MIDDLETON & COMPANY, INC.

Investment Update

July, 2009

2009 Second Quarter Update

Review: Stocks rallied sharply from the March lows. The S&P 500 was up 16.0%, the best quarterly performance since 1998. Bonds had a mixed quarter. The Merrill Lynch Intermediate Government/Corporate Index rose a modest 2.0%. However, the trends within the bond market were very divergent. Corporate bonds soared while government bonds dropped as credit concerns eased.

Quarters	*2Q09*	*1Q09*	*4Q08*	*3Q08*	*2Q08*
S&P 500 Index	***16.0%***	-11.0%	-21.9%	-8.4%	-3.8%
Merrill Lynch Int. Bond Index	***2.0%***	0.0%	4.0%	-1.3%	-1.4%

The Economy: As measured by most of the standard statistics, the economy is still in recession. Most of the consumer trends are best characterized as stabilized: Consumer expenditures actually hit a low point in December. Auto sales bottomed in February. Job losses, while still high, peaked in January.

Looking ahead, we expect the consumer sector to be sluggish through the rest of this year. The weak job market and tighter credit standards are weighing on consumer spending. Home prices are still declining, although in some markets prices appear to be leveling out. A silver lining is that energy prices are much lower than a year ago.

In contrast, business trends have shown significant improvement. The ISM Manufacturing Index bottomed in December and has risen sharply. The ISM Non-Manufacturing Index has improved significantly since it hit an all-time low in November. Factory orders, a measure of business capital spending, improved in May for the second month in a row.

Businesses cut back sharply in the wake of the financial meltdown last fall. They cut back too much. Anecdotally, a number of businesses have had to raise production because inventories were too low, despite the subdued consumer. Also, emerging economies, especially in Asia, have already returned to healthy growth. Export businesses will benefit, aiding the domestic recovery.

Despite the high amounts of liquidity pumped into the system to avert a financial crisis, we see little risk of inflation at this point. There is too much slack in the commodity and labor markets and too much unused manufacturing capacity to set off inflation. We do not think inflation will be a concern until at least 2011, if then.

Saving the economy with federal money has a price. Federal deficits are expected to exceed $1 trillion for the next two years. Because a significant portion of the debt will need to be sold to foreign investors, we expect the dollar to be under pressure. The silver lining is that a lower dollar will help exporters.

In summary, we expect a very modest economic recovery, led by inventory restocking and higher exports. Consumer spending will recover from the current lows but will not be the driving force that it has been in recent economic recoveries.

Stock Market: The stock market recovered sharply from the March lows, as aggressive federal monetary and fiscal policies forestalled the worst economic and financial scenarios. We expect some retrenchment in the near term, as the market digests second quarter earnings reports. Lower volumes in the summer tend to exaggerate market movements. However, stocks are still attractive on a long-term valuation basis. Long-term investors should have a high exposure to equities.

Bond market: Treasury bonds have declined since the first of the year as fear about the financial system has receded and the first wave of new government bonds to finance the bailouts and stimulus package have been issued. We expect government bonds to continue to be underperformers due to the heavy ongoing supply of new issues. Corporate bonds should fare better, but yields are not attractive compared to expected stock returns.

International: The global economic picture is mixed. Developed economies, such as Western Europe and Japan, are mired in recession while emerging economies, such as China and India, are already experiencing healthy growth. China and India avoided the mortgage debacle that crippled developed economies and their consumers have much lower debt burdens.

The dollar has declined from its recent peak in March as concerns about the global financial system have eased. We expect it to fall further as the global economy revives, aiding exports.

Strategy: Our strategy recognizes the special challenges of this period. Bonds and cash do not offer attractive returns. Stocks are attractively valued on a long-term basis, but we are facing an unusual economic recovery in which consumption will improve only modestly. Our domestic strategy is to underweight the consumer area but emphasize the strong companies that can gain market share.

The best growth will take place overseas, especially in Asian economies. We will emphasize exchange traded funds (ETFs) that invest directly in these economies and US companies that have strong export positions.