Eliot Finkel Investment Counsel, LLC
9401 WILSHIRE BOULEVARD, SUITE 830, BEVERLY HILLS, CALIFORNIA 90212
TELEPHONE (310) 271-2521

First Quarter 2024 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 economics, detailed company evaluations, internal research and 50 years of experience, continues to provide superior results. This, plus the personal service we provide, explains why our clients have been with us for over 19 years on average.

Investing is best measured over the long-term. Since early 2000, we have generated 7% annual returns for our clients outperforming both the S&P 500 (5%) and Nasdaq (6%). An investment with us in March 2000 would now be worth 56% more than an equal investment in the S&P 500.* We achieved these superior results by minimizing the impact of bear markets, which punish long-term performance.

The U.S. economy grew at a healthy 3.1% in 2023, driven by consumer and government spending. However, economic growth for 2024 is expected to be a more normal 2-2.5%. The recession or soft landing expected a year ago seems, if anything, farther away; but increased government and private debt, combined with higher interest rates will have a dampening effect on economic growth. A possible area of concern is the added stress commercial property owners and lenders face due to office vacancies, attributable to the pandemic and work-from-home trends, and the need to refinance existing low interest loans at much higher rates.

The Federal Reserve has done a commendable job combating inflation without triggering a recession or high unemployment. Inflation, at 3.5%, is down from 9.1% in June 2022. Unemployment, at 3.8%, is respectably low and likely to remain so as job openings exceed job seekers by 50%. The Fed has indicated it will reduce rates this year. However, the extremely low interest rates of 2020/2021 are unlikely to return any time soon.

Although the stock market is at all-time highs, much of the gain has been concentrated in just seven companies – the so called Magnificent Seven (Apple, Amazon, Facebook, Google, Microsoft, Nvidia and Tesla). Since the beginning of 2023, these artificial intelligence (AI) related firms have provided more than 60% of the gains made by all S&P 500 companies. We believe the potential long-term gains from these high price-to-earnings (PE) ratio stocks is not worth the risk.

For example, Nvidia, the leading maker of AI computer chips and a well-run firm, has risen five-fold since the beginning of 2023 and is selling at a PE ratio around 75. It reminds us of Cisco Systems, a well-run, dominant, digital-networking company, that was similarly hyped back in 2000 and traded at a comparable ratio. Cisco's high during the first quarter of 2000 was $82 a share. It had fallen to $10 a share by September of that year.

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

Our patience and focus on safety combined with detailed attention to economics and company fundamentals and backed by 50 years of experience and in-house research continue to provide superior results. Although the companies in our portfolios are not as flashy as the Magnificent Seven, they have excellent long-term prospects, strong fundamentals, and secure financials. Moreover, the availability of Treasury Bills paying over 5% provides a safe, liquid place for uninvested assets. Thank you for your interest. For more information please call 310-271-2521 or visit our website, efinvest.com.