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Fourth Quarter 2022 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our focus on company fundamentals and economics backed by 49 years of experience and in-house research continues to produce superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 18 years.

Successful investing is best measured over the long-term. Since the dot com bubble broke in 2000, we have generated 7% annual returns for our clients, significantly outperforming both the S&P 500 (4%) and tech heavy Nasdaq (4%). An investment with us in March 2000 would now be worth 91% more than an equal investment in the S&P 500*. The companies in our portfolios have excellent prospects, strong fundamentals and secure finances.

Twenty-twenty-two was the worst year for investing since 2008, and one of the worst in the past 100 years. The S&P 500 fell 19% and the Nasdaq fell 33%. Our clients did much better, declining only 1% on average. Hardly a great return but concrete evidence of the safety we provide. The bond market was not a safe haven either as bond prices were down 13% in 2022. Investors often do well in a rising market. Performance in a bear market is what separates the best investment managers from the rest.

Inflation remains a major concern. During 2022, the Federal Reserve raised interest rates 4.25% the largest annual increase since 1981. The Fed is focused on controlling inflationary expectations which are crucial for the long-term health of the economy.

Critical factors driving inflation today are the low unemployment rate (3.5%) and large number of unfilled job openings (10.5 million). Upward pressure on wages, a major business cost, has a big impact on prices and inflation. Preventing a wage-price spiral is fundamental to controlling inflation and the damage it would cause. Other inflation issues include the added cost of domestically producing critical goods like semiconductors, providing energy without Russian fossil fuels and minimizing climate change. The changes we are making today will build a stronger, more stable economic future.

There are reasons to believe a U.S. recession will be relatively mild. The demand for employees exceeds people looking for jobs by almost two-thirds. Banks are well capitalized. Existing mortgages are grandfathered in at low rates. And, the strength of the dollar reduces the cost of imported goods.

Economic cycles are inevitable, but we appear well prepared for a slowdown and the Fed is committed to minimizing the long-term damage. The Fed's determination to control inflation is beginning to work. Supply chain issues, manufacturing, housing costs and job openings are all moderating. This will allow the Fed to moderate its interest rate posture going forward.

Thank you for your interest. For more information please call 310-271-2521 or visit our website at efinvest.com.

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