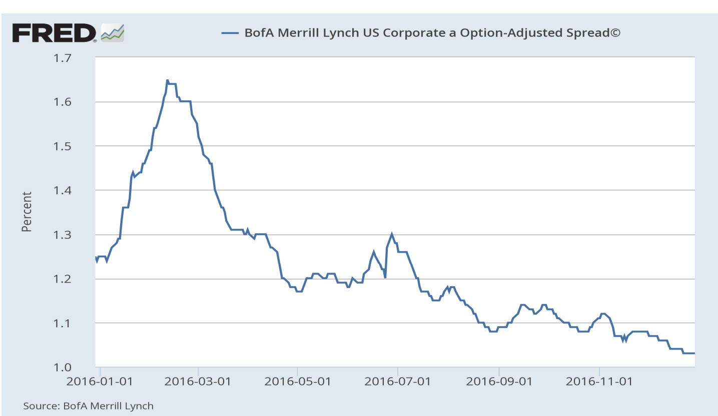
Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline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



30-YEAR FIXED MORTGAGE RATE (5 YRS) – Surprising election results included a quick and notable rise in long-term interest rates. It will be interesting to see how home prices and home expenditures react to this.

TRADE WEIGHTED US DOLLAR EXCHANGE RATE (1 YR) – The election led to greater capital flows to the U.S. This also makes domestic products more expensive on a global basis which could affect multinational company earnings.





CORPORATE CREDIT SPREAD (1 YR) – Investors are asking for less compensation (the spread over US Treasury yields) for the risk they are taking. This can be indicative of positive sentiment which can be a good sign or a sign of overly positive conditions.

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

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The problem with writing an interesting review of 4q16 is that everyone already knows of the surprising November elections and its significant impact on the investment markets for the quarter and year as well. However, most commentators have focused on positive domestic equity returns when, in fact, investors experienced rather uneven returns across several asset classes. Hopefully you find this part to be interesting.

In general, it is felt that President-elect Trump and houses of congress controlled by Republicans will produce policies that include lower taxes, less regulation, greater infrastructure spending, healthcare reforms, and renegotiated trade deals. Overall, such expectations lean toward an outlook of greater domestic economic growth. Such expectations had a great deal to do with the S&P 500 being up 3.82% for the quarter and helping with +11.96% for the year. Moreover, results were magnified in both the economically sensitive small-cap value area (Russell 2000 Value +8.83% quarter / +21.31% year) and, the large-cap value universe (Russell 1000 Value +6.68% quarter / +17.34% year) that was greatly propelled by exposure to banking stocks that liked outlooks of growth, deregulation and higher rates. Speaking of higher rates, the 10-year Treasury yield jumped from 1.60% to 2.45% and caused a quarterly hit to overall bonds not seen for a while. This was evident in the Barclays Aggregate fixed income index that was down -2.98% and even greater declines in municipal bonds as potentially lower tax rates reduced the appeal of such bonds. The last thing to briefly note is that the favorable nod to domestic prospects lead to flat returns from most international equities and strength in the exchange rate of the US dollar.

The word "expectations" and other related terms were frequently used in the previous paragraph. With investing, one must always try to consider if the sentiments of recent market moves have appropriately captured future fundamental prospects. Today, this is made more interesting with the new political order soon to be in place. It is also made interesting from the standpoint that predications have not exactly been helpful as of late. Not only was the election a surprise, it is also hard to find any market prognosticators that closely called what happened in 2016.

With all this in mind, I think it is currently best for long-term investors to stick with sound strategies and avoid thinking too much into the pre-inauguration rhetoric. I can buy into many of the positive policy outlooks and that there may be meaningful earnings growth in 2017. But I also believe there is a place where strength in the dollar, trade and geopolitical frictions, more aggressive rate increases from the Federal Reserve, and less than expected reforms may lead to disappointment. There has also been some commentary on bubble conditions but a look at valuation metrics suggest we are above average but not lofty as some assert. All said, I like what the long-term future holds. I do not see a reason to immediately alter asset allocation targets other than to favor value-oriented equity strategies and short-duration within fixed income positions to limit potential damage from further rate increases. Lastly, I also believe this will be a year of investing diligence where policy developments will likely enhance or diminish investment opportunities.

In closing, let me say that 2017 has been a very good year for Timberline Investment Management, LLC and it is with deep gratitude that I thank you for this. May your 2017 be happy and prosperous.

Gregg Giboney

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