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2025 HELM CORE STRATEGY

The odds are against a repeat in 2025 of the big gains that investors enjoyed in 2023 and 2024. The last time the S&P 500 index of large U.S. companies posted more than two consecutive years' worth of 20%-plus gains were the dot com bubble years. That stretch was followed by the only three-year losing streak for the S&P 500 since the Great Depression.

Led once again by huge technology companies, including Nvidia, Tesla, Amazon, Microsoft and Meta, the S&P 500 stock index notched a total return (including reinvested dividends) of 25.0% in 2024. This put it third among major financial benchmarks, behind the NASDAQ composite index of mostly tech companies (up 29.6%) and gold (up 27.2%).

Several elements of the financial markets are stretched enough that investors would be justified in growing more cautious about chasing some aging market trends. For example, the forward-looking price-earnings (PE) ratio for the large-cap S&P 500 index is about 22-times expected S&P 500 earnings in the next year (significantly higher than the historic average PE). The S&P mid cap and small cap index forward PEs are about 16 (close to their historic averages). Unfortunately, if some of the highest-flying stocks suddenly take a plunge, the rest of the markets will plunge right along with them. The real differences will likely emerge in longer-term returns, with the most highly priced stocks flattening out for a number of years while the rest of the markets recover and increase.

Bonds have a better outlook. The key predictor of a bond's long-term return is a bond's current yield. Because 5-year and 10-year Treasury bonds have a yield of more than 4.5%, there's a solid chance bond holders will get returns above inflation for several years. That beats the outlook for bonds a couple of years ago, when investors were buying bonds with initial yields of less than 2%, and sometimes less than 1%. Risks to fixed income returns include both sticky inflation and ongoing strong economic growth.

Given the expected broadening of stock market leadership beyond a few huge tech companies and a good outlook for bond markets, it will be no surprise that Helm continues to hold to two longstanding key principles:

- Diversify among individual securities, market sectors, countries and regions to reduce overall portfolio volatility and capture returns in unusual places.
- Create investment plans and protocols for regular rebalancing of investments based on each client's goals and continuously assess each client's willingness and ability to take on financial market risks, including volatility.

Helm's recommended mix of assets for 2025 sticks to last year's overall allocation of 40% in equity indexes, 25% in income securities, and 35% in fixed income securities. This 40/25/35 mix of assets aims at grabbing higher yields on bonds. Descriptions and details about the asset classes follow.

Equity Indexes (40%)

In the equity index component of investment portfolios, Helm strives to gain higher returns while keeping overall risk close to that of the MSCI All Countries World stock index. Helm is an active manager employing Exchange Traded Funds (ETFs) of stock market indexes to execute the equity index component of the core investment strategy. Within the baseline 40% equity index allocation, Helm recommends a mix of:

- 33% in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500), including a good portion in dividend-oriented large caps, the S&P 500 equal-weight index and large cap stocks trading at a discount to the broader market price-to-earnings ratio
- 19% in U.S. mid cap stocks
- 8% in U.S. small cap stocks
- 40% in international holdings

Helm uses mostly market-capitalization-weighted indexes for the equity index holdings, plus some holdings in indexes designed to reduce market volatility or add yield to the portfolio. The S&P 500 index of companies with a history of raising dividends, the S&P 500 equal-weight index and large cap value holdings are designed to avoid putting too much weight on the mega-capitalization technology stocks that might hit some bumps this year. Mid- and small-cap stocks rose less last year than large-cap stocks and look to be something of a bargain at the moment.

International equity index holdings are diversified among a basket of international equity ETFs. The categories of international equity indexes we invest in include:

- MSCI EAFE (Europe, Australasia and the Far East). This index includes large multi-national companies, such as Toyota, Novo Nordisk and Total.
- Two different MSCI emerging markets indexes, the first featuring firms throughout the emerging markets, including China. The other emerging market index excludes companies from China – a reflection of Helm's ongoing worries about poor economic growth in China. Emerging market companies include Taiwan Semiconductor, Samsung from South Korea, and Tencent Holdings from China.
- An international small cap index, which holds smaller market capitalization companies, primarily in the EAFE countries and Canada.

Elements of the equity index investment mix may change throughout the year as part of Helm's active management.

Income securities (25%)

In the income securities component of investment portfolios, Helm invests in securities intended to generate strong and rising dividend income and/or growth at a reasonable price. These securities include U.S. and international large and mid-capitalization stocks with good balance sheets relative to other companies in their industry. For 2025, this includes equities in such sectors as industrials and financial services.

Helm also works with clients to determine if holding high-dividend-paying common or preferred stocks fulfills an income need. Stock dividends are taxed at a lower rate than ordinary income from bonds. Plus, many companies with strong balance sheets have a history of regularly raising their common stock dividends.

Fixed income (35%)

Helm invests in both individual fixed income securities, indexes of fixed income securities and high-quality money market funds for its clients. Fixed income securities are essentially “loans” to companies rather than an ownership stake. These securities are intended to provide significant diversification from equities and act as a financial safety net and help clients to preserve capital even in times of market volatility.

One benchmark for U.S. fixed income securities is the yield on the 10-year U.S. Treasury note. At the moment, the yield of a 10-year Treasury is close to 4.6%. After a few years when the yield curve was inverted – an unusual situation when short-term rates are higher than long-term rates – short term bonds again yield less than long-term bonds. Helm expects the Fed to cut short-term rates only one or two more times this year, and it appears that healthy bond yields will hold up for much of 2025.

Fixed income investments include:

- U.S. Treasuries
- Publicly traded Bank Certificates of Deposit (CDs)
- Highly rated corporate bonds
- Money Market funds and short-term fixed income indexes
- Tax-free municipal bonds
- Agencies (such as bonds of the Federal Home Loan Bank)

Helm prefers relatively short-term maturities in the fixed income component of client portfolios. Fixed income portfolios will generally hold securities that mature in five years or fewer, with an average maturity of two-to-three years. We buy different maturities to create a maturity ladder, so bonds are maturing on a regular basis and funds are available for reinvestment or spending needs.

Conclusion

The 2025 Helm core strategy is our best projection for the coming year. Helm anticipates a decent 2025 for investors, though not as good as the prior two years. Each client portfolio is customized to that particular client’s unique circumstances and may deviate

significantly from our core strategy. Please call us with any questions you might have after reviewing the 2025 Helm Core Strategy.