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2014 HELM CORE STRATEGY

The world's slow-motion recovery from the 2008 financial crisis plowed forward through 2013, led by the U.S. economy. Though frustrating to some – especially the long-term unemployed – continuing improvement in the U.S. economy was enough to feed the best returns in the stock market in more than 20 years. The economy was also strong enough to convince the Federal Reserve Board to begin "tapering" of extraordinary stimulus measures that had been in place since 2009.

In this phase of the economic cycle, what is good for stocks is bad for bonds. U.S. interest rates rose sharply beginning in May, after Fed Chairman Ben Bernanke said the Fed would begin to cut back on its purchases of government bonds. Bond prices dropped for the year, hurting holders of long-term bonds. The tapering announcement also led to a flight from emerging markets securities by investors, who feared a sudden rise in interest rates might lead to a financial crisis in emerging markets, as had happened in 1998. No such crisis arrived, yet the drop in the value of emerging markets currencies vs. the U.S. dollar persisted through the end of 2013.

The U.S. and global economic recovery still appears lethargic when compared with earlier recoveries from recessions. Yet it is plodding along a path similar to past recoveries. As a result, Helm remains bullish about the long-term outlook for equities despite relatively high valuations for the U.S. stock market. Long-term bonds, on the other hand, continue to look precarious and likely will provide poor returns for at least another year or two. Internationally, Europe appears poised to embark on an economic recovery. Even a weak recovery in Europe will be welcome, given the region's habit of stumbling from one crisis to the next for much of the past five years. Emerging markets are mixed – some will benefit from economic improvement in the U.S., while others are suffering from slowdowns brought on by a failure to impose continuing economic reforms and, in some cases, a shift to running trade deficits instead of trade surpluses.

Helm continues to steer by two key principles:

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

Helm's recommended mix of assets for 2013 is 55% equity indexes, 25% income-oriented equities, and 20% fixed income securities. This 55/25/20 mix of assets creates a stream of income to help carry investors through times when equity returns are weak while allowing for participation in stock market rallies. Descriptions and details about the asset classes follow.

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 U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 24% in U.S. mid cap
- 10% in U.S. 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. This year, Helm will look to fundamentals-weighted stock indexes for the value holdings. Weighting stock indexes by company fundamentals such as earnings and dividends rather than purely by total stock market value has proven superior returns to other value strategies in the past several years.

Helm also diversifies 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 Toyota and Nestle.
- Emerging markets indexes, featuring large firms such as Taiwan Semiconductor and Russia's LUKOIL, Latin American firms such as Mexico's America Movil, plus an index of mid-cap and small-cap emerging market companies that typically service consumers in those countries.
- FTSE Europe, which includes companies based in the United Kingdom and Western European countries, including Vodaphone and drug maker Sanofi.
- FTSE Pacific, which includes companies from Japan, Australia, South Korea, Hong Kong and other countries, including Samsung and miner BHP Billiton.
- Holdings in the MSCI Canada 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.

Income-oriented equities

For investors interested in reducing volatility and increasing income from their investment portfolios, Helm also invests in a number of companies that have strong growth relative to their stock prices, low volatility relative to the S&P 500 stock index and/or pay relatively high dividends or distributions. These include international blue chip stocks with strong balance sheets, preferred stocks, utility stocks, and Master Limited Partnership (MLP) units of companies that run natural gas and oil pipelines in the U.S. Real Estate Investment Trusts (REITs) also are under consideration for inclusion in this group of income equities, though few of them currently provide a strong enough combination of yield and growth to warrant purchase. This group of income-oriented equities likely will have lower price volatility than the equity index portfolio, more than making up for the category's lower long-term expected returns.

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.

After hitting a low of 1.6% early in May, 2013, the yield on the benchmark 10-year Treasury note rose to about 3.0% by the end of the year. Helm believes interest rates are likely to continue to move one to two percentage points higher through this year and next. Because bond prices move in the opposite direction of yields, 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)
- Highly rated corporate bonds
- Money Market funds and short-term fixed income indexes.

Helm currently is emphasizing very short-term maturities in the fixed income portfolio. We buy different maturities to create a maturity ladder, so a part of the fixed income portfolio is being reinvested through the year, a partial 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. 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. We typically hold fixed income maturity to five years and less.

As always, our 2014 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 2014 Helm core strategy.

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