MIDDLETON & COMPANY, INC.

Investment Update

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2016 Fourth Quarter Update

Review: Fourth quarter financial market returns were dominated by the U.S. election results with the Republican Party unexpectedly winning the Presidency and retaining control of Congress. President-Elect Trump's pro-growth campaign platform caused a rapid shift in investor sentiment and a wide dispersion in returns for the quarter. Less cyclical sectors like Technology and Health Care lagged, while more cyclical ones, such as Industrials and Financials, rallied. Mid and small capitalization stocks benefitted more than large caps, rising 7.4% and 11.1% respectively for the quarter. Interest rates rose sharply, due to heightened inflation concerns, on the assumption that the economy would be reinvigorated quickly by such fiscal policy measures as infrastructure spending, a reduction in corporate and personal tax rates and regulatory revisions.

In non-U.S. developed markets, investors remained cautious about Europe. Despite signs that economic growth might be improving, continued concerns about the health of the banking sector, especially in Italy, and the ongoing uncertainty surrounding the effects of Britain's vote to leave the European Union, were strong headwinds. Japan's efforts to raise and maintain higher economic growth continued to fall short.

Emerging market returns fell 4.1% for the quarter as the U.S. dollar strengthened but still returned 11.6% for the year after falling 15% in 2015. The rebound was largely a function of strengthening commodity prices, more stable currencies versus the U.S. dollar and optimism regarding broad, positive, high level government changes in South America.

Domestic fixed income returns were bracketed by expectations for stable to lower interest rates due to limited Federal Reserve rate hikes pre-election and the increased probability of higher rates due to accelerated rate hikes post-election.

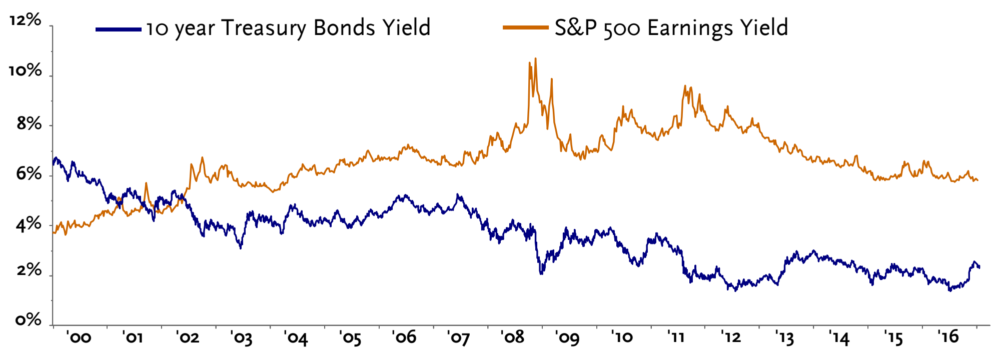
Period	4Q16	3Q16	2016	2015
S&P 500	3.8%	3.9%	12.0%	1.4%
MSCI EAFE*	-0.7%	6.5%	1.5%	-0.8%
MSCI Emerging Markets	-4.1%	6.9%	11.6%	-14.9%
Barclays U.S. Aggregate Bond	-3.0%	0.5%	2.7%	0.6%
Barclays Muncipal Bond	-3.6%	-0.3%	0.3%	3.3%

*Europe, Australia, Far East

Economy: In the United States, year-over-year GDP growth through the first three quarters averaged 1.9% with the third quarter noticeably stronger at 3.5% as consumer spending accelerated. The consensus expectation calls for approximately 2.5% growth in the fourth quarter. Domestic inflation continued to rise steadily with wages increasing 2.9% year-over-year through December.

European economic growth held steady at 1.6-1.7% over the first three quarters of 2016 with consensus expectations of sub-2% growth for 2016 and a 2017 outlook substantially the same. The Japanese Center for Economic Growth is projecting 1.2% growth for 2016 and 1.4% for 2017. In the major emerging markets, both Brazil and Russia remain in recession. India is decelerating from almost 8% growth at the beginning of 2016 to 7% now and China is holding steady at 6.7% according to official sources, which tend to be optimistic. Our expectation of continued U.S. dollar strength keeps us wary of these markets.

Strategy: As can be seen in the graph below, equities continue to offer better relative value than fixed income, especially in light of rising inflation indicators and announced projected rate hikes by the Federal Reserve.



Source: FactSet Research Systems

The United States remains our preferred global equity market based on its superior economic outlook. In addition, U.S. consumer and business confidence is rising. However, U.S equity markets have already strengthened noticeably post-election assuming the new administration's policy initiatives will be an immediate net positive to economic growth and, by association, will produce healthy increases in corporate earnings. This leads us to monitor valuations carefully, especially with the likelihood of increased market volatility as some of the more controversial and potentially damaging parts of the platform, like punitive and targeted trade tariffs, are debated in Washington. We remain defensively positioned in fixed income and favor select corporate or municipal bonds that offer stable to improving credit fundamentals and sufficient yield to offer protection against rising inflation.