Investment Update

January 2011

M I D D L E T O N & C O M P A N Y, I N C.

2010 Fourth Quarter Update

Review: Stocks continued to rally strongly in the fourth quarter as the economy showed signs of improvement. The S&P 500 Index gained 10.8% for the quarter, while bonds slumped, falling 1.4%. Bond investors began to discount the prospects for higher interest rates as the economy revives and the Fed ends its bond purchase program at mid year. For the year, stocks were up 15.1% and bonds were up 6.0%.

Quarters	***3Q10***	***3Q10***	***2Q10***	***1Q10***	***4Q09***
S&P 500 Index	***10.8%***	***11.3%***	***-11.4%***	***5.4%***	***6.0%***
BofA-ML Int. Bond Index	***-1.4%***	***2.8%***	***2.9%***	***1.7%***	***0.3%***

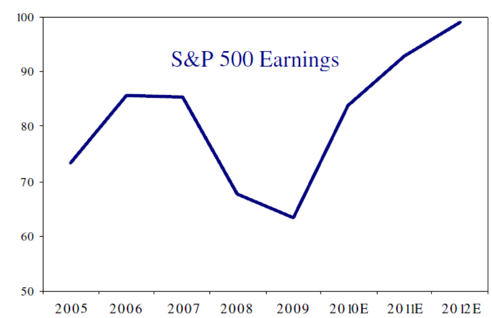
The U. S. Economy: Gradual economic improvement continued as GDP grew by 2.6% in the third quarter, up from 1.7% in the second quarter. Early indications are that growth continued in the fourth quarter. Holiday sales were the highest in three years, suggesting better consumer sentiment. Unemployment claims showed some improvement late in the quarter, declining to the lowest level since August 2008. Job growth, while trending upward, remains sluggish. Housing activity is still at a very low level. While some additional price weakness is possible, the housing market appears to have bottomed. However, the overhang of foreclosed properties along with tighter lending standards for new mortgages remain barriers to improvement.

The outlook for corporations is still favorable. Domestic business is growing modestly, but exports are growing strongly. Corporate profits are strong and balance sheets are flush with cash to the tune of $1.9 trillion, supporting higher capital spending to lower costs and increase efficiency. Our forecast is for modest but slowly improving growth in the domestic economy.

The International Economy: There is a clear dichotomy in world economies. With a few notable exceptions, the developed world, which includes the US, most of the Eurozone, and Japan, is growing slowly. Because these economies are more mature, they have less potential for growth and also carry high government debt levels that will require higher taxes to service in coming years. In contrast, the less mature developing economies, including China, India and Latin America, are growing robustly. Their governments have substantial financial reserves to fund infrastructure spending. It is estimated that the developed economies will grow at 2.3% this year, while emerging economies will grow at 6.4%.

Currently, the most important international concern is the Eurozone. Peripheral countries (Greece, Ireland, Portugal and Spain) have large deficits which they are unable to finance without European Central Bank and EU aid. To get aid, these countries have been forced to cut spending and increase taxes which will retard economic growth for the next several years. Investors have been concerned that the problems have not been contained and may spread to other countries, such as Italy. We believe that the rich countries, Germany and France, have too much at stake to let the peripheral countries fail. In the end, they will provide aid, albeit at a stiff price. The net result is slower Eurozone growth with headline risk potentially making the markets more volatile.

Stock Market: The health of the stock market, as measured by earnings, is quite favorable. Earnings for the S&P 500 are projected to increase from $84 per share in 2010 to $93 per share in 2011 and to $99 per share in 2012. The estimate for 2011 represents a new all-time high for earnings, surpassing the previous peak of $87 reached in 2007. Yet, the S&P 500 is still nearly 18% below the peak level of October, 2007. Thus, we believe stocks are attractively valued.



Bond market: Treasury bond yields are historically quite low. The Federal Reserve has held rates down to stimulate the economy. However, that effort will probably end by mid-year as the Fed finishes its bond purchase program. It is also important to note that inflation, which has been subdued over the past several years, will eventually rise as the economy recovers. Current bond rates are not high enough to compensate investors for even a modest increase in inflation. Therefore, our bond portfolios are very conservatively positioned with short average maturities.

Strategy: Stocks should outperform bonds and cash in the coming year based on attractive stock valuations and good global growth. Our portfolios continue to have direct investments in robustly growing emerging economies, as well as emphasizing domestic industrial and technology stocks that benefit from exports to those geographies. We also are focused on adding companies that are innovating and creating businesses of the future.