

# Horizons 2022

A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

## 4Q

### Budgeting Is Back

When people are thinking about how much they need for retirement, there's one key input that determines the answer: their spending.

Your level of spending determines everything. It dictates how much you need to save, how long you need to work and what kinds of investments can help you reach your goal. A high level of spending really puts all of these factors at max capacity.

That's why the savers and retirees who can control their spending have a major advantage. They have the luxury of making decisions that suit them — retiring earlier or working longer, saving extra now so life is easier later and so on. Control over your spending gives you the upper hand on the long-term plan.

This upper hand is not just related to retirement, of course. It's a powerful skill in an inflationary world. Indeed, most households are feeling the squeeze of inflation. Perhaps it's unsurprising, then, that interest in budgeting is climbing higher. An annual survey from debt.com found that the share of people who budget jumped during COVID-19 — and jumped higher again in 2022 as inflation set in.

Budgeting may not be a focus when times are good; when markets are up, inflation is low and jobs are plentiful. But this is not one of those times. This is a moment when working families are stretching budgets further and taking on more credit card debt to make ends meet. It is one of those times that spending control is at its most powerful. In this issue, we share tips and ideas for making the most of the moment. ■



#### ***Saving and Investing: Why They're Even More Important Now***

Household saving is down, thanks to the impact of inflation. Yet, saving and investing are arguably more important than ever. Here's why.

*Continued on page 2*

#### **A SURGE IN BUDGETING**

*How Many Americans Say They Use a Budget*



Source: Debt.com



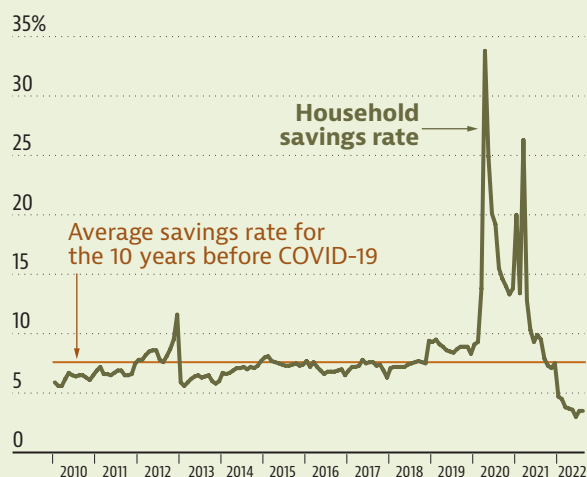
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Americans are saving considerably less than they did pre-pandemic. In the 10 years before COVID-19, the average household savings rate was around 7%–8%, but the latest readings have been in the 3%–4% range.

It's unfortunate, because there are good reasons — three of them, in fact — why it's even more important and opportune than usual to save and invest.

### SAVING SPIKED DURING COVID-19 BUT HAS SINCE FALLEN



Source: U.S. Bureau of Economic Analysis

## 1. The 'bear market opportunity.'

Warren Buffett famously said: "Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down." With markets retreating significantly in 2022, stocks have seen major price cuts — but that doesn't seem to be attracting many buyers.

It's impossible to predict where the market will go next. But the long-term investor doesn't need to worry about the precise timing. History shows that the stock market always moves in cycles. Stocks rise until a shock or downturn pushes them down, and then they typically rise again. Historically, the down markets have not completely erased the gains of good times, so stocks have tended to go up, on average.

## 2. The appeal of higher rates.

Since the financial crisis of 2008–2009, interest rates on everything from Treasury bonds to savings accounts have seen record lows. But rates are up significantly, driven higher by inflation. The Federal Reserve Bank pushed its target interest rate from close to zero to 4% in 2022, and market interest rates followed the lead.

It's not all rosy. Higher rates can deliver a sting, as they push existing bond prices down and drive mortgage and other debt costs up. But savers looking for short- and long-term bond investments can enjoy the higher rate environment.

### FOR SAVERS, INTEREST RATES FINALLY OFFER SOME APPEAL



Source: U.S. Department of the Treasury

When interest rates are higher, that's not just a win for the current year; it can boost your investment income in the year after, the year after that and so on. If you buy a 10-year bond with a 2% coupon, it pays 2% every year. A bond with a 5% coupon is set to pay out 5% every year, a gift that gives again and again.

## 3. The burden of inflation.

Inflation is the reason people are saving less today, but it's also a reason why they should be saving even more. That's because your future living expenses are now forecast higher, too.

Even if the pace of inflation pulls back to more typical levels, the price increases of 2022 have already left a mark on your future spending. Many of the prices that went up this year are not likely to fall back down — so an estimate of your retirement spending for 2030 is higher now than it was a year ago. Fortunately, Social Security payments are adjusted along with the cost of living, so they'll bump higher annually — but there's no such impact on your investment accounts, such as an IRA or 401(k). To make up the difference, you'll have to save and invest more somewhere along the line.

## Prime time for saving and investing

The bad news is that it's even harder today to set aside extra for your long-term goals. But the good news is that the investment environment could present extra opportunity today. Most important, it's time *in* the markets that counts — so the sooner you can boost your nest egg, the longer your investments will be working for you. ■

## 5 Financial Planning Tips for Inflation

Inflation is draining a little extra out of your wallet with every purchase — but you can fight back by looking for every little opportunity to power up your finances.

You already know the basics: Cut your spending by a bit more. Put dormant dollars into action in your investment accounts. Look for other small ways to make your money work harder for you. But we gathered a few more tips from our financial professionals, who shared five suggestions for making the most of your money in an inflationary environment:

**1 Reduce your distributions.**  
If you are already taking distributions from your retirement accounts, reduce your withdrawals if you can. The idea is that you want to avoid making withdrawals when your investments are at lows. If you can delay the withdrawal and give investments a chance to rally back up, you'll be better off in the long run.

**2 Take distributions from your most conservative investments.**  
When you take money from your accounts, you first have to decide what to sell. It may be tempting to sell stocks that are down, with the idea that you're "cleaning house" or taking a tax loss. But stocks have historically bounced back — so it's actually a more strategic move to leave stock holdings alone and give them an opportunity to recover.

Conservative investments, on the other hand, are less prone to tumbling and rallying.

**3 If you don't need your RMD, reinvest it in another account.**

Many people have to start taking required minimum distributions (RMDs) from IRAs and workplace retirement plans before they actually need the funds. If you can delay using those withdrawals, put the funds back to work in a taxable investment account.

**4 Max out contributions to before-tax and tax-deferred accounts.**

If you're still in contribution mode, squeeze every last drop out of your earnings by making qualified contributions to before-tax and tax-deferred accounts.

*Turn the page for a deeper dive into this subject!*

**5 Tap into your inner cheapskate.**

Frugality is a science and an art. Look for creative new ways to save, or even make a game out of it with a friend. A little belt-tightening goes a long way. ■

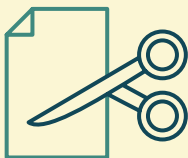
### CREATIVE WAYS TO PILE UP THE PENNIES

**Set up  
autoinvesting  
from your  
paycheck**



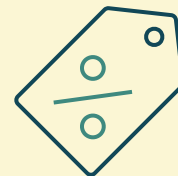
**Eat vegetarian  
a few times  
per week**

**Always shop  
from a list**



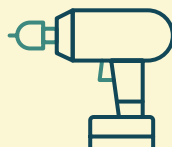
**Cut monthly  
subscriptions**

**Cut back on  
spirits, sweets  
and treats**



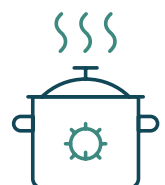
**Double down  
on sales**  
(stock up on  
grocery essentials  
when on sale)

**Designate a  
"no spending"  
day once a week**



**Try to borrow  
or buy used,  
whenever possible  
— tools, books,  
clothes**

**Skip the  
restaurant  
and organize a  
potluck instead**



# An Appealing Time to Capture Tax Benefits

Here’s another way to boost your savings balance this year and your investment horsepower in the years to come: tax benefits.

## Boosting savings with before-tax dollars

With high inflation, it pays to look for opportunities to save in every nook and cranny of your finances. If you have the opportunity to make a qualified contribution of “before-tax dollars” to your traditional IRA, spousal IRA, HSA or workplace retirement account, take it! Your investment accounts will be boosted by the contribution, and your income taxes for the contribution year will be lower.

### How before-tax dollars work

Here’s an example: Suppose you make \$100 a year at your job, and you pay income taxes of 15%. If you do not make any qualified contributions to one of these “before-tax” accounts, you’ll pay \$15 of income tax ( $15\% \times \$100$ ) this year.

But if you make a qualified contribution of \$20 to your traditional IRA, that amount is subtracted from your income before income taxes are calculated. Now the IRS says you only have \$80 of taxable income ( $\$100 - \$20$ ), so you only pay income tax of \$12 ( $15\% \times \$80$ ). You just saved \$3 in taxes!

## Boosting investment horsepower year to year

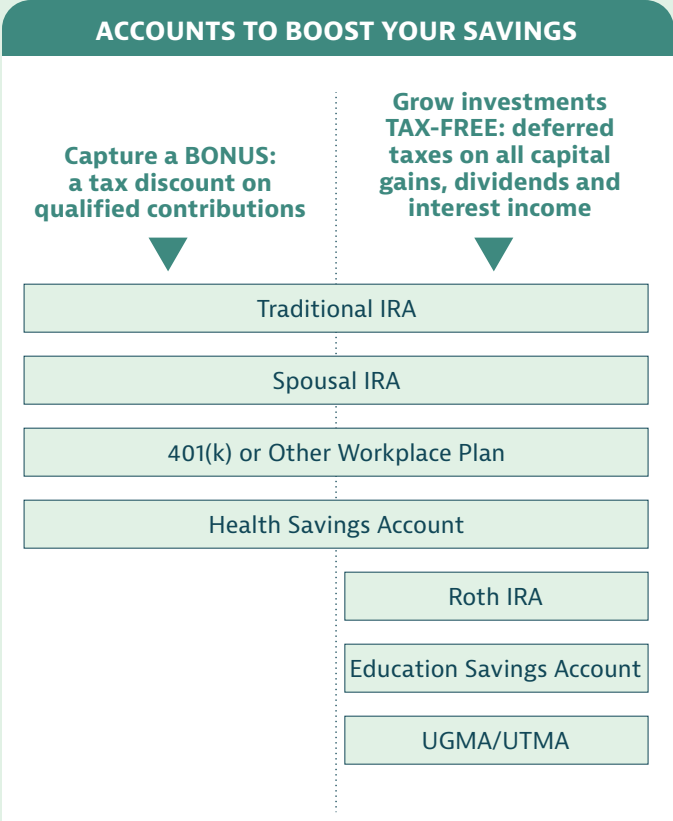
Most of these investment accounts offer another tax benefit as well: deferred tax on your investment earnings, which include capital gains, dividends and interest income.

In fact, the only kind of account where you do have taxable investment earnings each year is a regular taxable brokerage account. But if you have any other kind of account — IRAs, workplace retirement plans, HSAs and education savings accounts — the earnings are not taxed yearly. In most cases, those taxes are deferred until you make withdrawals from the accounts.

### How tax benefits on investment earnings work

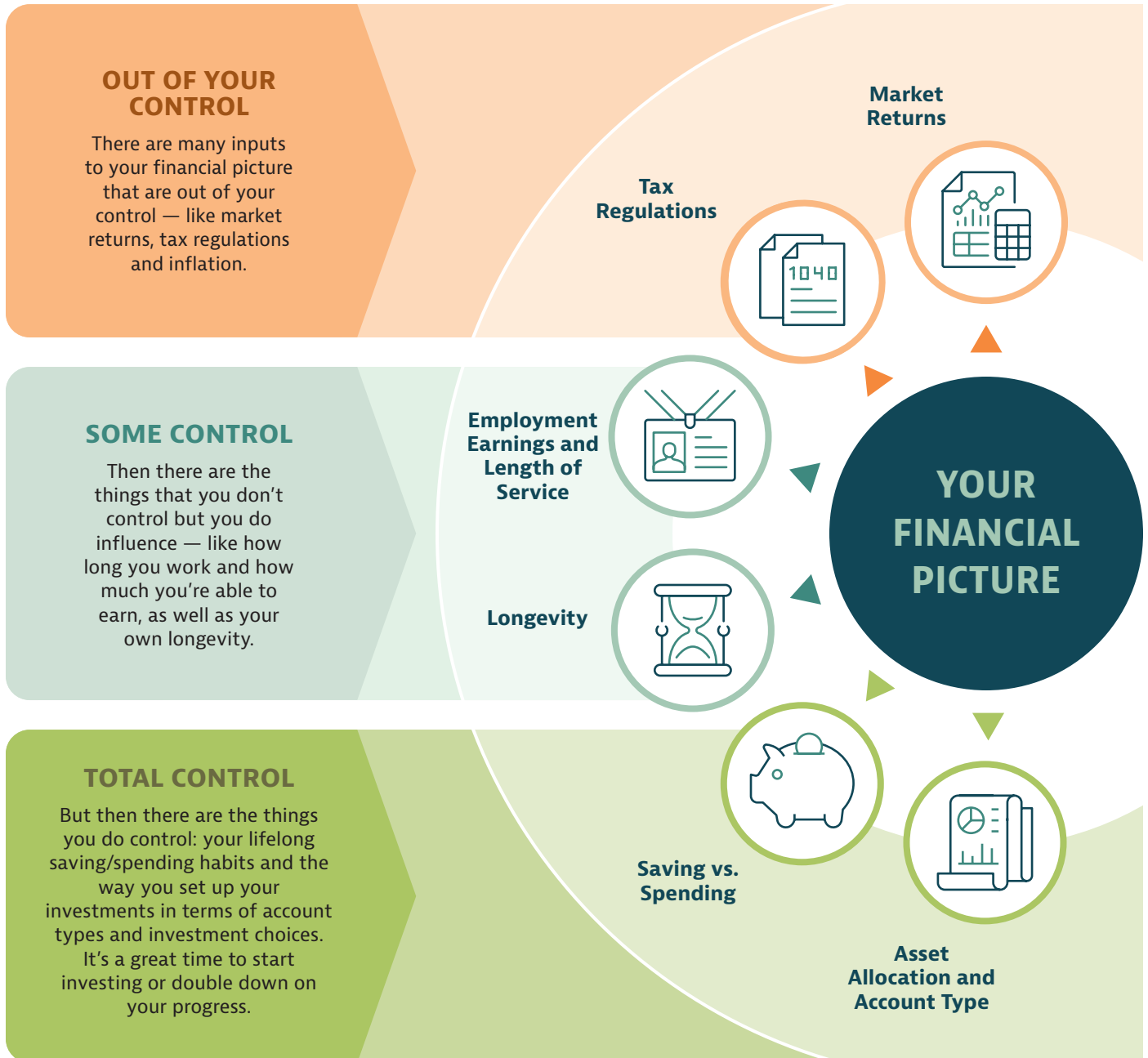
Suppose now that you have \$100 in an investment account holding a mix of stocks and bonds. In this tax year, say your account earns \$1 in dividends from stocks, \$2.50 in interest income from bonds and \$5 in capital gains from an investment sale.

In a taxable brokerage account, that \$8.50 of investment earnings would be taxed. But in most other investment account types, the tax is deferred until you make withdrawals to use the funds in the account. One exception is a Roth IRA, where all contributions are made “after tax.” Distributions from Roth IRAs are not subject to income tax if you are at least age 59½ and the account has been open for at least five years at the time of withdrawal. ■



# Minding What You Can Control

Inflation, faltering investment performance, a bumpy economy — the headwinds are fierce these days. It's especially important in times like this to stay focused on the things you can control. This approach helps you keep a level head and mitigate stress. It can also prompt you to be more action-oriented about the sliver of the pie you do control — your savings and your investment decisions.



Give us a call if you need help getting started or making changes to your investment approach.  
**800.258.3030**

## New Additions to the Equity Team

Join us in welcoming two recent hires to the portfolio management team. Both Nick and Rachel support Homestead Advisers' equity strategies.

### Nicholas Hiatt Equity Analyst

Prior to joining Homestead, Nick was a senior associate at the University of Virginia Investment Management Company (UVIMCO), where he helped invest the university's endowment. Before UVIMCO, Nick was an equity analyst at Investure, LLC, an outsourced chief investment officer for endowments and foundations. Nick started his investing career at Truist Securities, where he was an equity research associate. Prior to Truist, Nick worked for L3 Harris in corporate finance.

Nick is a graduate of Southern Virginia University, where he received a Bachelor of Arts degree in business management and leadership. Nick has completed level I of the Chartered Financial Analyst curriculum.



### Rachel Rosenberg Equity Analyst

Before joining the Homestead Advisers' portfolio management team, Rachel worked with the marketing team to prepare and produce fund company communications and supported outreach to clients and prospects. She previously worked for the company's parent organization, NRECA, as a mutual fund accountant. She began her career in public accounting as an auditor.

Rachel received a BSBA from Appalachian State University and majored in accounting. ■



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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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