HELM INVESTMENT MANAGEMENT

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2021 HELM CORE STRATEGY

Even looking back at 2020, it seems hard to fathom how it unfolded. Think of it: A global pandemic causes massive disruption including lockdowns in many countries, Australia and New Zealand essentially shut themselves off from the rest of the world, millions die, many thousands of small businesses in the U.S. close down, the travel, energy, and hospitality industries are all crushed. Equities almost everywhere in the world plunge into a bear market. Then stocks rebound at a record pace and finish the year at record levels. Huh?

The speed with which many parts of the economy adapted to the sudden and massive shifts in demand from various types of customers last year was astounding. Think of the rise of Zoom calls for work and gathering with long-distance friends, instead of getting on airplanes. Or the number of people who gave up on going to the gym and instead get their workouts online with Peloton.

This year, most of the rest of the economy is working hard to catch up to 2020's internet boom. The stock market – a measure more of what investors believe the world will look like six to twelve months from now than of how it looks today – is placing bets on banks, smaller companies, energy firms and international stocks. After a string of four years at or near the top rank among the world's stock indexes, the S&P 500 index of very large U.S. companies stands a real chance of ceding the crown in 2021 to another index or even several other indexes. The phenomenon in the stock market of seeing investors largely shift from favoring one group of industries to another is called rotation, and it's one of the forces that makes the investment world go round.

Another force at play for the stock and bond markets is the massive fiscal stimulus that the U.S. and several other global governments have served up to help their economies rebound from the severe shock of the pandemic. Those stimulus efforts mean extra trillions are bubbling through the global economy's veins. In addition, many experts believe that there is massive pent up demand among consumers for all the things that have been denied us the past year – including travel, entertainment and simply getting together at a restaurant and having some laughs. Package that up with low interest rates and low borrowing costs (more about that later) and the next few years could look more like the roaring '20s (1920s, that is) than anyone might have expected last March.

As a result, despite several indications of investor overenthusiasm and despite the large stock market rally we have been enjoying since last April, Helm continues to advise a slight overweighting of portfolios towards equities.

Meanwhile, parts of the fixed income market are looking positively treacherous. As a result of the pandemic shock last year, global investors rushed to buy U.S. Treasury bonds, driving the yield on the 10-year Treasury to a record low 0.51% last summer. Because bond prices rise when yields fall, many bond indexes posted high total returns for 2020. Now investors could see negative total returns for their bond holdings during 2021 because yields are going up and bond prices down. The effect for bonds is more pronounced the longer the maturity of the bond, so bond funds that hold longer-term bonds (the same funds that have the most enticing headline yields) will be hit harder than short-term bond funds. For now, Helm continues to recommend holding relatively short-term fixed income (average maturities of less than three years) to pull volatility down in portfolios, and as a means of having some ready cash if the stock market unexpectedly drops significantly.

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 2021 changes from last year: 45% equity indexes, 25% income securities, and 30% fixed income securities. This 45/25/30 mix (compared with last year's 45/20/35 suggested allocation) 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:

- 27% in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 19% in U.S. mid cap stocks
- 8% in U.S. small cap stocks
- 46% 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 or add yield to the portfolio.

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 Samsung and Taiwan Semiconductor from South Korea, 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 (25%)

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 relative to other companies in their industry. For 2021, this includes equities in such industries as financial services, health care, industrials and technology. We also invest from time to time in preferred stocks. Current favorite companies (the list is changing all the time) include industrial company Johnson Controls International, semiconductor maker Texas Instruments, and certain banks such as JP Morgan Chase and PNC Financial.

Because of a 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 and 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. Drug maker Pfizer, for example, offers a dividend yield of more than 4%, has a strong balance sheet and dependable cash flow with which it can pay those dividends. And many companies raise their dividends regularly, which means the income could increase over time as compared to the safer but flat and very low income currently offered by short-term bonds and CDs.

Fixed income (30%)

Helm invests partly 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.

Since the start of this year, very short term rates have stayed near 0% while longer-term rates have started to rise. At the moment, the yield of a 10-year Treasury has risen to over 1.6%. The Federal Reserve has indicated that investors should not expect a rate increase for very short-term fixed income until 2024.

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 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 four 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 2021 Helm core strategy is our current best projection for the coming year. Yet every year finds a way of surprising us (though not many can compare with 2020), which is one of the reasons we emphasize holding a portfolio of diverse assets. Each of our client’s portfolios is customized to that particular client’s unique circumstances and may deviate significantly from our core strategy. Please call us with any questions or concerns you might have after reviewing our 2021 Helm Core Strategy.