2009 HELM CORE STRATEGY

Helm Investment Management's core asset allocation strategy for 2009 hews to our belief that, even in the face of highly volatile markets, the key to long-term investment success comes from a disciplined approach that centers on thoughtful diversification of equities and fixed income securities.

Overall, the firm recommends a portfolio mix of 55% equities and 45% fixed income. This portfolio investment mix allows for a stream of income to carry investors through times when equity returns are weak, while allowing for participation when the stock market strengthens. As each client's needs are unique, this mix can vary. Within the overall categories of equities and fixed income, Helm diversifies using a variety of instruments and asset classes.

Equities

Helm uses Exchange Traded Funds (ETFs) of major market indexes to execute its core investment strategy. Within the equity allocation, Helm recommends a basic mix of:

- 28% domestic large capitalization (large cap) stocks (indexes of stocks with a high market value, such as the S&P 500)
- 26% domestic mid cap
- 13% domestic small cap
- 33% international holdings.

Within that structure, Helm leans toward indexes of stocks known in market parlance as 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-earnings ratios.

Helm aims to have almost half again as much of the Value part of a U.S. index as it does of the Growth. Studies have shown that over the long term, value stocks will outperform growth stocks – though that can vary in any given year.

Helm also does a significant amount of diversification among the various classes of international equity ETFs. The categories of overseas indexes we invest in include:

- MSCI EAFE (Europe, Australasia and the Far East), with some emphasis on shares of companies in the index that pay dividends. These are large non-U.S. companies, such as BP (British Petroleum), Toyota and Nestle.
- International small cap companies that pay dividends. These are a mix of mid-sized and small stocks from developed countries outside the U.S.
- MSCI Pacific ex-Japan, which has an emphasis on Australia and Hong Kong.
- FTSE/Xinhua China index, to make sure we capture future growth in China.
- MSCI's Emerging Markets index, made up of big companies in developing markets, and including such firms as Samsung Electronics, Taiwan Semiconductor, Russia's LUKOIL, and similar companies.
- The S&P Latin America 40 index (Brazil's Petroleo Brasileiro, Mexico's Cemex and Wal-Mart de Mexico, etc.).

For investors interested in increasing yield in their investment portfolios, Helm also follows a number of companies that issue preferred stocks and Master Limited Partnership (MLP) units. We invest in MLPs of natural gas pipeline companies. They typically yield 9% to 11%, and most of that yield can be protected from taxes. Helm will invest 5% to 10% of a client's equity allocation in MLPs when appropriate.

Finally, the significant percentage of international allocation also ensures that investors have appropriate exposure to all industrial sectors. Investing only in U.S. stocks would create a portfolio with little or no holdings in consumer electronics, for example, or semiconductor fabrication. By holding overseas indexes, clients pick up holdings in industries in which U.S. companies no longer participate.

Fixed income

Helm invests in a number of different forms of fixed income securities for its clients to provide significant diversification from equities for each investment portfolio. Fixed income securities are essentially "loans" to companies rather than an ownership stake. They provide a promise to pay a sum certain at a certain time and no other promises.

Helm invests in U.S. Treasuries, Agencies (such as the bonds of Fannie Mae), Bank Certificates of Deposit (CDs), Corporate Bonds, Money Market funds, TIPS (Treasury Inflation-Protected Securities), and Municipal securities. We buy a number of different maturities to create what's called a maturity ladder, so a small part of the fixed income portfolio is being reinvested throughout the year. Each of these fixed income securities has different levels of risk related to how much prices fluctuate as interest rates change and to the chances that the bond issuer might stop paying interest or default on the bond altogether.

Because Helm's aim with fixed income is to get the maximum return with a minimum of volatility, we hold the maturity of fixed income to five years and less. At this time, bonds of longer maturities pay about the same yield as those of shorter durations. If this changes and longer-term bonds begin to pay a significantly higher yield than short-term notes and bills, Helm will consider pushing to slightly longer-term holdings.

Corporate bonds, for example, always carry some risk of default, vs. U.S. Treasury bonds, which would only default if the U.S. government collapsed. Agency bonds have been somewhere in between when it comes to risk: Agencies such as the Federal Home Loan Bank Board do not have the full backing of the U.S. government, but they likely would get significant government support if they ran into financial trouble, so the bonds are thought to have less default risk than corporate bonds.

Given that highly rated corporate bonds pay very little more than Agencies and typically less than CDs at this time, Helm's 2009 fixed income diversification is focused on Agency bonds, publicly traded Certificates of Deposits, Municipal Bonds (where appropriate in taxable accounts) and U.S. Treasury Inflation Protected Securities (TIPS).