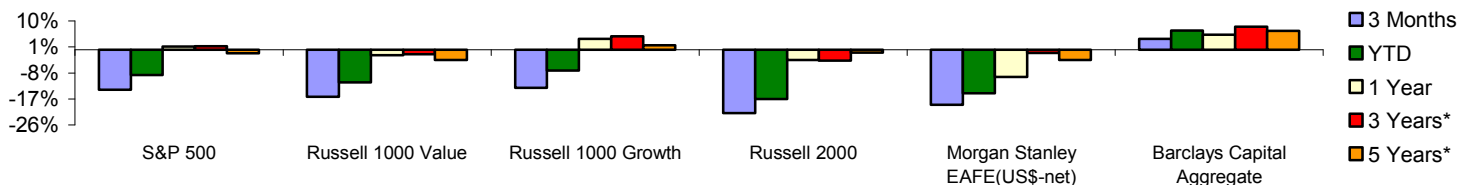


MARKET OVERVIEW

Sept. 30, 2011

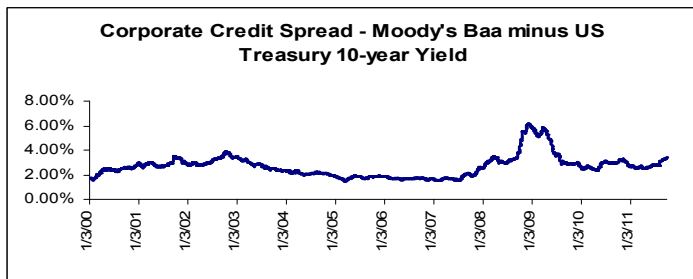
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	-13.87%	-8.68%	1.14%	1.23%	-1.18%
Large Company Value	Russell 1000 Value	-16.20%	-11.24%	-1.89%	-1.52%	-3.53%
Large Company Growth	Russell 1000 Growth	-13.14%	-7.20%	3.78%	4.69%	1.62%
Small Companies	Russell 2000	-21.87%	-17.02%	-3.53%	-3.70%	-1.02%
International Stocks	Morgan Stanley EAFE(US\$-net)	-19.01%	-14.98%	-9.36%	-1.13%	-3.46%
General Bond Market	Barclays Capital Aggregate	3.82%	6.65%	5.26%	7.97%	6.53%



ECONOMIC OVERVIEW

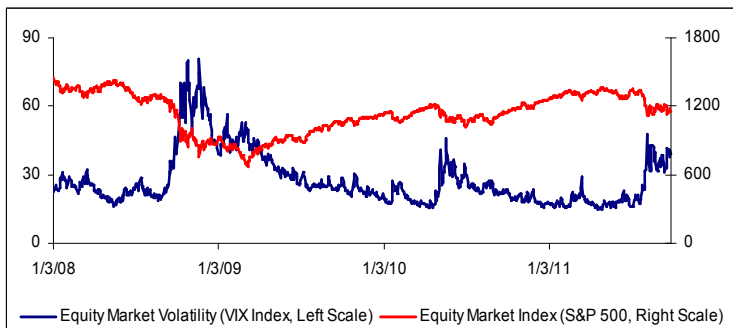
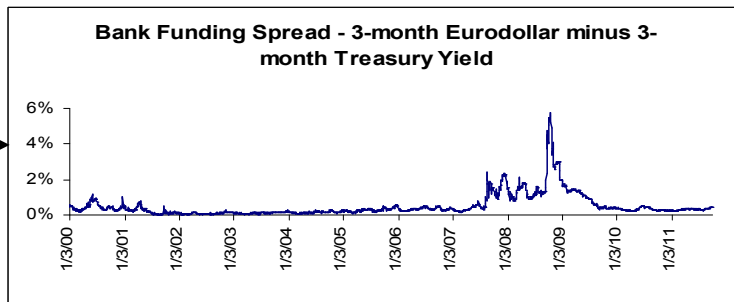
Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates 10-year Treasury Yield	1.92%	3.18%	-39.62%	2.53%	-24.11%
Short-term Rates Effective Fed Funds Rate	0.06%	0.07%	-14.29%	0.15%	-60.00%
Consumer Inflation Consumer Price Index*	226.545	225.964	0.26%	218.312	3.77%
Producer Inflation Producer Price Index*	203.2	204.2	-0.49%	184.9	9.90%
Job Growth Non-farm Payrolls	131334	131047	0.22%	129844	1.15%
Average Workweek Hours Avg. Weekly Work Hours	34.3	34.3	0.00%	34.2	0.29%
Economic Output Industrial Production*	94.0419	92.9566	1.17%	90.9898	3.35%

*Economic data for certain statistics are as of the prior month end. Data is from sources believed to be reliable but is neither guaranteed nor warranted 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.



The extra amount of interest a corporation pays, as compared to Treasury rates, is called a Corporate Credit Spread. Wider spreads imply higher expected risk. The spike in 2008 was associated with such risk during the crisis. Recently, risk expectations have moved higher but are nowhere near the 2008 level.

The Eurodollar Rate is the rate that banks borrow from each other and is often referred to as LIBOR. The spike in this chart illustrates the liquidity issues of the 2008 crisis where banks had to pay a high price to borrow. For most domestic banks today, this is not the case and liquidity is strong.



The VIX index is a measurement of stock market price volatility. As of late, the market has been volatile and weak. Current volatility, however, is nowhere near the 2008 level. Spikes in volatility have recently coincided with weak markets (a coincident indicator). Following the previous two volatility peaks, equity markets improved. As always, past performance is not always an indicator of future results.

For the S&P 500, a streak of 5 consecutive up quarters came to a sudden and harsh end with a decline of 13.87% in 3q11.

The quarter started with a favorable set of earnings numbers and an economy that appeared to be advancing in a moderate but sustainable fashion. This sentiment was soon forgotten with the bitter passage of the government debt ceiling and sudden reemergence of European financial issues. Coincidentally, Standard & Poors made a controversial downgrade of US Treasury debt while domestic economic conditions slowed. This led to extreme caution among investors and a pair of extraordinary moves from the Federal Reserve. The first Fed move was a commitment to keep short-term rates low for two years and a second move sought to bring down long-term rates with the Fed selling its short-maturity Treasuries and buying long-term Treasuries. In contrast to the relative speed of the Federal Reserve, the fragmented nature of the European Union has led to a somewhat slow response toward fiscal issues (i.e. Greece) and potential bank liquidity problems.

More can be said about the quarter just completed but I don't think it adds a great deal to an investment outlook. Many like to point out that 3q11 was the worst quarter since 2008 (4q08 specifically) but fail to point out that the 12-month return on the S&P 500 following 4q08 was a healthy and positive +26%. This is not a projection and past performance is not always an indicator of future performance. It is an observation that extreme weakness often leads to nice investment opportunities. With this in mind, I think the best question to ask is if things are really as bad as they appear to be. The charts with this newsletter take a look at a pair of bond market indicators that portray a more moderate assessment of our current situation than that depicted by the weakness and volatility of the equity markets. It is also interesting to note that recent periods of high volatility and market weakness have preceded longer periods of steady recovery and performance. There have been very few negative earnings preannouncements, most domestic banks are well capitalized and liquid, commodity prices have declined, the dividend yield of the S&P 500 now exceeds the 10-year Treasury yield which has historically been an attractive market opportunity, and the 10.8x forward P/E on the S&P 500 looks attractive as well. Lastly and as of the time of this letter, it looks like the European Union will probably have a support plan in place sometime soon. All said, the issues of the day are certainly real but so are the opportunities which seem to be getting little attention right now.

Along with the fundamental outlook, election year politics are probably going to be an enormous factor over the upcoming year. It is obviously too early to make any calls but current trends suggest big changes in representatives and policies are possible. Politics will also be coming into play relatively soon with the "super committee" that is mandated to come up with a substantive proposal by the end of November to address domestic fiscal issues. Unfortunately, committees of this nature have typically been ignored in the past so it may be wishful to think that election-sensitive politicians are going to take this group seriously and vote for a major policy proposal. It will make for interesting headlines to say the least. Lastly, Fed Chairman Bernanke has been getting rather vocal in pointing out the need for fiscal reforms to help the current economic malaise. Bernanke's future contributions may be more in the form of important commentary as it appears that the Fed no longer has much to bring to the table.

I think the upcoming earnings announcements and management statements will go a long way to fill the current speculative void with some facts. I doubt that the Fed's recent moves will create any meaningful economic spark and that it is only a matter of time that Greece will default. With this, the news going forward might not be that great but if it is better than expectations, the market has potential to do well. This is my expectation at this time. Finally, I like the fact that investor Warren Buffett thinks the current situation is attractive by actively buying back shares of his company and stating "We're ready to buy lots of things."

As always, your thoughts and comments are welcomed and encouraged. Thank you for your business and interest in Timberline.

Gregg

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