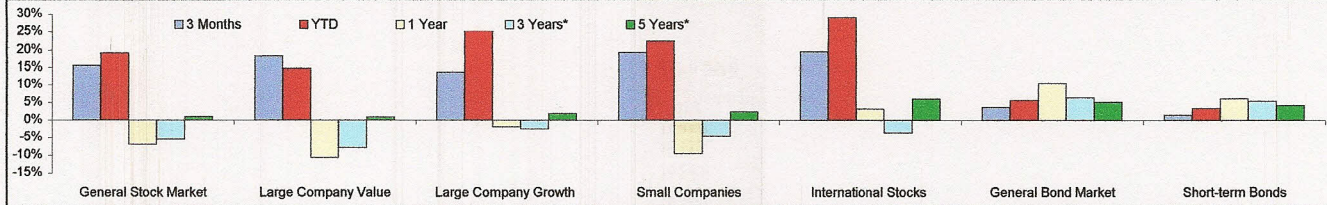


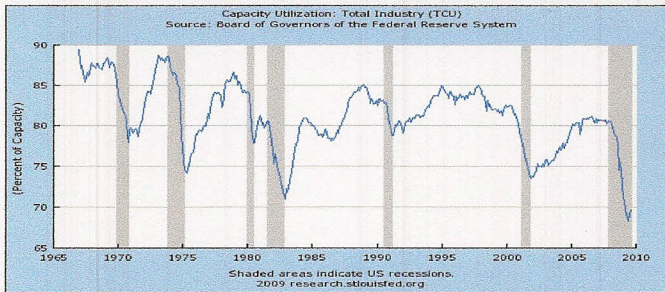
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	15.61%	19.26%	-6.91%	-5.42%	1.02%
Large Company Value	Russell 1000 Value	18.24%	14.85%	-10.62%	-7.87%	0.90%
Large Company Growth	Russell 1000 Growth	13.97%	27.11%	-1.85%	-2.50%	1.86%
Small Companies	Russell 2000	19.28%	22.43%	-9.55%	-4.57%	2.41%
International Stocks	Morgan Stanley EAFE(US\$-net)	19.47%	28.97%	3.23%	-3.60%	6.07%
General Bond Market	Barclays Capital Aggregate	3.74%	5.72%	10.56%	6.41%	5.13%
Short-term Bonds	Barclays Capital 1-3 Yr Govt/Cr.	1.40%	3.43%	6.20%	5.43%	4.26%



Economic Overview

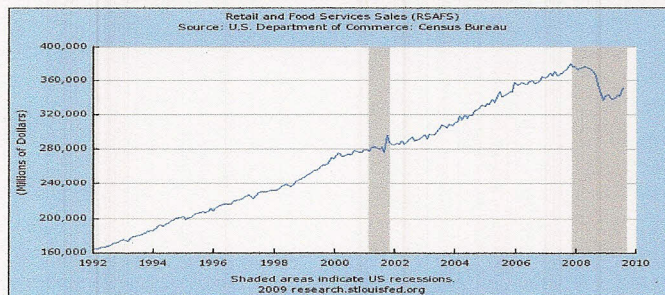
Category	Statistic	Most Recent*	3-mo Prior	3-mo Change	12-mo Prior	12-mo Change
Long-term Rates	10-year Treasury Yield	3.31%	3.53%	-6.23%	3.85%	-14.03%
Short-term Rates	Effective Fed Funds Rate	0.07%	0.22%	-68.18%	2.03%	-96.55%
Consumer Inflation	Consumer Price Index*	215.8	213.9	0.92%	219.1	-1.48%
Producer Inflation	Producer Price Index*	175.1	170.2	2.88%	199.0	-12.01%
Job Growth	Non-farm Payrolls	131306	132625	-0.99%	137119	-4.24%
Worker Earnings	Average Hourly Earnings	18.34	18.12	1.21%	17.84	2.80%
Economic Output	Industrial Production*	97.4	96.1	1.37%	109.2	-10.73%

*Economic data for certain statistics are as of the month prior to period end. Period end data was not available at time of publication. All statistics are subject to revision. Market returns greater than 1 year are annualized.

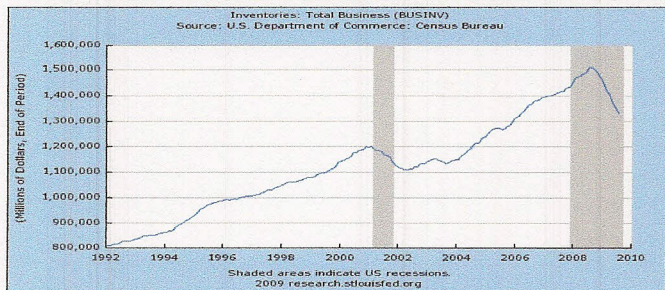


*Annualized

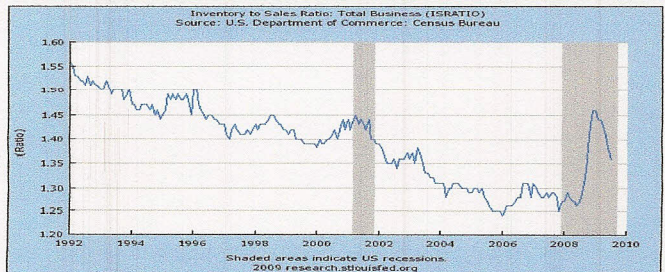
A bottom in **Capacity Utilization** is typically an indicator that a recession is about to end. The slight uptick at the right is encouraging but not conclusive.



Retail Sales look like they may have bottomed.



Total Business Inventories: As plant production has been cut, inventories continue to decline at a rapid pace.



Inventories to Sales Ratio: Inventories are declining while sales stabilize. This probably cannot last much longer and production should start to improve sometime soon. Perhaps capacity utilization (top chart) is starting to reflect this.

Information within this report was obtained from sources deemed to be reliable but cannot be guaranteed by Timberline Investment Management, LLC.

What a difference a year can make.

Not that long ago it appeared our economic system was near collapse. Under pressure from falling real estate values, credit markets became illiquid and virtually wiped out several major financial firms. As controversial and as imperfect as TARP and other emergency programs were, they appear to have had some success based on what we are seeing today. The economy remains weak but the recent and initial pullback of extraordinary support programs from the Federal Reserve is providing a signal of stabilizing conditions within the banks and hope that other areas of the economy will follow.

As sentiment has improved, so have the equity markets. A year ago, many were unwilling to put money in a business or stock. Today, signs of economic stabilization have led to consecutive quarters of double digit returns among most equity indices. Improving sentiment was also very visible within growing merger and acquisition activity as well in sharp appreciation in smaller company stocks. As such, market debate has greatly changed from that of an economic collapse to discussions as to whether equity market developments are truly indicative of prospects for an economy with notable issues.

Within the debate, doubters have plenty of ammunition. Jobs are tough to find, credit issues remain severe, and federal deficits loom large. Anybody focused on the here and now can make a clear case for being skeptical. But then, just a few years ago, those that focused on the present could also make the mistaken case for investing more money in real estate. The current debate on whether the market is currently over-valued is missing, I think, the more important point of what will economic conditions be in two to three years. At this time, it looks like the rate of economic deterioration is slowing and there are some signs of actual improvement in certain areas. Persistent stock market advances appear to be encouraged by this news and an expectation that things will get better over time. While today's problems are considerable, signs of a turn are consistent with patterns of the past but with characteristics of a recovery that could be slow. The October employment reports were a good example of the type of weak and lumpy economic news we could see for awhile. On top of economic fundamentals, political developments cannot be ignored. I don't think it is a stretch to say that the current administration and congress are not as business friendly as the previous administration. I also don't think it is a stretch to say that the declining popularity of the current government is also playing a part in the market run-up. This is not a political statement but simply a market observation.

On the fixed income side, long-term Treasury rates remain unattractive in my mind. It has been a surprise to myself to see long-term Treasury rates remaining this low given massive Government borrowing and signs of an improving economy. The economy in general, however, still has considerable problems and Federal Reserve programs are helping to keep rates low and helpful for massive real estate and other credit issues. I still believe Treasury rates will eventually move higher but it looks like clear stabilization in the mentioned real estate and credit markets will need to happen first before such rates move higher.

In summary, I like the fact that the equity markets are looking more towards economic fundamentals rather than going with the fear that dominated thinking a year ago. Within the fundamentals, I believe inventory and cost reductions put in place over the past year have positive and major implications for earnings and the market. This may not bode well for a rapid job recovery but it is typical of the recovery part of an economic cycle. As mentioned, it looks like the market has already priced in some of this outlook but I believe a longer term outlook remains promising for the equity markets.

Thank you again for your interest and business in Timberline. Your feedback and comments are welcomed, encouraged, and appreciated.

Gregg Giboney, CFA
President