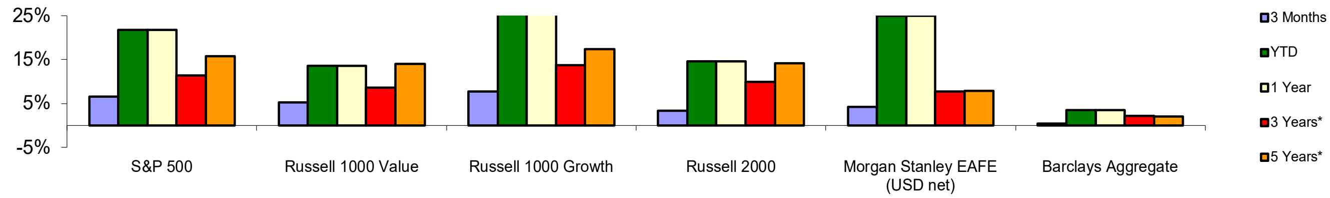
Timberline Investment Management, LLC

MARKET OVERVIEW

12/31/17

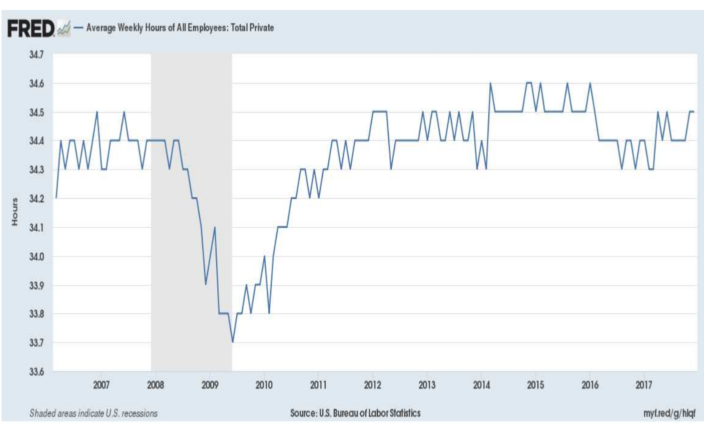
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	6.64%	21.83%	21.83%	11.41%	15.79%
Large Company Value	Russell 1000 Value	5.33%	13.66%	13.66%	8.65%	14.04%
Large Company Growth	Russell 1000 Growth	7.86%	30.21%	30.21%	13.79%	17.33%
Small Companies	Russell 2000	3.34%	14.65%	14.65%	9.96%	14.12%
International Stocks	Morgan Stanley EAFE (USD net)	4.23%	25.03%	25.03%	7.80%	7.90%
General Bond Market	Barclays Aggregate	0.39%	3.54%	3.54%	2.24%	2.10%



ECONOMIC OVERVIEW

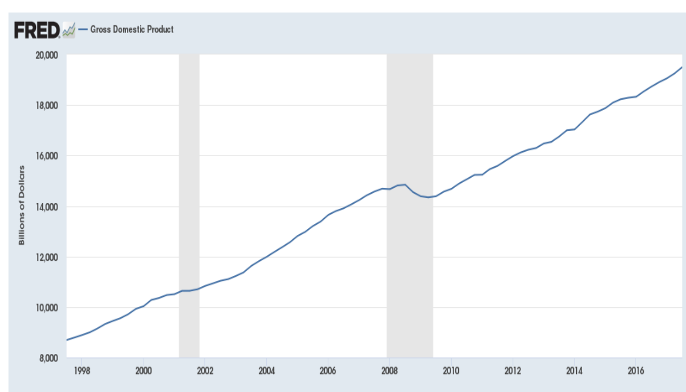
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.40%	2.33%	**3.00%**	2.45%	**-2.04%**
Short-term Rates	Effective Fed Funds Rate	1.33%	1.06%	**25.47%**	0.55%	**141.82%**
Consumer Inflation	Consumer Price Index	246.669	245.519	**0.47%**	241.353	**2.20%**
Wage Growth	Average Hourly Earnings	26.63	26.53	**0.38%**	25.98	**2.50%**
Job Growth	Total Non-farm Payrolls	148,346	146,954	**0.95%**	146,158	**1.50%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.4	**0.29%**	34.4	**0.29%**
Economic Output	Gross Domestic Product	19,501	19,250	**1.30%**	18,729	**4.12%**

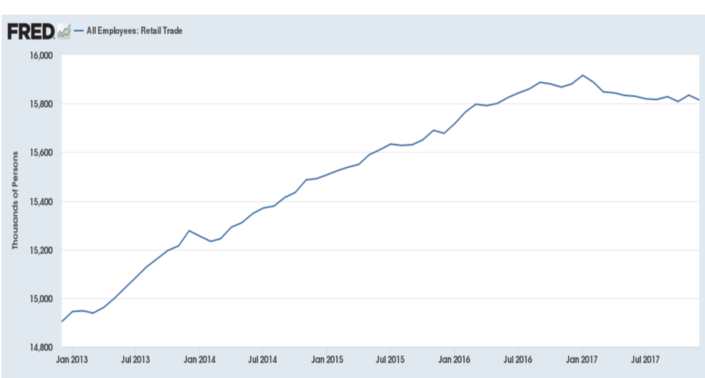
Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline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



AVERAGE WORKWEEK HOURS (10 years) – Despite growth in jobs and a low unemployment rate, the flat nature of workweek hours along with lackluster wage growth do not confirm that labor conditions are tight.

GROSS DOMESTIC PRODUCT (20 years) - Despite 2008, GDP remains on a pretty consistent growth trend.





RETAIL JOBS (5 years) – Not surprising, employment conditions in retail are difficult. Just take a look at store closings recently announced by Sears, Kmart and Macy's. Amazon and other on-line sellers will continue to disrupt the retail market.

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

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For the 9th consecutive year following 2008's debacle, the S&P 500 finished in positive territory with a robust +21.83% for 2017. Investors looked beyond unsettling situations in politics and international affairs by taking note of healthy growth in overall corporate earnings and modest inflation. From this base, there was further encouragement from the Fed's gentle and well communicated efforts to normalize rates, reduced regulatory burdens, GDP in excess of 3%, and delivery of major tax legislation. With all this, the United States became a more attractive investment opportunity in a world still awash in financial reserves from the financial crisis. A look at Japan and German 10-year interest rates (barely above zero) point to an abundance of funds potentially looking for better opportunities. This financial fuel was not only good for the equity markets but also helped U.S. long-term rates remain unchanged even though the Fed nudged short-term rates higher over the course of the year.

In the 2017 equity markets, all major categories finished with double digit returns but there was a great deal of disparity among styles. In general, large-cap growth companies (Russell 1000 Growth index was up 30.21%) did the best with greatest growth in actual or expected earnings. This was mostly found in the technology area with a group of stocks referred to as FAANG (Facebook, Amazon, Apple, Netflix and Google/Alphabet) getting special attention. Large-cap value was the lagging category (Russell 1000 value was up 13.66% - *it seems odd that a return number like this can be called "lagging"*) having exposure to sluggish returns from energy, utility and telecom companies. Financials, a significant value investing category, also did well as GDP growth, lower regulatory burdens, tax legislation, and higher short-term rates helped earnings outlooks.

Looking ahead, earnings and GDP momentum along with tax reform provide a positive basis for 2018. Tax reform provides helpful benefits for individuals and considerable benefit for many corporations with a cut in the corporate tax rate from 35% to 21%. This cut will not only have an immediate earnings impact for many companies, it will also put the U.S. into a comparable and competitive position to book business in this country over time. A review of the past few years indicates that this country's high corporate tax rate has been a significant motivator to locate business and cash in foreign locations.

Though there are positives, there are concerns. Large-cap growth stocks have solid outlooks but also trade with high expectations. The craze in cryptocurrencies may be an indicator of some exuberance in this area. If results cannot match expectations, some growth stocks may be unpleasantly vulnerable. I do not think we are in dotcom bubble conditions but believe investors should not ignore opportunities elsewhere and should be willing to accept potentially lower returns in lieu of risks in owning past high performers. Also of concern is the immense size and domination of several technology companies. Many are bringing significant benefit to the economy but size and domination can gain attention in the political and anti-trust worlds. Related to this is the growth of exchange traded funds where concentration of institutional ownership in companies bring question to management incentives to please institutional owners over optimizing business returns. North Korea is very troubling but I believe the most concerning market element may be a trade conflict with China if they do not cooperate in sanctions. Domestically, growth may exceed expectations and may prompt the Fed into an unwelcomed acceleration of rate increases. As always, there will be unanticipated developments and 2018 also brings another round of mid-term elections.

Overall, I believe the investment outlook remains constructive with tax legislation bringing strong economic incentives to business and individuals. In a matter of days, many corporations will be reporting earnings and will be discussing the impact of tax legislation. More than anything that has already been written, I believe these earning reports will shed the greatest light on the impact of tax legislation. Thank you again for everything and best wishes to all for a great 2018.

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