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2017 HELM CORE STRATEGY

Making predictions is always a hazardous business. But one thing that is pretty certain for 2017 is that we can count on change. In the U.S., we are moving from a political stalemate of one party holding the presidency while the other controlled the House and Senate to one party controlling both branches of government. In the United Kingdom, the “Brexit” decision to leave the European Union will begin to take effect in the spring. U.S. interest rates are beginning to rise in earnest and the dollar has become stronger vs. key currencies such as the Euro, the British Pound and the Japanese yen.

U.S. stocks have rallied since the November election based on investor belief that Republican control of the executive and legislative branches will result in expedient reduction of regulation and changes to the corporate tax code – both of which may lead to higher corporate profits. In addition, investors believe the U.S. may invest more heavily in infrastructure projects such as repairing and improving highways and bridges. That adds up to increased fiscal stimulus for the economy. Europe is in a more difficult situation, given the imminent departure of Britain from the E.U., relatively high unemployment and struggles with immigration as well as budget constraints. The emerging markets appear set for stronger growth. The wild card for emerging markets is whether trade disputes grow more heated than they have been the past few years.

The economic outlook is important, but we understand that economic, industry and individual security-level expectations are mostly priced into securities. Taking these factors into account, U.S. equities continue to look appealing, but we are shifting part of our allocation away from large multinationals and in to smaller companies with more of a domestic focus. European equities continue to trade for less than their intrinsic value, but we believe that economic headwinds may temper investor enthusiasm for European equities. Emerging markets performed well last year, and continue to present good value versus developed economies. Finally, we believe the dollar has strengthened to a level where we no longer feel the need to fully hedge against currency movements.

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.
- 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 2017 continues to be 50% equity indexes, 25% income 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 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 50% equity index allocation, Helm recommends a mix of:

- 33% 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
- 7% in U.S. small cap stocks
- 40% in international holdings

For its domestic market equities, Helm generally 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. That said, we from time to time also consider growth stocks (those with generally higher price-to-earnings ratios) if there are visible and achievable growth prospects for those stocks. 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 equity index 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). These are large multi-national companies, such as Toyota, Nestle and Roche.
- Emerging markets indexes, featuring large firms such as South Korea's Samsung, Taiwan's 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.

Depending upon our outlook for currency movements, we will own currency-hedged versions of certain international 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 securities

In the income securities component of investment portfolios, Helm invests in securities intended to generate income above the rate of inflation or above-market returns. These securities include U.S. and international large and mid-capitalization stocks with strong balance sheets. For 2017, Helm is emphasizing financial, industrial and certain technology firms and reducing our emphasis on high-dividend paying consumer staples and utility industry firms that now face more competition from fixed income securities. We continue to hold certain preferred stocks and Master Limited Partnership (MLP) units of gas and oil pipeline companies. 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 2016, beginning the year at 2.27% and ending the year at 2.45% despite trading in a wide range of 1.36% to 2.60%. Helm believes interest rates are likely to move higher through 2017, as the Federal Reserve continues to raise short-term 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, both domestic and foreign.

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 2017 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 2017 Helm core strategy.

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