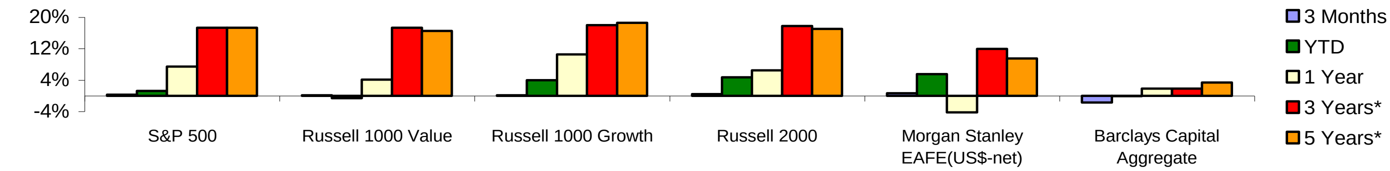
Timberline
Investment Management, LLC

MARKET OVERVIEW

06/30/15

Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	0.28%	1.23%	7.42%	17.31%	17.34%
Large Company Value	Russell 1000 Value	0.11%	-0.61%	4.13%	17.34%	16.50%
Large Company Growth	Russell 1000 Growth	0.12%	3.96%	10.56%	17.99%	18.59%
Small Companies	Russell 2000	0.42%	4.75%	6.49%	17.81%	17.08%
International Stocks	Morgan Stanley EAFE(US$-net)	0.62%	5.52%	-4.22%	11.97%	9.54%
General Bond Market	Barclays Capital Aggregate	-1.68%	-0.10%	1.86%	1.83%	3.35%



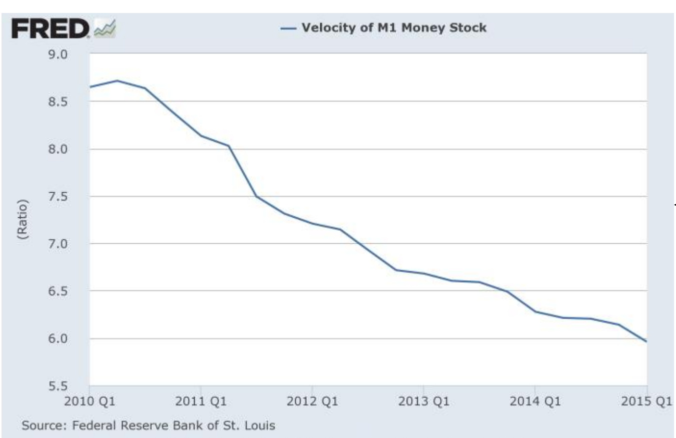
ECONOMIC OVERVIEW

	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.35%	1.94%	**21.13%**	2.53%	**-7.11%**
Short-term Rates	Effective Fed Funds Rate	0.08%	0.06%	**33.33%**	0.09%	**-11.11%**
Consumer Inflation	Consumer Price Index	237.805	234.722	**1.31%**	237.9	**-0.04%**
Producer Inflation	Producer Price Index	192.9	191.1	**0.94%**	208.0	**-7.26%**
Monthly Job Growth	Non-farm Payrolls	223,000	119,000	**87.39%**	286,000	**-22.03%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.5	**0.00%**	34.5	**0.00%**
Economic Output	Industrial Production	105.102	105.805	**-0.66%**	103.684	**1.37%**

Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is neither 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.

REAL MEDIAN HOUSEHOLD INCOME – Income growth has been weak and remains a concern for the Fed in its efforts to grow the economy.

HOUSEHOLD DEBT SERVICE – Not the burden it was prior to the recession but still indicative of cautious and careful consumption.



VELOCITY OF MONEY – Fed officials are having a tough time with policies when cheap and plentiful money is getting saved but not spent.

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

As many of you know, the economics of Greece, Puerto Rico and even China are currently dominating recent financial headlines. Add to this are endless commentaries on the Federal Reserve and potential rate increases later this year. Together, these matters are important but they have also crowded out other developments that, in my mind, drove many of the investment results over the past three months.

Such investment results, even though they don't look like much, are important. They consist of slightly positive equity returns (S&P 500 +.28%) and losses in the general bond market (Barclays Aggregate -1.68%). In my mind, such results were not consistent with the mentioned problems of Greece, Puerto Rico and China. Moreover and with all the attention, such developments could be expected to drive investors to safety with selling and potential losses in stocks, and buying and potential gains in bonds. This was not the case.

One largely ignored factor was a clear bounce and recovery in the economy from GDP contraction in 1q15. Weather and dock workers played parts in the decline and appear to be transitory with the benefit of hindsight. As investors came to that conclusion, selling safe but expensive bonds caused interest rates to rise and produced the mentioned loss in the Barclays Aggregate Index. As for equities, it looks like the recovery left an impression that economic and earnings growth remained on modest growth trajectories. When considering that overall equity market valuations are slightly above historical averages, it stands to reason that only modest returns were achieved during the quarter.

Another dynamic not considered lately but mentioned before in this newsletter is the achievement of domestic energy independence. If this was not the case, Middle East unrest would certainly be playing a bigger role in economic outlooks. Outside of energy, it is also worth noting the helpful and strong capitalization of domestic banks. Lastly, any rate move from the Fed will likely be measured, modest and hardly a surprise.

Looking ahead, I believe Greece and Puerto Rico will create some hardships but they are not of the size needed to knock the overall economy from its modest and lumpy growth pattern. China has the potential to be interesting with likely economic growth but at a rate looking more uncertain. If typical seasonality prevails, we are not far from the end of summer vacations and domestic fall economics that tend to be relatively strong. Given this and mentioned equity valuations, it remains best, in my mind, to consider equities attractive on a long-term basis. This is consistent in my management of a stock strategy where fundamentals are working well within many companies but trade at prices that appear to discount near-term, but not long-term, potential.

Investing in long-maturity bonds remains unattractive in my mind. During the second quarter, the 10-year Treasury rate climbed from 1.94% to 2.35%. This rate increase of just .41% had a great deal to do with -1.68% in bond returns. Despite this, risk and losses in bonds from rate increases may be still be less than well understood by many investors despite recent events.

Once again, this is a sincere thank you for your business and trust in Timberline. It is a pleasure and privilege.

Gregg Giboney

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