

ELIOT FINKEL INVESTMENT COUNSEL, LLC

SECOND QUARTER UPDATE

During the last decade, our clients have surpassed the Standard & Poor's 500 Index by 48%* (up 56% versus 8%). We outperformed the market because our economic and fundamental analysis led us to avoid the hot, overpriced industries which heavily influence index prices. Focusing on dividend paying companies with good demographics, significant international exposure and substantial market share pays off. The stocks in our portfolios pay 3.2% in dividends. These dividends grew 6.3% annually over the past decade, a powerful driver of results.

Economic conditions will remain troubled for some time due to high unemployment, unused industrial capacity, a weak housing sector and government debt issues here and in Europe. Fortunately, robust growth in China, India, Brazil and other developing countries continues to propel the global economy forward. An unfortunate corollary of increased growth in developing countries is greater demand for food and energy which raises prices in the short term and presents added difficulties to consumers.

Despite these difficulties and market volatility many firms continue to prosper. Finding companies that have successfully navigated the past several years and provide safe, substantial and growing dividends is getting easier. Good management together with a safe, expanding dividend stream provide the lasting value that leads to superior results.

Meanwhile government at all levels is focusing on budget deficits and pension obligations. Since the recession began 600,000 government jobs have been shed. Fiscal integrity is a good thing though it will dampen economic growth in the short-term. We also need better healthcare, education and infrastructure to achieve healthy, sustainable growth.

California General Obligation (GO) bonds remain attractive though they have appreciated since our last report. With no income tax to pay, the yield on medium-term GO bonds exceeds taxable yields of 8%. In addition, nonpartisan reapportionment of legislative districts and open primaries should improve California's governance.

Eliot Finkel Investment Counsel, LLC 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 visit our website www.efinvest.com.

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