

# ELIOT FINKEL INVESTMENT COUNSEL, LLC

## FIRST QUARTER 2012 UPDATE

We appreciate your interest in Eliot Finkel Investment Counsel and are pleased to report our portfolios were up 6%\* in the first quarter. During the last decade, our clients have enjoyed a 68%\* return versus only 23% for the Standard & Poor's 500 Index (S&P). Since the dotcom bubble burst in March 2000, our clients have enjoyed an 87%\* return versus a 6% loss for the S&P.

Our fundamental analysis helped us avoid trendy, overpriced industries. For example we avoided technology stocks in 2000 and exited financial and real estate related stocks in 2007. We then doubled our allocation to corporate and municipal bonds in 2009 to capture a relatively low risk yield of 5%.

Our country's growth remains subpar, and what growth we have is the result of increased productivity. Real GDP has risen less than 1% since the recession began while employment has fallen 4%. Robust growth is still a ways off. The federal deficit can only be reduced by cutting spending and/or raising taxes, neither of which will promote economic expansion. The housing industry, with millions of homes underwater, and industrial utilization, currently below 79%, also need to improve.

Meanwhile, corporate profits have soared 62% off their recession level lows. This profit growth and the avoidance of the double-dip recession feared last summer have driven the stock market to double digit gains in each of the past two quarters. Though it would be nice, 20% annual profit increases cannot be sustained with the economy growing less than 3%.

Our investments focus on dividend-paying, well-managed companies with leading positions in their respective markets and major international exposure. The yields on investment quality corporate bonds and U.S. government and agency debt are too small to pursue. Medium-term, California General Obligation bonds are still appealing though they have rallied 10% in the past year. We remain cautious yet realistic to ensure that our future positions also stress safety and income at a reasonable price.

Eliot Finkel Investment Counsel is a family firm founded in 1974. We conduct our own economic analysis and company research to build diversified portfolios that provide safety and income for the long-term. For more information call us at 310-271-2521 or visit our website [www.efinvest.com](http://www.efinvest.com).

\* Past performance is no guarantee of future results and does not preclude the possibility of loss.