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A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

Starting Off on the Right Foot

Young adults and those soon to be, this issue is for you. With graduation season upon us, it's the perfect time to arm yourself with good information about personal finances — the kind that will start you off on the right foot as you take on responsibility for your own financial decisions. Mom and Dad, Grandma and Grandpa — you can keep reading too, but when you're done, please hand this issue off to the young adults in your life.

In our last issue, we pointed out what NOT to do in your finances by looking at money regrets. When baby boomers are asked what they regret most about their financial decisions in life, their number one answer is "not investing sooner."

This quarter, we're taking the opposite approach. We're looking at what TO do. We're hoping to get you started with investing as soon as you start with earning, so you can avoid the same regrets in your financial life. We cover all the bases: rules of spending and saving, the basics of investing and what you need to know about different account types. These fundamentals will give you the foundation of personal finance knowledge.

Few Americans learn about personal finance in high school — but most wish they did. In a 2022 poll, 88% of adults said their state should require a semester or year of personal finance curriculum in order to graduate high school.* We can't cover a semester in a few pages, but we can give you the quick version to help you establish healthy saving and spending habits and build a foundation of personal finance knowledge. ■

**NEFE High School Personal Finance Education Poll, 2022*

What you need to know about spending and budgeting

Early in adulthood, you are answering two difficult questions at the same time: What does my earning power look like, and how do I manage the spending/saving balance? In fact, younger adults (age 18 to 29) are more likely to say that "earning income" is the most important financial subject.

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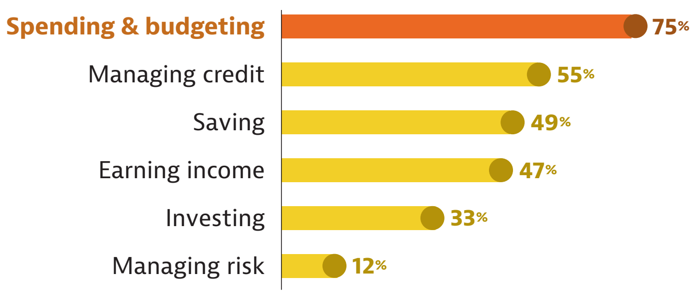
If high school students were required to take coursework in personal finance, what topic areas would be most important?



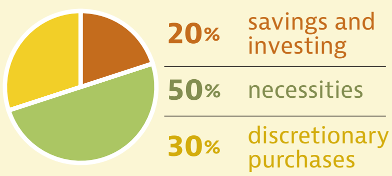
Source: NEFE High School Personal Finance Education Poll, 2022. Respondents were allowed to select multiple topics.

What you need to know about spending and budgeting *continued from page 1*

Earning power takes shape as your adult years progress, and it is indeed important. But your spending and saving habits are in the here and now as much as they are in your future. Your spending/saving split either lands you in debt or builds a nest egg for your security now and later.

THE 20/50/30 BUDGET

The 20/50/30 Rule is a simple way to allocate your money and use it wisely.



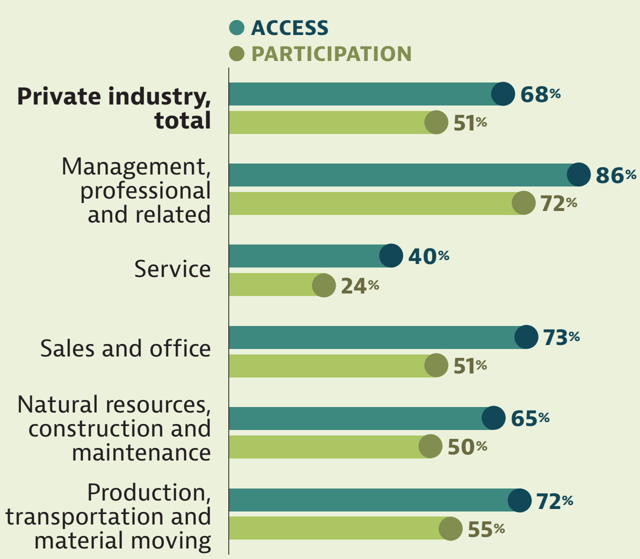
Rules of thumb to establish good habits

We've written before about a simple framework that just about everyone can fit to their situation — a budget where 20% of your after-tax income goes toward saving and investing, 50% to necessities and the remaining 30% to discretionary spending. Within that framework, some helpful rules can guide your day-to-day decisions.

Set savings goals right away. Setting a goal is like stepping on one of those people-mover conveyors at the airport: It will help get you where you're going a lot faster.

Putting aside 20% for your future needs is a great overall goal, but it should be broken down even more. Some of that — say 10% — is for retirement. That amount should be deducted from your paycheck and put straight into a workplace plan, if you have one, or an IRA account.

WHO HAS ACCESS TO RETIREMENT BENEFITS



Source: U.S. Bureau of Labor Statistics

The other 10% that you're saving is for everything else — your emergency fund, a down payment on a home, education costs and whatever else fits your life. Paying down debt also counts as saving!

Pay yourself first. If you tend to all your other financial priorities first, you'll never save. That's why it's so important to "pay yourself first," making your savings deposits before you do anything else with your money.

Don't underestimate one-time expenses. Everyone underestimates the lumpy expenses when they make a budget — the special occasion dinner out, the vet bill, the car repair. Understandably, people are better able to predict their regular and reoccurring expenses like the mortgage. Consider giving a specific budget amount for one-time expenses each month to plan for these things properly.

Work toward a strong credit score. Credit scores matter a lot because they determine whether you can get loans when you need them and how much you'll pay in interest.

HOW TO EARN A GOOD CREDIT SCORE

- ✔ Make payments on time, every time.
- ✔ Don't max out your limits.
- ✔ Build a history of making payments.
- ✔ Don't apply for any kind of credit you don't really need.
- ✔ Check your credit report for errors.

Source: Consumer Financial Protection Bureau

Choose your debts carefully. Loans are a very useful tool but one you have to use carefully. A simple rule is, don't take on debt for anything that declines in value — clothes, electronics, furniture, vacations, even cars — if you can help it. Mortgages and student loans, on the other hand, both finance things that can grow in value. Be mindful about how much debt you take on.

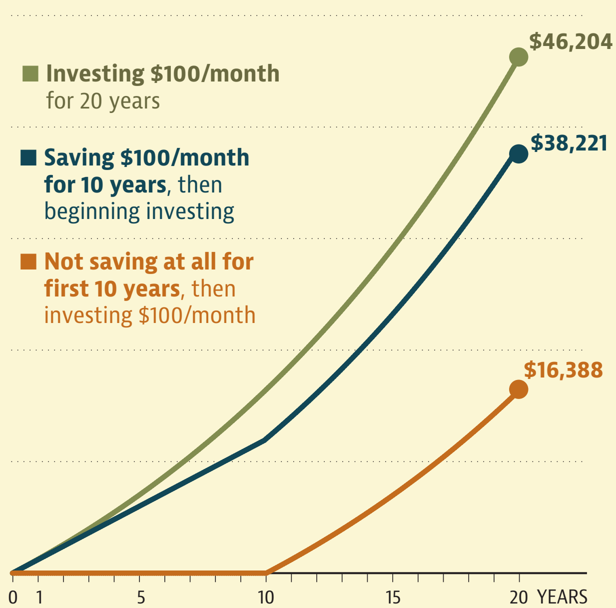
Practicing good habits for life

There's a reason why older people rate "spending and budgeting" as a more urgent topic than young people: They have a lifetime of experience seeing how those choices add up. Budgeting may seem complicated at first, but at the core it's quite simple. Make sure you are saving throughout your life, and be careful about how and when you take on debt. These rules will go a long way toward helping you build the security you need for your present and your future. ■

5 Facts to Get You Started With Investing

Most people take too long to get started with investments. In our last issue, we looked at the biggest financial regrets of baby boomers, and here's the top regret they cited by far: *Not investing sooner.*

THE COST OF PROCRASTINATING



Source: Homestead Funds' calculations, assuming that investments earn 6% annually, compounded monthly. This is a hypothetical illustration provided for educational purposes only to demonstrate the mathematical principal of compounding. It is not a promise of any investment's future return.

What's behind this procrastination? Researchers suggest that procrastination is actually rooted in the avoidance of negative moods.[1] We delay or avoid things that might make us feel bored, uneducated, unprepared, inadequate, jealous, anxious or any other ickiness. Learning about investing may prompt more than one of these feelings, as it is new territory for most young adults and all wrapped up in complicated questions of self-worth.

We propose a low-effort first step for those starting out: Just learn the bare basics about investing. By getting your arms around these fundamental concepts, you'll be able to take steps toward setting up the right accounts and choosing investments.

1 Cash loses value over time to inflation.

If you just leave cash sitting in a checking account or under your mattress, it actually loses value over time because of inflation. Since the pandemic, inflation has been much higher in the U.S., amplifying the damage.

2 Investments compound over time.

Most investments, including stocks and bonds, fluctuate in value daily or monthly — but historically they tend to grow over the long term. What's more, they compound. For example, if you earn 6% this year on your investments and reinvest it, those earnings become part of your nest egg and will generate more earnings next year. Compounding is a mathematical principal. It is not a promise of any investment's future return.

3 A stock is a little piece of a company.

When you buy a share of stock, you're purchasing a tiny piece of a company, say ABC Shoes. When ABC Shoes earns more profits, the stock price will likely go up. Companies may also pay a dividend to stockholders. Stocks prices can swing around a lot, reflecting the riskier nature of stocks, but they tend to grow in value over time.

4 A bond is an IOU that generates interest.

A bond is a little piece of a huge loan. The borrower pays interest to the bondholders. Bonds can be issued by governments, such as the U.S. Treasury, or they can be issued by companies or municipalities.

A mutual fund holds an assortment of investments based on the fund's investment objective and strategy. A large-cap value fund will hold a mix of stocks of larger companies ("large caps") that have a lower price tag according to some metrics ("value"). There are bond funds, stock funds, balanced funds (holding both) and just about any other kind of mix you can think of.

5 The longer your time horizon, the more risk you may be able to handle.

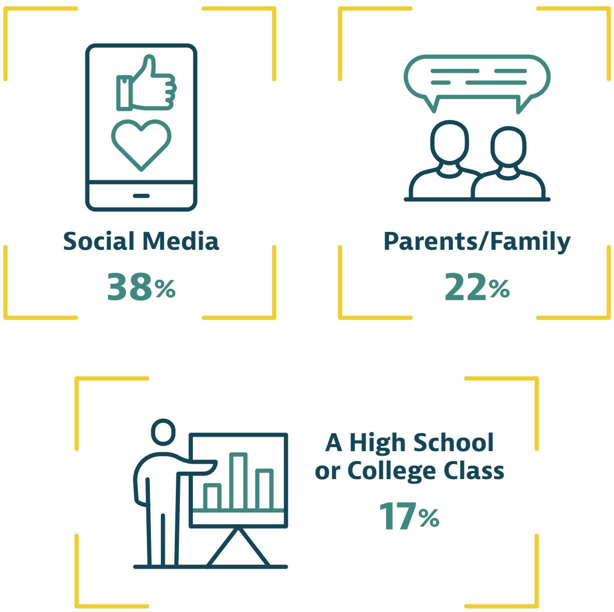
If you are saving for a short-term need, such as a home down payment in a year, you won't want to invest that in stocks, which can swing in value in the short term. If your savings are earmarked for a long-term need, such as retirement, you can take more risk and hold more stocks. ■

[1] *The New York Times,* Why You Procrastinate (It Has Nothing to Do With Self-Control), Charlotte Lieberman, March 25, 2019.

Is TikTok Giving You Good Information?

The digital natives are not turning to the traditional sources for information; they prefer social media. In a recent GOBankingRates survey of Americans age 18 to 24, four in 10 said they learn about personal finance from social media sources such as TikTok, YouTube, Twitter and Instagram; the majority cited TikTok and YouTube especially. Parents and other family members are the second most popular source, while high school or college classes were third on the list.

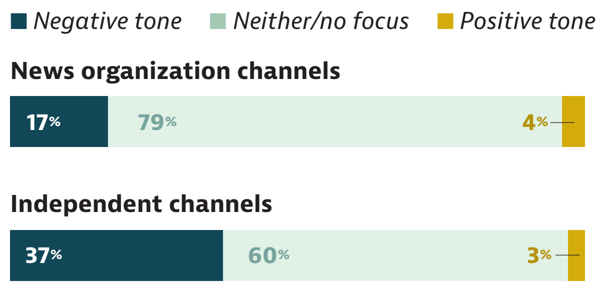
TIKTOK AND OTHER SOCIAL MEDIA ARE TOP INFO SOURCES FOR GEN Z



Source: GOBanking.com

BEWARE OF 'INFORMATION SKEW' FROM INDEPENDENT CHANNELS

"Independent YouTube channels are about twice as likely as news organizations to produce videos with a negative tone."



"% of videos from the 100 most viewed YouTube news channels that had a ____tone toward the main person or group they addressed."
Source: Pew Research

The trend is part of a broader shift that has seen information generally move from traditional outlets such as print newspapers and TV toward online sources. In the digital world, independent producers — meaning any person or group that's not part of a bigger institution, such as a news organization, university or media company — have a lot more sway.

Watching the pluses and minuses carefully

While there's nothing inherently wrong with finding information on social media, it's important to be mindful of the differences between sources. For example, independent channels on YouTube — those not affiliated with a news organization — are twice as likely to show a negative view toward people or groups in news videos, compared with channels that are run by news organizations. Independents are also 10 times more likely to discuss conspiracy theories in videos, compared with news organizations.[1]

The key question to ask about your information source

That's not to say that social media personalities and independent producers can't provide accurate, well-sourced information; they can. But it's very important in the digital world to put sources to the test before trusting what they say. And the test is one question: Does this source have my interest at heart?

After all, social media content makers are ultimately paid for follows and views, and they have free rein to lean toward extremes to earn that attention. When it comes to personal finance information, be sure you are looking to a range of sources to build your knowledge, including some of the more traditional modes — including mom, dad and grandparents.

Trustworthy info is also available in materials offered through high schools, community colleges and universities. The Federal Deposit Insurance Corporation, a government agency that provides insurance for bank depositors, also offers online learning tools aimed at high school level learning. Visit them online to test and expand your own knowledge at ***playmoneysmart.fdic.gov/games***. ■

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[1] Pew Research Center, September 28, 2020, A closer look at the channels producing news on YouTube — and the videos themselves

The Suitcase vs. the Clothes

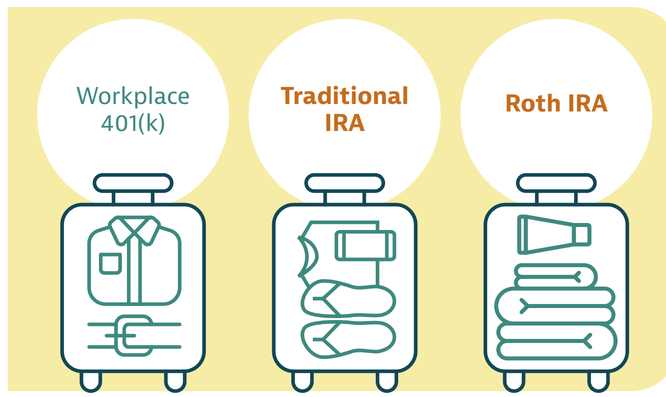
Understanding *accounts* versus *investments*

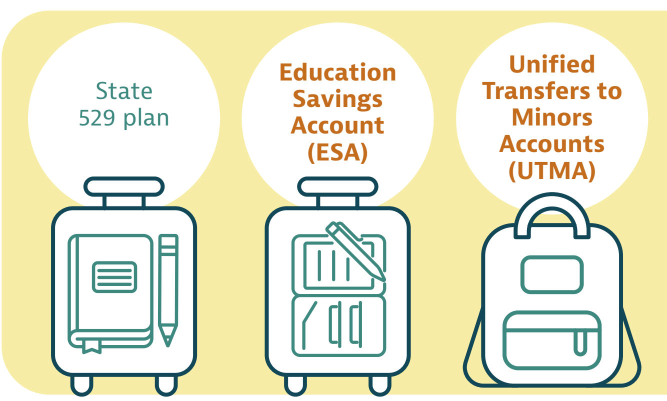
It's important to understand the difference between *accounts* and *investments*. Think of an account as the suitcase, and the investments are the clothes and other items you put inside. An IRA or 529 plan is an account. A stock, bond or mutual fund is the investment you put in the account.

Some accounts have tax benefits, including 401(k)s, IRAs, 529s and ESAs. Choose an account with tax benefits, if you're eligible — that's the suitcase on wheels.

What you pack inside will depend on where you're going. For a long-term goal like retirement, you can pack more stocks which are historically known for growth. For a short-term goal like a down payment, you will want more bonds which are historically known for preserving value and generating interest.

RETIREMENT ACCOUNTS
generally offer tax benefits to encourage you to save. In workplace accounts like **401(k)s** and in **traditional IRAs**, contributions are in "before-tax dollars" if they meet certain qualifications. You do pay taxes on withdrawals (distributions). In a **Roth IRA**, contributions are made with "after-tax dollars," but qualified withdrawals are tax-free.





EDUCATION ACCOUNTS
can also offer tax benefits and can typically be used for either college or trade school programs. All states offer **529** plans to help residents save for educational costs. **Education savings accounts (ESAs)** and **unified transfers to minors accounts (UTMAs)** are also good options for parents and grandparents to invest for education costs.

FOR EVERYTHING ELSE,
there are additional options, one being **a taxable account**. While this kind of account doesn't offer tax perks, it is the only kind of account mentioned here that doesn't come with IRS rules around contributions and withdrawals.

Orange type *indicates accounts offered by Homestead Funds.*

News Briefs

Short-Term Bond Fund Makes List of Best Taxable Bond Funds

Investor's Business Daily included Homestead's Short-Term Bond Fund on its 2023 list of the top U.S. taxable bond funds. Funds included on this list outperformed the Bloomberg U.S. Aggregate Bond Index over the last one-, three-, five- and 10-year periods, signaling their ability to outperform in both the short-and long-term.

Rankings are based on total return and all returns are as of the year ended Dec. 31, 2022. Of 777 U.S. taxable bond funds at least 10 years old, 350 of them, or 45%, won IBD Best Mutual Funds 2023 awards. The Short-Term Bond Fund ranked 347 out of 350 funds, based on 10-year performance. ■

Rural America Growth & Income Fund Begins Third Year of Operations

Our newest Homestead fund debuted on May 1, 2021. The fund may be appropriate for investors seeking a mixture of current income and capital appreciation.

Under normal circumstances, the fund intends to invest at least 80% of its net assets (plus the amount of borrowings for investment purposes) in securities that have exposure to rural America. The fund primarily invests in equity and fixed-income securities of U.S. issuers. ■

Neither asset allocation nor diversification guarantees a profit or protects against a loss. They are methods used to help manage investment risk.

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

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. The market price of equity securities may go up or down, sometimes rapidly or unpredictably. Equity securities may decline in value due to factors affecting the issuer or equity securities markets generally.

Loans are subject to risks involving the enforceability of security interests and loan transactions, inadequate collateral, liabilities relating to collateral securing obligations, and the liquidity of the loans.

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 over any period of time and may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will never be recognized by the market; and (3) their value was appropriately priced when acquired and they do not perform as anticipated.

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.

The views expressed are those of the individuals as of May 10, 2023, and may have changed since that date. The opinions stated may contain forward-looking statements and may discuss the impact of domestic and foreign markets, industry and economic trends, and governmental regulations of the funds and their holdings. Such statements are subject to uncertainty, and the impact on the funds might be materially different from what is described here.

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