MIDDLETON & COMPANY, INC.

Investment Update

October, 2014

2014 Third Quarter Update

Review: Stocks, as measured by the S&P 500 index, rose a modest 1.1% in the quarter. Economic growth in the U.S. was impressive, but concern about the slowing of global growth tempered stock gains. Bonds were nearly flat, up 0.2% as markets worried the Fed would begin to raise interest rates sooner than previously expected. International markets had a poor quarter as economic growth prospects for emerging markets decreased and investors worried that tighter sanctions against Russia by the EU would slow European growth even further.

Period	3Q14	2Q14	1Q14	2013
	.5%	**6.6%**	**-0.4%**	*-2.6%*
Barclays U.S. Aggregate Bond	**0.2%**	**2.0%**	**1.8%**	*-2.0%*

Domestic Economy: GDP rebounded strongly, up an impressive 4.6% in the second quarter (the most recent data available). Early indications are that third quarter GDP will also be healthy. The job market has picked up and unemployment is now 5.9%, the first time since 2008 it has been below 6.0%. Capital spending, a sign of business confidence, increased last quarter at a 7.0% annual rate, the best gain in two years. Energy prices are down sharply, increasing discretionary spending potential for many consumers and making U.S. manufacturers more competitive in global markets. Of course, there are some areas of concern. Further strength in the dollar may slow exports. Housing starts, while much improved, have leveled off at a one million unit annual rate which is below the demand rate. High prices and tight credit standards for mortgage applicants seem to be restraining the housing market. Auto sales are healthy, but may be overly dependent on sub-prime credit, the same issue that fueled the mortgage crisis. Fortunately, the auto market is much smaller, limiting the potential impact.

Looking ahead, we expect the economy to finish the year on a strong note. Our early expectation for next year is that moderate growth will continue. Given the strength of the job market and its importance to the economy, our forecast may prove to be conservative. The Fed is widely

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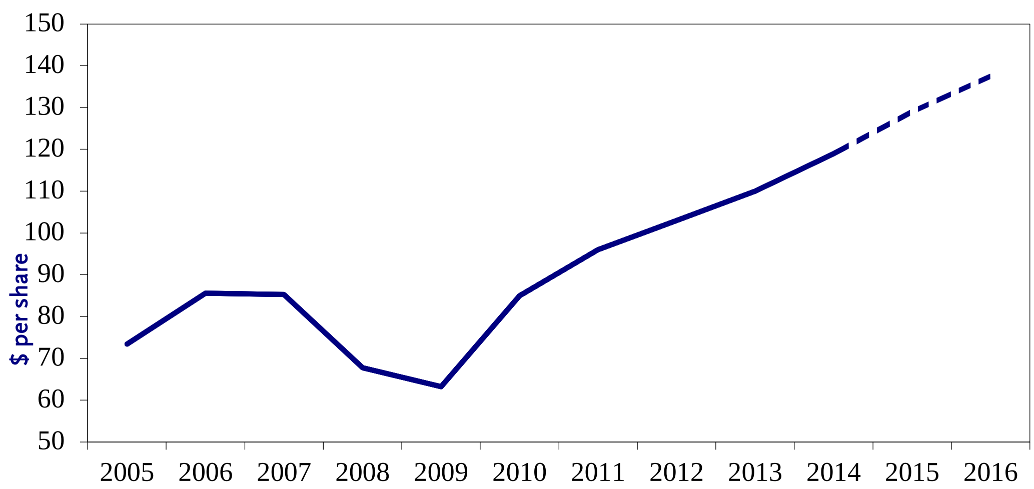
expected to begin raising interest rates in the second half of 2015. Some investors are concerned that this action might destabilize the markets. However, we note that the last three times the Fed has increased interest rates the stock market has had healthy gains in the subsequent twelve months because the economy was strong in each case. Since the potential for rate increases has been clearly telegraphed and the economy continues to grow, we believe the stock market will again be resilient.

International Economies: Both developed and emerging economies have seen economic growth forecasts fade, but for different reasons. European GDP forecasts have come down due to an inadequate policy response by the ECB and concern that the conflict in Ukraine will impact growth. Emerging economies are struggling with the excesses spawned by years of hyper-growth and weak demand from the lagging developed countries. By contrast, continued growth, strength in the dollar, and the prospect of rising interest rates make the U.S. an attractive investment haven. Therefore, international investments are less compelling.

Strategy: We are favorably disposed toward equity investments in the U.S. The recovery appears to be durable and could last for several more years. These conditions favor equities. Valuations, while not cheap, are not excessive, considering the runway ahead for several years of earnings growth, depicted on the chart below.

S&P 500 Earnings



Certain sectors are especially interesting to us. The improving job market makes consumer stocks attractive. Companies are beginning to feel the need to invest to expand and be more efficient, making industrial and information technology stocks appealing. The aging of the population and the increasing number of people covered by health insurance due to the recovery in jobs has heightened our interest in healthcare stocks. While our expectation is for modest, single-digit returns, stocks should still outperform bonds as the Fed begins to increase interest rates.