Investment Update

July 2010

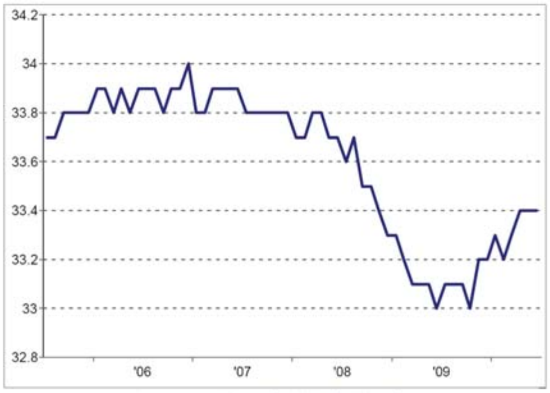
M I D D L E T O N & C O M P A N Y, I N C.

2010 Second Quarter Update

Review: The stock market fell 11.4% in the quarter as the European financial crisis and concerns about slowing economic growth weighed on the market. Bonds, as measured by the BofA-ML Intermediate Bond Index, were up 2.9%, as investors sought the safety of government and high-grade corporate bonds.

Quarters	***2Q10***	***1Q10***	***4Q09***	***3Q09***	***2Q09***
S&P 500 Index	***-11.4%***	***5.4%***	***6.0%***	***15.6%***	***15.9%***
BofA-ML Int. Bond Index	***2.9%***	***1.7%***	***0.3%***	***3.3%***	***2. 0%***

The U. S. Economy: The economy continued to improve in the second quarter, but at a more moderate pace. GDP grew by 2.7% in the first quarter, down from 5.6% in the previous quarter. After declining steadily from the high of 631,000 last March, the improvement in weekly unemployment claims has remained at a still high 450,000. The economy will not grow at a normal rate until weekly claims drop below 400,000. The hesitation in adding jobs seems to be due to an abundance of caution by businesses. However, temporary jobs increased for the eighth month in a row. Also, the average hourly work week has increased from 33.0 hours at the bottom of the recession to 33.4 hours, as shown in the chart. These trends augur well for an improvement in job creation.



Average Hourly Work Week

The trends for business are mostly positive. Domestic demand is improving, albeit slowly. Capital spending has started to increase again. Exports are growing, thanks to robust emerging economies. Corporate profits are strong: S&P 500 profits are projected to be up 31% this year. Balance sheets are in excellent shape with more than $1.8 trillion in cash and little debt.

On balance, a continuing moderate recovery is still the most probable forecast.

The International Economy: The International Monetary Fund has just increased their projection for world growth in 2010 from 4.0% to 4.5%. The Eurozone, despite the fiscal problems of Greece, Spain, and Portugal, is expected to show modest growth as the weaker euro has boosted exports, offsetting the belt-tightening required to reduce government debt. The fiscal problems, while severe, seem to have been contained by the 750 billion euro safety net package engineered by the European Central Bank and the IMF.

The efforts by China to cool its overheated property markets have caused some investors to worry that the Chinese economy could slow sharply. We do not think this will be the case. The Chinese have been very adept at managing their economy. We expect GDP growth to slow from the first quarter rate of 11% to a still very healthy 8-9% by the end of the year.

The outlook for the dollar is flat to down, supporting US exports. As fears about a European fiscal crisis and Asian growth subside, we expect the "flight to safety" bid that has boosted the dollar to reverse. In addition, the Chinese have signaled their intention to let their currency rise gradually against the dollar.

Stock Market: Stocks fell sharply from the April high on concerns that the US economic recovery would stall out. As noted above, we believe that a continued slow recovery is the most probable course for the US economy. The global economy is growing at a healthy rate. With inflation at a low 1-2%, supportive monetary policies, and good earnings growth the environment is positive for stocks.

Bond market: Treasury bond yields declined from their highs in early April to year-to-date lows in June as safety-seeking investors fled the euro. Given the slow pace of the US economic recovery, we do not expect the Federal Reserve to raise short rates until at least 2011. Bond yields are expected to remain low until the Federal Reserve increases short rates.

Strategy: Despite the market decline, our view is unchanged. We believe stocks will outperform bonds and cash over the balance of 2010 based on attractive valuations and healthy global growth. We are focusing on high-quality stocks that benefit from global growth, such as industrials and information technology.