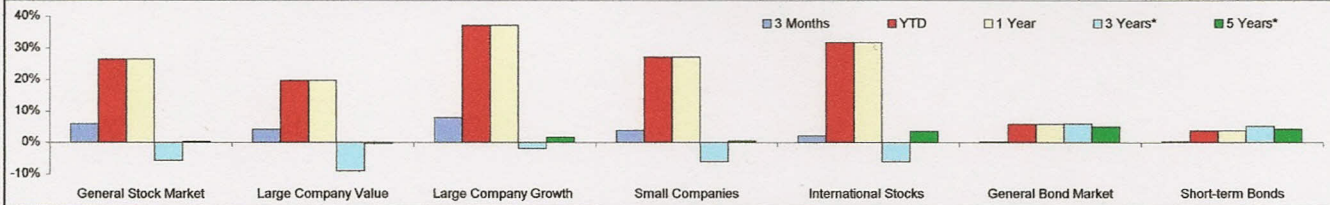


Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	6.04%	26.46%	26.46%	-5.61%	0.42%
Large Company Value	Russell 1000 Value	4.22%	19.69%	19.69%	-8.96%	-0.25%
Large Company Growth	Russell 1000 Growth	7.94%	37.21%	37.21%	-1.89%	1.63%
Small Companies	Russell 2000	3.87%	27.17%	27.17%	-6.07%	0.51%
International Stocks	Morgan Stanley EAFE(US\$-net)	2.18%	31.78%	31.78%	-6.04%	3.54%
General Bond Market	Barclays Capital Aggregate	0.20%	5.93%	5.93%	6.04%	4.97%
Short-term Bonds	Barclays Capital 1-3 Yr Govt/Cr.	0.38%	3.83%	3.83%	5.20%	4.32%

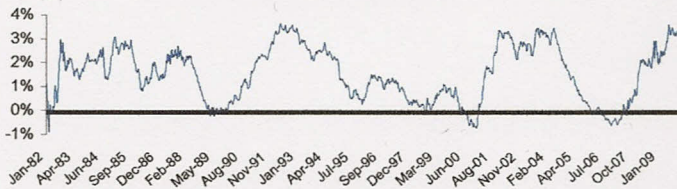


Economic Overview

Category	Statistic	Most Recent*	3-mo Prior	3-mo Change	12-mo Prior	12-mo Change
Long-term Rates	10-year Treasury Yield	3.85%	3.31%	16.31%	2.25%	71.11%
Short-term Rates	Effective Fed Funds Rate	0.05%	0.07%	-28.57%	0.14%	-64.29%
Consumer Inflation	Consumer Price Index*	216.3	215.8	0.23%	212.4	1.84%
Producer Inflation	Producer Price Index*	177.7	175.1	1.48%	176.8	0.51%
Job Growth	Non-farm Payrolls	131821	131435	0.29%	135917	-3.01%
Worker Earnings	Average Hourly Earnings	18.8	18.68	0.64%	18.40	2.17%
Economic Output	Industrial Production*	99.4	98.1	1.38%	104.8	-5.08%

*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.

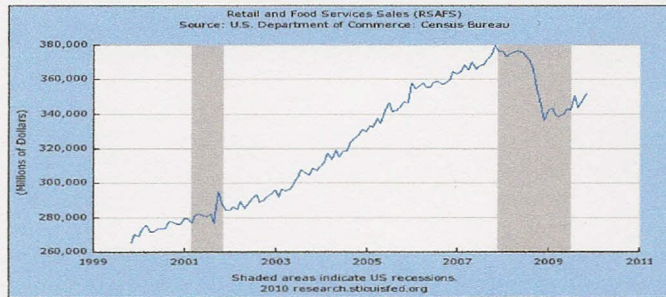
Yield Curve: Ten-yr Treasury Yield minus 6-month Treasury Yield



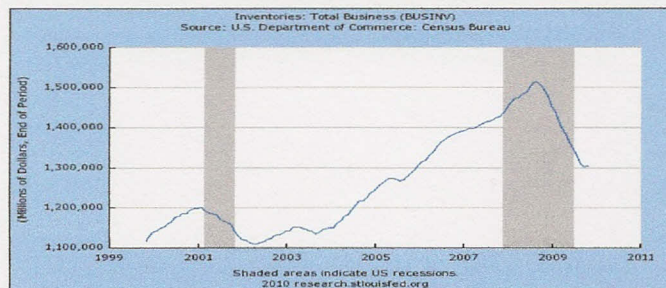
The differential between long-term and short-term Treasury yields have a good history of anticipating economic weakness and strength. The last two times the yield curve become inverted (long-term rates become lower than short-term rates), the economy suffered from the dot-com bubble and the most recent real estate bubble. At this time, the yield curve is very positive and steep which is a very optimistic indicator. Data Source: Federal Reserve Bank of St. Louis



The Declining Dollar: Much has been said about the decline of the dollar to where most think it is at a new low. On a trade-weighted basis, it has not hit the lows of 2008 and it has experienced some recent but modest improvement.



Retail Sales: It looks like consumers are starting to normalize their buying patterns after what was certainly an excessive consumption period prior to the recession.



Business Inventories: While consumers appear to be moving to a normalized consumption level, businesses still have not adjusted production in a meaningful way. Production should change and change for the better in 2010.

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

After a losing streak of 6 consecutive negative quarters, the equity market has gone on a bit of a winning streak with its third consecutive quarter of significantly strong results. At 12/31/09, the investment markets finished a strong year with a strong quarter as evidenced by S&P 500 returns of 26.46% and 6.04% for the year and quarter respectively. On the other hand, one cannot say the same for the economy. 2009 will go down as part of one of the worst downturns since the great depression. In fact, most economic measurements at the end of 2009 were notably weaker than those at the end of 2008.

As odd as this seems, it is not unusual for markets to behave differently than the economy in shorter-term time periods. Making sense involves looking at this in terms different than that of an immediate "cause and effect" relationship between the economy and markets. One way is to think in terms of expectations. At the end of 2008, most expectations were focused on continued deterioration in employment, real estate, credit, and uncertainty in government intervention policies. Though the expectations came true for the most part, the low hopes at the time stand in stark contrast to current expectations that look for employment and economic growth to move into positive territory sometime soon. Another related way to think of this is in regards to the price and demand for risky-asset returns. A decline in the stock market can be viewed as a price reduction for potential returns. For 2009 and even with a very weak economy, investors found good value in the deep price cuts and an improving outlook which led to a sharp market rebound following the March lows.

Looking ahead, I believe the mentioned expectations for positive developments in employment and economic conditions will come true in 2010. Typically reliable leading indicators such as a steep yield curve, tighter credit spreads, improving consumer sentiment, and improving producer surveys are also pointing to better conditions. Overall economic improvements in 2010 may turn out to be stronger than many expect but it probably won't reach a level where people will say the good times are back. While this is nice, investing will also have other issues to deal with. As always, some issues won't be known until they happen but some are known. Among the "knowns" are politics. Midterm elections have the strong possibility of bringing a more balanced political profile in congress and future government policies. This will probably be a positive for the market and it may have already been a contributing factor in 2009 returns. Iran remains very troubling and 2010 could be an event year. With an improving economy, higher interest rates and tighter monetary conditions are possibilities and potential challenges to better earnings and stock market valuation. In summary, I think 2010 has the likelihood for positive equity returns but it may be a year where the economy does better than the markets.

Within this outlook, real estate, employment, and budget deficits will continue to be among the top challenges faced in our economy. It is encouraging to see the attention these issues are getting and it is my hope they will be addressed in productive ways. I believe government will be active but I also believe that the private sector will do even more to help a recovery. If I had to pick one particular area of specific optimism, it would be with the current state of low inventories and production that is not meeting current demand. I think the potential for job creation in this area is significant and has strong potential to bring broad economic benefits. Demand for goods, services and properties may also get a lift from a lower dollar that makes such items cheaper for global buyers.

For many reasons beyond investing, I hope my expectations do come true. Let me once again say thank you again for your interest and business with Timberline. May 2010 be a year of happiness and prosperity for all.

Gregg Giboney, CFA
Timberline Investment Management, LLC