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Second Quarter 2018 Update and Commentary

Generating safe, robust returns is the goal of Eliot Finkel Investment Counsel. The following table of annual returns shows the superior results we achieved via patient, value-oriented investing that avoids overheated markets like those of 2000 and 2007. *

	Mar 2000 to date	Sep 2007 to date
EF Invest	7%	7%
S&P 500	3%	6%

An example of our prudent investing is Norfolk Southern, a railroad operating 19,500 miles of track in 22 eastern and southern states. We first bought Norfolk Southern in June 2012 at \$73 a share; it closed June 30 at \$152. Dividends paid since June 2012 total \$11.47 per share.

Economic times are good: annual U.S. growth hit 4.1% in the second quarter, unemployment is at record lows and corporate earnings continue rising. The most notable problems on the horizon are a growing shortage of skilled workers and the threat of a trade war.

Thanks to this robust growth, the Federal Reserve has raised short-term interest rates seven times since December 2015, to a 1.75–2.00% range. They now anticipate two more increases this year and two in 2019. Thus far, long-term interest rates have risen much less and remain, like short-term rates, below historic norms.

Two concerns recently expressed by our clients deal with protecting their portfolios against either a market correction or a recession. Periodic market corrections are normal. As long as the fundamentals underlying the companies we invest in remain solid, which they are, it is better to stay the course. History shows that selling to avoid possible corrections leads to significantly poorer results. A correction, defined as a 10% drop in prices, has already occurred this year, yet the markets remain in positive territory.

With respect to a recession on the horizon, none of the leading indicators usually associated with a recession are evident: inflation is low, interest rates are below historic averages, unemployment is at record lows, economic growth is accelerating, and corporate profits continue to expand. We continually monitor these indicators and, should they weaken, we will definitely act to protect our clients.

Forty-four years of experience and internal research helped us select Norfolk Southern and other profitable companies with great prospects and substantial dividends. Focusing on economics and company fundamentals has generated superior long-term results for our clients. This, plus the personal service we provide, explains why our average client has been with us over 13 years. For more information please call 310-271-2521 or visit our website, www.efinvest.com. Thank you for your interest.

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