HELM INVESTMENT MANAGEMENT
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2015 HELM CORE STRATEGY

As 2015 begins, analysts are expecting the U.S. to be the main engine for global economic growth. European countries continue to struggle with high unemployment, a series of recessions and a threat of deflation. Many of the larger emerging markets are growing much more quickly than the U.S., but the financial markets have been disappointed that the emerging market countries are not growing as quickly as they had during the previous decade. The recent plunge of oil prices has stressed the energy industry and countries such as Venezuela and Russia, although cheap oil is expected to help consumers in most countries, especially the U.S. and energy-dependent countries such as China and Japan.

The economic outlook makes up only a portion of the investment decision-making process. Widespread economic and industry expectations typically are already priced into various securities such as stock indexes. Taking that into account, U.S. equities continue to look appealing, especially when compared with fixed income that is returning less than the rate of inflation. European equities are slightly undervalued. Emerging markets and developed Asian market equities appear to be a relative bargain. The strengthening dollar has hidden (for U.S. investors) how well stocks have been performing in their local currencies in Japan and several other Asian countries.

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 investment plans and protocols for rebalancing investments based on each client's goals, as well as willingness and ability to take on financial market risks including volatility.

Helm's recommended mix of assets for 2015 is 55% equity indexes, 25% alternative income securities, 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 baseline 55% equity index allocation, Helm recommends a mix of:

- 32% of equities in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500)
- 22% in U.S. mid cap
- 6% 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. Helm uses fundamentals-weighted stock indexes for the value holdings. Weighting stock indexes by company fundamentals such as earnings, dividends and book value rather than purely by total stock market value has provided 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. This year, we will move to a currency-hedged version of this index ETF to avoid unnecessary risks related to changes in foreign currency rates.
- Emerging markets indexes, featuring large firms such as Taiwan Semiconductor, Infosys from India, and Latin American firms such as Mexico's America Movil.
- A currency-hedged European index that holds large companies such as drug maker Sanofi, Anheuser-Busch Inbev, BMW and Mercedes-maker Daimler.
- FTSE Pacific, which includes companies from Japan, Australia, South Korea, Hong Kong and other countries, including Samsung, and miner BHP Billiton.
- A currency-hedged Japan index, which holds companies such as Honda and Canon.
- 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.

<u>Alternative income securities</u>

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 slightly 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.

U.S. and European bond yields confounded many investors by sinking through most of 2014, with the 10-year U.S. Treasury note finishing at 2.17%. The 10-year note yield sank more early in 2015 to less than 1.80%. Helm believes interest rates are likely to move more than one percentage point 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 existing 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 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. Helm also invests in short-term fixed income index ETFs that hold the same securities described above.

As always, our 2015 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 2015 Helm core strategy.

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