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We would like to update you regarding our track record and outlook for 2008. Our investment management has beaten both the Standard & Poor's 500 Index (S&P 500) and the Lipper Balanced Fund Index for the past five and ten years. Moreover, we did it with much less risk or volatility as illustrated by the higher Sharpe ratio (see table on next page).

We minimize risk in two ways. First, our investments are restricted to financially sound, well managed, profitable and growing companies. Companies are added to our portfolios when they are attractively priced for the long-term. Second, close attention is given to economic fundamentals and the balance of risk and reward among the various asset classes (common stocks, bonds, preferred stocks, and cash). Last summer our financial and housing sector holdings were reduced or eliminated due to their high prices, poor earnings visibility, and unsustainable dividends. Since then, we have been adding high quality bonds and preferred stocks to obtain their income and lower downside risk. Since August 20% of our portfolio has gone into preferred stocks with AA credit ratings and average yields over 7.3%.

The ongoing credit crunch has validated our concerns and our client's portfolios remain primarily in income-oriented securities (utilities and other high dividend common stocks, preferred stocks, money market instruments, etc.) which generate substantial dividends and interest income.

U.S. economic growth is now estimated at 2% or less for 2007 and 2008, the lowest level since 2002. In addition, corporate profits are expected to have dropped by 4% in 2007, the first decrease since 2001. Global growth, however, should remain sufficient to benefit our exporting companies, their suppliers and employees. The declining value of the dollar and increased globalization also help our companies and our trade deficit.

Current investment concerns include a slowing economy, the ongoing credit squeeze, declining housing prices and inflation (particularly food and energy). Resolving these concerns will increase our cost of living and the cost of financing our businesses, mortgages, private equity firms and hedge funds. More expensive and less-available credit will constrain economic growth as borrowing costs rise and become better aligned with the underlying risks. This is an appropriate change to correct years of very low interest rates, insufficiently restrained credit and the resulting asset price bubbles. Although the long-term prospects for the U.S. economy remain sound, the chance of a recession in the near-term cannot be ignored.

Let us know if you have questions, need more information or know someone who could benefit from the same steady, superior investment management that our clients have enjoyed for over 34 years. Thank you.