ELIOT FINKEL INVESTMENT COUNSEL, LLC
9100 WILSHIRE BOULEVARD, SUITE 503E, BEVERLY HILLS, CALIFORNIA 90212
TELEPHONE (310) 271-2521
www.efinvest.com

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We wish you a happy, healthy and prosperous year. This quarterly newsletter summarizes how well we've done and why followed by our view of the current investment climate. Five issues are highlighted including employment, credit, revenue growth, government stimulus and commercial real estate.

Our clients' portfolios earned an average of 5% last quarter which is in line with Standard & Poor's 500 Index (S&P 500). We accomplished this by conducting our own research; watching out for the manic depressive Mr. Market, and ensuring our portfolios have a margin of safety. As a result our clients have outperformed the S&P 500 over the past three, five, and ten years. We have accomplished this track record using a balanced strategy (investing in both stocks and bonds) that reduces our clients risk without compromising long-term performance.

Thanks to decisive government intervention, in the form of low interest rates, record fiscal stimulus and Federal Reserve purchases of bonds (quantitative easing) the longest recession since the 1930's is at or near an end. Our economy began growing, albeit slowly, in the third quarter of last year. Nevertheless, several issues need to be resolved before healthy growth can resume.

First, our economy needs monthly job gains exceeding 200,000 to reduce unemployment and absorb our expanding labor force. Though monthly job losses have been declining, the United States has lost 8 million jobs since December 2007 and unemployment stands at 10%. The number of people with jobs is the same as in 1999 though our workforce has grown by 12 million. The underemployed, which includes unemployed and part-time workers seeking full-time employment, remains at 17%.

Second, small and medium size companies (which generate most of the new jobs) need credit from financial institutions. Though financial institutions are generating healthy profits due to government promoted low interest rates, they continue to hoard funds to cover the toxic assets already on their books. Credit is less of a problem for large companies with access to the bond market, and home buyers who have access to Government backed Fannie Mae and Freddie Mac loans.

Third, non-financial companies need to increase revenues. Though earnings have been growing due to cost cutting, sales are still down 10% from 2007 levels. A sustainable economy needs sales growth. We cannot achieve long-term financial health without it.

Fourth, our government is faced with a serious dilemma. The fiscal stimulus and quantitative easing must eventually end. If the government moves too soon the recession could return. If they move too late inflation and interest rates will rise.

Finally, commercial real estate values need to stop falling. Commercial real estate prices have dropped dramatically in the past few years. The renewal of related loans is a growing problem. Lenders are reluctant to extend new credit due to falling prices and existing problem loans. Owner/borrowers cannot refinance and default or dump their properties depressing prices and furthering the downward spiral.

Despite these challenges we continue to identify good long-term values: companies with solid track records, conservative balance sheets, good prospects and substantial, sustainable dividends. Our firm has an excellent thirty-five year track record maintained through good and bad markets. If you have any questions or know anyone needing thoughtful guidance and safe portfolio management, please let us know.

Sincerely,

Eliot M. Finkel & Peter H. Finkel, CFA