Investment Update

October, 2008

MIDDLETON & COMPANY, INC.

2008 Third Quarter Update

Review: It was a turbulent quarter for stocks, which were down 8.4%. Bonds were also down. The Merrill Lynch Intermediate Government/Corporate Index dropped 1.3%.

Quarters	***3Q08***	***2Q08***	***1Q08***	***4Q07***	***3Q07***
S&P 500 Index	***-8.4%***	-3.8%	-9.4%	-3.3%	2.0%
Merrill Lynch Int. Bond Index	***-1.3%***	-1.4%	2.9%	2.9%	2.8%

The Economy: The economy is in a consumer-led recession. The banking crisis began to have a more significant impact on consumers as mortgages, home equity and car loans became much more difficult to obtain. The housing market continues to decline. Unemployment rose to 6.1% from 5.5% three months ago and looks set to head higher. Retail sales reports for September were weak. On the positive side of the ledger, food and energy costs are down from the peaks of July and the risk of inflation has evaporated.

Businesses have been affected by the consumer slowdown. The ISM Manufacturing Index, a measure of manufacturing activity, recently moved into recessionary territory. Credit constraints have hurt businesses that require financing. Although export markets continue to be a bright spot, they only partially offset the weakness in the consumer sector.

We expect the economy to begin a gradual improvement in mid 2009 as the aggressive easing of monetary conditions by the Fed and support for the banking system by the Treasury begin to gain traction.

Financial Institutions: The past several weeks have seen the most dramatic reshaping of our financial institutions since the 1930s: Fannie Mae and Freddie Mac, the largest players in the mortgage market, and AIG, the largest insurance company, were effectively nationalized. Washington Mutual and Wachovia were forced to merge with stronger banks. Lehman Brothers went bankrupt and Merrill Lynch merged with Bank of America.

The $700 billion financial rescue bill passed recently by Congress is intended to address the shortage of liquidity in the financial system. While some details are still unclear, we believe that the plan will help restore liquidity to the credit markets, which had been frozen by the recent bank failures.

An important issue for the markets is the lack of confidence in our financial institutions. Regulators will deal with weaker banks, placing them in the hands of stronger institutions. The more disciplined, better capitalized financial system that emerges should restore confidence. All of this will take time.

Stock Market: It is hard to maintain a long-term perspective when global equity markets are falling sharply. We believe there is forced selling taking place that has nothing to do with a company’s long-term prospects. It is well-known that many poorly-performing hedge funds face huge redemptions from clients as of September 30th. It has been estimated that redemptions could reach more than $500 billion. To raise such a massive sum has required forced selling of assets. Stocks are among the most liquid assets available to sell. It is also estimated that some $270 billion was required on Friday, October 10th, to settle the financial derivatives, called credit default swaps, related to the Lehman bankruptcy. Again, the forced sale of stocks helped to meet the amount required.

Lost in the urgency of forced liquidations is the fact that non-financial corporations, which account for roughly 85% of the stock market, are generally in strong financial shape. Apple Computer, for example, has $20 billion in cash and no debt. Kellogg, United Technologies, and Dentsply have shown confidence in their prospects by recently increasing dividends. While the economy is in recession, stock valuations are already discounting a significant decline in earnings. The dividend yield on the S&P 500 is now 3.2%, the highest level since 1990.

Bond market: The yields on government bonds dropped dramatically as investors have fled to safety. In contrast, corporate bond yields have moved higher, reflecting the concern of investors with credit quality. When markets stabilize, we believe that high quality corporate and municipal bonds will offer attractive returns for fixed income investors.

Strategy: In the domestic market, we are emphasizing financially strong companies that can gain market share at the expense of weaker players. Traditionally recession-resistant sectors such as consumer staples and healthcare are also prominently featured in our portfolios. Our international investments are geared towards emerging markets that, despite the current concerns about the global economy, have strong secular growth prospects over the long term.