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After a solid year for our clients (they averaged 13% in 2006) and relocation to more appropriate quarters we would like to update you on our track record and outlook for 2007.

Our client returns have beaten the major market indices over the past three, five, and ten years (see table on next page). Moreover, we did it with less risk as shown by the Sharpe ratio, which verifies that our returns came with less than half the volatility of the major indices.

Our long-term investment strategy begins with identifying financially sound, well managed, profitable and growing companies. Prospects are added to our list as warranted by our research while companies that fail to meet our expectations are removed from the list and, if already owned, sold. Purchases from the list are initiated only when the three of us agree that the company is attractively priced. Bottom line: we are confident in our ability to find good companies and in our patience to wait for attractive valuations.

In keeping with our risk minimizing investment strategy, most of our client's portfolios are allocated to income-oriented securities (utilities and other high dividend stocks, money market instruments, etc.) which generate substantial dividends and interest income. Dividend paying stocks are particularly attractive because, unlike bonds, they can accommodate future rate increases by increasing dividends. The dividends and interest also reduce the volatility of our portfolios because they are more predictable than stock prices, especially over shorter periods of time.

Since we typically hold positions for years, we also keep a close watch on economic fundamentals. The U.S. economy continues an expansion that began in 2001. However, corporate profits are expected to rise only 9% in 2007, the smallest increase in six years. Our major investment concern, other than geopolitics, is the housing market. Housing prices have leveled off and the inventory of new and existing homes has risen dramatically. Furthermore, the slowdown in mortgage volume and rising default rate for sub-prime loans, could constrain consumer spending and economic growth.

So why is the stock market doing so well? Two reasons: more money is chasing fewer stocks and inflation expectations continue to be low. The money is coming from: buyouts of public company by private equity funds; company purchases of their own stock; additions to retirement accounts; money exiting real estate investments; and investments by our trading partners of money accumulated as a result of our trade deficit. Inflation expectations have come down as a result of central banks being more vigilant in fighting inflation, which also increases the attractiveness of equities versus debt.

Please let us know if someone you know could benefit from the same safe, superior investment management that our clients have enjoyed for over 32 years.