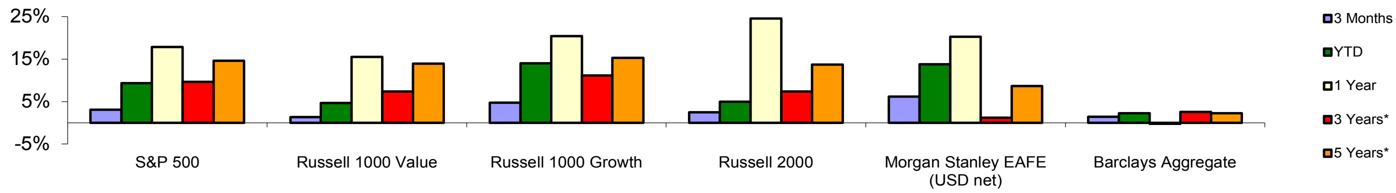
Timberline
Investment Management, LLC

MARKET OVERVIEW

06/30/17

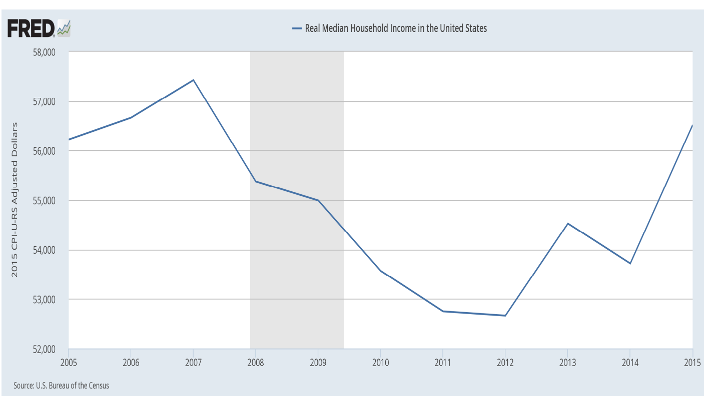
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	3.09%	9.34%	17.90%	9.61%	14.63%
Large Company Value	Russell 1000 Value	1.34%	4.66%	15.53%	7.36%	13.94%
Large Company Growth	Russell 1000 Growth	4.67%	13.99%	20.42%	11.11%	15.30%
Small Companies	Russell 2000	2.46%	4.99%	24.60%	7.36%	13.70%
International Stocks	Morgan Stanley EAFE (USD net)	6.12%	13.81%	20.27%	1.15%	8.69%
General Bond Market	Barclays Aggregate	1.45%	2.27%	-0.31%	2.48%	2.21%



ECONOMIC OVERVIEW

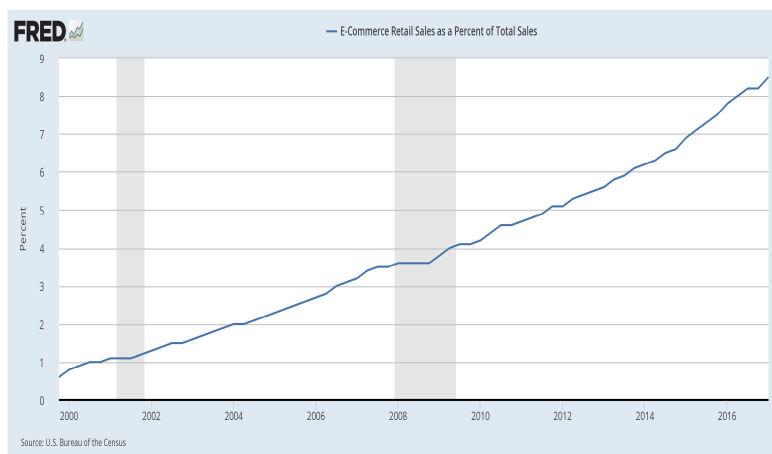
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.31%	2.40%	**-3.75%**	1.49%	**55.03%**
Short-term Rates	Effective Fed Funds Rate	1.06%	0.91%	**16.48%**	0.30%	**253.33%**
Consumer Inflation	Consumer Price Index	244.733	243.603	**0.46%**	240.229	**1.87%**
Producer Inflation	Producer Price Index	192.9	191.1	**0.94%**	185.3	**4.10%**
Job Growth	Total Non-farm Payrolls	147,388	144,940	**1.69%**	145,982	**0.96%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.3	**0.58%**	34.4	**0.29%**
Economic Output	Industrial Production	104.525	103.056	**1.43%**	102.773	**1.71%**

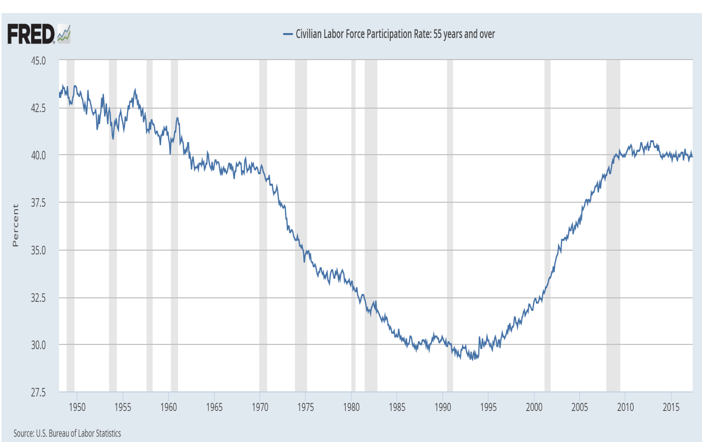
Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline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



← **REAL MEDIAN HOUSEHOLD INCOME IN THE U.S. –** Though wage growth has been tepid, this indicator paints a favorable direction in household income.

E-COMMERCE RETAIL SALES AS A % OF TOTAL SALES - A strong trend line is approaching 10%. →





← **CIVILIAN LABOR FORCE PARTICIPATION RATE 55 YEARS AND OLDER** – Opportunities for younger workers may be tougher to come by as older workers hang on to their jobs.

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

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Based on economic and market returns, financial conditions continued to maintain a favorable but modest improvement trend that has been going on for quite some time. Over that time, I think many have advanced from looking at things from a recovery standpoint to begrudgingly looking at things in more of a recovered or normal perspective. I say begrudgingly as the sense of normal is hard to see and feel when so much of the economy (and here comes another word emphasized by being underlined) is in transition.

A general look at the unemployment rate and overall retail sales give pictures similar to economic conditions prior to the 2008 meltdown. This is a great to see but the sluggish nature of GDP growth and lack of significant wage growth suggest transition is taking place in significant and even revolutionary ways in our economy. One needs to look no further than the retail area with the inroads of online sales that have traditional retailers shaking in their shoes. As sizable as this development has been, online retail sales have only advanced to about 10% of total sales which means disruptions have potential to run much further. The recent loss of about 60k retail jobs is tough on unskilled workers and contributes to the unease felt by many. In another part of the economy, globalization and automation in the workplace has contributed to lackluster growth in manufacturing jobs and the nice wages that typically go with such jobs. There is a long list of other examples but I think one more item should be mentioned here and that is government. Controversies aside, we are now in a very spirited debate about how our country is to be run and what changes are needed. Government is always slow to change with the status quo offering significant resistance. The combination of the slow rate of change in government and the accelerating transitional changes outside of government makes it likely that contentious conditions will continue to be high in the political world.

Within all of this change, corporate earnings are looking healthy with 10% growth in 2017 being a possibility. I believe this is the fundamental underpinning of this 2017's positive equity markets. Earnings growth also appears to be adequately built into valuations that are a bit above historical averages but are hardly high enough to be comparable to a bubble. All said, the current market is not a bargain but appears to be positioned for worthwhile returns for long-term investors. Confirmation of this confidence can be found in recent Federal Reserve actions when they modestly raised short-term rates in June and are now talking about a liquidation plan for its massive $4.5trillion bond portfolio that was built to help the economy recover from the 2008 crisis. Often called Quantitative Easing where money was essentially printed to buy these bonds, we may soon be seeing Quantitative Tightening to go with further rate moves to normalize interest rates. This is a pretty active agenda on the Fed's part but I am pretty sure that they will continue to move in a careful and modest pattern that should not materially affect market conditions. At this time and after all, wage growth and overall inflation indicators offer little reason for them to be aggressive.

The last thing I would like to mention is that successful investing is often helped by looking in areas that are getting the least attention. The business media currently appears obsessed with technology companies with high growth potential. The media may be right but they may be wrong with history littered in many failed investments in growth ideas. The message here is not to limit where one looks for good investment ideas. Thanks again to all of you for your business and interest in Timberline.

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