2011 HELM CORE STRATEGY

Two years into the recovery from the worst recession and market crash since the 1930s, Helm continues to steer by two key principles:

- Diversify among investment assets, both to reduce overall portfolio volatility and to capture returns in unusual places.
- Formulate a firm investment plan and protocols for rebalancing investments based on each client's goals, and willingness and ability to take on risks.

Equities registered a solid gain in 2010 as corporate earnings around the world rose sharply. The picture for fixed income was more mixed. Though bond prices registered modest gains last year, bond yields fell to unusually low levels by the fall. The outlook for total returns from bonds offering these low yields is weak. As a result, Helm has reduced allocation to this portfolio portion and added a category for income-oriented equities, including preferred stocks, selected common stocks, and Master Limited Partnership (MLP) units of natural gas pipeline firms.

Helm's recommended mix of assets for 2011 is 55% equities, 15% income-oriented equities such as preferred stocks and MLPs, and 30% fixed income. That compares with last year's core recommendation of 55% equities and 45% fixed income. 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.

Equities

In equities, Helm strives to gain higher returns while keeping overall risk close to that of 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:

- 26% of equities in domestic large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 24% in domestic mid cap
- 10% in domestic small cap
- 40% in international holdings

Within that structure, Helm leans toward 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, which includes Brazil's Petroleo Brasileiro, Mexico's Cemex and Wal-Mart de Mexico.
- Small holdings in both the MSCI Canada and MSCI South Africa indexes.

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.

Income-oriented equities

For investors interested in increasing yield in their investment portfolios, Helm also follows a number of companies that issue preferred stocks, have high common stock dividends, and Master Limited Partnership (MLP) units. We invest in MLPs of natural gas pipeline companies. They typically yield about 6%, and most of that yield can be protected from taxes. Helm will invest up to 15% of a client's holdings in MLPs, preferred stocks and income-oriented common stocks when appropriate. Helm has avoided real estate for the past several years, but we continue to research Real Estate Investment Trusts in certain categories for possible inclusion in the income-oriented equity portfolio.

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.

After a prolonged period that saw interest rates decline in the U.S. until the yield on a 10-year Treasury note hit a low of 2.37% in October 2010, Helm believes interest rates are likely to rise for a number of years. Bond prices move in the opposite direction of yields, so an increase in interest rates will lead to falling prices for 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)
- Corporate bonds
- Money Market funds

- TIPS (Treasury Inflation-Protected Securities)
- Municipal bonds
- 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. This portion of a portfolio is designed to be a financial safety net and help clients hold to the overall investment plan even in times of great market volatility.

Because Helm's aim with fixed income is to get maximum return with minimum volatility, we typically hold the maturity of fixed income to five years and less. In the current environment of expected increases in interest rates on intermediate and long-term bonds, Helm is temporarily holding new investments in U.S. fixed income to shorter average maturities than usual.

In municipal bonds, a history of low default rates could end this year. Helm emphasizes a cautious municipal 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, whereas U.S. Treasury bonds would only default if the U.S. government collapsed. Agency bonds have been in between those two types of bonds. 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 2011 fixed income diversification focuses on agency bonds, publicly traded CDs, municipal bonds and indexes of international bonds. Helm also tracks U.S. Treasury Inflation Protected Securities (TIPS) and will buy them if they offer good expected returns. At the start of 2011, however, TIPS were expensive relative to historic levels.

As always, our 2011 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 and may deviate significantly from our 2011 Helm core strategy.

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