Horizons 2017 4Q
A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' SHAREHOLDERS
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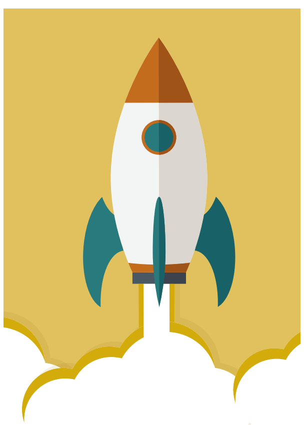
New Beginnings Can Spark New Behaviors

Here at Homestead Funds, we often champion the message that financial stability is a cumulative process. Start early, take little steps to save and build your investments and be consistent — it all adds up.

But that's a nice, orderly picture of financial life. In reality, life is awfully messy — full of fresh starts and major changes. Marriage, children, grandchildren. Job changes, promotions, retirements. And of course, the unexpected — losses, divorce, recession. For most of us, life is not one smooth path, but a bumpy road marked by twists and turns.

With that in mind, we use this issue to look at some of those turning points. We paint a picture of the world facing young people who are "ready to launch," as they say, checking in on the job market, educational trends and housing choices. We also investigate the not-quite-empty-nest phenomenon, a profoundly commonplace scenario where near-retirees are still supporting adult children living at home. We rounded up some stats that might surprise you and offer a five-point checklist for reviewing your financial choices when you find yourself at a juncture in life.

Life may not be as orderly as we'd like, but we still maintain our view of financial stability: small contributions made over time can add up, providing the security that you need at every stage. New beginnings, though they can be disruptive, can also be a fantastic moment to check in on how you're doing and what you could change for the better.



The Launch

The getting-started stage can be one of life's hardest transitions. Relative to the baby boomer generation, today's millennials seem to be slower to leave the nest — staying home for longer and delaying major purchases like a house or car. But the 2000s had two major recessions, which both hit the youngest workers particularly hard. Now a decade after the financial crisis, we look at what's changed and what hasn't for those young folks currently in the launch zone.

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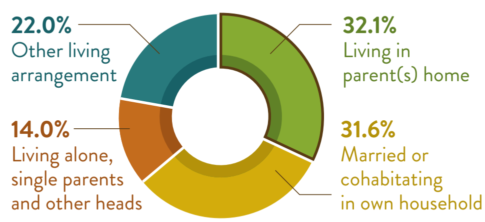
ROOMING WITH MOM & DAD

Percent of 18- to 34-year-olds by living arrangement

Slightly more young people now live with their parents than with a spouse or other partner.



Source: www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/

The Job Market: Fully Recovered for Some, But Weak for Others

The great news is that the employment market at large is pretty healthy at the moment. The overall unemployment rate in the U.S. is down to 4.2%, around the level that many experts consider "full employment."[1]

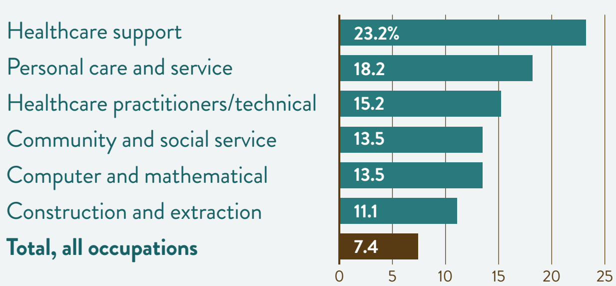
But that super-low rate doesn't apply to everyone, everywhere. College grads enjoy much lower unemployment rates, a trend that has only been reinforced since the financial crisis. Nationwide, the unemployment rate for those with less than a high school diploma is 6.5%, while the rate for those with a bachelor's degree is a rock-bottom 2.3%.[2] Today's job market could also be slightly rosier for women than for men, as women make up a greater share of college students and tend to dominate the sectors where job growth is best, like health care.[3] Jobs are also more plentiful in urban centers than in rural and suburban areas.[4]

In terms of today's opportunities, the trend toward service-sector jobs is still dominant. In fact, when the Bureau of Labor Statistics published its recent forecast of job creation over the next decade, the goods-producing sectors (construction, mining and manufacturing) only accounted for 2% of all new jobs. The manufacturing sector is actually forecast to continue losing jobs over the next 10 years. Service industries are set to drive job creation, with the "health care and social assistance sector" expected to create 35%+ of new jobs in the years ahead.

SECTORS WITH THE HIGHEST JOB GROWTH

Projected Growth Rate, 2016 – 2026

Aging population and continued technology innovation expected to drive job growth in service sector and STEM fields



Source: Bureau of Labor Statistics. www.bls.gov/opub/mlr/2017/article/projections-overview-and-highlights-2016-26.htm.

Long-Term Trend Toward Education Continues

The longer-term trend toward higher education still reigns supreme, unsurprising given the boost in job opportunities for workers with more education. Today, more than 20 million Americans are enrolled in a college or university, accounting for more than 40% of 18- to 24-year-olds.[5]

But higher ed comes with a steep price tag, and the student loan burden on today's young people is also climbing. Many college grads leave school with loans, with the median debt level just over $37,000 for the class of 2016.[6] Perhaps even more burdensome is the share of young folks who take on debt for school but don't complete a degree. Among those aged 18 –29 who have "some college or a certificate," 53% borrowed money to finance their education.[7]

Rent Increases Eat Up Wage Rise

Wages are rising — but so too are rent prices. In recent periods, wages and rent prices have gone up at about the same rate, discounting any advantage from higher wages.[8]

But there's also some indication that young people are returning to the same "household formation" rates as earlier generations, before the housing boom of the 90s. The housing boom of the late 90s fueled a spike in home ownership and household formation among younger people, but the following bubble burst also hit them harder than other demographics. While it's true that young people are taking a bit longer to move out of mom and dad's, and relying more on roommates and relatives than they were 10 years ago, there are signs that they are actually returning to a household formation rate that looks more like the pre-housing-boom levels.[9]

Facing Their Own Challenges

In an earlier era, the transition to adulthood was perhaps a more uniform experience. But today's young people face unique circumstances — the need for more education, the burden of loans and a disproportionate share of layoffs — compared to earlier generations. Fortunately, the economy is in a far healthier state than it was 10 years ago. Slowly but surely, the opportunity set for young people has improved, and some of the disruptive forces reshaping industries are opening up new career opportunities. ✸

[1] Bureau of Labor Statistics, as of September 2017.

[2] www.bls.gov/news.release/empsit.t04.htm

[3] www.inc.com/the-fiscal-times/millennial-women-dominate-job-market-men-overshadowed.html

[4] www.pbs.org/newshour/nation/six-charts-illustrate-divide-rural-urban-america

[5] nces.ed.gov/fastfacts/display.asp?id=372

[6] www.forbes.com/sites/zackfriedman/2017/02/21/student-loan-debt-statistics-2017/#4dec00325dab

[7] www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-education-debt-loans.htm

[8] www.apartmentlist.com/rentonomics/national-rent-data/

[9] www.bls.gov/opub/mlr/2016/beyond-bls/pdf/young-adults-and-trends-in-household-formation.pdf

How Empty Is Your Nest?

When your adult child delays moving out, you may find that your retirement readiness is delayed, too. And the problem is pervasive: The single most common living arrangement for young adults aged 18 – 34 is living with parents, according to a 2016 study by the Pew Research Center.[1] For the first time in 130 years, this option edged out all other arrangements — living with a spouse or other romantic partner, living alone (including single parents), and "other," including living with roommates. Though the survey data was from 2014, census data from 2015 suggests the trend continued.

Back in My Day

The baby boomer generation may find it especially hard to relate: their generation was the *least* likely to be living at home after age 18. In 1960, only 20% of 18 – 34-year-olds were living at home, while a peak level of 62% were married or cohabiting in their own household. In 2014, 32.1% of the younger generation was living with parents, while only 31.6% were married or cohabiting in their own household.

One major factor is today's trend of delaying marriage. For young men, the median age of marriage in 2015 was just over 29 years old, meaning that half were married by that point. For women, the median was about 27 years old. In 1960, on the other hand, half of young men were married by age 22.8, and half of women by 20.2 years.[2] Today's youngest workers also suffered a disproportionate share of financial crisis layoffs and hiring freezes, not to mention their ever-climbing student loan balances.

Damage Control

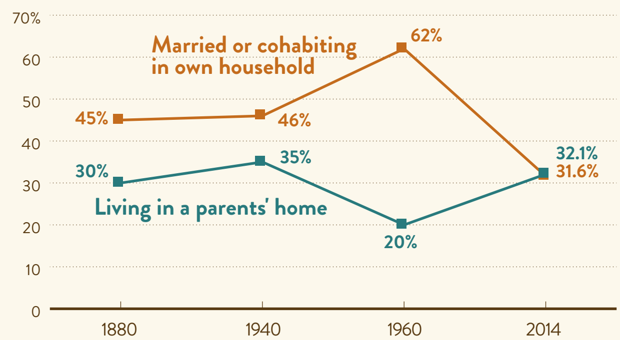
Regardless of the causes, this widespread phenomenon can put a serious crimp in your efforts to prepare for retirement. Consider setting boundaries to safeguard your own capacity to save for those golden years:

- **Define educational support.** Most higher education institutions do offer loan programs, but there is no loan program for retirement savings. Remember that your children have their whole lives ahead to pay off loans and save for themselves, and set limits for how much educational support you will provide.
- **Not just a kid, but a roommate.** After a certain age, it's appropriate to treat live-in children like roommates. Set expectations for what you want your roommate to contribute, whether that's actual rent, a portion of monthly costs or even non-monetary contributions to the daily work and maintenance of the household.
- **Formalize a timeline for other support.** Many parents find themselves paying for things like car insurance and cell phone bills into young adulthood. If you're among them, establish a monthly budget for support now, but more importantly, announce the timeline for how long a child can count on your help.

To borrow some wisdom from frequent fliers: you need to put on your own oxygen mask before you can help others. If you're one of the many near-retirees still supporting adult children, it's time to take steps to put your long-term needs first. And take heart: while about 28% of Americans with adult children say one of them is still living at home, in Italy, the number is nearly 50%![3]

MARRIAGE RATES DOWN BY HALF

While more young people are living at home, far fewer are married by 34, compared to 1960.



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[2] www.thespruce.com/estimated-median-age-marriage-2303878

[3] www.pewsocialtrends.org/2015/05/21/5-helping-adult-children/

Five-Point Checklist for New Beginnings

New marriage? Baby or grandchild on the way? Job change? Launching older children out into the world? Downsizing? Retiring?

Whatever the new beginning is in your recent past or on your horizon, such moments are a terrific opportunity to revisit the fundamental elements of your financial life. Use our checklist to make sure that you're on track for your newest stage.

1 Legal documents.

Legal documents can be incredibly important just when you least expect it. We're talking about guardianship appointments for children or grandchildren who live with you, your will, power of attorney and a health care proxy or directive.

These documents are not just for older folks and millionaires. Establishing your wishes in writing can protect those who depend on you, make life easier for those who have to act on your behalf and save your family from conflict after you're gone.

TIP: Find a local attorney to help you establish these documents or make changes to them as your financial situation and wishes evolve through your life.

2 Insurance.

Insurance is one area where you want to be careful — it can be expensive, so you want to get the minimum that you need and nothing more. Every life stage comes with specific needs, in terms of your health insurance, life insurance and insurance to cover key assets. In particular, if you're a parent or guardian of a minor child, life insurance can be a crucial part of their support if something happens to you.

TIP: Revisit your insurance coverage whenever there are major changes in your life.

3 Budget changes.

Most of us can and should be saving more as a matter of course, but it's easy to get into habits with your budget. Life changes often come with new circumstances for your income and expenses, so it's important to reexamine your monthly cash flow and look for opportunities to save.

TIP: Automate, automate, automate. Set as many of your financial transactions as you can to an automated process, including deposits for income, bill pay and automatic savings for both short-term and retirement accounts.

4 Short-term savings needs.

Life changes always seem to come with a big fat cash outlay, don't they? Gear for a new dorm room. Down payment for the smaller home while you prepare your current home for sale. Emergency savings to get you through a period of unemployment. If you have a big change coming up, boost your short-term savings to get you through the bump, and if you're recovering from a big change, replenish those short-term funds so you're ready for whatever bump comes next.

TIP: Investment accounts can be a great option for short-term savings. Conservative bond funds and money market investments are highly liquid but often earn more interest than a traditional bank savings account.

5 Long-term savings plan.

Make sure your savings cover long-term needs, too. New beginnings are a great time to establish the accounts that will support your biggest dreams and goals — saving for your own retirement, for a child or grandchild's education or for your charitable giving goals.

TIP: Do you have your accounts in order? Call us anytime at 800-258-3030 to make changes or set up a new account for your future.

Did you know you can make automatic deductions from your paycheck or bank account to your mutual fund accounts? Learn more at ***www.homesteadfunds.com/account-help/set-up-automatic-transactions/***

New Beginnings by the Numbers

Key stats to show "what's trending" across major life changes, from marriage to children to the job market.

EMPLOYMENT

JOB-HOPPING ON THE RISE:

2.85

JOBS IN THE FIRST FIVE YEARS AFTER COLLEGE FOR 2006 – 2010 GRADS

Today's youngest workers are job-hopping more than earlier generations. By comparison, workers who graduated college between 1986 – 1990 held an average of **1.6** jobs in their first five working years.

CHILDREN

30s ARE THE NEW 20s:

103

BIRTHS FOR EVERY 100,000 PEOPLE AMONG WOMEN AGED 30 – 34

For the first time, women in their thirties have a higher fertility rate than women in their twenties, who have held the top position for nearly three decades. For women aged 25 – 29, the birth rate was **102** births for every 100,000 people.

MARRIAGE

MARRIAGE RATES TICKING UP:

32.2

MARRIAGES FOR EVERY 1,000 UNMARRIED WOMEN (AGE 15 OR OLDER), UP FROM A LOW OF **31.9** PER 1,000 IN 2014

DIVORCE RATES DRIFTING DOWN:

16.9

DIVORCES FOR EVERY 1,000 MARRIED WOMEN, DOWN FROM PEAK OF **23** PER 1,000 IN 1980

Divorce rates have been on a steady decline for decades now. But the uptick in marriages is new, after marriage rates bottomed out as recently as 2014.

RETIREMENT

STILL GOING:

2/3

OF BABY BOOMERS EXPECT TO WORK PAST AGE 65

The average age of retirement has been creeping up, and most near-retirees expect to work in some capacity — part-time, in an easier role or continuing at their current jobs, to age 65 or later.

Sources: **Employment:** blog.linkedin.com/2016/04/12/will-this-year_s-college-grads-job-hop-more-than-previous-grads. **Children:** www.slate.com/blogs/xx_factor/2017/05/17/cdc_data_says_women_in_their_thirties_are_having_more_babies_than_women.html. **Marriage:** 2015 data, Bowling Green State University: myemail.constantcontact.com/U-S--Marriage---Divorce-Rates-Follow-Disparate-Patterns.html?soid=1102326693843&aid=2b1UBhnRziA. **Retirement:** www.cbsnews.com/media/7-key-retirement-trends-for-2017-and-beyond/4/

News Briefs

Say Hello to Our Newest Employees

Sarah Cavanaugh is the company's new digital marketing coordinator. She works on campaigns to support sales and client services, along with engagement and education outreach to clients and prospects. Sarah received a BS from George Mason University and majored in marketing.

Laurie Webster is Homestead Funds' vice president and chief operations officer. She comes to us with over 30 years of experience in the asset management industry including roles in fixed-income portfolio management, index construction and asset management, client servicing, performance measurement and various operational positions. Laurie is a graduate of University of Colorado, Boulder where she received her BS in business.

Website Changes Coming Soon

We're working to improve the shareholder section of *homesteadfunds.com*. Soon, you'll be able to log in to your account to:

- **Open a new account**
- **Establish or update bank instructions**
- **Automatically rebalance your portfolio**

We'll send you more on the changes you can expect as we approach the launch date.

Tell Us What You Think of Horizons' New Look

On the topic of new beginnings, we took a fresh look at the design of our shareholder newsletter and introduced some changes with this issue. We welcome your feedback. Contact us on our Facebook page or company website.

Past performance does not guarantee future results.

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Investing in mutual funds involves risks, including the possible loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Investors are advised to consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information and should be read carefully before you invest. To obtain a prospectus, call 800.258.3030 or visit homesteadfunds.com.

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