HELM
INVESTMENT
MANAGEMENT

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2016 HELM CORE STRATEGY

As 2016 begins, the U.S. continues to be one of the best sources for global economic growth. European countries, while emerging from widespread recessionary conditions, continue to struggle with high unemployment, a threat of deflation and, more recently, unprecedented immigration. The largest emerging economies are growing at a faster pace than the U.S., but over the past year, their growth has slowed to levels not seen for nearly a decade. The plunge in oil prices has stressed energy-producing countries such as those in the Middle East, Venezuela and Russia, although cheaper oil is boosting consumer spending in most countries, especially in energy-dependent countries like the U.S. and Japan.

The economic outlook makes up only a portion of our investment decision-making process. Macroeconomic, industry and individual security-level expectations typically are already priced into the price of securities. Taking that into account, U.S. equities continue to look appealing, especially when compared with domestic fixed income that sometimes returns less than the rate of inflation. European equities performed adequately last year, but remain somewhat undervalued vs. growth prospects, particularly for those countries with a strong manufacturing base. Emerging markets appear to be a relative bargain, but investors need to be selective to avoid countries over-exposed to commodity production. Finally, the strengthening dollar has obscured (from the perspective of U.S. investors) how well stocks have been performing in their local currencies in developed Asian markets like Japan and Hong Kong.

Helm continues to abide by two key principles:

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

Helm's recommended mix of assets for 2016 is 50% equity indexes, 25% income-oriented securities, and 25% fixed income securities. This 50/25/25 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 has historically been an uptrend for equity markets. Descriptions and details about the asset classes follow.

Equity Indexes

In the equity indexes 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 typically employing Exchange Traded Funds (ETFs) of stock market indexes to execute the equity index component of the core investment strategy.

Within the baseline 50% equity index allocation, Helm recommends a mix of:

- 37% of equities in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 18% in U.S. mid cap
- 5% in U.S. small cap
- 40% in international holdings

For its domestic market equities, Helm prefers value stocks – typically defined by low price-to-book value (that is, a low stock price relative to the value of the company's assets) and low price-to-earnings ratios. Studies have shown that over the long term, value stocks will outperform growth stocks – though that can vary in any given year. Helm uses both fundamentals-weighted stock indexes (which weight stocks based on company-specific fundamentals such as earnings, dividends and book value) and market-capitalization-weighted indexes for the value holdings.

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), with emphasis on firms that pay dividends. These are large multi-national companies, such as Toyota, Nestle and Roche.
- Emerging markets indexes, featuring large firms such as Taiwan's Taiwan Semiconductor, Infosys from India, and Latin American firms such as Mexico's America Movil.
- A European index that holds companies such as drug maker Sanofi, Anheuser-Busch Inbev, BMW and Mercedes-maker Daimler.
- A Japan index, which holds companies such as Honda and Sony.

Depending upon our outlook for currency movements, we will own currency-hedged versions of these index ETFs to avoid unnecessary risks related to changes in foreign currency rates. Elements of the equity investment mix may change throughout the year as part of Helm's active management.

Income-oriented securities

In the income-oriented securities component of investment portfolios, Helm invests in securities intended to generate income above the rate of inflation while reducing volatility. These securities include U.S. and international blue chip stocks with strong balance sheets, preferred stocks, utility stocks, and Master Limited Partnership (MLP) units. From time to time, we will include Real Estate Investment Trusts (REITs) in this category.

Fixed income

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 notes. This yield remained at a historically-low level during 2015, beginning the year at 2.17% ending the year at 2.27% despite trading in a wide range of 1.68% to 2.50% during 2015. Helm believes interest rates are likely to move slightly higher through 2016, now that the Federal Reserve has begun to raise short-term borrowing rates. Because bond prices move in the opposite direction of yields, an increase in interest rates will lead to falling prices for existing bonds – especially long-term bonds with maturities of 10-years or longer.

Helm invests in

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

Due to our outlook for increasing yields, Helm continues to prefer shorter-term maturities in the fixed income component of client portfolios. While we prefer shorter maturities, we do buy different maturities to create a maturity ladder. In a rising rate environment, fixed income securities are reinvested at higher rates when they come due. This provides for a partial protection against inflation.

As always, the 2016 Helm core strategy is our current best projection for the next 12 months. Each of our client’s portfolios is customized to that particular client’s unique circumstances and may deviate significantly from our 2016 Helm core strategy.

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