

ELIOT FINKEL INVESTMENT COUNSEL, LLC

THIRD QUARTER 2012 UPDATE

We appreciate your interest in Eliot Finkel Investment Counsel and are pleased to report our portfolios gained 2%* in the third quarter, a period during which the Standard & Poor's 500 Index (S&P) gained 6%. Since the market last peaked in September 2007, our clients have enjoyed a 10%* return versus a *decline* of 6% for the S&P. Since the dotcom bubble burst in March 2000, our clients have enjoyed a 90%* return versus a 4% *loss* for the S&P.

We achieved this excellent performance in spite of the world's financial and economic troubles. Europe is probably in recession and definitely experiencing financial stress, while growth is slowing in China, India, Brazil and other developing countries. Here at home economic uncertainty is hampering growth by discouraging hiring and capital investment. The uncertainty stems from the trillions of dollars in mandatory spending cuts and tax increases that will occur next year (the "fiscal cliff").

There are only three ways to reduce the deficit: reduce spending, raise taxes or grow. Obviously, robust growth remains a ways off which is why the Federal Reserve initiated more quantitative easing and why the International Monetary Fund is advocating action to avoid the fiscal cliff.

According to most economists and the Bowles-Simpson National Commission on Fiscal Responsibility and Reform, we need a medium-term plan to restore a balanced budget. Starting too soon will hamper growth. So we need cooperation and compromise. There is a built-in deficit of \$1.3 trillion in the Federal Budget. Annual Receipts (taxes, Social Security, Medicare payments, etc.) total \$2.5 trillion. Mandatory Federal programs (Social Security, Medicare, Medicaid, etc.) consume \$2.5 trillion in Federal Outlays. This means Discretionary Programs (defense, security, education, etc.) totaling \$1.3 trillion must be paid for entirely by debt. This is not sustainable and must be dealt with.

Meanwhile, the business sector continues handling the difficult environment relatively well. This year's corporate profits are still rising, though at levels well below historical averages. We focus on well-managed, profitable companies with leading positions in their respective markets, major international exposure and growing, well covered dividends. We build our portfolios using our 38 years of experience and internal research to 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 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.