Thomas Jay Barrett, Jr.
Jay Allan McCormick
Peter John Quinn

2018 HELM CORE STRATEGY

In last year's Helm Core Strategy, we declined to go too far down the rabbit hole of predicting what we expected to happen in 2017. Good thing, too, since few experts predicted such a rip-roaring bull market in equities, and a U.S. dollar that grew weaker even as the U.S. economy improved and U.S. interest rates rose.

In addition, perhaps more predictably, emerging markets and other international equities shot ahead even more quickly than U.S. stocks. Short-term interest rates rose faster than intermediate and long-term rates – creating a flatter yield curve and reflecting a difference of opinion between bond and stock investors regarding economic growth rates (a flat yield curve, when short-term interest rates match long-term rates, typically is a harbinger of a recession).

Toward the end of 2017, significant tax law changes that greatly reduced tax rates for corporations gave U.S. equity markets a final boost. But valuations of U.S. stocks, even including increased earnings thanks to lower taxes and reduced regulations, are higher than the long-term historical average. European stocks have rallied enough that share prices there are at or above long-term market averages. Compared to developed market equities, emerging market equities continue to look like a relatively good value. Given the large equity rallies around the world last year, chances for a normal market correction (a drop of 10% or a bit more) are high. A bear market (a 20% or greater drop) is long overdue based on typical bull market longevity. Helm does not expect a bear market in the face of a good U.S. and global economy, but one could nevertheless emerge based on a shock of some sort, such as global or regional turmoil, a spike in energy prices, or other external surprises.

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, and continuously assess each client's willingness and ability to take on financial market risks including volatility.

Helm's recommended mix of assets for 2018 shifts slightly to 50% equity indexes, 20% income securities, and 30% fixed income securities. This 50/20/30 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

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:

- 32% 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
- 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. 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'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.

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 2018, Helm is emphasizing financial and industrial firms. We continue to reduce holdings in high-dividend paying consumer staples and utility industry firms that now face more competition from fixed income securities as interest rates continue to edge higher. We continue to hold certain Master Limited Partnership (MLP) units of gas and oil pipeline companies.

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 note. This yield varied during 2017, but ended the year at 2.45%, very near its starting point of 2.41%. Helm believes interest rates are likely to move higher through 2018, 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 2018 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 2018 Helm core strategy.

January 2018