

# ELIOT FINKEL INVESTMENT COUNSEL, LLC

## THIRD QUARTER UPDATE

Thank you for taking the time to read our third quarter update. We are pleased to report that our portfolios are up 7% this year versus a negative 1% return for the Standard & Poor's 500 Index (S&P). During the last decade, our clients have surpassed the S&P by 50%\* (up 59% versus up 9%). Our economic and fundamental analysis helped us avoid trendy, overpriced industries. For example we avoided technology stocks in 2000 and exited financial services stocks in 2007. Our investments in dividend-paying companies with good demographics, significant international exposure and substantial market share continue to pay off.

Economic conditions are still troubled. In Europe, a possible default by Greece would hurt European banks and might trigger a flight from the sovereign debt of other weak Euro-area countries. The U.S. will continue to struggle with high unemployment, excess industrial capacity, a weak housing sector and government debt issues. China, India, Brazil and other developing countries continue to grow, though less robustly. One benefit of this slowing growth is less pressure on food and energy prices. Meanwhile, state and local governments have shed 1.4 million jobs including 835,000 or about 60% in education since December 2007; good for budgets, not good for long-term competitiveness.

With all these uncertainties the markets are expected to remain volatile. Despite the tough economic environment our portfolios continue to deliver superior results due to the well managed, highly vetted companies they contain. The stocks in our portfolios provide income of 3.2% from dividends. These dividends grew 12% annually over the past decade and are a powerful driver of results.

Contrary to media reports, California General Obligation (GO) bonds are a relatively safe way to generate income. GO debt service, requires about \$5 billion per year, which leaves a \$43 billion General Fund safety cushion to cover the bonds. The interest on the bonds is covered nine times over. This is far safer than many investment grade corporations. California's GO bondholders are well protected. In addition, California GO bonds yield more than Treasury bonds of similar maturity even though they are exempt from federal taxes. The yield on medium-term GO bonds exceeds taxable yields of 7.9%.

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](http://www.efinvest.com).

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