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Horizons

A QUARTERLY NEWSLETTER
FROM HOMESTEAD FUNDS

The One-Time Resolution

Every January, millions of people make resolutions in hopes of improving their lives: "Go to the gym five times a week." "Cook healthy meals every night." "Check my investment portfolio daily to stay on top of my finances." These goals all share something in common: They require you to consistently and consciously make active decisions, every single day.

Here's what research tells us: The average New Year's resolution lasts less than four months before being abandoned.[1] The reason isn't a lack of desire or discipline. The real culprit is something psychologists call "decision fatigue."

The average person makes thousands of decisions every single day, from what to wear to how to respond to that email from your boss. Each decision drains mental energy. By evening, your willpower tank is running on empty.

Decision fatigue has real-world ramifications for investors. For example, investors who set up an automatic investment plan often find it easier to stay consistent than those who rely on daily discipline. When you automate your positive daily habits and remove the need to take constant, consistent action, you free up mental energy for everything else in life.

This year, instead of adding more choices to your daily routine, commit to making just one strategic decision that can help improve your financial well-being. In this issue, we'll explore how making fewer, smarter decisions can lead to better results, and we'll share five simple choices that can replace some daily decisions. ■

[1] Source: Forbes, "2024 New Year's Resolutions: Nearly Half Cite Fitness As Their Top Priority"

THE COMPOUND EFFECT: *How One Good Decision Multiplies Over Time*

When you set your phone to automatically back up your photos or set up autopay for your electric bill, you are making one decision that handles countless future tasks. Modern life has shown us that the most effective systems are often those we set up once — and then allow to run on their own.

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WAYS TO HELP BUILD YOUR FINANCIAL FOUNDATION

1. Take inventory of your finances.
2. Realign your budget with current priorities.
3. Review your insurance coverage.
4. Establish an emergency fund.
5. Pay down high-interest credit card debt.

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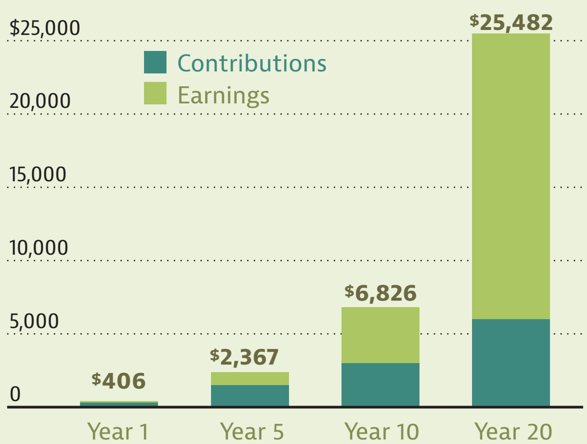
Investing works the same way, with an added benefit: Time potentially makes your one decision more valuable. When you automate your investment contributions through payroll deduction, something remarkable happens. The money moves from your paycheck to your investment account before it ever hits your checking account, eliminating the temptation to spend it elsewhere. That first automatic transfer leads to a second, then a third. Before you know it, you've built a habit without ever having to think about it. Psychologists call this "implementation intention," and research shows it's one of the most effective ways to create lasting behavioral change.

Make Your Money Work Behind the Scenes

Each automated contribution doesn't simply add to your account — it compounds every contribution that came before it. While you're focused on your career, your family or your hobbies, your investments are working behind the scenes. When you choose to make automated contributions and reinvest your dividends, your balance has the potential to grow over time. While you're focused on your career, your family or your hobbies, your investments are working behind the scenes. Each automated contribution compounds every contribution that came before it — without you having to make any ongoing decisions.

CONSISTENCY PAYS OFF

Growth of monthly investments in the S&P 500



Past performance does not guarantee future results. *The example above shows how a $25 monthly investment in the S&P 500 Index would have grown over the stated time periods between 2005 and 2024, assuming dividends were reinvested.*

Source: Clark Howard, "S&P 500 Return and Investment Calculator"

Consider what this can mean for your daily life. The average person spends nearly four hours a day thinking about money.[1] When you automate your investment strategy, you get much of that time back to spend on activities that matter the most to you.

When you invest with Homestead Funds, you're partnering with portfolio managers who analyze companies and markets full-time. They're reading annual reports while you're at your child's soccer game. They're evaluating industry trends while you're enjoying dinner with friends. This division of labor means you can focus on your own career and life while trusting others to apply their professional knowledge to managing your investments.

Wondering where to start?

Download our financial wellness workbook at **homesteadadvisers.com/workbook** to begin identifying your financial goals and determining what kind of investor you want to be. Once you understand your priorities, our asset allocation models offer a framework for structuring your investments. Answer a few questions about your timeline and comfort with market changes, and the model suggests an appropriate portfolio mix. You can also choose to set up automatic rebalancing to maintain your selected allocation as markets move.

This approach is designed for the long term. While active traders might make hundreds of buy and sell decisions in a year, you make just a handful of choices: set up payroll deduction, choose your funds, select your allocation model, and review your progress periodically. That simplicity can help you stay consistent. History shows that missing just the 10 best market days can dramatically reduce long-term returns, making consistent investment more effective than attempting to time the market.

Automated investing is like planting a tree. You dig the hole once, plant the sapling and set up a watering system. Then you step back and let time do its work. Years later, you may have created something substantial that grew tall and strong while you were living your life. That's the power of compound interest, which starts with a single, wise decision. ■

Please see page 4 for important disclosures.

[1] USA Today, "'A part-time job': Americans spend nearly 4 hours a day thinking about money"

Compound interest is the interest earned on both the initial investment and the interest accumulated in previous periods.

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 a number of factors, including those relating to the issuer or equity securities markets generally, among others.

The Standard & Poor's 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.

We're here to help. Connect with us at ***homesteadfunds.com/connect****.*

Don't Put Off Until Tomorrow What You Can Do Today

Fewer decisions don't mean less commitment — they mean smarter focus. Whether you're a new investor or have been investing for a while, choosing a few key strategies early can help set you up for long-term success with less stress. Here are five decisions you can make just once that may pay off for years to come.

Automatic Investing: Your Financial Autopilot

It's easy to set up a payroll deduction directly to your 401(k) or to schedule a recurring automatic transfer between your checking and investment accounts on a specific day each month. Pick an amount that works for your budget, then "set it and forget it." Automated contributions are a powerful way to establish a consistent investing habit, and they take advantage of dollar-cost averaging, which helps smooth out the impacts of market volatility on your portfolio over time.

Finding Your Perfect Portfolio Mix

Homestead Funds provides access to a variety of asset allocation models ranging from conservative (more bonds, less volatility) to aggressive (more stocks, higher growth potential) and everything in between. Simply answer a few brief questions about your timeline and comfort with market changes, and you'll receive a model recommendation suited to your situation. Once selected, your investments flow into the appropriate mix of stocks and bonds. You can also opt in to automatic rebalancing, which periodically adjusts your account back to your chosen allocation as markets move.

Let Rebalancing Work While You Sleep

Market movements naturally shift your portfolio away from your target allocation over time. If you started with 60% stocks and 40% bonds, a strong stock market might push you to 70% stocks — increasing your risk beyond what you're comfortable with. By enabling automatic rebalancing, your portfolio periodically adjusts back to your chosen allocation without any action on your part. This disciplined approach helps you stay true to your investment strategy, as the system trims overperforming assets and adds to underperforming ones.

The Power of Reinvested Dividends

With automatic reinvestment, every dividend payment buys more shares of your chosen investment — no action required. This creates a compounding effect where your dividends generate their own dividends. Over time, this compounding effect can meaningfully boost your total account balance.

Rise Above the Daily Noise

Commit to checking your investment accounts on a monthly, instead of a daily, basis. Markets move constantly, and watching those daily swings can tempt you to make rash decisions based on emotion. A monthly review provides enough information to keep you informed without overwhelming you with "noise." Confirm your automatic contributions are working, review your statements and move on with your life. ■

WHEN TO ADJUST YOUR AUTOMATION SETTINGS

Automation can handle the daily decisions, but certain life events warrant a second look:

1. Major Life Changes

Marriage, divorce, a new baby, job loss or inheritance all warrant a portfolio review. Your automated strategy should reflect your current lifestyle needs, not your circumstances from five years ago.

2. Approaching Your Goal

If you're three to five years from retirement or another major goal, financial professionals typically suggest gradually shifting toward more conservative investments.

3. Receiving a Windfall of Money

Tax refunds, bonuses or inheritance funds shouldn't be automatically added to your regular investment mix. Larger sums deserve thoughtful planning — consider working with a financial advisor.

Remember, don't react to:

- Market volatility (up or down)
- Financial news headlines
- Your coworker's stock tip
- A bad week, month or quarter

Dollar-cost averaging is a strategy that may help reduce, but not eliminate, investment risk and could potentially improve long-term returns by spreading investments over time. It does not guarantee profits or protect against losses. Because it involves consistent investing regardless of market conditions, investors should consider whether they can maintain contributions if their financial situation changes

Rebalancing can entail transaction costs and tax consequences that should be considered when determining a rebalancing strategy.

Please see important disclosures on page 4.

Wisdom from Willie Wiredhand

Welcome to Wisdom from Willie Wiredhand, a series featuring NRECA's beloved mascot who offers electrifying financial guidance.

Dear Willie,

Sticking to a financial plan of regular monthly contributions has always been a challenge for me. What do you suggest for someone with my tendencies? — SEEKING CONSISTENCY

Dear Seeking Consistency,

You're in good company, and asking this question shows you're ready to make a positive change in your investment habits.

Here's what I've learned after 35 years in this business: Consistency tends to beat willpower. Willpower is easily depleted when life gets busy or unexpected expenses appear. That's normal and nothing to feel bad about.

The answer isn't to try harder. It's about building a system that requires minimal effort. Open your investment account and set up an automatic transfer for the day after your paycheck arrives. Start with whatever amount feels comfortable, even if it's modest. The specific number matters less than making it automatic.

Once you've set up automatic contributions, something interesting happens. Within a few months, you'll no longer notice the money leaving your account. You'll adapt to your new cash flow, and your investment balance has the potential to grow steadily over time.

I've helped many investors set up automatic investment plans, and the secret isn't complicated. The people who stick with it take time at the start to match their plan to their goals and risk tolerance, then they resist the urge to change course based on daily headlines, market fluctuations or short-term performance. They review their portfolio periodically, but they don't react to every news cycle.

You don't need to be perfect. You just need to take this one step, set it up once, and give yourself permission to stop obsessively thinking about it. Future you will be grateful you did.

—Willie

Do you have a question for Willie? Email it to ***invest@homesteadfunds.com****, and maybe we will feature it in a future newsletter!*

Homestead Funds

NRECA America's Electric Cooperatives