October 2009

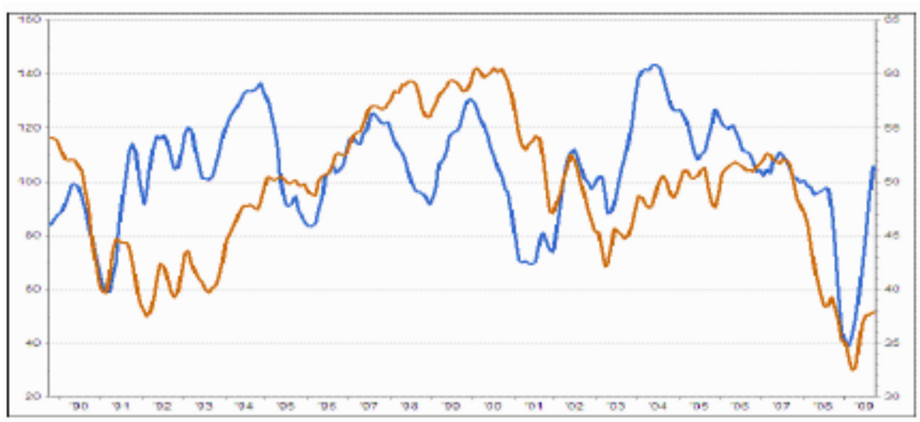
M I D D L E T O N & C O M P A N Y, I N C.

2009 Third Quarter Update

Review: After a brief and shallow dip in the first half of July, stocks continued to rally. The S&P 500 was up 15.6%, nearly matching the robust 16% gain of the second quarter. Bonds had a good quarter. The Merrill Lynch Intermediate Government/Corporate Index rose 3.3%.

Quarters	*2Q09*	*2Q09*	*1Q09*	*4Q08*	*3Q08*
S&P 500 Index	***15.6%***	***16.0%***	-11.0%	-21.9%	-8.4%
Merrill Lynch Int. Bond Index	***3.3%***	***2.0%***	0.0%	4.0%	-1.3%

The U. S. Economy: The recession appears to have bottomed in the second quarter. Aided by the "cash for clunkers" program and the $8,000 tax credit for first-time home buyers, the third quarter GDP will probably record the first positive growth since the second quarter of 2008. With a wary eye on the rising unemployment rate and over-leveraged balance sheets, consumers are cautious. Consumer confidence, as shown below, remains weak. We expect the consumer sector recovery to be subdued by historical standards.



Consumer Confidence (Left Axis) ISM Manufacturing Index (Right Axis)

In contrast, business confidence is generally improving. As shown in the chart above, the ISM Manufacturing Index, a measure of business confidence, has snapped back to pre-recession levels. Non-financial corporations are in excellent financial shape. According to JPMorgan Chase, businesses have $1 trillion in cash on their balance sheets above and beyond what is required for operation, providing them with the ability to invest and grow. Export businesses are showing signs of strength because the emerging economies have already recovered from the recession. Because companies have cut costs to the point that they can be profitable at current low run rates, even a very modest recovery should produce good corporate profits.

The International Economy: The global economy is improving. Emerging economies have shaken off the effects of the global recession and financial crisis and are leading the way. We expect healthy rates of growth from the emerging economies to continue as more of their citizens enter the middle classes and they build out needed infrastructure. China's economy has responded to massive government stimulus spending and is back on a strong growth path. India is expected to have healthy growth and Latin America is projected to rebound. Among the developed regions, Europe is benefiting from a resurgence of its exports to emerging countries.

Stock Market: The stock market has continued to recover from the March lows, as investor confidence has returned. Investors are now willing to look beyond the current year and are assuming there will be a multi-year economic recovery. The S&P 500 Index is selling at a reasonable 14.5 multiple of 2010 estimated earnings. Stock valuations are attractive based on our assumption that we are still in the early stages of a multi-year recovery.

Bond market: In support of the financial markets, the Federal Reserve has been a prodigious buyer of debt. The purchase of $300 billion of Treasury securities has been recently completed. Two other programs to purchase $200 billion of government agency debt and $1.25 trillion billion of mortgage-related debt are expected to be completed early next year. As these programs wind down we expect interest rates on Treasury securities and mortgages to rise. Therefore, we have a defensive stance toward the debt markets.

Strategy: The US economic recovery will be a muted one because of the continued pressures on the consumer. Therefore, we are de-emphasizing consumer discretionary stocks. However, corporations will respond to the slow economic growth by focusing on increasing efficiency. We are adding to our portfolios companies that make efficiency-enhancing products. Because growth will be at a premium, we are looking for companies that have new, innovative products. We also emphasize export-oriented businesses that sell to the faster growing parts of the world. We think the dollar could be weak for some time because of relatively weak economic growth in the US and the burden of large government deficits. We are adding to international investments as a hedge against the dollar's decline and to increase our exposure to faster growing parts of the world.