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Third Quarter 2023 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 safety combined with our attention to economics, detailed company evaluations, internal research, and 49 years of experience, continue to provide 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, outperforming both the S&P 500 (5%) and tech heavy Nasdaq (5%). An investment with us in March 2000 would now be worth 76% more than an equal investment in the S&P 500.*

Since January 2022, the S&P 500 has dropped 10% while the Nasdaq dropped 16%. The portfolios we manage are up slightly, further evidence of the safety we provide. The best investment managers minimize the impact of bear markets which punish long-term results.

The Federal Reserve has two competing goals to address – 2% inflation and low unemployment. To combat inflation, the Fed has increased rates by 5.25% since March 2022, the largest set of increases in over 40 years. Unemployment, at a low 3.8%, is not currently an issue.

Regarding the economy, there are some clouds on the horizon. They begin with chaos in congress leading to a potential government shutdown, default, or retreat from supporting Ukraine. The effect of higher interest rates on government expenses and commercial property ownership is also a concern. The lack of growth in China and Europe is another concern as is the rising price of oil. Strikes in the automotive and entertainment industries, the end of pandemic savings and the resumption of student loan payments are further concerns. To top it off, Hamas, a terrorist organization controlling the Gaza Strip has just attacked Israel.

None of these concerns guarantee a recession which, we believe, will be mild if one occurs. Investing is best when it incorporates a long-term horizon, a span which may include recessions.

On the positive side, employment is strong while jobs openings, at 9.6 million, forecast continuing strength in employment. Company earnings are good. Artificial Intelligence (AI) may lead to significant productivity improvements. The Federal Reserve is doing a commendable job of fighting inflation while avoiding surprises. Bond rates at 5%, though up, are close to their historical norm of 2.5% to 3% above the Fed's inflation target. Finally, there is the government's industrial policies supporting electronic vehicles, clean energy and onshoring critical manufacturing.

This year's stock market has been a story of AI and Technology versus the rest. The seven largest companies in the S&P 500, Amazon, Apple, Facebook (Meta), Google (Alphabet), Microsoft, Nvidia and Tesla, accounted for all this year's 9% gain. In fact, the other 493 companies, on average,

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

declined. The big gainers are richly priced with an average Price/Earnings Ratio near 60, valuations which are hard to justify in the long run.

The companies in our portfolios have excellent long-term prospects, strong fundamentals, and secure financials. The availability of Treasury Bills paying over 5% provides a safe, liquid place for uninvested assets. Our patience and focus on safety combined with our attention to economics and company fundamentals backed by 49 years of experience and in-house research continue to provide superior results.

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