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First Quarter 2020 Update and Commentary

Generating safe, solid client returns is our goal at Eliot Finkel Investment Counsel. The following table of annual returns shows the superior results we achieved using patient, value-oriented investing to avoid overheated markets like those of 2000 and 2007. *

	Mar 2000 to date	Sep 2007 to date
EF Invest	6%	5%
S&P 500	3%	4%

Wall Street just finished one of the worst quarters in stock market history, reflecting the devastating economic impact of a pandemic that has reduced global activity at a record level. The Dow Jones Industrial Average dropped 23.2%, its worst quarter since 1987.

Due to the pandemic our focus has shifted from the long-term prospects of our investments to the near-term sustainability of companies in the travel, hospitality, leisure, entertainment and restaurant industries. A financially stressed company may survive with government help but shareholder equity and dividends could suffer in the process.

This shift in focus led to a substantial increase in cash reserves which is appropriate during a period of extreme economic uncertainty. Until wide spread testing and proven treatments for Covid-19 are available and/or a vaccine is developed, the world's economy will remain inordinately volatile.

When this virus is controlled, as it will be, our economy will change in ways that stress resilience over efficiency and profitability. As firms contemplate their long-term viability, inventories will increase. Just in time manufacturing using single-source parts suppliers will be augmented with multiple sources from geographically diverse locations. More work will be performed domestically. Working capital will be increased to handle temporary work stoppages. These changes increase costs and reduce profits; a price worth paying to insure against major economic disruptions.

The government too will increase inventories of such necessities as hospital beds, ventilators and personal protective equipment for healthcare providers. More resources will be devoted to developing medical tests and vaccines. The increased costs will come at the expense of other government programs and/or increased taxes but these costs pale in comparison to the potential damage of another pandemic.

Successful investing requires patience and a long-term horizon. Though the stock market rallied in April, we will await more financial clarity before adding investments. It is the prudent thing to do given the near-term uncertainty we face.

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

Forty-six years of experience and in-house research help us select established companies with excellent prospects paying substantial dividends. Focusing on economics and company fundamentals has generated superior long-term results for our clients. This, plus the personal service we provide, explain why our average client has been with us over 16 years. For more information please call 310-271-2521 or visit our website at efinvest.com. Thank you for your interest.