HELM INVESTMENT MANAGEMENT

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Given the rally and relatively positive news (other than a flu pandemic) the past few weeks, it is tempting to believe we are coming out of the woods, economically speaking. Unfortunately, the world economy still has a long way to go to reach the edge of the woods.

The past six weeks may have seen the bottom and a "pop." As we write this update, this rally has now lasted almost seven weeks, the Dow is at 8200 and is now down about 7% for the year, the S&P 500 advanced to 875 bringing the index to -3% for the year and the Nasdaq is now up over 6% for a year-to-date gain. International stocks have done even better.

Our underlying financial problem is simply that the national and international economies are still in the midst of a protracted, severe and dangerous recession. More particularly, we have yet to turn the curve on housing deflation, job loss and banks dealing with unrealized losses, weak balance sheets, and their credit fears. Corporate earnings this past quarter, and projected, are mixed. The current rally is fragile at best.

We all live in both the macro- and micro-economic environments. Our *2009 Core Strategy* looks to an asset allocation of 55% equities, 45% fixed income. That translates more particularly into large cap, mid cap and small caps being 2/3 of the equities and 1/3 international equities. We still expect the 55% equity side to increase in value this year. The S&P 500 stock index could finish the year at about 1,000 (vs. 903 at the end of 2008). But it won't happen without more volatility in the markets: pops and ebbs for the rest of the year and into 2010. We also have gas transmission line Master Limited Partnerships in this equity mix. Our favored list of MLPs is up 25% so far this year. This sector, however, is primarily for income. Our current group of ten is presently returning about 9.5%. We also have preferred stocks in our equity mix. Their yields vary but 6% annual income is our target. We call the MLPs and preferreds, "hybrid equities." They have elements of both equities (volatility) and fixed income (yield).

As for the 45% of our Core Strategy in fixed income – a mix of publicly traded CDs, municipals, agencies and corporate bonds – the yields are steady, the area is not volatile and safety is our primary concern. However, the yields are relatively low. Five year CDs, for example, are yielding approximately 3.5%. The positive note is that the 3.5% is a real return since inflation is essentially zero.

As for inflation, we are concerned but not immediately worried. Our fixed income is laddered over five years. We can easily shorten the ladder and add TIPS (treasury inflation protected securities) to the mix as maturities occur. We expect to see inflation again, but not in the near future.

As for other sectors, such as commodities, gold, and utilities, we think we have positive exposure in the indexes that form the heart and soul of our equities, as well as in the MLPs and the preferred stocks. Our core strategy encompasses all of these areas without putting a heavy weight in any particular sector.

We may yet be a long way from being out of the woods. But we are cautiously optimistic. Even these woods, dark and scary as they sometimes are, have a limit. We look forward to brighter days ahead.

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