HELM
INVESTMENT
MANAGEMENT

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2020 HELM CORE STRATEGY

Forecasts of investment performance for any coming year tend to be biased toward "more of the same." It's only natural for economists, market strategists and indeed all of us to expect the near future to look pretty much like the recent past. But it would be a bold forecaster who predicted another year of solid double digit gains in the stock market for 2020.

As we got past the first couple of weeks of a new year and a new decade, a new coronavirus cropped up in central China. It's too early to know the full repercussions of what now is an epidemic and might grow to be a pandemic. But even the early stages of this have led to enough of a shutdown in China to threaten a drop in its expected economic growth this first quarter from 6% to almost 0%. The Chinese government quarantined an entire region of 60 million people, threatening supply chains for manufacturers around the world. This is a textbook example of a so-called black swan event that even the most skilled forecaster could not have predicted.

Yet economies have a way of bouncing back after such emergencies subside. After an initial plunge on news of the new bug, stocks rallied right back to record highs in the U.S. and many other markets around the world. It wasn't until news of the virus expanding into Europe that markets began to take the potential risks more seriously. Investors also can sense the financial anxiety by looking at the global bond market. The Chinese poured liquidity into their markets to try to offset the economic woes generated by the virus. Cash from around the world flowed into the U.S., the dollar being a safe haven in times of uncertainty, which means yields in the U.S. remain at or near all-time lows despite a good economy and very low unemployment.

Helm continues to abide by two longstanding key principles:

- Diversify among individual securities, market sectors, countries and regions to reduce overall portfolio volatility and to capture returns in unusual places.
- Create investment plans and protocols for regular rebalancing of investments based on each client's goals, and continuously assess each client's willingness and ability to take on financial market risks including volatility.

Helm's recommended mix of assets for 2020 holds steady at 45% equity indexes, 20% income securities, and 35% fixed income securities. This 45/20/35 mix of assets creates a balance of more stable, income-producing assets intended to help maintain investor returns through times when equity market returns are weak, while allowing for participation in what could continue to be an uptrend for equity markets. Descriptions and details about the asset classes follow.

Equity Indexes (45%)

In the equity index component of investment portfolios, Helm strives to gain higher returns while keeping overall risk close to that of the MSCI All Countries World stock index. Helm is an active manager employing Exchange Traded Funds (ETFs) of stock market indexes to execute the equity index component of the core investment strategy. Within the baseline 45% equity index allocation, Helm recommends a mix of:

- 28% in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 20% in U.S. mid cap stocks
- 8% in U.S. small cap stocks
- 44% in international holdings

Helm uses mostly market-capitalization-weighted indexes for the equity index holdings, plus some holdings in indexes designed to reduce market volatility.

International equity index holdings are diversified among a basket of international equity ETFs. The categories of international equity indexes we invest in include:

- MSCI EAFE (Europe, Australasia and the Far East). These are large multi-national companies, such as Toyota, Nestle and HSBC. Helm's index model uses two EAFE indexes – one of them entirely in local currency and a smaller holding in an EAFE index that hedges against currency fluctuations.
- An emerging markets index, featuring large firms such as South Korea's Samsung, Taiwan Semiconductor, Alibaba and Baidu from China, Infosys from India and Latin American firms such as Mexico's America Movil.
- An international small cap index, which holds smaller market capitalization companies, primarily in the EAFE countries and Canada.

Elements of the equity index investment mix may change throughout the year as part of Helm's active management.

Income securities (20%)

In the income securities component of investment portfolios, Helm invests in securities intended to generate income above the rate of inflation and/or achieve above-market returns. These securities include U.S. and international large and mid-capitalization stocks with strong balance sheets relative to other companies in their industry. For 2020, this includes equities in such industries as technology, consumer staples and industrials. We also invest from time to time in preferred stocks and other equities that emphasize income yields more than growth.

Because of the current situation in which especially safe fixed income securities such as Treasury notes and publicly traded and FDIC-insured bank CDs are offering such meager income yields, Helm will work with clients to determine if the added risk of holding preferred stocks or high-dividend-paying common stocks fulfills an income need. Remember, stock yields today often are higher than fixed income yields even though they are taxed at a lower rate. And many companies raise their dividends regularly, which means the income could increase over time as compared to the safer but flat income from a bond or CD.

Fixed income (35%)

Helm invests in individual fixed income securities and indexes of fixed income securities for its clients. Fixed income securities are essentially "loans" to companies rather than an ownership stake. These securities are intended to provide significant diversification from equities and act as a financial safety net and help clients to preserve capital even in times of market volatility.

The primary benchmark for U.S. fixed income securities is the yield on the 10-year U.S. Treasury note. This yield of the 10-year Treasury slid through 2019 and ended at 1.69%. Since the start of this year, it has fallen further to less than 1.40%. Helm believes interest rates are likely to fluctuate but increase slightly through 2020, once the virus scare fades. Helm expects the Federal Reserve to nudge short-term rates higher only if the economy (including the world economy) shows firmer signs of strength or if inflation begins to kick up. The Fed has indicated that investors should not expect such a rate increase for some time.

Fixed income investments include:

- U.S. Treasuries
- Publicly traded Bank Certificates of Deposit (CDs)
- Highly rated corporate bonds
- Money Market funds and short-term fixed income indexes
- Tax-free municipal bonds
- Agencies (such as the bonds of the Federal Home Loan Bank)

Helm prefers intermediate and shorter-term maturities in the fixed income component of client portfolios. That is to say, fixed income portfolios will generally hold securities that mature in six years or less, with an average maturity of roughly two or three years. We buy different maturities to create a maturity ladder, so bonds are maturing on a regular basis and ready for reinvestment or spending needs.

Conclusion:

As always, the 2020 Helm core strategy is our current best projection for the coming year. However, this is a presidential election year and there could be a mid-course revision in terms of our strategy. In addition, each of our client's portfolios is customized to that particular client's unique circumstances and may deviate significantly from our 2020 core strategy. Please call us with any questions or concerns you might have after reviewing our 2020 Helm Core Strategy.