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

Investment Update

April 2011

2011 First Quarter Update

Review: For investors, signs of economic recovery around the world outweighed concerns about unrest in the Arab world and the devastating earthquake in Japan. After a volatile period, stocks finished the quarter on a strong note, up 5.9%. Bonds provided a very modest 0.4% return, as fixed income investors became more convinced that interest rates would rise from the very low current levels.

Quarters	***1Q11***	***4Q10***	***3Q10***	***2Q10***	***1Q10***
S&P 500 Index	***5.9%***	***10.8%***	***11.3%***	***-11.4%***	***5.4%***
BofA-ML Int. Bond Index	***0.4%***	***-1.4%***	***2.8%***	***2.9%***	***1.7%***

The U. S. Economy: The economic recovery looks more durable as the indicators remain positive and fears of a "double dip" fade. For the fourth quarter, GDP was up 3.1%. The job market has shown marked improvement. Unemployment claims have declined to the lowest levels since July of 2008 and are consistent with moderate growth. In addition, the economy created a healthy 216,000 jobs in March. Auto sales for March were at a 13.1 million annual rate, up 12% from a year ago.

Areas of concern are housing and energy prices. We believe that housing will not recover meaningfully until the backlog of foreclosures is cleared- a process that could take several years. While we may not be at the bottom for housing prices, we think we are near it. Energy markets are harder to analyze because the unrest in North Africa and the Middle East is clearly affecting prices. News reports indicate that oil flow from Libya is expected to resume, easing concerns about supply. Given that Saudi Arabia has increased exports to fill the gap, we are guardedly optimistic that oil prices will stabilize. However, we will be watching developments closely.

The prospects for corporations are good. Domestic business, with the exception of housing, is improving. International business is quite healthy as indicated by the 14.7% increase in exports of goods last year. Companies are in excellent financial shape to continue to invest in 2011 with over $2 trillion in cash on their balance sheets. Investment in equipment and software, a sign of businesses' confidence in the future, was up 15% in 2010.

The International Economy: Even allowing for the unrest in North Africa and the terrible aftermath of the earthquake in Japan, the global economy is projected to grow at a robust 4.25% rate this year. The emerging economies are the driving force, with growth projected at 6.5%, while the mature developed economies are expected to grow at a slower 2.4% rate. We believe that emerging economies will grow at attractive rates for a number of years to come, providing a boost to global economic prospects.

Stock Market: The outlook for stocks is, in our view, quite favorable. Earnings are expected to increase by about 10% annually this year and next based on continued global economic growth. Dividends are increasing. The U.S. stock market valuation is attractive: the S&P 500 is selling at a multiple of 13 times next year's earnings which is at the low end of the historical 12-17x range. The corresponding multiples for the major emerging markets range from 11-13.5x, which are very attractive, especially considering their superior growth rates.

Bond market: Concerns about increasing inflation and the coming end of the Fed's monetary easing have led to a modest rise in interest rates since the beginning of the year. In recent days, the Fed has given numerous indications that a tightening of monetary policy is looming. Internationally, rates are already rising. The central banks of Europe, China, India, and Brazil have recently hiked rates. Given the potential for higher inflation and uncertainty around the timing and magnitude of Fed actions to remove monetary stimulus, we remain conservatively invested in short-term bonds.

Strategy: The world economic recovery has become more secure, supporting our preference for stocks over bonds and cash. Corporate earnings, the key driver for stocks, should show healthy growth. In mature developed markets we are focusing on companies that are able to prosper in a slow growth environment. This leads us to companies that are developing new products or benefiting from exports to faster-growing economies. Our international investments are heavily weighted towards emerging markets which we believe are still in the early stages of development and have years of good growth ahead.