

ELIOT FINKEL INVESTMENT COUNSEL, LLC

FIRST QUARTER 2013 UPDATE

We appreciate your interest in Eliot Finkel Investment Counsel (EFIC) and are pleased to summarize our clients' results below.* The March 2000 and September 2007 dates correspond to market peaks.

	3/00 to Date	9/07 to Date	2011	2012	1 st Q 2013
EFIC	115%	21%	11%	10%	11%
S&P 500	5%	3%	0%	13%	10%

We achieved this steady, superior performance against a background of slow growth and financial strain. Europe is in recession with its banks under pressure (think Cyprus). Growth has slowed in China and Brazil while India remains choked by bureaucracy. Here at home slow growth continues.

The Simpson-Bowles Commission proposed a \$4.1 trillion, ten-year Federal deficit reduction package in 2010. Their goal was to stabilize not eliminate the debt and reduce annual budget deficits to the rate of growth or about 3%. If this happens, the national debt will grow in nominal terms but not as a percent of GDP. To date, \$2.35 trillion in decreased expenditures, increased revenues and reduced interest expense have been achieved. Upward revisions to economic forecasts and the sequestration will cover the remainder of the \$4.1 trillion goal.

Unfortunately, our government has again come up with a short-term budget fix that does not address our major, long-term problems - the Social Security and Medicare entitlement programs. We cannot afford these programs, long-term, in their current configuration. The United States deserves a "D" in fiscal management. However, as Professor Austan Goolsbee recently said, this is better than the world's other large economies which deserve an "F".

As we celebrate the stock markets' recent all-time highs here are some numbers to think about. Today's labor force participation rate, the share of working-age population in the labor force, is 63.3% the lowest level since May 1979. The last time the markets reached current levels 6.7 million Americans were unemployed now 11.7 million are unemployed; gasoline was \$2.75 per gallon not \$3.75; 26.9 million Americans were getting Food Stamps not 47.7 million; and, ten-year U.S. Treasury Bonds paid 4.64% not 1.72%. None of these numbers are encouraging.

Meanwhile, corporate profits continue to rise, though less than historical averages. Well-managed companies are accumulating cash and should remain profitable with increasing dividends for the foreseeable future. Though valuations of many companies seem rich after the recent market run-up, current prices are supported by low interest rates and an influx of cash from around the world seeking a safe haven.

We focus on well-managed, non-financial companies with leading positions in their respective markets, major international exposure and amply covered dividends. The portfolios we build, based on our 39 years of experience and internal research, provide long-term

financial safety and income. We will remain cautious and realistic with our future positions by stressing safety and income at a reasonable price.

Eliot Finkel Investment Counsel is a family firm founded in 1974. For more information call us as 310-271-2521 or visit our website www.efinvest.com.

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