

ELIOT FINKEL INVESTMENT COUNSEL, LLC

FOURTH QUARTER 2012 UPDATE

We appreciate your interest in Eliot Finkel Investment Counsel (EFIC) and are pleased to summarize our clients' results below.* The March 2000 and September 2007 dates correspond to market peaks.

	3/00 to Date	9/07 to Date	2011	2012	4 th Q 2012
EFIC	94%	10%	11%	10%	2%
S&P 500	-5%	-7%	0%	13%	-1%

We achieved this steady, superior performance in spite of the world's financial and economic turmoil. Europe is in recession while growth is slowing in China, and plummeting in India and Brazil. Here at home slow growth continues, restrained in part by government uncertainty and reduced defense spending.

Some perspective on recent budget history and the road ahead should help. In 2010, the Simpson-Bowles Commission proposed a \$4.1 trillion deficit reduction package for 2012-2020. Their proposal included: a \$1.7 trillion reduction in discretionary spending (defense, security, education, infrastructure, etc.), \$1 trillion in revenue (tax) increases, \$340 billion in healthcare savings, \$450 in savings through revisions to CPI (Consumer Price Index) calculations, and \$700 billion in reduced interest expense.

The goal of Simpson-Bowles was not to eliminate the debt or the annual deficit but to stabilize the debt at about 70% of GDP. The annual deficit will stabilize when the federal budget deficit equals the rate of our economic growth (about 3%). If this happens, the national debt will grow in nominal terms but not as a percent of GDP.

Progress has been made. The Budget Control Act of 2011 will reduce expenditures by \$1.7 trillion over the next decade. The New Years fiscal cliff deal (the American Taxpayer Relief Act) added another \$650 billion in revenue increases and interest expense reductions. After accounting for upward revisions to economic projections made over the past two years, this leaves a \$1.2 trillion gap to be eliminated during the next decade. Though we certainly need further government negotiation and compromise, two-thirds of the goal set forth by Simpson-Bowles has already been achieved. A stable national debt will not automatically invigorate the economy, but it is necessary for healthy, long-term growth.

Meanwhile, many businesses are handling the difficult environment quite well. Last year corporate profits rose, though at levels well below historical averages. Well-managed companies should remain profitable with increasing dividends for the foreseeable future. We focus on well-managed, profitable companies with leading positions in their respective markets, major international exposure and growing, well covered dividends. Our portfolios based on our internal research and 39 years of experience provide long-term financial safety and income. We will remain cautious and realistic with our future positions by stressing safety and income at a reasonable price.

Eliot Finkel Investment Counsel is a family firm founded in 1974. For more information call us at 310-271-2521 or visit our website www.efinvest.com.

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