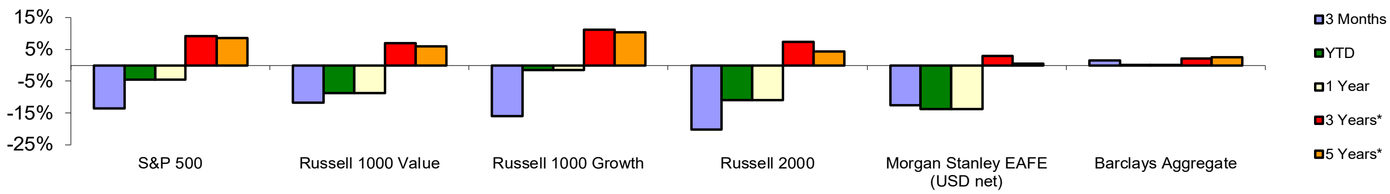
Timberline Investment Management, LLC

MARKET OVERVIEW 12/31/18

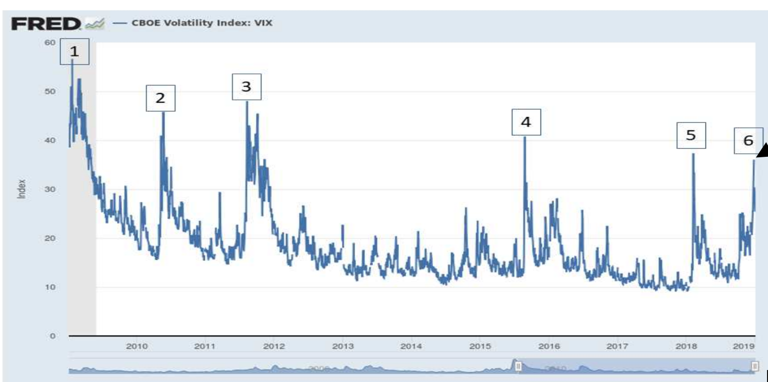
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	-13.52%	-4.38%	-4.38%	9.26%	8.49%
Large Company Value	Russell 1000 Value	-11.72%	-8.72%	-8.72%	6.95%	5.95%
Large Company Growth	Russell 1000 Growth	-15.89%	-1.51%	-1.51%	11.15%	10.40%
Small Companies	Russell 2000	-20.20%	-11.01%	-11.01%	7.36%	4.41%
International Stocks	Morgan Stanley EAFE (USD net)	-12.54%	-13.79%	-13.79%	2.87%	0.53%
General Bond Market	Barclays Aggregate	1.64%	0.01%	0.01%	2.06%	2.52%



ECONOMIC OVERVIEW

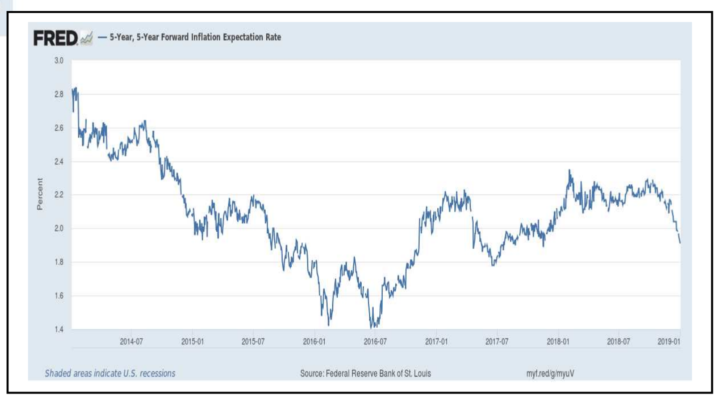
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.69%	3.01%	**-10.63%**	2.40%	**12.08%**
Short-term Rates	Effective Fed Funds Rate	2.40%	2.18%	**10.09%**	1.33%	**80.45%**
Consumer Inflation	Consumer Price Index	252.876	251.846	**0.41%**	247.411	**2.21%**
Wage Growth	Average Hourly Earnings	27.48	27.25	**0.84%**	26.64	**3.15%**
Job Growth	Total Non-farm Payrolls	150,263	149,501	**0.51%**	147,625	**1.79%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.4	**0.29%**	34.5	**0.00%**
Economic Output	Gross Domestic Product	20,658	20,412	**1.21%**	19,588	**5.46%**

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.



STOCK MARKET VOLATILITY (10 years) – We obviously have experienced greater volatility recently (#6). At previous peaks, here are 1-year S&P 500 returns after volatility peaks: (#1) 1/20/09 +44.8%; (#2) 5/21/10 +25.0%; (#3) 8/10/11 +28.3%; (#4) 8/25/15 +18.9%; (#5) 2/5/18 ?; (#6) ?. Previous experience suggest volatility spikes are buying opportunities and potentially indicative of panic-oriented selling. The past may not be indicative of the future, but it is still good to know.

EXPECTED INFLATION IMPLIED BY THE US TREASURY BOND MARKET – I wonder why the Fed found it necessary to raise short-term interest rates with an inflation outlook like this???



JOB OPENINGS – Looking strong.

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

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4q18 was obviously a difficult investment period with an S&P 500 decline of -13.52%. It was painful given that it occurred late in the year and within in a very brief time period as well. As many focus on the painful developments of late, it should be noted that the annual 2018 performance of the S&P 500 was a modest decline of -4.38%. For longer periods, returns remained at very productive levels over the past three and five years. 2018 was a weak year but hardly a disaster.

For the past three months, investors had to deal with China trade issues, a controversial interest rate increase from the Federal Reserve, changes and turmoil in the political world, a partial government shutdown, a slowing China economy, and an inversion in part of the Treasury yield curve that was interpreted by some as a sign of future trouble. Also adding to the frenzy was, in my opinion, very poor communication from the Federal Reserve and a heavy level of doom and gloom from many media sources.

In a fair debate about economic prospects, performance of the stock market is a fair point but it is hardly the only point. Granted, China appears to be slowing as are domestic car and home sales. However, overall corporate earnings, job growth, wage growth, retail sales, and modest inflation remain solid factors. Overall, a comprehensive look at market and economic prospects hardly seem as one-sided as recent market movements imply.

At this time, I think it is best to comprehensively look forward. Many with a negative outlook have taken current market weakness as a trend toward further economic and market weakness. However, the Federal Reserve looks like it is going down a more "data dependent" trail and acknowledging that the current level of short-term interest rates may be near a neutral level. I am expecting that the Federal Reserve issue will be declining or going away in pretty short order. Regarding the yield curve warning, I believe extremely low global interest rates are distorting domestic interest rates and the value of the yield curve as a leading indicator. The government shutdown will eventually go away and government turmoil will probably lead to gridlock which keeps this part of the outlook relatively predictable. This leaves the mentioned positive economic factors as well as the China trade issues.

It looks like the China trade issue will take some time. It also appears that China is feeling most of the economic pain as they export far more to the US verses what they import. Despite this, China's centrally controlled economy can extend itself in ways that a market-based economy can't. Nevertheless, commercial sourcing and supply chains are actively looking for non-China alternatives that avoid current and potentially higher tariff burdens. I believe time will bring China to offer some concessions but there will also be political pressure domestically to bring an end to this as well. Talks are taking place which is encouraging and I believe the market will experience a lift with a reasoned settlement.

While I like long-term prospects, I want to draw your attention to the market volatility graph and information on page 1 of this report. Over the past 10 years, there have been 6 spikes in volatility that includes the current episode. As illustrated in the data, the S&P 500 has typically performed very well following volatility spikes that are indicative of market weakness and potential panic selling. While the current spike is painful, its high level usually bodes well for near term equity results. Given this, I do not think it is wise to be a seller and it is best to look for opportunities.

Once again, I acknowledge that the past three months have been very discouraging but fundamental and volatility factors point to a favorable outlook in my mind. I welcome you to contact me with any thoughts or questions. As always, thank you for your business with Timberline. Best wishes to you and yours for a great 2019.

Gregg Giboney, CFA
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