

## QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW			PERIOD ENDING JUNE 30, 2023			
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	8.74	16.89	19.59	14.60	12.31	12.86
Russell 2000 TR USD	5.21	8.09	12.31	10.82	4.21	8.26
Russell 3000 Value TR USD	4.03	4.98	11.22	14.38	7.79	9.09
Russell 3000 Growth TR USD	12.47	28.05	26.60	13.24	14.39	15.26
MSCI ACWI Ex USA NR USD	2.44	9.47	12.72	7.22	3.52	4.75
Bloomberg US Agg Bond TR USD	-0.84	2.09	-0.94	-3.96	0.77	1.52
FTSE Treasury Bill 3 Mon USD	1.25	2.39	3.75	1.33	1.57	0.98

### MARKET COMMENTARY

After advancing modestly through May, U.S. equities rose sharply in June, ending the second quarter with an 8.4% return. Amid softening inflation and continued strong economic data, the Fed decided to leave short-term interest rates unchanged at its June meeting, after raising rates at each of its ten previous meetings. The pause raised investor optimism that short-term rates were nearing their peak, which aided more cyclical growth-oriented sectors. Given the moderating interest rate outlook, growth stocks outperformed their value counterparts by 8.5 percentage points in

the quarter and extended their outperformance in the year-to-date period to 23.1 percentage points. Large-cap stocks outperformed both the mid- and small-cap segments of the market during the quarter. For the year-to-date period, large-cap stocks posted a return of 16.9% outperforming mid- and small-cap stocks by approximately 7.9 percentage points and 8.8 percentage points, respectively.

International equities advanced 2.4% in the quarter with developed market equities outperforming

emerging market equities by 2.1 percentage points in the period. Emerging Markets returned 0.9% in the quarter and returns varied significantly by country. China (-9.7%) was the primary detractor from Emerging Markets as the country's economic recovery from strict COVID lockdowns has underperformed investors' expectations. Japan returned 6.4% outperforming most developed market peers, despite the yen continuing to be one of the few currencies that has weakened against the U.S. dollar this year.

Preliminary estimates from a subset of core real estate managers indicate a negative return for the second quarter. Discount rates continued to increase, which has caused the recent declines in property valuations. The hardest hit segment of the real estate market has been the office sector, as demand for office space continues to decline.

**“More people lost money waiting for corrections and anticipating corrections than the actual corrections.”**

— Peter Lynch, *Interview with Fidelity (2019)*

The investment-grade U.S. fixed income market returned -0.8% in the second quarter. The Fed raised its target Fed Funds range by 0.25% to 5.00% to 5.25% at its May meeting and opted to maintain that range at the conclusion of its June meeting. The Fed's latest statement indicated that it is near the end of its tightening cycle, but also suggested the possibility of additional rate hikes before the end of the year. Headline inflation data has declined to 4.0% as of the end of May, compared to a high of 9.0% in June 2022. The 10-year U.S. Treasury yield ended the quarter at 3.81% — an increase of 0.33 percentage points from the previous quarter. During the second quarter, investment grade credits declined 0.3%, while non-investment grade corporate bonds advanced 1.8%. Municipal bonds returned -0.1% in the quarter and high yield municipal bonds rose 1.7%. TIPS returned -1.4%, which was in line with nominal treasuries during the period. The 10-year breakeven inflation rate ended the quarter at 2.22% versus 2.32% at the end of the prior quarter. The realized annual CPI was 4.3% through May 2023.

## FIVE MISTAKES PLAN PARTICIPANTS COMMONLY MAKE

**Adjusting or bolstering your education and financial wellness approach can help put your employees on the road to a more secure retirement future.**

Your plan may offer great educational materials when a new employee enrolls in your company's plan, but make sure that employees who have been with your organization are also kept informed; even long-time plan participants can make rookie errors. Read on to find out more about five of the most common mistakes made by retirement plan participants. Adjusting or bolstering your education and financial wellness approach can help put your employees on the road to a more secure retirement future.

### 1. Not Contributing Enough to Get the Employer Match

Some employers offer to “match” a percentage of employees' contributions to their retirement plan. For example, an employer might match 50% of the employee's plan contribution up to 6% of the employee's total annual compensation. Employees who do not contribute at least enough money to their plan accounts to get the full employer match are leaving what is essentially “free” money on the table.

### 2. Taking Plan Loans

Many retirement plans allow participants to borrow from their plan accounts once they meet certain conditions. Although it can be reassuring to know that you can access your savings early if you need access to cash, there are significant drawbacks. Educate your employees on the pros and cons of taking a loan and how it might affect their account balance over the long-term.

Until the loan is repaid, participants could miss out on growth opportunities. And if they separate from the company, there may be a limited window of time to repay the loan balance. Otherwise, the unpaid amount will be regarded as a “deemed distribution” that's taxable to the participant, it may also be subject to an additional 10% early withdrawal penalty.

### 3. Reducing or Stopping Contributions

A participant's regular, uninterrupted contributions to the plan have the potential to compound over time. Investing them in an appropriate mix of stock, bond, and cash equivalent investments can help them build up their retirement savings. However, if they reduce the amount they contribute, or stop contributing altogether—even for a year or two—they are disrupting the growth of their savings.

Finding the money to set aside for retirement can be tough, especially when faced with competing financial demands. But it's important that employees understand the need to prioritize saving for their future. Failing to save enough may force an individual to retire later or lower their spending and lifestyle expectations in retirement.

### 4. Not Understanding Your Tolerance for Risk

Risk is a fact of life for every investor. Some investments, such as stocks, carry a higher risk of principal loss than others. The risk of loss is essentially the price an investor pays in exchange for higher potential returns. As a retirement plan investor, your employees must determine how much investment risk they are willing to accept: once that has been identified, they will be better equipped to allocate their plan investments appropriately.\*

### 5. Trying to Outguess the Stock Market

Some investors believe that they can successfully time the stock market—investing when the market begins to trend upward and exiting the market before it declines. But, even the most experienced investment professionals cannot accurately predict the market. All too often, investors end up sitting on the sidelines when the stock market makes a sudden bull run. As a result, the long-term growth of their retirement savings is negatively impacted.

The reality is that its time spent in the market, not timing the market that counts. Making regular contributions to the company's retirement plan is key to helping participants grow their account balance. Moreover, your employees also benefit from compounding; the longer their money is invested, the greater potential reward over time.

\*Asset allocation does not guarantee a profit or protect against losses.

## QUESTIONS TO ASK ABOUT YOUR RETIREMENT PLAN

It's important to have a good understanding of how your retirement plan works. Here are some foundational questions to ask your advisor or plan recordkeeper.

### WHAT TYPE OF PLAN IS IT?

The first thing you should understand is whether your plan is a defined benefit plan or a defined contribution plan. A defined benefit plan is employer funded and provides a specific monthly pension benefit to you when you retire. A defined contribution plan, such as a 401(k) plan, does not promise you a specific retirement benefit. Instead, the amount you receive depends on the balance in your plan account when you retire (or receive an earlier distribution). Both employer and employee contributions may be allowed, and employees may be responsible for choosing their account investments from the plan's list of options.

### WHO ARE THE PLAN'S SERVICE PROVIDERS?

It's helpful to understand who is involved with your retirement plan and how it operates. Typically, a plan is either bundled or unbundled. This means that there is either a recordkeeper who manages the record-keeping, plan administration, and compliance. Or, there is a separate service provider who is responsible for managing administration and compliance, often referred to as the TPA (Third-Party Administrator). Put more simply, there's always a plan recordkeeper, but not always a TPA; a TPA may be helpful when it comes to supporting complicated plan design.

### WHO IS ELIGIBLE TO PARTICIPATE . . . AND WHEN?

Federal law allows employers to include and exclude certain groups from a retirement plan. For example, there may be one plan for salaried employees and another for union employees, or a plan may not cover some part-time employees at all. Eligibility is generally based on age and years of service to the company. Eligibility and vesting schedules can be a great way to recruit and retain valuable employees.

## HOW DO PARTICIPANTS CONTRIBUTE?

Some plans have auto-enrollment, which means that employees are automatically enrolled in the plan unless they choose to opt out. These plans also have a pre-determined contribution amount that is automatically deducted from the employee's paycheck and invested in pre-determined plan investments. Employees should receive information on how to change their contribution amounts and investments or how to opt-out of the plan. If your plan does not have an auto-enrollment feature, plan participants will be able to choose their contribution amount and investments when they enroll in the plan.

Contributions deducted from employee paychecks are typically made pre-tax. If your plan has a Roth option, individuals can make after-tax contributions to the plan. As plan sponsor, you may contribute to participant accounts through matching contributions—where the amount they contribute is matched up to a certain percentage—or profit-sharing contributions, or both.

## IS THERE A FORFEITURE CLAUSE? HOW ARE FORFEITURES TREATED?

Your plan's vesting schedule determines how long an individual must be employed with the company before they are eligible to keep the employer's account contributions and any associated investment earnings. For example, the plan may have a four-year vesting schedule, where a participant is 25% vested after their first year of service and 25% for each year thereafter until they reach 100%. Participants are always 100% vested in their own contributions to the plan and in any earnings from those contributions. In addition, forfeitures are a pool of money that can be used to offset plan expenses and/or participant engagement efforts, such as financial wellness resources and employee education sessions with your retirement plan professional.

## HOW DO I FIND OUT ALL OF THIS INFORMATION ABOUT MY PLAN?

A formal, written plan document is a requirement for any retirement plan. Each of your plan's service providers are required to produce a 408(b)(2) disclosure, which outline fees associated with their services to the plan. There is also a Summary Plan Description, which should include the plan's rules and other information you may need to understand the plan.

Your plan's retirement plan professional can assist with locating these plan documents and fee disclosures. They can also help if there are any plan provisions that require updating, or if there are areas you'd like to reconsider from a plan design perspective. It's important to align your plan's goals when reviewing the plan design.

## 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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