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Third Quarter 2022 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our focus on company fundamentals and economics backed by 48 years of experience and in-house research continues to produce superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 18 years.

Successful investing is best measured over the long-term. Since the dot com bubble broke in 2000, we have generated 7% annual returns for our clients, significantly outperforming both the S&P 500 (4%) and tech heavy Nasdaq (4%). An investment with us in March 2000 would now be worth 80% more than an equal investment in the S&P 500*. The companies in our portfolios have excellent prospects, strong fundamentals and secure financials.

Most investors do well in a strong market. However, performance in a bad market is what distinguishes good investment management. The S&P 500 rose 27% last year; it is in a bear market this year, down 25%. A dollar invested in the S&P 500 at the beginning of 2021 would have lost 5%. Our clients' portfolios, by contrast, are up 3%. Hardly a great return but concrete evidence of the safety we provide. The bond market has not been a safe haven either as bond prices are down 15% in 2022.

Inflation remains the Federal Reserve's major concern. They have raised interest rates 3% this year and indicated further increases of 1.25% by year-end. The Fed is focused on controlling inflationary expectations which is extremely important for the long-term health of our economy.

There are many factors driving inflation today. The most critical are low unemployment and the large number of unfilled job openings. Employee compensation, at one-quarter to one-third of business costs, has a major impact on inflation. Preventing a wage-price spiral is key to controlling inflation and the damage it would cause. Other inflationary issues include the added cost of onshoring the production of critical goods like semiconductors, dealing with Russia and Europe's dependence on Russian energy. The changes being made today will build a stronger, more stable economic future.

That said, there are reasons to believe a U.S. recession will be relatively mild. The demand for employees exceeds people looking for jobs by about two to one. Banks are well capitalized and existing mortgages are grandfathered in at low rates. Further, domestic inflation will be eased by the strength of the dollar as it reduces the cost of imported goods. Economic cycles are inevitable, but we are well prepared for this one and the Fed is committed to minimizing the long-term damage.

The Fed's determination to control inflation may be beginning to work. Manufacturing activity is moderating, the housing market is cooling and job openings have shrunk. This should allow the Fed to moderate its interest rate posture going forward.

For more information please call 310-271-2521 or visit our website at efinvest.com. Thank you for your interest.

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