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A QUARTERLY NEWSLETTER FOR HOMESTEAD FUNDS' CLIENTS

Realistic Ways to Upgrade Your Financial Fitness

As the new year begins, many Americans will think of their goals for the year to come, and financial goals are one of the most common resolutions.[1] At this time next year, will you be able to look back on a financial goal accomplished?

In this issue, we share some ideas for getting your money into better shape. Just like good health requires both exercise and nutrition, good finances require a mix of positive choices and habits. Don't try to tackle them all at once — but do skim through this issue for ideas of realistic changes or upgrades you could aim for in 2025.

To help you succeed, we have three tips, straight from the science of achieving health goals.[2] First, set *approach* goals rather than *avoidance* goals. An approach goal adds a new positive behavior, like "I will eat a piece of fruit daily after lunch." An avoidance goal is negative, like "I will stop eating a cookie after lunch."

The second tip is to set *mastery* goals rather than *performance* goals. A mastery goal is about the effort to learn, like "I will spend 20 minutes every week reviewing my spending to look for trends." In contrast, a performance goal is about reaching a certain level of ability, like "I will be a sophisticated investor."

A final tip is to connect an *action plan* with your goal — a time and a place when you will make the effort. If you combine these tips toward your goal, you are poised to reap the rewards of a new positive financial behavior. ■

Source notes on page 4

A Fitness Routine for Your Savings

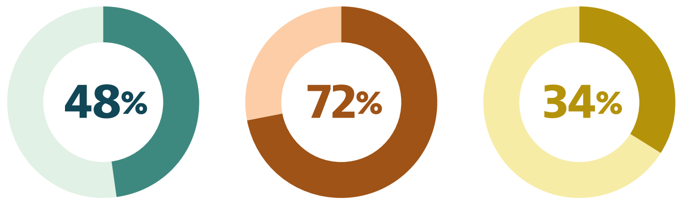
When it comes to physical fitness, it's clear that the human body benefits from variety. Typically, no one sets out a fitness routine that only includes bicep curls!

Instead, we all see the good sense in mixing it up. Cardio, strength training, flexibility and rest all help in their own ways — and when we combine these practices, the sum is greater than the parts.

The same is true for your investment portfolio. Here's how to think of the complementary roles of different investment categories and habits. When combined together, we believe they add up to more than the sum of their parts.

Continued on page 2

ROOM FOR IMPROVEMENT IN AMERICANS' FINANCES



say they spent less than they earned the month before

say they are doing at least okay, financially

say their retirement savings are on track

Source: Board of Governors of the Federal Reserve System, "Economic Well-Being of U.S. Households in 2023"

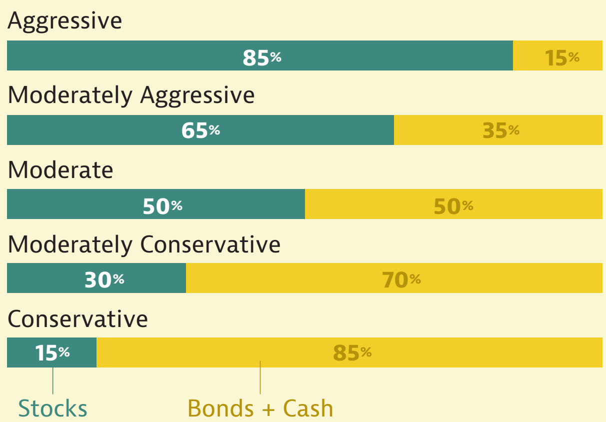
A Fitness Routine for Your Savings *continued from page 1*

Stocks for cardio.

In an investment portfolio, stocks play the role of cardio. Though their ups and downs may sometimes have you sweating more than you would like, they reward long-term investors with the growth that other investments may not match.

HOW MUCH IN STOCKS?

A model portfolio is a diversified investment strategy designed to balance risk and return. Here are examples of model portfolios:



How much of your portfolio should be in stocks? That depends on your circumstances and risk preferences. A common rule of thumb is to hold about "100 minus your age" in stocks. So if you're 45 years old, that would suggest about 55% stocks for your portfolio, along the lines of our "Moderate" or "Moderately Aggressive" portfolio profile. If you're 65 years old, you may want closer to 35% in stocks, trending more conservative. Some planners recommend a higher stock mix of "110 minus your age" to account for longer life spans.[1]

Bonds for strength.

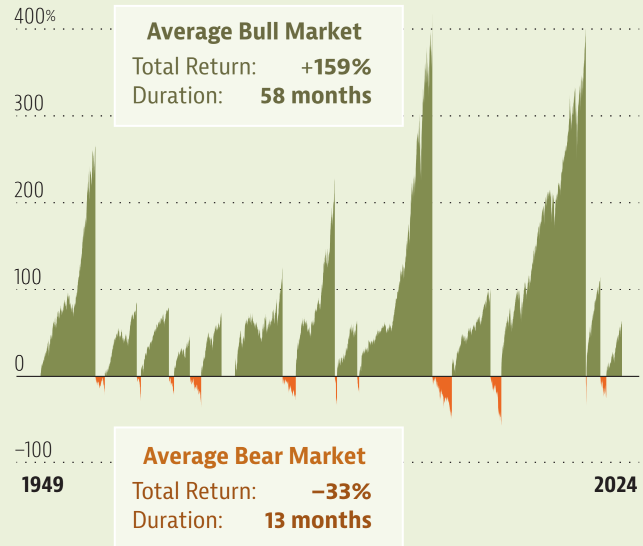
When it comes to preventing injury and promoting good balance and coordination, bonds are a must-have for most portfolios. Bonds may not have the upside of stocks, but they can deliver income each year through coupon payments. They also tend to hold their value through market cycles more than stocks do, adding wealth preservation to portfolios. How much should you hold in bonds? The portion of the sample model portfolios not used for stocks is dedicated to bonds and, where appropriate, cash.

Flexibility to stay the course through market cycles.

To gain more flexibility, sometimes you have to hold a stretch in a spot that is just beyond your comfort. In investing, sometimes you have to stay put in moments that are beyond your comfort. Markets are known for their cycles; they often have nice long periods of trending upward, but every few years a major upset could pull stock values sharply down.

STOCKS EXPERIENCE DOWNSWINGS BETWEEN GROWTH PERIODS

S&P 500 Cumulative Price Return for Each Bull and Bear Market



Blooomberg, Federal Reserve Bank of St. Louis, Strategas and Homestead calculations. See page for 4 for additional disclosures.

In those moments, it can be uncomfortable to stay put. But that's one of the most important things you can do as an investor. If you panic and sell your investments when they're down, you'll lock in your losses and, even more importantly, miss the recovery that has historically followed.

An emergency fund to cover "rest periods."

Physical fitness isn't just about exercise; you also need rest to recover from efforts and injuries. In your finances, an emergency fund is that recovery zone, a tool for helping you through setbacks and stalls. Emergency funds are particularly important for covering you when there's any loss of income or other major disruption, such as divorce or illness, which weighs heavily on your finances.

Combining Tools for the Best Effect

A well-rounded financial plan can help you grow and gain strength over time while also allowing for setbacks and recoveries. ■

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[1] CNN Money, "What's the best asset allocation for my age?"

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

Past performance does not guarantee future results.

4 Ways to Nourish Your Finances

Long-term health requires good nutrition. The habits you establish over time can make a material difference in your well-being — and the same is true for your money. Here are four ways we suggest nourishing your finances in the year ahead.

1 Get into good habits with the basics.

Good basics in nutrition would equate to making healthy baseline choices for meals. Maybe you pick three healthy breakfasts you like, and you are in the habit of eating one of these healthy breakfasts every day. Now you've earned a "point on the board" no matter what happens over the rest of the day.

In your money choices, good basics could be your month-to-month fixed expenses. That would look like choosing a house or apartment that's affordable, choosing a vehicle that's in your budget and cooking at home when you can. It seems obvious, but if your fixed expenses are too high, you'll never be able to make up the difference in all your other living costs.

2 Balance calories in and calories out.

If your good basics are in place, you can balance calories in (income) with calories out (expenses). Even better, you can aim for the financial ideal: spending less each month than you earn, i.e., saving.

Fewer than half of Americans are in that good habit. In the Federal Reserve's most recent survey of American finances, just 48% of Americans said they spent less than they earned in the month before. The remainder said they spent what they earned or that they spent more than they earned.[1]

3 Set realistic guidelines for splurges and one-time occasions.

Just as we must balance our food choices for special occasions, we benefit from balancing our special spending.

Researchers have found that most people are excellent at budgeting for their fixed costs, but most struggle with one-time expenses — what they refer to as "exceptional" expenses. In fact, a study revealed that people spent about twice what they forecast for exceptional items.[2]

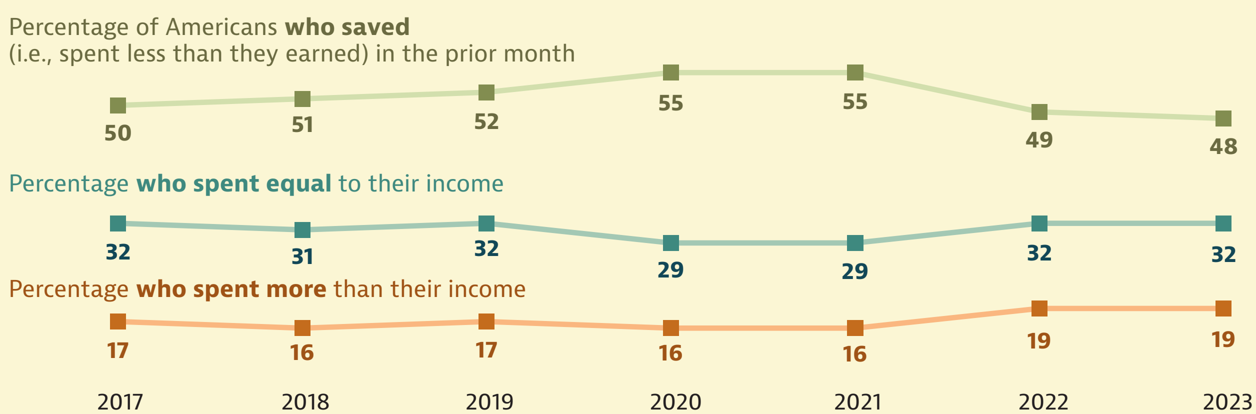
There does seem to be an antidote to this tendency. When all exceptional expenses are lumped into a shared category, people are less likely to see them as budget-exempt splurges and more inclined to see them as trade-offs with other exceptional spending.

4 Professional guidance can really help.

If you are put on a new diet, your doctor will probably send you to a dietician to learn what you need to know to put it into action in your daily life.

Likewise, it can be so useful to tap into professional knowledge for planning or investing. ■

FEWER THAN HALF SPENT BELOW MEANS IN PRIOR MONTH



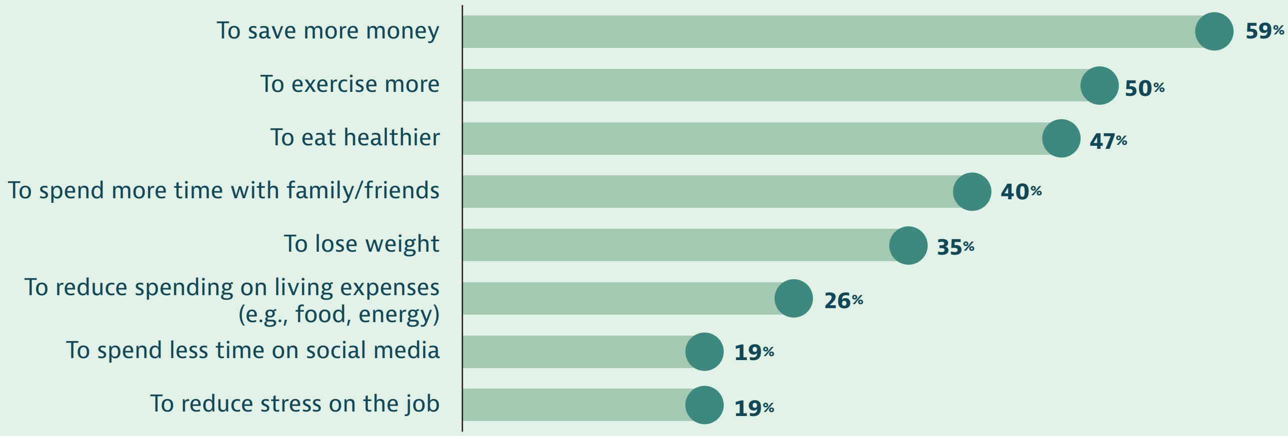
Source: Board of Governors of the Federal Reserve System, "Economic Well-Being of U.S. Households in 2023"

[1] Board of Governors of the Federal Reserve System, "Economic Well-Being of U.S. Households in 2023"

[2] www.nyu.edu/about/news-publications/news/2012/september/stern-study-most-consumers-underestimate-their-exceptional-spending

Common Resolutions Among Americans

Most Popular New Year's Resolutions Among "Resolvers"



417 U.S. respondents (18–64 years old) surveyed October 19–29, 2023.
Source: Statista, "America's Top New Year's Resolutions for 2024"

***Source notes** from page 1*

[1] Statista, "America's Top New Year's Resolutions for 2024"

[2] Bailey RR, "Goal Setting and Action Planning for Health Behavior Change"

***Source notes** from chart on page 2*

Source: Blooomberg, Federal Reserve Bank of St. Louis, Strategas and Homestead calculations. The S&P 500 Index is a broad-based measure of U.S. stock market performance and includes the stocks of 500 large-cap U.S. companies. Indices are unmanaged, and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends. Bear markets represent peak-to-trough price declines of 20% or more. Bull markets represent growth periods.

Returns are shown from June 13, 1949, to October 25, 2024.

Homestead Funds

NRECA America's Electric Cooperatives