Horizons 2023 4Q

A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

Investing for All Times

It has been anything but dull in the markets in recent years. A global pandemic upended the last market cycle — a period of extended stock gains but paltry bond yields — ushering in a new era marked by inflation, a complete turnaround in interest rates and escalating geopolitical tensions. As policymakers navigate a starkly different set of macroeconomic conditions, one question keeps coming up: Can inflation be tamed without causing a recession? How should investors approach their decisions if that possibility is perpetually on the table?

The last major market crisis, the Great Financial Crisis of 2008-09, really seemed to have left a mark on the psyche of Americans, judging by the percentage who said they own stocks in any shape or form. After that market crash, the share of Americans who reported owning stocks dropped from the low 60s down in the low 50s, where it stayed until just this year. Finally, confidence levels in the stock markets seem to have recovered enough to have brought Americans back to stock investing in bigger numbers.

Our hope is that they'll stay there — and by the way, that they'll be actively invested in bonds, too. After all, we believe investing is not something you do just in good times; it's something to do in all times. It's more of a habit, like daily exercise, that you just stick to throughout your life, knowing that most of the time it will serve you well.

In this issue, we look at the mindset that's needed to be an all-weather, all-season investor — the kind who is invested during recessions, during expansions and during those in-between periods when it's not clear what's happening just yet. Read on for tips and guidance about investing for all times. ■

How to Find the Very Best Time to Invest

If you're new to investing, you might be wondering about the tricky matter of catching the markets on a decent day. Indeed, there is a known formula for tapping into the ideal time to invest — and we've cracked the code.

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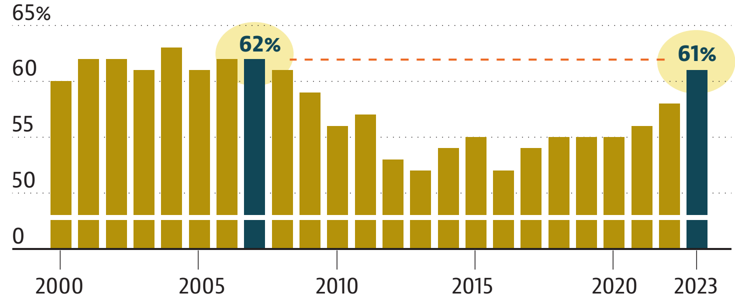
STOCK-OWNING AMERICANS BACK TO MID-2000 HIGHS

% of Americans who own stock



Source: 2023 Gallup survey

How to Find the Very Best Time to Invest *continued from page 1*

There's a simple adage: The best time to invest was yesterday. The next best time is today.

We don't mean that literally; the markets could be high today, or perhaps they're low. In fact, you might be reading this newsletter in the year 2035 or 2050. Maybe stocks have been replaced by artificial "crytolo-vestments." It actually doesn't matter what day it is. When it comes to investing, we believe the first rule is that you need time IN the market. That means you don't need to "time the market."

Here's the difference. "Timing the market" means picking the perfect day to buy your investments. The perfect day is the one when bad news came out and everyone's flight was canceled and a security bug was found in widely used software and stock prices plummeted. But then to make the real profit, you also need to pick the perfect day to sell, i.e., the day the merger deal was announced and interest rates were cut and earnings were higher than expected and the sun was shining and stock prices shot up. Timing the market looks easy in hindsight, but it's impossible to do with certainty. It also represents a gambler's mindset about investing.

AN IMPORTANT DEFINITION

Timing the market

aka ***market timing*** *(noun)*

The gamble of actively buying and selling investments, attempting to capture short-term profit by buying low and selling high

Time IN the market

aka ***buy-and-hold investing*** *(noun)*

The practice of investing by making purchases, often periodic smaller investments, aiming to hold into retirement or as long as otherwise possible, so that investments can take advantage of longer-term growth patterns

Time IN the Market Is the Key

In contrast, time IN the market is a concept that starts with the long-term behavior of investments and builds a strategy around the most likely scenario: that historically stocks and bonds will build value over long periods. This strategy says: It doesn't matter exactly what day you buy or sell, because your big plan is to invest what you can when you can and stay put for as long as you can. You're aiming to let those investments compound over time. You know that the long-term trend is growth, and you're got patience to spare.

Seeing Stocks and Bonds as Compounders

One key point in this strategy is to see stocks and bonds as compounders.

Think back to your lessons on compound interest; it's usually a concept taught about savings accounts. When your bank account pays you 2% or 4% per year in interest, that adds to your pile of savings. Then the next year comes along, and now interest is paid on the interest. That's the power of compounding. It soon adds up.

THE MATH OF COMPOUNDING

According to the Rule of 72

An investment earning a yearly return of...

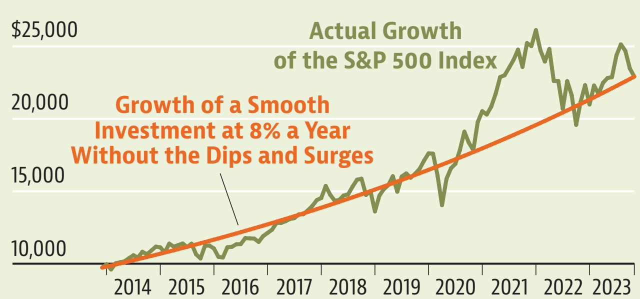
1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
doubles around year...									
72	36	24	18	15	12	11	10	9	8

The crazy thing about compounding is how quickly the rate of growth escalates as the percentage points climb. An investment growing at 2% per year takes 36 years to double in value. If it's growing at 4% per year, it doubles in 18 years. If it grows at 8% per year, it doubles in year 10.

Incidentally, the stock market as measured by the SPDR S&P 500 ETF has average long-term returns in the range of 8% per year. However, there's almost never a year when it's 8%. Instead, as an example, stocks might return 20% one year, 1% the next, 5% the next, –10% the next and so on. It's only when you average it out over long periods that you get the nice 8%.

SQUINTING AT THE STOCK MARKET TO SEE THE SMOOTH COMPOUNDING LINE

Over the past 10 years, the S&P 500 Index delivered about 8% annually when the returns were averaged out over the full period.



Source: Federal Reserve Bank of St. Louis, Homestead Funds' calculations.

Maximizing Your Own Time in the Market

Compounding is about putting the calendar to work for you. With that in mind, the best time to invest is at the youngest possible age. Since yesterday has come and gone, today is your next best option. ■

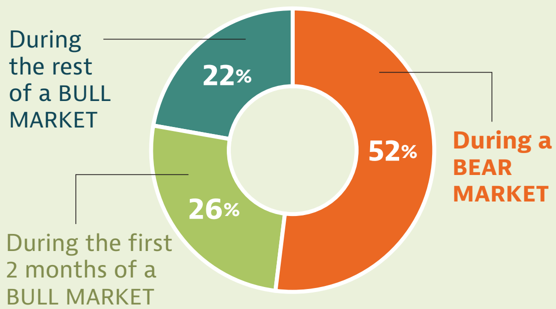
The Rebound You Don't Want to Miss

There are a few reasons that marketing timing is so hard to get right — and one of them is the all-important rebound days.

HALF THE MARKET'S BEST DAYS ARE IN BEAR MARKETS

Good Days Happen in Bad Markets

S&P 500 Index Best Days: 1993–2022



Source: Ned Davis Research, Morningstar and Hartford Funds, 2/23.

Past performance does not guarantee future results. For illustrative purposes only. Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise notated, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

Rebound days aren't when you might expect. They can occur right in the middle of a bear market; more than half of the market's best days did exactly that.

When stocks have a day of steep losses, historically there's often a day of major rebounds right behind it. Historically, in those periods of volatility, markets can post back-to-back days with extreme swings in either direction before they pick a direction and stick with it. Such periods are chock full of uncertainty. That's what drives such big single-day moves in the market.

In calmer periods, markets have smaller daily moves as investors digest incremental new information. But when a bigger shift is happening, like a descending recession or the green shoots of a budding recovery, the information is both vaguer and more material; security prices could be much wilder as they seek a new level.

That's why so many of the S&P 500's best performance days were actually in bear markets. Then the recovery properly begins — and we see that another 26% of the S&P 500's best single days landed in those early months of a new bull market.

The Trickiest Moment to See in Real Time

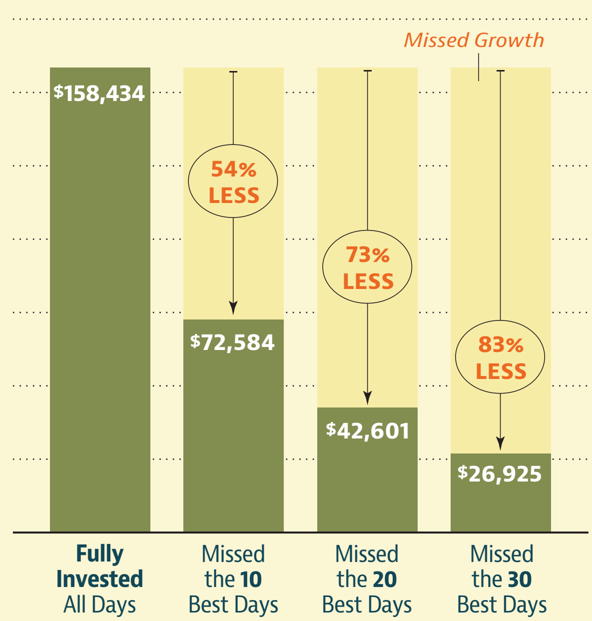
In hindsight, the distinction between the bear market and the early bull market is always obvious. But in real time, it's not obvious at all. In the bear market, the wild day-to-day swings seem like a punishing ride to be on. But then the recovery starts, and if you weren't invested, you missed the ride. You won't know it was the recovery until it's over.

The lesson in all of this is that bear markets are wild, recovery days are interspersed among them, and it's impossible to know which of the recovery days are actually the little engine that will pull the markets out of the valley. Investors who sell in bear markets are extremely likely to miss the rebound days, which are hard to recognize in the moment. Happily, the time-IN-the-market mindset, aka buy and hold, avoids this scenario altogether. ■

MISSING THE 10 BEST DAYS COST HALF THE VALUE

S&P 500 Index Average Annual Total Returns: 1993-2022

GROWTH OF $10,000



Source: Ned Davis Research, Morningstar and Hartford Funds, 2/23.

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How to Build an All-Weather Portfolio

Long-term investing is a rain-or-shine sport.

Once you've made the switch to a time-IN-the-market mindset, the next logical step is to consider the ways to prepare your portfolio to handle all the assorted weather that is likely to come your way.

Thinking Like a Fourth Grade Goalie

Consider the 9-year-olds who look forward all summer to the fall soccer league with their best friends. They practice throughout the fall, perfecting their corner kicks and passes as the weather cools and the days shorten. Just as they hit their stride, the autumn rains begin — threatening to cancel every game and practice on the schedule.

If the leagues and the teams have planned ahead, the rains rarely pose a reason to cancel. The teams scheduled all matches on turf fields that can handle the moisture. The kids pack ponchos and extra socks in their gear bags. Their jerseys are made of synthetic fibers that dry out quickly. As long as there's no lightning, the kids are able to play anyway, enjoying their friends and their favorite game. All it took was some strategic planning.

Weatherproofing a Portfolio

The rains in your investment life are usually the bear markets — those times when stocks are down or skating sideways. If you hold an all-stock portfolio, a bear market can be a real shock to the system. In the Great Financial Crisis, the S&P 500 Index fell nearly 57%. For investors who were only holding stocks, that kind of shock may have given them enough of a scare to sell, which is exactly the wrong thing to do after markets have already taken their tumble. But holding stocks and bonds together has shown itself to be an effective way to reduce risk.

A STORM-WORTHY MIX

20% TO 40% BONDS
to help preserve wealth and generate some income

- Government and agency bonds
- Corporate bonds
- Some short term, some long-term

60% TO 80% STOCKS
for the goal of long-term growth

- Growth stocks and value stocks
- Large cap (big companies) and small cap (smaller companies)
- U.S. and international companies

Looking for more specific portfolio ideas? We have sample portfolios available online at ***www.homesteadfunds.com/solutions/portfolios/***

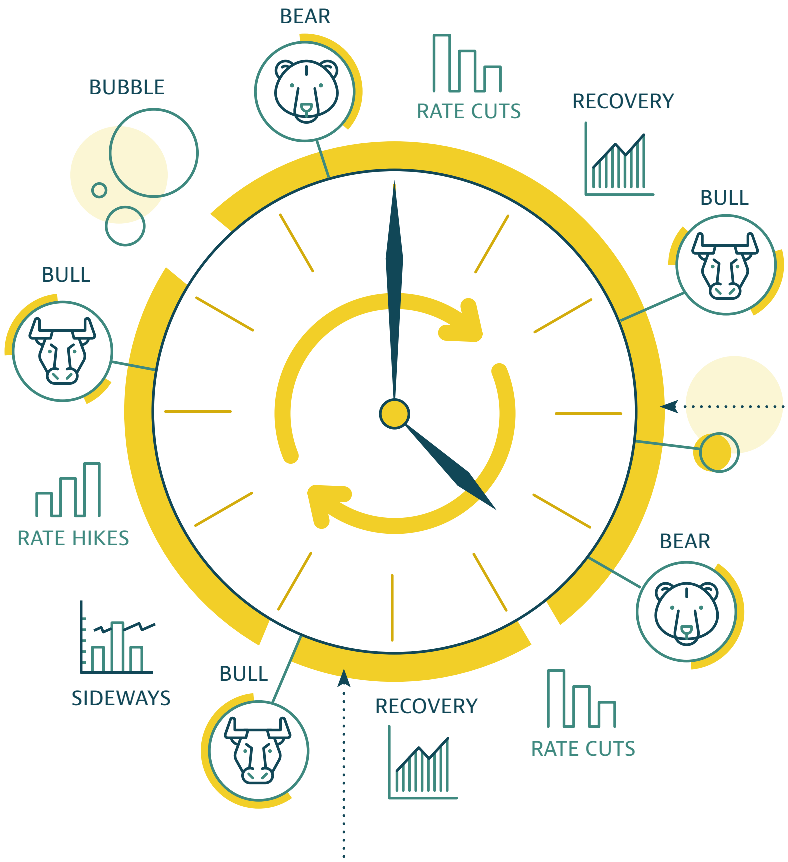
Bonds take a bite out of the upside as well. They don't provide the kind of growth returns that stocks have historically delivered. But financial professionals generally agree that it's a good weatherproofing strategy to hold a mix of different bond types and different stock types.

Sit Back and Wait for Rain

When you have prepared well for rain, you might actually find yourself enjoying the full range of weather a bit more than you expected. You may even be comfortable enough to take advantage of a down market as a buying opportunity. Consider the range of your investment goals. If funding long-term accounts such as education savings is a priority, dips could be an advantageous time to invest. ■

Invest O’Clock: Getting on Market Time

When you’re taking the time-IN-the-market approach, get ready to befriend all parts of the market cycle. Take a moment to reflect on market time.



MARKET ‘TIME’ IS CIRCULAR, NOT LINEAR

Markets move in cycles. Bull markets are followed by bears, which are followed by bulls. Along the way, bubbles occasionally appear. Rate cuts and rate hikes are featured; stocks may even travel sideways for a long stretch. If you’re a regular, lifelong investor, you’ll invest under all of these conditions at some point.

BULL:
An up stock market, typically defined as one where gains are at least 20% from the previous low.

BEAR:
A down stock market, marked by a decline of at least 20% from the previous high. When the market falls by less than 20%, it’s usually called a correction or a dip, but it’s still considered part of the reigning bull market until the 20% threshold is crossed.

NO TWO CIRCUITS ARE EXACTLY ALIKE

Though markets always move in cycles — you can set your watch by that — it’s a fact that no two cycles look identical. Some bull markets last just a few years, while others stretch more than a decade. Bear markets can range from a moderate dip to a financial crisis. Each era features its own sector and style leaders.

Though the exact pathway of each cycle is unpredictable, the time-IN-the-market strategy is rooted in the philosophy that a beneficial investment strategy is patient and diversified. That way, no matter how the present cycle plays out, you can be confident that your mix of investments is positioned for long-term success.

ON AVERAGE, BULL MARKETS HAVE OUTLASTED BEAR MARKETS

LONGEST CYCLES

14.8 years and **909% total return:**
the longest bull market, in the period following World War II

2.8 years and **–83% total return:**
the longest bear market, during the Great Depression

SHORTEST CYCLES

2 months and **92% total return:**
the shortest bull market, which was a brief rally in the midst of the Great Depression

1 month and **–34% total return:**
the shortest bear market, during the COVID lockdown of Feb–Mar 2020

Sources for longest and shortest bull and bear markets: Forbes Advisor; First Trust

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.

As a money market fund, the Daily Income Fund has limited potential for income production. You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

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.

Growth and 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. Growth stocks can be volatile, as these companies usually invest a high portion of earnings in their business and therefore may lack the dividends of value stocks that can cushion stock prices in a falling market. Also, earnings disappointments often lead to sharply falling prices because investors buy growth stocks in anticipation of superior earnings growth. 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.

Securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared to large companies, small and medium-sized companies may face greater business risks because they lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by poor economic conditions. There may be less publicly available information about smaller companies than larger companies. In addition, these companies may have been recently organized and may have little or no track record of success.

Foreign securities are subject to political, regulatory, and economic risks not present in domestic investments and may exhibit more extreme changes in value than securities of U.S. companies. Investing in emerging and frontier markets will be subject to greater political and economic instability, less developed securities markets, and other similar risks than in more developed markets.

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.

Active portfolio management can subject longer term investors to potentially higher fees and can have a negative effect on the long-term performance due to the transaction costs of the short-term trading. In addition, there may be potential tax consequences. Active portfolio management may be unsuitable for some investors depending on their specific investment objectives and financial position. Active portfolio management does not guarantee a profit or protect against a loss in a declining market.

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 table on page two is a mathematical example of the concept of compounding only. It does not represent actual investing. Past performance is never indicative of future results.

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