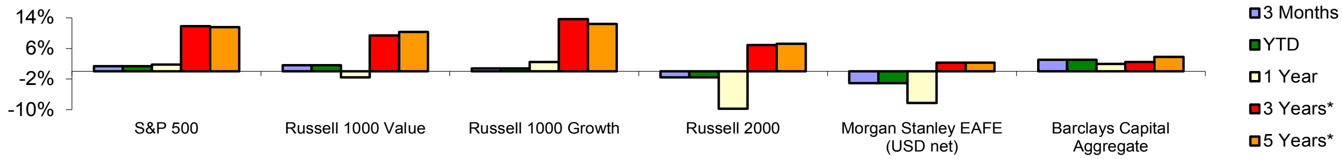
MARKET OVERVIEW Timberline Investment Management, LLC **03/31/16**

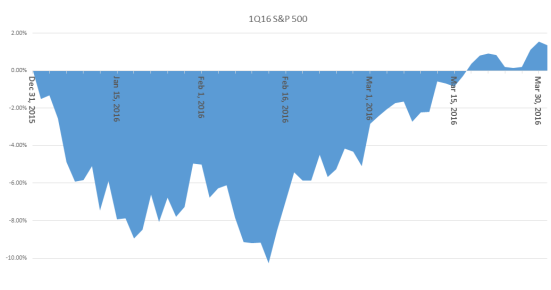
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	1.35%	1.35%	1.78%	11.82%	11.58%
Large Company Value	Russell 1000 Value	1.64%	1.64%	-1.54%	9.38%	10.25%
Large Company Growth	Russell 1000 Growth	0.74%	0.74%	2.52%	13.61%	12.38%
Small Companies	Russell 2000	-1.52%	-1.52%	-9.76%	6.84%	7.20%
International Stocks	Morgan Stanley EAFE (USD net)	-3.01%	-3.01%	-8.27%	2.23%	2.29%
General Bond Market	Barclays Capital Aggregate	3.03%	3.03%	1.96%	2.50%	3.78%



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%	2.27%	**-21.59%**	1.94%	**-8.25%**
Short-term Rates	Effective Fed Funds Rate	0.25%	0.20%	**25.00%**	0.06%	**316.67%**
Consumer Inflation	Consumer Price Index	237.111	237.336	**-0.09%**	234.722	**1.02%**
Producer Inflation	Producer Price Index	181.5	185.9	**-2.37%**	191.1	**-5.02%**
Job Growth	Total Non-farm Payrolls	142,877	144,116	**-0.86%**	140,099	**1.98%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.5	**0.00%**	34.4	**0.29%**
Economic Output	Industrial Production	104.189	104.508	**-0.31%**	105.858	**-1.58%**

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.



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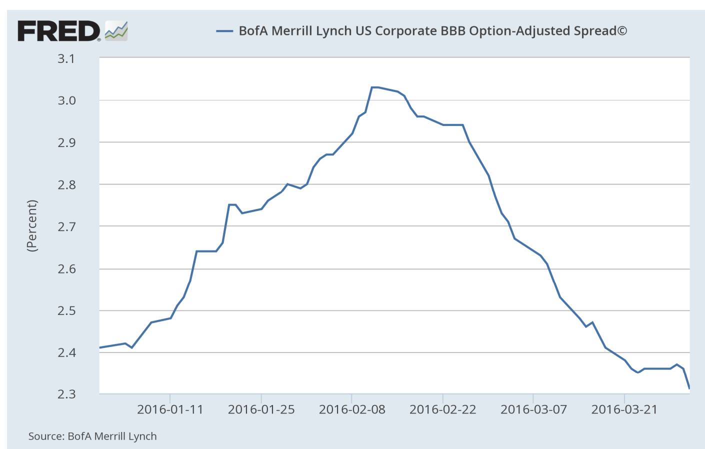
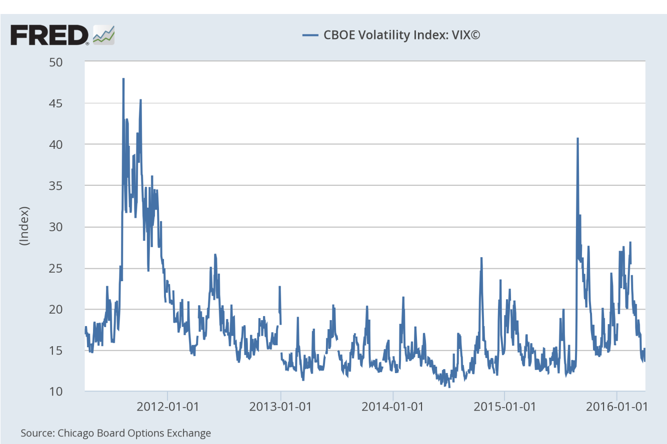
1q16 S&P 500 – This V-shaped recovery was the most remarkable quarterly turnaround since 1933. The low point was around -10% and the end result was a gain of 1.35%.

COPORATE CREDIT SPREAD (additional yield above Treasury bonds)– Through yields, this shows how investors fled and returned to lower quality bonds, just as they did with stocks, →





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STOCK MARKET VOLATILITY – Often referred to as the VIX, this measures price movements with sensitivity mostly on the negative side. This chart illustrates volatility during the great recession and weak periods last August and 1q16.

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

For the first three months of 2016, what started out terrible, turned out OK. Just check out the S&P 500 chart on the previous page.

The chart illustrates a decline of over 10% through mid-February that reversed to an overall period gain of 1.35%. This pattern was indicative of other domestic large-cap benchmarks as well. Other equity categories, however, did not fare as well. Factors driving volatility took a greater toll on small-cap and international equities that resulted in negative returns for the period. On the other hand, volatility factors also drove investors into high quality bonds that had 10-year Treasury yields falling from 2.27% to 1.78% and a gain in the Barclay's Aggregate of +3.03%. While this number looks nicer than the return of the S&P 500, one should not expect that type of return going forward with the 10-year Treasury priced at the mentioned yield of 1.78%. A look at the 1-year return of 1.98% on the Barclay's Aggregate is, I think, a fair estimate of long-term potential that will include periods of negative returns in rising rate periods. Outside of high quality bonds, lower quality bonds were deeply affected by the same worries with the middle chart illustrating rates that moved sharply higher and sharply lower over three months.

Volatility in the first quarter was driven by several factors. There was another China scare similar to the episode experienced last August. The Chinese economy has clearly slowed from an enormous growth period led by sizable buildout in infrastructure and industry. It appears that such needs have been largely met, if not overly met in some circumstances, and that the Chinese economy is now entering a more balanced phase between consumption and investment drivers that should result in single digit growth over time. Nevertheless, there is still a wild-west element in all this that includes centralized government controls, exchange rate uncertainty, and exiting capital flows by those that do not trust property and wealth protections in the country. I don't think we have heard the last of China as it sorts things out. Another factor in play were oil prices where West Texas Intermediate started the period around $37/barrel, fell below $30 and ended the period around $40/barrel. Oddly, domestic equity investors did not seem to like lower prices even though 70% of the domestic economy is consumption based and banks disclosed relatively low exposure direct energy credits. Lastly, and as is often the case in periods of weakness, pundits get a free pass to produce provocative economic writings that often lead to exaggerated market movements. I believe this was the case in 1q16.

Looking ahead, volatility is probably going to be a factor that long-term investors will need to tolerate with moderate earnings growth only offering little protection. While the Fed may move further to normalize short-term rates, domestic long-term rates remain subject to global markets where some countries have rates pegged below 0%. It should be remembered that long-term rates often anchor equity valuations. With that, the current level of fundamental market valuation is neither cheap or expensive. With the type of underpinnings just described, a fundamental outlook of domestic single digit long-term equity returns remains reasonable. This seemed to be the case with the S&P 500 in 1q16 that experienced a very rocky road to get to a modest gain.

It would be remiss to not say something about politics but I don't think much can be said right now. Currently, nothing in the markets seem to clearly lean one way or another. Generally, the equity markets have a pretty good record of picking a presidential candidate sometime in the summer. This may be one of those years where any political indicator may be tough to rely on. What we will unfortunately see again is a boatload of biased economic assessments that suddenly go away in November. Look for the truth somewhere in the middle of all the excitement.

In closing, let me once again express my sincere thanks for your interest and trust in Timberline. I hope you find this to be helpful.

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