MIDDLETON & COMPANY, INC.

Investment Update

January, 2014

2013 Fourth Quarter Update and 2014 Outlook

Review: U.S. equities finished a strong year on a very vigorous note. The S&P 500 returned 10.5% in the quarter, ending the year up a robust 32.4%, as encouraging economic data overwhelmed concerns that the Fed would tighten monetary policy. Bonds were essentially flat at -0.1% for the quarter. The Barclays Aggregate U.S. Bond Index ended at down 2.0% for the year, its first losing year since 1999.

Period	4Q13	3Q13	2013	2012
S&P 500	10.5%	5.3%	32.4%	16.0%
EAFE*	5.7%	11.6%	22.8%	17.9%
Emerging Markets	1.8%	5.8%	-2.6%	15.2%
Barclays U.S. Aggregate Bond	-0.1%	0.6%	-2.0%	4.2%

*Europe, Australia, Far East

Domestic Economy: Our economy showed remarkable resilience despite the disruption caused by the shutdown of the federal government in October. Third quarter GDP, the most recent data available, grew by 4.1%, the fastest rate in two years. Especially encouraging was the 5.9% gain in private investment, indicating that after a period of retrenchment, businesses have become more optimistic about the future. Despite higher mortgage rates, housing starts grew 29% in November. Motor vehicle sales were also strong at a 15.6 million annual rate, compared to 14.9 million a year ago. GDP forecasts for the fourth quarter have recently increased from roughly 2.6% at the beginning of the quarter to more than 3.0% currently.

With indications of less dysfunctional behavior in Washington, the outlook for 2014 has improved. At its December meeting, the Fed was very adroit in "tapering" monetary stimulus in measured steps, removing a major uncertainty for the outlook. Investment spending by businesses has increased and the job market has improved, indicating rising business confidence. Based on these encouraging signs, we expect GDP to grow by at least 3% this year, the best annual rate since 2005.

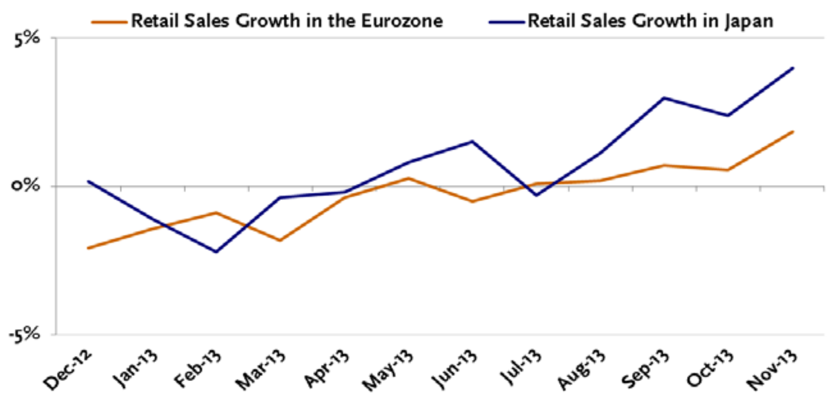
International Economies: Developed markets outperformed emerging markets in 2013 and we expect developed economies, especially Europe and Japan, to outperform in 2014. Japan has embarked on a coordinated program of fiscal and monetary stimulus to break the deflationary spiral

600 Atlantic Avenue
18th Floor
Boston, MA 02210-2211

Phone: 617-357-5101
Toll-free: 800-357-5101
Fax: 617-357-7199

info@middletonco.com
www.middletonco.com

that has hindered its growth. Early evidence of the success of these efforts include a 14% increase in new job openings since the beginning of 2013 and an improvement in retail sales from -1.1% to +4.0% over the same period. The crisis in Europe is easing, as the actions of the ECB have stabilized the financial system and the Economic Sentiment Indicator has steadily improved from 91.1 last January to 103.5 in December. While significant problems remain, most notably high unemployment in peripheral countries like Spain, the improving economy points to a resumption of growth this year. The improving trend in retail sales through 2013 for both Japan and the Eurozone is clear from the chart below.



Strategy: Our positive view of U.S. equities for 2014 is rooted in our belief that the domestic economy will expand moderately, supported by improvement in the job market and investment spending, as business confidence increases. Despite underperforming last year, we believe that bonds are still less attractive than equities because interest rates are artificially depressed by stimulative central bank policies. We expect rates to increase as the economy revives.

Our valuation work indicates that economically sensitive sectors- particularly consumer discretionary and information technology- still offer attractive opportunities. We also believe that health care stocks will be rewarded as the uncertainty surrounding the Affordable Care Act dissipates.

Internationally, our preference is for developed economies, as outlined above. We believe that emerging economies, particularly China, are in a period of transition. The credit fueled infrastructure boom of the past decade has created asset inflation that will need to be corrected before the next leg of growth can begin.