2010 HELM CORE STRATEGY

After two years of extreme volatility in the financial markets, Helm Investment Management believes there is more evidence than ever for the wisdom of thoughtful diversification among equities and fixed income securities, as well as holding meaningful positions in non-U.S. assets.

Equities around the world took off on a record-setting rally starting in March of last year. In part because of the recent gains, Helm recommends a conservative portfolio mix of 55% equities and 45% fixed income as an initial allocation for 2010. This portfolio 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 rallies. As each client's needs are unique, the mix can vary. Within the overall categories of equities and fixed income, Helm diversifies using a variety of instruments and asset classes.

Equities

In equities, Helm strives to gain higher returns without taking more risk than is inherent in the Standard & Poor's 500 (S&P 500) stock index. Helm is an active manager typically using Exchange Traded Funds (ETFs) of stock market indexes to execute the core investment strategy. Within the equity allocation, Helm recommends a mix of:

- domestic large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- domestic mid cap
- domestic small cap
- more than a third of equities in 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. 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 emphasis on firms that pay dividends. These are large companies, such as Total, 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.
- A China index, to make sure we capture future growth in that country.
- MSCI's Emerging Markets index, including such firms as Korea's 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.).
- A small holding in the MSCI South Africa index.

Elements of the equity investment mix may change as part of Helm's active management. Significant changes in index price-valuation ratios or the appearance of superior indexes in certain areas can lead to investment shifts.

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 about 7%, and most of that yield can be protected from taxes. Helm will invest up to 8% client's holdings in MLPs and preferreds when appropriate. Although Helm has avoided real estate for the past several years, Real Estate Investment Trusts in certain categories are likely to be added to the portfolio later this year.

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), publicly traded Bank Certificates of Deposit (CDs), Corporate Bonds, Money Market funds, TIPS (Treasury Inflation-Protected Securities), Municipal securities and overseas fixed income in the form of bond indexes. We buy different maturities to create a maturity ladder, so a part of the fixed income portfolio is being reinvested through the year, a protection against inflation. 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 maximum return with minimum volatility, we hold the maturity of fixed income to five years and less. At this time, bonds of longer maturities pay more than those of shorter durations. But there has been a sudden increase in yields of long-term bonds (10 years and longer), which has hurt the value of those bonds. This change could continue through 2010 and beyond as the U.S. government issues bonds to cover a significantly higher deficit and national debt.

In municipal bonds, a history of low default rates could end this year. Helm emphasizes a cautious Muni bond strategy, including buying general obligation bonds from taxing districts with high ratings. We also buy revenue bonds that cover their interest from dependable revenue sources, such as critical services including water and power.

Corporate bonds carry some risk of default, vs. U.S. Treasury bonds, which would only default if the U.S. government collapsed. Agency bonds have been in between: Agencies did not have full backing of the U.S. government. But in the financial crisis, the government stepped in to more explicitly back the bonds. Given that highly rated corporate bonds pay about the same as Agencies and CDs at this time, Helm's 2009 fixed income diversification focuses on Agency bonds, publicly traded CDs, Municipal Bonds and U.S. Treasury Inflation Protected Securities (TIPS).