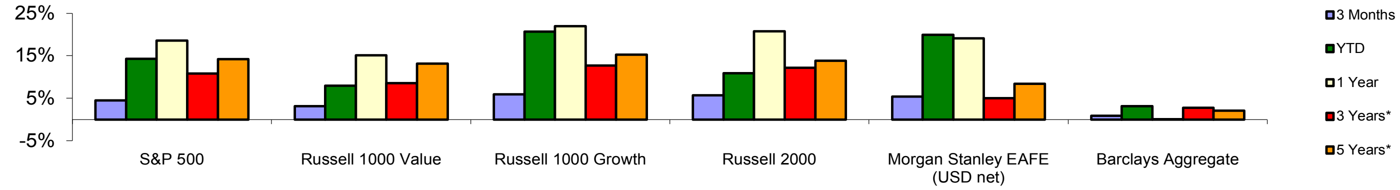
Timberline
Investment Management, LLC

MARKET OVERVIEW

09/30/17

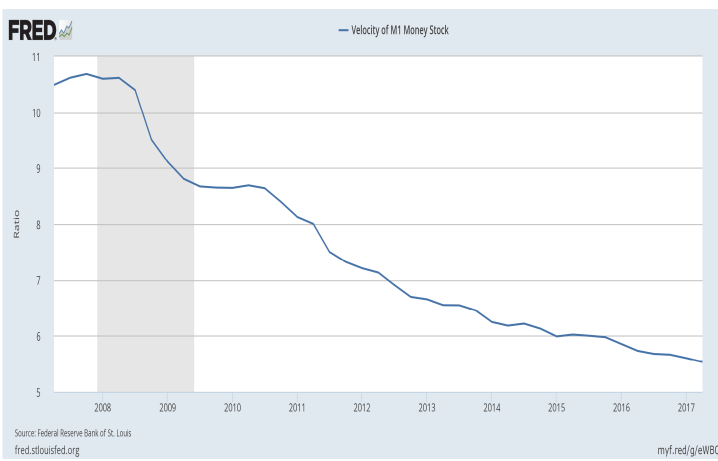
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	4.48%	14.24%	18.61%	10.81%	14.22%
Large Company Value	Russell 1000 Value	3.11%	7.92%	15.12%	8.53%	13.20%
Large Company Growth	Russell 1000 Growth	5.90%	20.72%	21.94%	12.70%	15.26%
Small Companies	Russell 2000	5.67%	10.94%	20.74%	12.18%	13.79%
International Stocks	Morgan Stanley EAFE (USD net)	5.40%	19.96%	19.10%	5.04%	8.38%
General Bond Market	Barclays Aggregate	0.85%	3.14%	0.07%	2.71%	2.06%



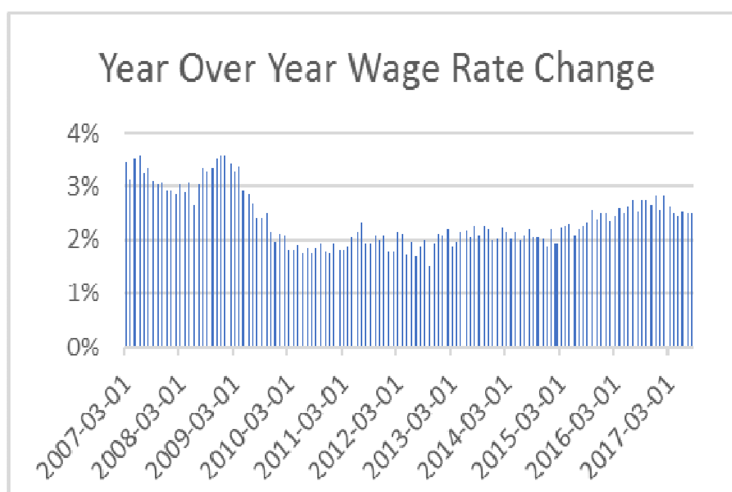
ECONOMIC OVERVIEW

	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.33%	2.31%	**0.87%**	1.60%	**45.63%**
Short-term Rates	Effective Fed Funds Rate	1.06%	1.06%	**0.00%**	0.29%	**265.52%**
Consumer Inflation	Consumer Price Index	245.519	244.733	**0.32%**	240.849	**1.94%**
Wage Growth	Average Hourly Earnings	26.55	26.27	**1.07%**	25.81	**2.87%**
Job Growth	Total Non-farm Payrolls	146,880	147,421	**-0.37%**	145,084	**1.24%**
Average Workweek Hours	Avg. Weekly Work Hours	34.4	34.5	**-0.29%**	34.4	**0.00%**
Economic Output	Gross Domestic Product	19,250	19,058	**1.01%**	18,538	**3.84%**

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.



VELOCITY OF MONEY – People remain cautious with cash moving through the economy at a historically low rate of turnover. This is making life a bit more difficult for the Fed



WAGE GROWTH - Lackluster wage growth has the Fed's attention as a key inflation indicator (Source: St. Louis Fed).

STOCK MARKET VOLATILITY – Despite many troubling issues, investors appear to be confident in the prospects of the economy and corporate earnings.

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

In the current world of investing, there is a dichotomy where many are having a tough time reconciling the troubling issues of the day with the positive nature of the equity markets.

To try to make sense of this, it needs to be remembered that investment markets are forward-looking with the fundamental basis of a security price being the predicted present value or capitalization of expected cash flows. “Predicted” is obviously the key word here and Yogi Berra may have said it best in the following: “It’s tough to make predictions, especially about the future.” Nevertheless and with a solid 3q17, the collective votes of investors that backed +4.48% for the S&P 500 are implying a favorable opinion about future business conditions. As nice as this is, there are times when investors are wrong and can be really wrong as was the case in both the dotcom era and in real estate during the financial crisis.

Relative to the dotcom era, we are not dealing with excessive valuations that were given to both profitable and unprofitable companies. The current market is carrying valuations above historical averages but not at an exorbitant level. In regards to the financial crisis, our current banking system with strong credit quality and strong capitalization is far more durable than before the crisis. Circling back to current market valuations, there is a chance that future returns over the next few years may be modest because of above average valuations. However, there is also a case to be made that current earnings growth may be sustainable and that today’s valuation situation has been built upon reasonable fundamental factors. One can also add that we have a business-friendly administration and clear endorsement of a favorable outlook from the Federal Reserve with gradual increases in short-term rates and gradual liquidation of its massive bond portfolio built during the financial crisis. In the background, it should also be remembered that the United States is greatly benefiting from energy independence that has allowed the domestic economy to avoid cost and other difficult issues that come with petroleum imports.

Despite the above, we cannot ignore North Korea, the Middle East and our rather chaotic political and domestic situations. There will always be exogenous and potentially sudden risks that cannot be predicted. Troubling circumstances are recognized here but we always seem to have troubling issues if one thinks back over time. Another thing to remember with investment cycles is that attractive investment opportunities are often best when conditions appear to be at their worst while the worst investment environments are typically associated with sanguine and optimistic situations. At this time, we do not appear to be overly sanguine with many still living with memories of recent downdrafts and concerns over the integrity of the capital markets. None of what has been said here is enough to prevent a correction but it does not appear, to me, to be conditions that typically lead to a meltdown. As for politics, gridlock is not such a bad thing as it does have a helpful element of predictability for investors.

In closing, it is my continued belief that a long-term orientation is needed to work through current conditions and that worthwhile returns are likely with such a commitment. During the commitment period, there are likely to be setbacks but, as Warren Buffett says, it is also not wise to bet against the American economy. Thank you again for your business and interest in Timberline. It is a pleasure and I hope you found this to be helpful.

Gregg Giboney

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