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October 30, 2009

It is hard to believe that one year ago we were gripped by the fear of an economic catastrophe. Today, thanks to decisive government intervention, the longest recession since the 1930's is at or near an end. This means our economy will stop shrinking and begin to grow again, albeit slowly.

The employment situation remains bleak. The United States has lost 8 million jobs since December 2007. Unemployment now stands at 9.8% and is likely to exceed 10% before it peaks next year. The number of people with jobs, 131 million, is the same as in 1999 though our workforce has grown by 9 million. The underemployed, which includes unemployed and part-time workers seeking full-time employment, stands at 17%.

Capacity utilization, at 71%, is improving though it remains well below the 80% rate associated with healthy growth. The weakening dollar is helping our domestic industries and balance of trade by making exports cheaper and imports more expensive. In addition, the rest of the world is doing better, particularly developing countries like China, India and Brazil.

On the business front, companies continue to maintain healthy balance sheets (low debt) and cut costs. More than half the companies in a recent survey say they will not return to pre-recession staffing levels until 2012. While third quarter sales and earnings should increase over last quarter, year-over-year revenues are still down 14%.

Credit markets remain problematic. Banks have tightened lending standards (good) but continue hoarding money to cover the bad loans already on their books. This means some worthwhile investments will go unfunded due to the lack of credit. Government controlled Fannie Mae and Freddie Mac now finance 80% of new residential mortgages. On a positive note, the drop in asset prices (commercial real estate, residential real state and equities) and weaker demand (due to tighter credit and higher unemployment) should keep inflation in check.

Today's equity markets remain overpriced, driven by cheap money (money markets pay almost nothing), government stimulus plans and a huge financial services industry dedicated to promoting securities. Earnings estimates, developed by this same industry, are optimistically based on a strong recovery which is not supported by the data.

We continue to identify and monitor companies with solid, long-term track records; conservative balance sheets; good prospects; and substantial, sustainable dividends. The sectors we like at this time include healthcare, utilities and technology. Our firm has maintained an excellent 35 year track record despite the ebb and flow of the market over time. We accomplished this by conducting our own research; watching out for the manic depressive Mr. Market, and ensuring that our portfolios have a margin of safety. As a result – our clients have outperformed the Standard & Poor's 500 Index (S&P 500) over the past 3, 5, and 10 years.

If you know anyone needing thoughtful guidance and safe portfolio management, please let us know.