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

Investment Update

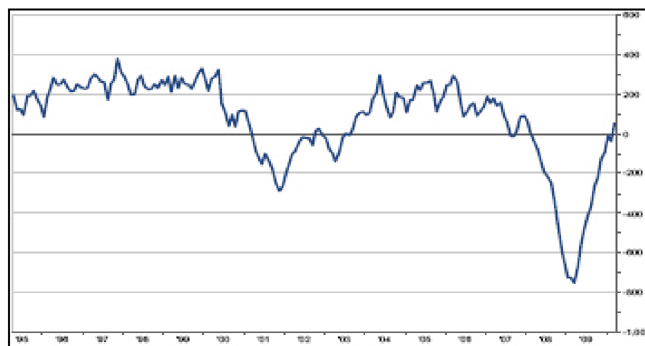
April 2010

2010 First Quarter Update

Review: After a modest dip in February, stocks resumed rallying, finishing the first quarter with a 5.4% increase. The Merrill Lynch Intermediate Government/Corporate Bond Index gained 1.7% for the quarter.

Quarters	*1Q10*	*4Q09*	*3Q09*	*2Q09*	*1Q09*
S&P 500 Index	*6.0%*	*6.0%*	15.6%	16.0%	-11.0%
Merrill Lynch Int. Bond Index	*1.7%*	*0.3%*	3.3%	2.0%	0.0%

The U. S. Economy: The economic recovery broadened during the quarter. Retail sales continued the surprisingly good trend of year-over-year increases which began in November. The job market, a critical linchpin in the recovery, showed an increase in March. While the numbers were helped by temporary census jobs, the 162,000 job increase was the best monthly number since March of 2007. The chart above shows an encouraging trend.



Non-farm Payrolls (000)

Improvement in the business environment supported the gain in jobs. The ISM index of manufacturing activity moved to a new recovery high of 59.6 in March. Some of the strength was due to exports which rose 15% in January as the global economic recovery gained momentum.

Still, the main area of concern remains the job market. We need to see continued improvement in the coming months to confirm the durability of the recovery. The housing market appears to have stabilized, but at a low level. Tax credits have helped, but the market has not been able to sustain a recovery on its own. Also, we expect the fiscal support provided by stimulus spending will begin to dissipate by the fourth quarter.

On balance, we still see a moderate recovery continuing into 2011 as the most likely path for the economy. The recovery will be below historical standards because stimulus spending has "borrowed" from future growth. Also consumer spending will be constrained by the high levels of debt that are being worked off.

The International Economy: Asia and Latin America are growing at healthy rates, boosting the rest of the world as those countries absorb imports. Despite the well-publicized problems of Greece and several other euro-zone countries, Europe is experiencing a modest recovery.

The outlook for the dollar is mixed. We expect it to be somewhat stronger against the euro because of the Greek debt crisis, but weaker relative to faster growing emerging economies.

Stock Market: The stock market is driven by investor's expectations for corporate earnings. Earnings estimates for the S&P 500 for 2010 have been rising for the past six months:

Sept. 2009	***$70***	Dec. 2009	***$71***	Mar. 2010	***$76***

The latest estimate for 2010, $76, represents a 26% increase over the prior year. The increase is fueled by a snapback in financial sector earnings and continued growth in the export-oriented industrial and technology sectors. The preliminary estimate for 2011 is $89, an increase of 17%. This estimate assumes the recovery continues into 2011. Selling at 15.6x 2010 and 13.3x 2011 estimates, the stock market represents reasonable value.

Bond market: Treasury bond rates continue to rise. The ten-year note, which yielded just 2.9% a year ago, touched the 4.0% level recently. Inflation remains subdued because of slack in the economy. Therefore, we believe that the Fed will not raise short rates until after the November election. However, we expect longer bond rates, which tend to move higher in the early phases of a recovery, to rise. Until rates move higher, we will remain conservatively positioned in our bond portfolios.

Strategy: We believe stocks will outperform bonds and cash in 2010. Information technology and industrial sectors look attractive to us. Technology should benefit from an overdue domestic upgrade cycle and continued strong international growth. Emerging economies need substantial technology investment to support economic growth. Industrial companies are benefiting from the need for more infrastructure in those same economies.

We are increasing our international investments to benefit from higher growth areas of the world.