

## QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW			PERIOD ENDING MARCH 31, 2023			
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	7.50	7.50	-7.73	18.60	11.19	12.24
Russell 2000 TR USD	7.18	7.18	-8.58	18.48	10.45	11.73
Russell 3000 Value TR USD	0.91	0.91	-6.35	18.12	7.30	8.99
Russell 3000 Growth TR USD	13.85	13.85	-10.88	18.23	13.02	14.16
MSCI ACWI Ex USA NR USD	6.87	6.87	-5.07	11.80	2.47	4.17
Bloomberg US Agg Bond TR USD	2.96	2.96	-4.78	-2.77	0.91	1.36
FTSE Treasury Bill 3 Mon USD	1.12	1.12	2.61	0.95	1.40	0.85

### MARKET COMMENTARY

The U.S. equity market gained 7.2% during the quarter. Stocks started the year strong in January as cooling inflation data raised hopes for less aggressive action by the Federal Reserve, but equities retreated in February, after stronger-than-expected economic data dampened investor optimism about future Fed actions. In mid-March, the collapse of Silicon Valley Bank drove equity markets down sharply, but stocks ended the month higher after federal regulators guaranteed deposits and provided additional supportive measures to alleviate contagion concerns.

Worries of a banking crisis still fueled recession fears, driving longer-term yields lower and raising expectations that the Fed would ease interest rate hikes going forward. Aided by falling yields, growth stocks outperformed their value counterparts by 13 percentage points in the quarter. Strong relative performance from the technology and consumer discretionary sectors drove the segment's outperformance in the period. For the one-year period, the value segment outperformed the growth segment by 4.6 percentage points. Large-cap stocks outperformed both

the mid- and small-cap segments of the market in the quarter. For the one-year period, large-cap stocks posted a return of 7.7% which outperformed mid- and small-cap stocks by approximately 1.1% and 3.9%, respectively.

International equities advanced 6.9% in the quarter with developed market equities outperforming emerging market equities by 4.5 percentage points in the period. Developed European equities, aided by falling energy prices and a weaker U.S. dollar, posted a 10.6% return in the period. Chinese equities trailed the broad market, ending the quarter up 4.7%, as ongoing geopolitical tensions with the U.S. were heightened in February after the U.S. shot down a Chinese spy balloon. Uncertainty about China's post-COVID economic recovery and concerns of slowing global growth detracted from the performance of many emerging market, export-oriented economies in the period.

**“The intelligent investor is a realist who sells to optimists and buys from pessimists.”**

— Benjamin Graham

Preliminary estimates from a subset of core real estate managers indicate a negative return for the quarter. An increase in discount rates and moderating rent growth expectations contributed to property valuation declines in the quarter.

The investment-grade U.S. fixed income market returned 3.0% in the quarter. The Fed raised its target Fed Funds range by a total of 0.50% to a range of 4.75% to 5.00% at two meetings during the quarter in its continuing efforts to combat inflation. Headline inflation data has moderated but remains elevated. The 10-year U.S. Treasury yield ended the quarter at 3.48%, a decline of 0.40 percentage points from the previous quarter. During the quarter, investment grade credits returned 3.5%, and non-investment grade corporate bonds returned 3.6%. TIPS advanced 3.3%, which outperformed nominal treasuries in the quarter. There was little change in long-term inflation expectations during the quarter. The 10-year breakeven inflation rate ended the quarter at 2.32% versus 2.30% at the end of the prior quarter, but it has declined from last year's elevated level. Municipal bonds returned 2.8% in the quarter as yields declined across the curve.

## UNDERSTANDING CRYPTOCURRENCY AND YOUR PLAN'S INVESTMENT LINEUP

Since its inception, cryptocurrency—a digital payment system that includes bitcoin, ether, and non-fungible tokens (NFTs)—has risen in popularity, driven by its potential to generate outsized profits. However, despite all the attention, there's growing concern over cryptocurrency's suitability for retirement plans.

While proponents argue that cryptocurrencies may generate higher returns than traditional 401(k) plan investment options, many industry experts argue that they present significant risks to retirement plan investors.

- On March 10, 2022, the U.S. Department of Labor expressed “serious concerns” with offering cryptocurrency investments to 401(k) participants and warned plan sponsors to exercise “extreme care” before adding a cryptocurrency option to a plan's investment lineup.
- On December 5, 2022, the Certified Financial Planner Board of Standards (CFP® Board) released a 14-page guide on the risks of cryptocurrency-related assets to help CFP® professionals uphold the Code of Ethics and Standards of Conduct in their practices. It states that cryptocurrency-related assets present “heightened risks,” adding that when professionals provide advice about cryptocurrencies it should be done cautiously. The CFP® Board further advises professionals to inform individuals regulation is evolving, and future uncertainty could impact a client's investment in cryptocurrency-related assets.
- Recent fraud and bankruptcies of leading crypto businesses have highlighted the uncertainty and risky nature of the currencies.

## RISKS ASSOCIATED WITH CRYPTOCURRENCY

Before adding a cryptocurrency option to a 401(k) plan, consider the following risks and issues:

- **Fiduciary legal liability:** A fiduciary may be held personally liable for breaching their duties under the Employee Retirement Income Security Act (ERISA), which includes selecting and retaining only prudent investments. Cryptocurrencies have a history of dramatic declines in value, putting the fiduciaries at risk for losses and risking the employer's reputation.

- **Speculative concerns and extreme price volatility:** Plan participants are less likely to understand cryptocurrency or have the expertise needed to make an informed investment decision. Participants who choose a crypto option might assume the investment is prudent, underestimate its risks, and suffer losses. A steep downturn can have a devastating impact on a participant's savings, especially for an individual nearing retirement.
- **Valuation reliability and accuracy:** Unlike a traditional mutual fund or separate account, cryptocurrency is not monitored by a fund manager, nor does it have any revenue, income, or assets to support its value. Crypto's value is based solely on investor speculation and supply and demand.
- **Custodial & recordkeeping issues:** Cryptocurrencies do not rely on banks to verify transactions, which means that anyone anywhere can send and receive payments through an online database. Cryptocurrencies are held in a digital wallet rather than a trust or custodial account; if the password is lost or forgotten, the asset may be lost permanently. Other methods of holding cryptocurrencies are vulnerable to cyberhackers and theft.

## YOUR FIDUCIARY DUTY

Plan fiduciaries have a fiduciary duty under ERISA to provide the participants in their 401(k) plan with safe and responsible investment options that are monitored regularly. Providing participants with an investment option that is not prudent, exposes plan fiduciaries to increased risk of legal action.

## LOOKING AHEAD

The rules and regulations governing cryptocurrencies are still evolving and may create compliance challenges in the future. In the meantime, plan fiduciaries should exercise extreme care when determining whether cryptocurrency is a prudent investment option. Whatever your view on crypto, it's important to stay connected with plan participants to help strengthen your overall plan.

## AND TO MY EXECUTOR, I LEAVE MY PASSWORDS

There could be problems when you neglect to leave login information for your digital assets to your executor.

What would the consequences be if, after your death, no one could access the information you have stored electronically? If you've protected your accounts or files with passwords, it could easily happen.

Digital communication has changed the way we manage our personal, financial, and professional lives. It has also created new challenges for estate planning. Consider, for example, an internet business left in limbo because the owner made no provision for accessing accounts. Running the business—or even making customers and creditors aware of the situation—would be problematic without access to the owner's digital records.

But business accounts and records aren't the only potential casualties. Personal email, address books, photo libraries, and financial information are also at risk of being lost if the decedent hasn't shared passwords or designated someone in their will to have access to the records.

The legal treatment of digital assets remains a problem for the courts. Meanwhile, it's important to revise your estate planning documents to include passwords and authorize access to your online and other protected computer data.

## A CHECKLIST FOR YOUR DIGITAL ASSETS

Determine what and how valuable your digital assets are.

- Give your executor or personal representative instructions for locating them.
- Share your passwords with the person you've designated to have access, and/or include a list with your estate documents.
- Instruct your representative to delete files containing sensitive information.
- Make provisions to renew business URLs after your death, so they won't be lost.
- Plan for the disposal or transfer of digital assets just as you would for tangible assets.

## WEB RESOURCES FOR PLAN SPONSORS

### Internal Revenue Service, Employee Plans

› [irs.gov/ep](https://irs.gov/ep)

### Department of Labor, Employee Benefits Security Administration

› [dol.gov/ebsa](https://dol.gov/ebsa)

### 401(k) Help Center

› [401khelpcenter.com](https://401khelpcenter.com)

### BenefitsLink

› [benefitslink.com](https://benefitslink.com)

### Plan Sponsor

› [plansponsor.com](https://plansponsor.com)

### Plan Sponsor Council of America

› [psca.org](https://psca.org)

### Employee Benefit Research Institute

› [ebri.org](https://ebri.org)

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

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