

ELIOT FINKEL INVESTMENT COUNSEL, LLC

SECOND QUARTER 2012 UPDATE

We appreciate your interest in Eliot Finkel Investment Counsel and are pleased to report our portfolios were unchanged* in the second quarter, a period during which the Standard & Poor's 500 Index (S&P) *declined* 3%. During the last decade, our clients have enjoyed a 78%* return versus only 38% for the S&P. Since the dotcom bubble burst in March 2000, our clients have enjoyed an 87%* return versus a 9% *loss* for the S&P.

Our fundamental analysis helped us avoid trendy, overpriced industries like technology in 2000 and financial services in 2007. In fact we added financial services stocks in 2000 and exited the industry in 2007. Taxable accounts were helped by the addition of State of California General Obligation bonds in the spring of 2011.

The excellent performance highlighted above was achieved in spite of the unsettled world economy and the deepest American recession since the Great Depression. Europe is near or in recession and definitely experiencing financial stress while growth in China, India, Brazil and other developing countries is slowing.

Here at home economic uncertainty is hampering growth by discouraging businesses from making capital commitments or hiring new employees. This uncertainty stems from the "fiscal cliff" consisting of trillions of dollars in spending cuts and tax increases that will automatically occur January first unless Congress and the president act. The resulting 5% drop in GDP will trigger another recession.

The federal deficit can only be reduced by cutting spending and/or raising taxes, neither of which will promote economic expansion. What our economy needs, according to most economists and the Bowles-Simpson National Commission on Fiscal Responsibility and Reform, is a medium term plan of reduced spending and increased taxes leading to a balanced budget. However, starting too soon will only cause further damage. Bottom line, robust growth is a ways off.

We are focused on well-managed, non-financial companies with leading positions in their respective markets and major international exposure. These companies should remain profitable with increasing dividends for the foreseeable future. The yields on investment quality corporate bonds and U.S. government debt are too small to pursue. We will remain cautious yet 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. 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.

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