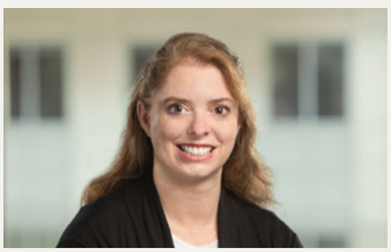
ESTABLISHED 1990

Homestead Funds' Helpful Tips

Handling Investment Risk

Homestead Funds

In the realm of investing, risk is an accepted fact. There are no investments that give you the potential to earn high returns without the risk of losing some of your money. As in life, to get a reward, you have to take some risk. That said, there are a number of strategies you can use to manage investment risk. Read these five strategies to see which may be appropriate for you.



"Your portfolio manager works to keep the fund's risk in line with its stated objectives. But investors also play a role. Here's some information to help you put risk management strategies into action."

– Kara Gardner, Registered Representative

1. Investing in mutual funds may help to manage your risk

If you invest in the stock of one company or one bond issue, you are assuming that this one security will consistently do well. This is quite risky. Mutual funds, on the other hand, invest in many — sometimes hundreds — of securities. This diversification increases the chance that your investment will perform more evenly. That's because typically — over any given time period — some securities will perform well and others will not. When you own many securities, the advances realized by some may work to offset the losses incurred by others. Diversification does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

2. Invest with a goal and time frame in mind

Mutual funds have different goals, so match your goal with the fund's goal. For example, the goal of a money market fund is generally to preserve the value of your investment. Therefore, if you are looking for an investment that will grow over 10 years, a money market fund may not be the right choice. Look at the table on the next page to see which Homestead Funds fit with your investing time frame.

3. Practice asset allocation

Investments can be grouped into three general asset classes: money market securities, bonds and stocks. Each asset class has its own traits and may respond differently to the same economic or world events. Within the bonds and stocks classes, there are sub-asset class levels, each of which has its own distinct traits.

By spreading your money across different types of assets, you dilute the impact any single position would have on your portfolio's overall performance. Asset allocation does not guarantee a profit or protect against a loss in a declining market. It is a method used to help manage investment risk.

Your Time Frame	Investment Types and Their Traits	Homestead Funds
Short-term: Less than one year	**Money markets:** Generally carry lower risk, but typically also give you a lower reward	• Daily Income Fund
Medium-term: Less than five years	**Bonds:** Generally carry more risk than money market investments but, in turn, may deliver a higher reward	• Short-Term Government Securities Fund • Short-Term Bond Fund • Intermediate Bond Fund
Long-term: Five or more years	**Stocks:** Generally carry higher risk, but over long periods have delivered a higher reward	• Rural America Growth & Income Fund • Stock Index Fund • Value Fund • Growth Fund • Small-Company Stock Fund • International Equity Fund

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. 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. Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk.

Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. The Stock Index Fund pursues its objective by investing substantially all of its assets in another pooled investment vehicle (a "master fund"). The ability of the Stock Index Fund to meet its investment objective is directly related to the ability of the master fund to meet its investment objective. Index funds may hold securities of companies that present risks that an investment adviser researching individual securities might otherwise seek to avoid and are subject to tracking error 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.

4. Review your allocation regularly

Let's say you chose an allocation in line with your goals and invested your account as follows: 80% in the ABC Stock Fund and 20% in the XYZ Bond Fund. After a year in which stocks were performing well, your allocation in the Stock Fund has grown to represent 85% percent of your account, and the Bond Fund has dropped to 15%. To restore your account to the original 80/20 percent investment mix, ask your fund company to help you rebalance your account. Homestead Funds does not charge any transaction fees to rebalance, but investors should consider the possible tax consequences.

In addition, if your needs change, you will want to review your investment allocation to determine if changes are needed.

5. For large amounts, consider making your move in steps

If you have a large sum you want to invest, it may make sense to do it gradually. Likewise, if you are considering closing your account, you may want to sell shares gradually. You don't want to be the victim of buying all of your shares at a high price or liquidating your account at what turns out to be a low price. A disciplined buy or sell strategy can help you avoid such a scenario.

Homestead Funds offers automatic investing and redemption programs that allow you to set up periodic purchases or withdrawals. The programs may be especially appropriate for a lump-sum inheritance or if you're ready to start tapping a retirement account to meet your monthly cash flow needs. Automatic investing does not ensure a gain or protect against a loss in a declining market, it is a method used to help manage investment risk.

You can trust Homestead Funds because you already know us: We're part of the NRECA family. Homestead Funds was created in 1990 to provide NRECA members with professional and affordable money management.

Are you ready to diversify your account at Homestead Funds?

Whether you want to change your asset allocation, open a new account or set up an automatic investing program, we're here to help!

Just call us at 800.258.3030 to speak with one of our friendly client services associates and to request a prospectus.

We have helpful tips on other investment topics, too!

Download a complimentary fact sheet about any of the following topics from our website at homesteadfunds.com, or call one of our friendly associates at 800.258.3030.

- Building Your Retirement Savings
- Deciding What to Do with Your 401(k)
- Managing Your Savings in Retirement
- Saving for Education
- Simplifying Tax Time for Investors
- Taking Your Required Minimum Distribution
- Understanding Mutual Fund Costs

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.

Homestead Funds' investment advisor and/or administrator, RE Advisers Corporation, and distributor, RE Investment Corporation, are indirect, wholly owned subsidiaries of NRECA.

HTHANDINV

Homestead Funds

NRECA America's Electric Cooperatives