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Welcome to our April 2010 newsletter. Our clients' portfolios earned 5% on average last quarter (January through March) which was in line with the Standard & Poor's 500 Index (S&P 500). As a result they have outperformed the S&P 500 over the past three, five, and ten years.

Thanks to decisive government intervention in the form of low interest rates, record fiscal stimulus and Federal Reserve purchases (quantitative easing), the economy appears to be stabilizing after the longest recession since the 1930's. Nevertheless, several issues must be resolved for healthy growth to return.

First, our economy needs to reduce unemployment and absorb our expanding labor force. The United States has lost 8.4 million jobs since December 2007. The underemployed, which includes unemployed (9.7%) and part-time workers seeking full-time employment, is near 20% according to the Gallup agency. The number of people with jobs is less than it was in 2000.

Second, our country needs to free up credit for small and medium size companies, which generate most of the new jobs and commercial real estate firms. Banks have tightened lending standards to these firms because they may need the funds to cover bad or questionable loans already on their books. Credit is less of a problem for large companies with access to the bond market and home buyers with access to Government backed loans.

Finally, our government must develop credible medium-term plans to end the fiscal stimulus and huge deficits. Unfortunately, if the government moves too quickly a double-dip recession could occur. If it moves too late, interest rates will rise compounding the deficit problem.

Though the broad equity markets remain pricey, investment opportunities are available. By focusing on companies with proven management and substantial, sustainable dividends we continue to identify attractive, long-term values. These companies went into the recession with modest debt and exhibited further management prowess by dramatically cutting costs and increasing earnings even as revenues declined.

The companies added to our clients' portfolios over the past year average a dividend rate of 3.2%, which exceeds current money market and medium-term bond rates. They are all profitable, supported by good demographics and command major market shares in their respective businesses. Further, many generate a substantial portion of their revenues abroad.

Should these firms continue to exhibit the excellent management they showed during the recession they will become superior long-term investments.

Our firm is an independent, registered investment adviser with an excellent thirty-six year track record maintained through good and bad markets. We have achieved this by conducting our own research and focusing on investments that provide safety and income. By refusing to outsource our research we avoid the group think, short-termism and conflicts of interest endemic in the financial services industry. Our strategy is balanced between investing in stocks and bonds which reduces our clients' risk without compromising long-term performance.

If you have any questions or know someone that could benefit from our services, please let us know.

Sincerely,

Eliot M. Finkel
Peter H. Finkel, CFA