

## Emotions and Decisions

We may have turned the corner to a new year, but we have brought our biggest worry of 2020 — the COVID-19 pandemic — along with us. Nearly a year after the virus first arrived in the U.S., many Americans are in a state of pandemic fatigue. And the imprint of chronic stress has taken its toll on many.

Though we may not yet be at the final stage of eradicating the pandemic, we can't live in a state of crisis forever. We have to find ways to live life as normally as possible, even while taking the precautions to keep ourselves and our families healthy.

With that in mind, we dug into the research to find actionable tips that can help you and your families move

forward, even in uncertain times, to make the good financial decisions that will serve you well today and in the future. After all, money doesn't have to be complicated. It's not about knowing every last detail about every investment concept. It's about good habits and good decisions, at the smallest level, which add up day after day until you find yourself in good, solid stead. To make those good decisions, it helps to have insights into your emotions, your stress level and how both of those things are connected. We hope you find valuable tips in these pages.

Best wishes for a happy and very healthy 2021 from our families to yours. ✨



### A Stressed-Out America

Half of Americans are having trouble sleeping. Four in 10 are getting headaches! The stress of pandemic life is taking its toll. This trend not only complicates matters of health — the last thing any of us need in a pandemic — but it can also affect our decision making.

*Continued on page 2*

### 3 PROVEN STRESS BUSTERS

A pandemic is an especially difficult type of stressor because it's largely out of our individual control. When it comes to coping well with chronic stress, here are three proven tools:



**A POSITIVE  
ATTITUDE**



**SOCIAL  
SUPPORT**



**PHYSICAL  
EXERCISE**

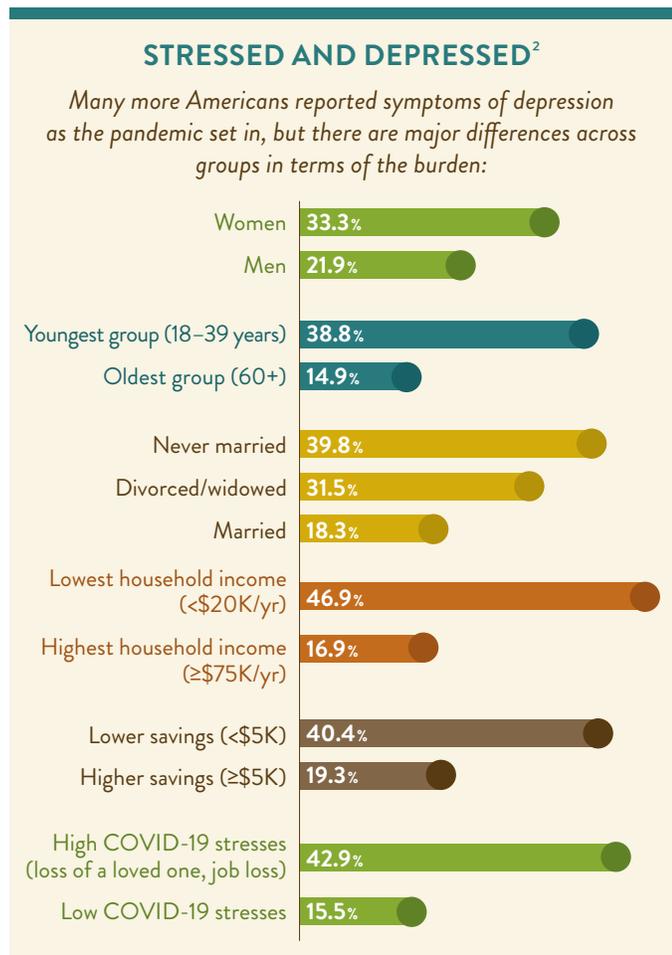
Source: UC Berkeley, "The Surprising Benefits of Stress"

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## ➤ The Steep Toll of Chronic Stress

Mental health across America has taken a hit over the last year. Symptoms of depression among Americans rose by a staggering 300% in the early months of the pandemic, compared with pre-COVID-19 measures.<sup>2</sup> Before COVID-19, 8.5% of Americans showed symptoms of depression. In the early months of the pandemic, that number shot up to 27.8%.<sup>2</sup>



The burdens of the pandemic are certainly not spread equally. For instance, Americans who experienced a COVID-19-specific stressor, like losing a loved one to COVID-19 or suffering a job loss, were almost two and a half times more likely to report depression symptoms (43% vs. 16%). Never-married adults were much more likely to suffer compared with married adults (40% vs. 18%). The 18- to 39-year-old group reported much higher rates of depression symptoms than the 60-year-plus group (39% vs. 15%).<sup>2</sup>

Now, those numbers are from March – April 2020, a time when most of the U.S. was in some form of shutdown and we could argue that conditions were different: Fresh job losses were widespread and there were many unknowns about COVID-19 itself. But it seems that the dismal state of mental health continued unabated at least into the fall. Another

comprehensive survey found that markers of stress, including feelings of loneliness, depression, anxiety and irritability, held steady from May through August of 2020.<sup>1</sup> As the pandemic wears on, so does the elevated stress burden.

## ➤ The Unique Distress of Being Financially Vulnerable

Finances are an important factor in how vulnerable a household or individual is to stress in the first place. Indeed, people with less than \$5,000 in household savings were twice as likely to report depression symptoms compared with households with over \$5,000 (40% vs. 19%). Similarly, the lowest-income families (under \$20,000/year) reported much more stress than the highest-income families (over \$75,000) (47% vs. 17%).<sup>2</sup>

But it's not just that having lower income or lower savings puts you in the danger zone for stressful shocks: It's that the finances are a *cause* of the stress. One industry report found that a whopping 90% of Americans said financial circumstances negatively affected their daily stress level.<sup>3</sup>

## ➤ Stress and Decisions: A Bad Combo

Finances are really just a series of decisions. Ease up or put a little more away? Retire sooner or retire later? Invest in this or invest in that? As such, financial health depends on good decision making.

And sure enough, chronic stress seems to have an impact on the way we make decisions; specifically, it pushes us to choose the higher-reward, higher-risk option of whatever we are facing. Researchers at MIT found that chronic stress prompted mice to pick the higher-reward, higher-risk option in experiments, suggesting to neuroscientists that chronic stress inhibits the brain's ability to fairly weigh the good and bad in a decision.<sup>4</sup> In essence, a chronically stressed brain overvalues the immediate benefit and underestimates the downside.

Chronic stress could prompt us to pick the higher-reward, higher-risk option in front of us. Stress may inhibit the brain's ability to fairly weigh the good and bad in a decision.

This observation may ring true if you think how much harder it is to stick to good choices — choosing fruit for dessert over ice cream, perhaps? — when your system is depleted by stress.

## ➤ Breaking the Cycle

There's an important circular relationship between stress and finances. Stress can prompt you to make choices that are worse for your finances, and vulnerable finances can greatly add to your stress.

*Continued on page 3*

Simple awareness could go a long way toward helping you to break this cycle, if indeed it is making your pandemic life worse. Here's another important point: The MIT experiments found that once mice were chronically stressed, the impact on their brains took months to wear off. If Americans are looking to reset their deeply stressed systems, it may help to know that time seems to be a factor. ✨

<sup>1</sup> NORC at the University of Chicago, "Rates of Mental Health Symptoms Unchanged since Early Summer, Health Disparities Persist"  
<sup>2</sup> Jama Network, "Prevalence of Depression Symptoms in US Adults Before and During the COVID-19 Pandemic"  
<sup>3</sup> Thrive Global, "Thriving Wallet Research Insights Report/White Paper"  
<sup>4</sup> MIT, "Stress can lead to risky decisions"

## Looking Out for Future You

Close your eyes for a moment and imagine yourself, 20 years in the future.



Can you relate to "future you"? Is she spending lots of time with her grandkids and garden club? Did he finally get his toolshed organized? Are they still drinking too much coffee?

Psychologists have spent some time studying the idea of self-continuity, which is

the idea that we have a continuous image of ourselves from our past to the present to our imagined future. If you can relate strongly to your imagined future self, you have high self-continuity. But if you tend to think of your future self the same way you think of a stranger, in a distant sense, you have low self-continuity.

### ➤ How to Correct Course

There is good news. It's possible to boost the importance of future you just by spending a little time pondering him or her.

Health researchers found that when they had people write a letter to themselves 20 years in the future, the subjects chose to do more exercise in the days that followed.<sup>2</sup> In a Harvard study, there was a similar result where researchers could help people make better long-term investment choices by showing them vivid, digitally aged versions of themselves.<sup>4</sup>

In other words, it is possible to raise the value and importance of future you. It could be as simple as taking a few moments of your time to imagine your future self in detail. For all the benefits that effort could bring, it seems like little to ask of "current you"! ✨

### ➤ The Benefits of a Continuous Self

It turns out that people who have a stronger sense of their continuous self in the future enjoy some advantages. People with higher self-continuity seem to be better savers; they accumulate more assets over their lifetime than a similarly matched group with low self-continuity.<sup>1</sup> They also seem to make better health choices, reporting better health on subjective measures.<sup>2</sup> It could be easier to do things for future you if you can imagine yourself clearly and you have a strong sense that you're doing a favor for yourself.

### ➤ Future You: Disappearing Under Stress?

What happens to self-continuity under stress? Well, unfortunately, it may be prone to weakening. Hospital patients suffering from depression and mental health episodes demonstrate much lower self-continuity than the average person.<sup>3</sup>

<sup>1</sup> Judgment and Decision Making, "Don't stop thinking about tomorrow: Individual differences in future self-continuity account for saving"  
<sup>2</sup> Journal of Experimental Psychology, "Future Self-Continuity Is Associated With Improved Health and Increases Exercise Behavior"  
<sup>3</sup> Hofstra University, "The Janus Project: Future Self and Psychopathology"  
<sup>4</sup> Harvard Business Review, "You Make Better Decisions if You 'See' Your Senior Self"

# 5 Simple Ways to De-Stress Your Finances

It's not easy to disrupt the stress cycle with money, but making changes for the better can have enormous benefits for your day-to-day life.

**1 Write a letter to future you!**  
On page 3, we mentioned the studies that showed how people made better long-term decisions after they spent time imagining their future selves. So try it! Conjure up a vivid picture of yourself 10 or 20 years in the future, imagining your facial features, your hair, your clothes, even a setting for yourself. Now write a short note or email to yourself. Here are a few prompts:

- What do you hope life will be like?
- What kind of relationships will you have?
- What are the worries of “current you” and how do you hope they’ll resolve in the future?

**2 Put one smart decision on autopilot.**  
Take the decision-making burden off yourself by setting one good choice on autopilot. Can you set your automatic retirement contribution to a slightly higher percentage this year? How about starting an automated transfer from your checking account to your investment account? These choices have a double payoff: You get the compounding benefit of that routine *and* you remove the burden of having to make those good choices every month.

**3 Brush up on a few basic money concepts.**  
Maybe you are feeling tapped out by pandemic life and have little motivation to make changes today. Still, you can do a little something even in passive mode —

like brushing up on some money basics. Check out our selection of videos at [homesteadfunds.com/videos](https://homesteadfunds.com/videos) for straightforward info on some key financial concepts.

**4 Turn off the news.**  
It's been such an intense news year, and that's not good for anyone's mental health. While it is important to stay informed about the COVID-19 pandemic in particular, it's also crucial to keep the news from invading every moment of your life. In the studies we cited earlier about the huge increase in stress symptoms, the researchers noted a strong connection with the time people spent consuming COVID-19 news. More COVID-19 news, more stress. Make sure you're taking time every day to detach completely from the news for long stretches.

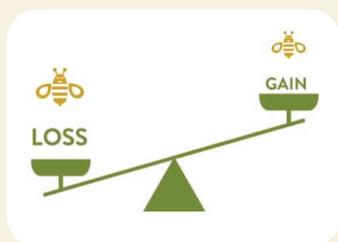
**5 Have your financial conversations outdoors!**  
Being outdoors in green or natural spaces is a proven de-stressor.<sup>1</sup> Consider using that to your advantage — perhaps by having any financial conversations or decision-making sessions in the great outdoors. A restorative outdoor walk could be an ideal time to do your best thinking about money decisions. ✨

*The power of compounding is a mathematical principle. It is not a promise of any investment's future return.*

<sup>1</sup> Elsevier, “Does spending time outdoors reduce stress? A review of real-time stress response to outdoor environments”

## Investing Basics Videos

Investing doesn't have to be complicated. We've created a series of videos that cover the basics when it comes to investing. Watch online at [homesteadfunds.com/videos](https://homesteadfunds.com/videos).



### MANAGING VOLATILITY

Financial market volatility — real or anticipated — is often accompanied by a strong emotional reaction. The simple reason: You're human.



### COMPOUNDING INTEREST

Investing doesn't require great wealth or complicated strategies. You just need to put today's dollars — even small amounts — where time and compounding interest can help them grow.



### INVESTING AFFORDABLY

For some things you buy, if you pay more, you get more. But paying more for a mutual fund may mean you get less. Here's why.

# Wheel of Emotions: Our Survival Mechanisms

Emotions can take a toll on us, but they are critical to our survival.

American psychologist Robert Plutchik developed a theory of emotions in the 1980s that identifies four pairs of opposite primary emotions: **joy** versus **sadness**, **anger** versus **fear**, **trust** versus **disgust** and **surprise** versus **anticipation**. He connected each of these eight primary emotions to a survival mechanism.<sup>1</sup>

You might be able to improve your attitude about stress by looking at it from a different perspective. If emotions are just tools to help us survive, they aren't fodder for catastrophizing. They are merely cues to guide our survival instincts.

By being more aware of the emotions we bring to our daily decisions — including financial choices — we could bring a cooler head to the process.

*“If you tend to have a positive attitude — a self-confident sense that you can get through a rough period — you’re more likely to have a healthy response than if you perceive stress as catastrophic.”<sup>2</sup>*

— DANIELA KAUFER  
professor at UC Berkeley  
who studies the biology of stress



Graphic based on the work of Prof. Robert Plutchik

<sup>1</sup> “Theories of Emotion,” Robert Plutchik and Henry Kellerman, 1980.

<sup>2</sup> UC Berkeley, “The Surprising Benefits of Stress”

# News Briefs

## Update Your Preferences to E-Delivery

Beginning on January 1, 2021, paper copies of Homestead Funds' shareholder report will no longer be sent by mail, unless you specifically request paper copies. Instead, the reports will be made available on [homesteadfunds.com](http://homesteadfunds.com); you will be notified by mail each time a report is posted and provided with a website link to access the report.

Better yet, sign up for e-delivery. You'll get an email notifying you when your account documents are ready for review on our secure website. Documents that can be accessed online include:

- Statements
- Tax forms
- Fund reports and prospectus

Enrolling is easy. Just log in to your account and set up your document delivery preferences under the Account Profile tab to ensure fast, secure delivery of your account documents. Don't worry if you change your mind later. You can always go back and make updates!

## Ideas for a Low Interest Rate Environment

Historically, when the economy is hit with a shock or a cyclical slowdown, interest rates generally fall. Indeed, the interest rates paid on savings and money market accounts — which were already low — are now near zero percent. With the possibility of near-zero rates for the next few years, we are speaking with many investors about alternatives to cash or money market products.

In this piece, we tick through the main reasons investors may want to consider short-term bonds: [www.homesteadfunds.com/wp-content/uploads/Our-Perspectives-Diversifying-Short-Term-Investments.pdf](http://www.homesteadfunds.com/wp-content/uploads/Our-Perspectives-Diversifying-Short-Term-Investments.pdf)

If you are wondering whether your current investment strategy is right for you, call us at **800.258.3030, option 2**, to review your portfolio.

## Invest in Your Future Self Today With an IRA

Individual Retirement Accounts are a staple for retirement savings. Even if you have an established workplace retirement account, opening an IRA and maximizing your annual IRA contributions is a great way to supplement your retirement income and reinforce your retirement readiness. Why not consider opening an IRA and making your 2021 contribution today? The earlier you start saving, the longer those dollars have to work for you. Go to [homesteadfunds.com](http://homesteadfunds.com) to get started.

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**Investing in mutual funds involves risk, including the possible loss of principal. Past performance does not guarantee future results.**

*Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit [homesteadfunds.com](http://homesteadfunds.com).*

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