HELM INVESTMENT MANAGEMENT

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2012 HELM CORE STRATEGY

Helm Investment is approaching 2012 with both caution and a little optimism.

The caution comes from ongoing uncertainties about what politicians in Europe and the U.S. might do in the coming year and whether their actions, or inactions, might lead to another drop in consumer and investor confidence, damaging the world economy. Higher volatility in equity and commodity markets likely will persist for most of the year.

The optimism is due to signs of growth in the U.S. economy and indications that stocks in most regions of the world are selling at low prices compared with historic norms.

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 were weak in 2011, even though corporate earnings around the world kept rising. Bond prices registered strong gains last year and bond yields fell to unusually low levels. Such unusually low yields on long-term bonds make for a poor outlook for total returns from bonds in coming years. Helm has reduced allocation to this portfolio portion and added allocation to the income-oriented equities category, including preferred stocks, common stocks of utilities, and Master Limited Partnership (MLP) units of natural gas pipeline firms. In addition, Helm has broken out a category of individual common stocks of companies with strong balance sheets and a history of increasing dividends, which we are calling "blue chip dividend stocks."

Helm's recommended mix of assets for 2012 is 50% equity indexes, 5% blue chip dividend stocks, 20% income-oriented equities (such as preferred stocks, utility stocks and MLPs), and 25% fixed income. That compares with last year's recommendation of 55% equities, 15% income-oriented equities, and 30% 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.

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, giving more weight to Pacific Rim markets than to Europe. 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 Vodaphone and Nestle.
- MSCI's Emerging Markets index, including such firms as Korea's Samsung Electronics, Taiwan Semiconductor, Russia's LUKOIL, and similar companies.
- International small cap companies that pay dividends. These are a mix of mid-sized and small stocks from non-U.S. countries, especially in emerging markets.
- MSCI Pacific ex-Japan, which has an emphasis on Australia and Hong Kong.
- The S&P Latin America 40 index, which includes Brazil's Petroleo Brasileiro, Mexico's America Movil and Wal-Mart de Mexico.
- 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.

<u>Blue chip dividend stocks</u>

In 2012, Helm is adding emphasis to a portfolio of companies that have strong balance sheets, low price-earnings ratios and good dividends. Part of last year's income-oriented equities strategy, Helm has moved this portfolio of common stocks to its own category for 2012. Companies whose stocks are in this portfolio are usually, but not always, large companies with global businesses. Some are based outside the U.S. but most are headquartered here. Helm expects this portfolio to generate good total returns and lower volatility vs. most equity benchmarks.

<u>Income-oriented equities</u>

For investors interested in increasing yield in their investment portfolios, Helm also follows a number of companies that issue preferred stocks, utility common stocks that have high dividends, Real Estate Investment Trusts (REITs) 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 20% of a client's holdings in MLPs, preferred stocks, utility stocks and REITs. Helm has avoided real estate for several years, but we continue to research REITs 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.

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 1.72% in September 2011, Helm believes interest rates are likely to hold close to the current yield of about 2% for 2012, then begin 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. 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 maturity of fixed income to five years and less.

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.

As always, our 2012 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 2012 Helm core strategy.

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