Horizons 2021

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A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' SHAREHOLDERS

What Makes a Good Investor

The cost of living has shifted in the past 30 to 40 years in a way that makes everyday life more expensive for many families. That's the core reason why saving and investing are such necessities today; over long time periods, investing has proven to be a reliable way to keep your money growing along with the costs you face.

There is some irony to this solution. If families are already facing a budget squeeze, it's doubly hard for them to set aside the savings to invest. That could explain why it's still rare among American families to be invested in stocks. While half of households hold investments in workplace 401(k)s or similar plans, only about 15% of Americans report that they hold stocks outside of retirement plans and 9% report that they hold non-retirement mutual funds (or other "pooled investment funds").

It's wonderful that so many households participate in retirement plans — yet it is a shame that more aren't taking advantage of investing beyond that. Mutual funds offer an affordable way to invest, and minimums have fallen within reach for investing beginners. Bond funds are an excellent tool for accumulating savings while offering a small amount of income, and stock funds are an excellent tool for supporting long-term growth. Compared with low-yield savings accounts, investing has a lot of appeal.

In this issue, we look at what it means to be a good investor. We consider inflation facing families and how investing can offset those pressures, and spotlight the six things good investors do. We also share some insights on how to navigate today's markets. It may be simpler than you expect to become an investor — and a good one at that.

Why Investing Is a Modern Necessity

Medical costs have risen 50% more than incomes since the late '80s.[1] Education costs have risen more than twice the rate of incomes. These trends are squeezing the day-to-day budgets of many American families.

Continued on page 2

51%	of American households have a 401(k) or other retirement account
15%	own stocks*
9%	own mutual funds and other pooled investment funds*

**Separately from stocks or funds held in retirement accounts*

Federal Reserve Bulletin, "Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances"

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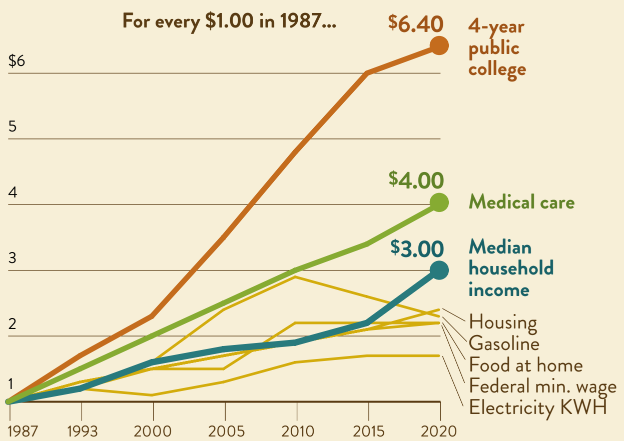
Some Costs Grow Much Faster Than Income

Some household expenses are not any more expensive to a family today than they were back in 1987. The price tags for "food at home" and for a kilowatt hour (KWH) of electricity are just as affordable today as they were back then.

But other categories of expenses have skyrocketed far faster than income. Medical care today costs four times (4x) what it did in 1987, while the median household income has only risen 3x and federal minimum wage has only risen 2.2x. Education costs have soared even faster, with the average price tag for a year at a four-year public college (tuition, fees, and room and board) rising to 6.4x what it was in 1987.[1]

WHICH COSTS HAVE OUTPACED INCOME[2]

*Comparing costs from 1987 to today, **education** and **medical costs** stand out with the fastest inflation.*



If expenses are rising faster than incomes, something has to give — or grow. Investing, which offers a way to grow savings, is one of the best ways to bridge the gap between incomes and expenses.

A New Era of Investing

Investing wasn't always a viable option for the typical American family. Not so long ago, it was exclusively the territory of the rich.

Over the years, the costs of investing have plummeted. Meanwhile, mutual funds have proliferated, offering everyday savers a way to purchase a mix of stocks or bonds with a single transaction. In recent years, the process has only gotten more accessible, with lower investment minimums, online access to accounts and automated savings tools.

The Growth Factor

Growth — that's the single biggest reason to invest in stocks. Just tracking news headlines, it may seem like stocks sometimes go up and sometimes go down, and it's anybody's guess which direction they're headed. That is true, from one day to the next. But over long periods, say five years or more, stock markets are consistently higher at the end than they were at the start. Looking at the S&P 500 Index from 1970 to 2020, large-cap stocks have averaged returns of more than 10% per year.[3]

Yet, these powerful growth qualities may be lost on the everyday saver. According to a recent Bankrate survey, most Americans say their investment of choice would be real estate — though long-term growth rates on real estate can hardly compete with the growth power of stocks.[4] But people say they are more familiar with real estate, while a third of Americans say they don't understand stocks.

STOCKS AND BONDS CAN BE MISUNDERSTOOD

Stock returns have outpaced real estate

Average annual return on large-cap stocks:[3]	**10%***
Average annual change in national home prices:[5]	**4%***
Current investment-grade bond yield:[6]	**1.4%**
Current savings account yield:[7]	**0.01% to 0.60%**

**From 1990 to 2020*

The Tax Piece

Financial planners often advise retirees to make withdrawals from taxable accounts first — i.e., to leave 401(k) and similar retirement accounts intact and compounding for the longest period possible. Retirement withdrawals from 401(k)s are taxed at ordinary income rates, while taxable investment account withdrawals are only taxed on realized capital gains and interest income (typically a lower total tax bill). If you have savings growing in a taxable investment account, you have more withdrawal options and often at a more appealing effective tax rate.

Investing as a Modern 'Superpower'

Stocks and bonds remain something of a secret superpower. Despite the accessibility and affordability of investing today, most people don't tap into the growth power of investing. We hope we can help people see the benefits of investing beyond retirement accounts — whether that's saving for the down payment on a house or accumulating the money you'll need to fund a child's college education.

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

Source notes on page 6.

6 Things Good Investors Do

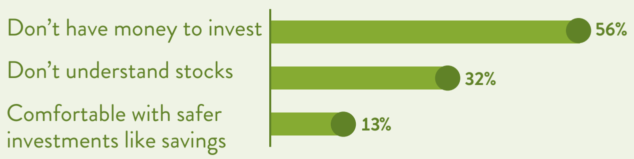
Investing can be daunting to beginners, but it doesn't have to be. The steps to being a good investor are surprisingly simple.

1 They save — preferably on autopilot!

The number one reason that Americans *don't* invest: They don't have the savings on hand. Before you can put money to work, you need to stockpile some. Easier said than done, of course. One effective way to make saving a priority is to automate it. Schedule a transfer from your paycheck or from your checking account to go to your investment account automatically, on a monthly or weekly schedule.

WHY AMERICANS DON'T INVEST[1]

By far the biggest reason that Americans don't invest in stocks: ***They don't have the savings.***



Respondents could select more than one answer.

2 They put cash to work.

Once they have savings set aside, good investors put it to work. Stocks and bonds, when paired, tend to offer a more stable mix of growth and capital preservation than investing in just one or the other. By using stock mutual funds and bond mutual funds, investors get the benefit of holding a mix of each rather than a concentrated exposure to one holding.

3 They get time on their side.

An investment earning 10% annually will double in about seven years![2] Compound returns are an incredibly powerful tool. The sooner you start investing in your life, the more powerful that compounding effect is. Investors who start early can actually save far less in total dollars than those who start late, thanks to the boost that they get from a longer compounding period.

TIME IS A POWERFUL INVESTMENT TOOL

The longer your money is invested, the better your chances of positive returns — and the more time your investment gains can be earning on your behalf without any additional effort from you!

4 They take a few minutes to learn the essentials.

A third of Americans say they don't understand stocks. Here's the good news: The basics of investing are less daunting than you might expect — and it would really take just a few minutes to learn the most basic concepts. We have some videos and other material covering investment basics on our website.

POP OVER TO OUR WEBSITE
to browse some useful info on investing basics:
homesteadfunds.com/investing-basics

5 They stay focused on their goals.

By keeping their ultimate goals in mind at every step of the way, good investors benefit twice over. First, goals can help them stay committed to their efforts. A family camper, an upcoming wedding, special travel plans — a specific goal allows investors to connect with the distant outcome in a more tangible way. Second, the goal can determine the best mix of investments. Short-term goals demand a conservative mix of investments, while longer-term goals can withstand more ups and downs as a trade-off for potentially higher growth.

6 They don't freak out.

Good investors know that markets do not go up in a straight line. When stocks dip or even plummet, good investors stay the course, knowing that over long holding periods stocks have historically rewarded investors with gains. But knowing that stocks can be volatile month to month or year to year is also the core reason to include some allocation to bonds in portfolios. Bonds typically have lower yearly returns, but they tend to hold steady when stocks are in turmoil.

Not all of these steps are easy. It can be incredibly difficult to build up extra savings, to put cash to work or to stay the course in bumpy markets. Yet, these six steps are simple. The six qualities that make a good investor are things that everyone can do.

[1] Bankrate, "Survey: More than half of investors think the stock market is rigged against individuals"

[2] Calculations by Homestead Funds

Where to Invest Today

If you're tracking the market news, you may be wondering what the best investments are today. Interest rates remain low, which could dim the luster of bonds. Stocks continue to touch new highs, which can raise concerns about a sell-off. So where does that leave investors looking to make smart choices?

The Real Question for Savers

Fortunately, the exact dynamics of today's market or tomorrow's market shouldn't matter too much to the typical saver. They would matter a lot to someone looking to flip a profit on a short timeline — but the stock and bond markets are lousy places to make short-term bets.

It's not about picking a perfectly timed investment; it's about assembling the right long-term mix. What's the right medium- or long-term mix of investments for your goals? That's the real question for every saver.

No Substitute for Bonds

Interest rates on bonds are low today. But there is no substitute for bonds. Bonds do a special job in portfolios — providing income with the aim of keeping pace with inflation or even growing over time.

Why do bonds hold their value so much better than stocks from day to day? Bonds are an IOU, representing some borrowed amount (i.e., the principal) and periodic interest payments in exchange for the right to borrow. Depending on the issuer's creditworthiness, bond investors stand to get their principal back at maturity.

No Substitute for Stocks

Stocks are trading at relatively high valuations now, one of investors' chief concerns. But there is no substitute for stocks in portfolios; they're the long-term growers. An investor might buy a mix of stocks the day before the market crashes, and that would be a disappointment. But if that investor stays put for long enough, that mix of stocks is likely to recover and eventually grow.

READY TO AUTOMATE? Type "automatics" into the search bar on our website to find out how to automate transfers and transactions.

Why have stocks typically gone up over time? Each share of stock represents a small piece of a public company. As companies grow (or shrink) over long periods, the value of the company goes up (or down). As the value of the company goes up (or down), the price of each share rises (or falls).

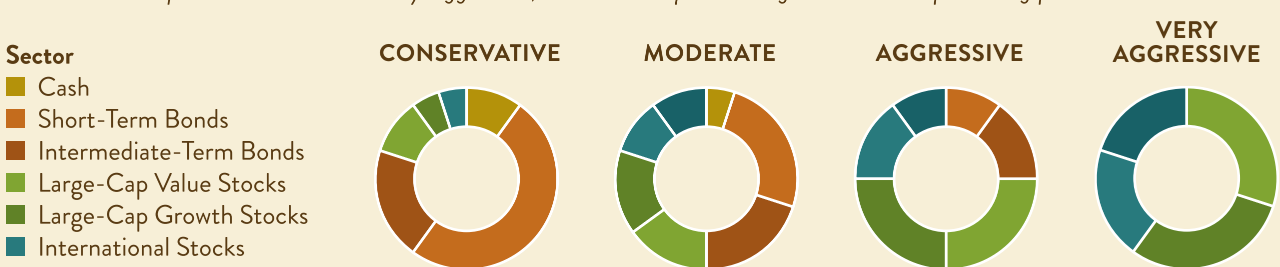
This is an important concept, because it explains why stocks are such a different kind of long-term investment compared to gold or cryptocurrency or some other commodity. Public companies and their executives are incentivized to grow profits over the long term. Commodity prices are not guaranteed to climb long term. Just look at the price of a barrel of oil; it surpassed $100 in the 1980s and again in the early 2000s, and fell below $20 in the late 1990s. The price of a commodity is determined by supply and demand, which can rise and fall together or go in opposite directions.

We've Been Here Before

Low interest rates and climbing stocks — this is turf we have tread before. After the 2008 financial crisis, interest rates were incredibly low for years and then climbed slowly upward as the Federal Reserve made small changes to policy rates. Meanwhile, the S&P 500 Index posted gains for nine years, pausing for a small decline in 2018 and then resuming gains. Large-cap stocks even had gains in 2020, quickly recovering from the shock of COVID-19. In other words, history has shown that market conditions like we see today can deliver favorable returns. The most important question that savers should consider is: What is the right long-term mix for my needs?

USING PRE-BUILT PORTFOLIOS

Looking for guidance on the right mix? Visit our website to look at four different "pre-built" portfolios, from Conservative to Very Aggressive, which can help take the guesswork out of selecting funds.



Visit: ***homesteadfunds.com/prebuilt-portfolios***

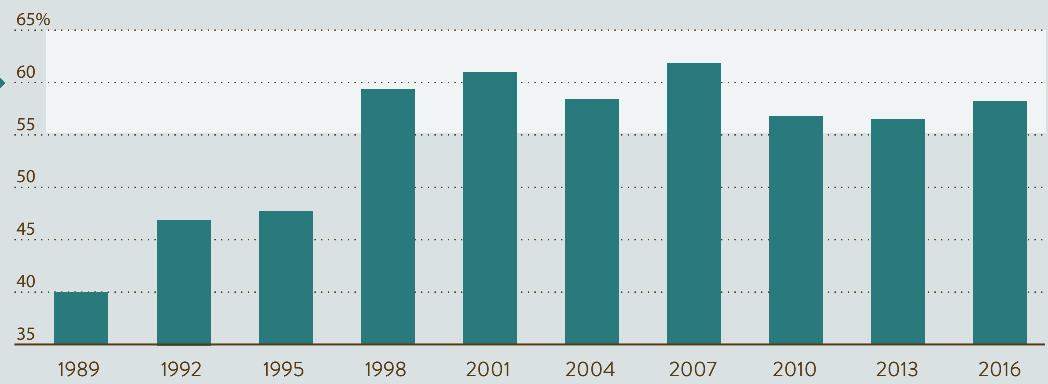
American Investors

Investing has become more mainstream and more accessible over the years. Still, most Americans do not invest outside of their workplace retirement plan. We think this trend is overdue for a change!

STOCK OWNERSHIP HAS PLATEAUED

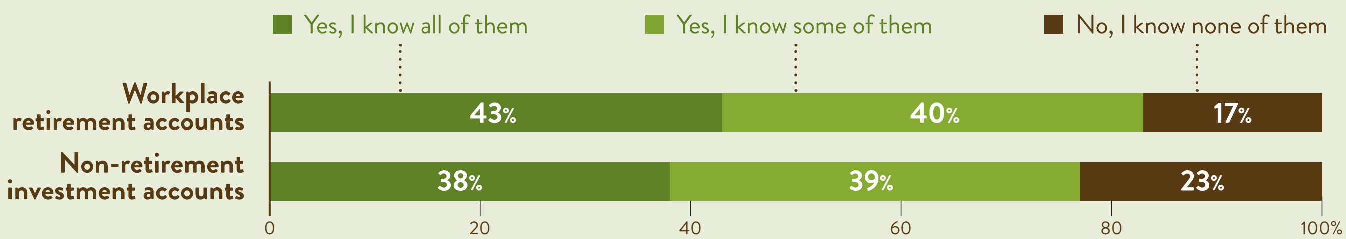
The share of middle-aged families—households headed by someone between 41 and 60 — holding stocks in any form (including workplace retirement plans) has hovered between 55% and 65% for decades.[1]

Share of Middle-Aged Families With Any Stock Holdings



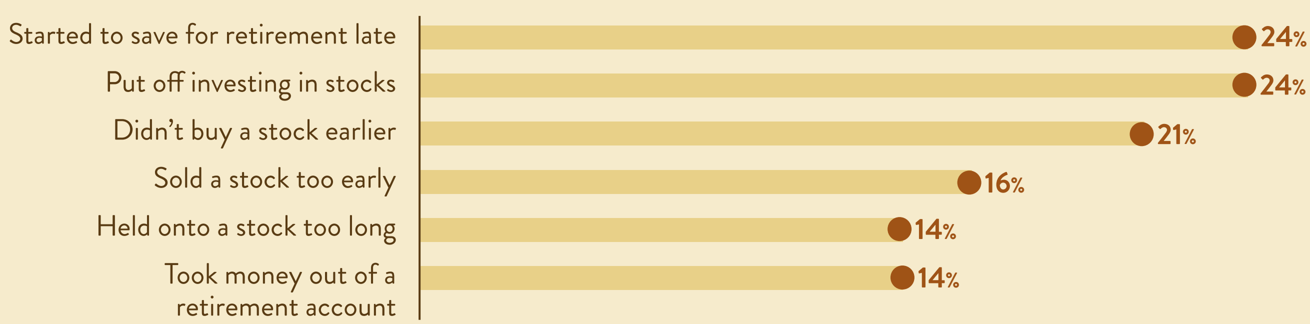
...BUT THOSE WHO ARE INVESTED KNOW WHAT THEY OWN

The majority say they know all or some of the holdings in their workplace and non-retirement accounts.[2]



...AND THE TOP REGRET IS...NOT INVESTING EARLIER[3]

People regretted doing or not doing certain things earlier or later.



[1] Federal Reserve Bank of St. Louis, "How Has Stock Ownership Trended in the Past Few Decades?"
[2] NerdWallet, "Do You Know What Your Investments Are? Most Americans Don't"
[3] CNBC, "More than three-quarters of Americans feel bad about this investing mistake"

News Briefs

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Good Investor Tip: Sign Up and Stay Informed

In keeping with this issue's topic of recognizing good investment behaviors, consider doing more to stay up to date on market happenings and your accounts. Homestead Funds prepares a quarterly Market Review and an Our Perspective series covering financial planning and investment topics. Subscribe here and we'll send you the latest as soon as it's available.

homesteadfunds.com/email-signup

Why Investing Is a Modern Necessity *continued from page 2*

The S&P 500 Index is a broad-based measure of U.S. stock market performance and includes 500 widely held common stocks. Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions or other expenses that would be incurred. Returns include reinvested dividends.

[1]Federal Reserve of St. Louis, Calculations by Homestead Funds. [2]Federal Reserve of St. Louis, EducationData.org, Calculations by Homestead Funds. [3]MoneyChimp, Compound Annual Growth Rate (Annualized Return) Calculator. [4]Bankrate, "Survey: Real estate and cash top Americans' list of preferred investments over next 10 years." [5]Federal Reserve Bank of St. Louis. [6]Bloomberg. [7]Bankrate.

Debt securities are subject to interest rate risk, credit risk, extension risk, income risk, issuer risk and market risk. The value of U.S. government securities can decrease due to changes in interest rates or changes to the financial condition or credit rating of the U.S. government. Investments in asset-backed and mortgage-backed securities are also subject to prepayment risk as well as increased susceptibility to adverse economic developments. High-yield, lower-rated securities involve greater risk than higher-rated securities.

Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. Value stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall. Growth stocks are subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall. Securities of small and medium-sized companies tend to be riskier than those of larger companies. International investing involves currency, economic and political risks, which may be greater for investments in emerging and frontier markets.

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.

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The story on page 4 references pre-built portfolios. Pre-built mutual fund portfolios are educational tools and should not be relied upon as the primary basis for investment, financial, tax-planning or retirement decisions. The tools provide a sample of possible mutual fund portfolios based on varying degrees of market risk. These portfolios are not tailored to the investment objectives of any specific investor. The pre-built portfolios and asset allocations neither are nor should be construed as investment advice; financial guidance; or an offer or solicitation or recommendation to buy, sell or hold any security or to engage in any specific investment strategy by RE Advisers Corporation or RE Investment Corporation. The asset allocations for one or more pre-built portfolios may change at any time, and neither RE Advisers Corporation nor RE Investment Corporation will notify you when such changes are made, nor will your mutual fund holdings be updated as a result of any such changes to the pre-built portfolios. Asset allocation does not ensure a profit or protect against loss. It is a method used to help manage investment risk.

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