Investment Update

July 2011

MIDDLETON & COMPANY, INC.

2011 Second Quarter Update

Review: The quarter was a volatile one for stocks as macroeconomic concerns and natural disasters captured investors' attention. In the end, the S&P 500 finished nearly flat with a 0.1% gain. Bonds rallied strongly early in the quarter but gave up part of the gain, as fears of a European financial crisis subsided, ending the quarter up 2.3% as measured by the Barclays Aggregate Bond Index.

Quarters	***2Q11***	***1Q11***	***4Q10***	***3Q10***	***2Q10***
S&P 500	***0.1%***	***5.9%***	***10.8%***	***11.3%***	***-11.4%***
Barclays U.S. Aggregate Bond	***2.3%***	***0.4%***	***-1.3%***	***2.5%***	***2.9%***

Our economy is continuing to recover from the worst recession in more than eighty years. Because the recovery has been slow, investors are concerned that it could be derailed by any one of the current political and macroeconomic issues affecting the markets. We are more sanguine. Following is our perspective on the major topics:

Domestic Issues:

The Treasury debt ceiling and budget negotiations: At last report, there was still a wide gap between Democrats and Republicans involved in negotiations. Despite public posturing, both parties understand the necessity for a resolution. We believe that the uncertain consequences of a default by the Treasury are so politically risky to both sides that a deal that substantially lowers the deficit will be reached before the deadline.

End of QE2: The Federal Reserve program to purchase $600 billion of Treasury debt ended on June 30th. Investors have worried that rates will rise, hurting the recovery. Economists, however, judge that the benefit to the economy has been minimal, so the absence of Fed activity will not significantly hurt the recovery, despite potentially higher interest rates.

Recent weakness in economic data: Since April, the economy has been exhibiting a sluggishness that has caused some investors to worry that we may fall back into recession. We believe that the weakness was temporary and related to disruption in manufacturing due the earthquake in Japan, the flooding in the Midwest, tornadoes in the South, and the spike in oil prices. The recent retail sales numbers have been good, no doubt aided by lower gasoline prices. The June ISM manufacturing index rebounded. Corporations are still reporting signs of economic revival.

International Issues:

Eurozone sovereign debt crisis: While still a longer term concern, the major parties to the bailout for Greece – the IMF, ECB, Germany and France – have agreed upon an interim package. The substantial agreement also signals the Eurozone's determination to defend against further attacks on weaker members such as Italy, Portugal and Spain. This crisis is not over. A permanent solution will require some form of debt restructuring for Greece, will be painful for the stronger countries, and will be a drag on growth for a number of years. Except for headlines, we expect the effects outside the Eurozone to be limited.

Arab Spring: The conflicts in North Africa and the Middle East have filled the media, but the affected areas contribute very little to world GDP. Oil is the bigger issue. Saudi Arabia has already indicated it will increase oil production to compensate for the loss of Libyan oil, since a stable oil price is in their long-term interest.

Inflation in emerging economies: Rising inflation in the emerging economies - especially China, India, and Brazil - is the most significant international risk we face since exports to these countries are an important contributor to corporate profits. All of these economies are raising interest rates in a responsible manner to counter inflationary pressures. Monetary tightening will slow the economies which have provided much of the world's growth over the past few years. The current expectation is that the slowing will be temporary, but we are watching developments carefully.

Strategy: Many of the concerns that could affect the world economy are well-recognized by the markets, and therefore have been discounted for the most part. Despite the recent softness in our economy, we think growth will resume in the second half of the year. The latest estimates for the S&P 500 are for 14% growth in earnings this year, with a further 9-10% growth expected in 2012, providing a favorable environment for stocks. U.S. bond rates are near thirty-year lows, making fixed income unattractive. Stocks should provide significantly better returns than bonds or cash. We are reminded of the old Wall Street adage: "The stock market climbs a wall of worry."