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QUALIFIED PLAN NEWS

Q3 2022

CAPITAL MARKETS REVIEW				PERIOD ENDING SEPTMBER 30, 2022		
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	–4.88	–23.87	–15.47	8.16	9.24	11.70
Russell 2000 TR USD	–2.19	–25.10	–23.50	4.29	3.55	8.55
Russell 3000 Value TR USD	–5.56	–17.97	–11.79	4.37	5.11	9.08
Russell 3000 Growth TR USD	–3.37	–30.57	–23.01	10.16	11.57	13.36
MSCI ACWI Ex USA NR USD	–11.57	–27.16	–28.11	–2.07	–1.81	1.05
Bloomberg US Agg Bond TR USD	–4.75	–14.61	–14.60	–3.26	–0.27	0.89
FTSE Treasury Bill 3 Mon USD	–5.14	–13.61	–11.57	0.79	1.95	0.98

MARKET COMMENTARY

The U.S. equity market ended the third quarter down 4.5%. Stocks started the quarter strong after comments made by Fed Chair Jerome Powell suggested that interest rate increases may reverse in 2023. These gains were erased by the end of September, demonstrating the Fed's commitment to taming inflation at the expense of economic growth.

Growth stocks outperformed value stocks in the quarter for the first time in 2022. The potential for interest rate cuts in 2023 drove growth stocks higher at the start of the quarter, before retreating by the end of September. Meanwhile, small-cap stocks outperformed both the large- and mid-cap segments of the market. For the year-to-date period, large-cap stocks posted a return of –23.9% which outperformed mid-and small-cap stocks by approximately 0.4% and 1.2%, respectively.

International equities declined 9.9% during the quarter, with developed market stocks outperforming emerging markets stocks by 2.2 percentage points. For

U.S.-based investors, every country posted negative returns for the period due, in part, to the continued strengthening of the U.S. dollar. As anticipated, the European Central Bank raised short-term interest rates to combat rising inflation. Rising rates, coupled with worsening economic data, drove developed European stocks to a –10.1% return during the quarter. Japanese equities (–7.7%) outperformed the broad market as several Japanese companies posted better than-anticipated earnings results in the period. China (–14.6%) reversed the positive performance experienced in the previous quarter due to weak economic data, real estate market concerns, and a resurgence in COVID fueled lockdowns. For the trailing 1-year period, Chinese equities were down 35.4%.

Preliminary estimates from a subset of core real estate managers indicate a modest positive return for the quarter. Over the last year, industrial and multi-family properties have performed better than holdings in the office and retail segments of the market.

The investment-grade U.S. fixed income market returned –4.8% in the third quarter. The Fed raised the target Fed Funds range to 3.00% — 3.25% with two 0.75% increases. Fed officials anticipate additional rate increases at upcoming meetings, with the target rate to exceed 4.25% by the end of the year. The 10-year treasury yield ranged from 2.60% to 3.97% during the period but ended at 3.83% — an increase of 0.85 percentage points from the previous quarter. Investment grade credits generated a –4.9% return and non-investment grade corporate bonds returned –0.6% for the period ended September 30.

TIPS returned –5.1%, which underperformed nominal treasuries in the quarter. Fed action caused inflation expectations to decrease as indicated by the breakeven future inflation rate implied in 10-year U.S. TIPS, which ended the quarter at 2.15% versus 2.33% at the end of the second quarter. Municipal bonds declined 3.5% as rates rose across the yield curve. Developed market non-U.S. government bonds returned –3.3% on a local currency basis but declined 10.2% for U.S.-based investors due to the strengthening U.S. dollar. Emerging market bonds were down 4.6% at quarter-end.

HELPING EMPLOYEES BUILD EMERGENCY SAVINGS

Many Americans are unprepared for financial emergencies. Offering employees the opportunity to participate in an employer-sponsored emergency savings plan can help them stabilize their financial situations and help employers stand out in a competitive labor environment.

A Federal Reserve study conducted in late 2020, found that only 64% of adults had the funds to cover a $400 emergency.[1] Individuals and families who lack a rainy-day fund and who face a sudden, unexpected expense, such as large auto repair bill or a heating/cooling system that needs to be replaced, often find themselves putting the expense on their credit card or borrowing from their retirement plan. Neither solution is ideal. Taking a plan loan can threaten retirement readiness. And incurring large credit card debt can result in substantial interest payments.

The pandemic highlighted the lack of financial preparedness among Americans. When numerous businesses were forced to shut down or scale back their operations, workers who had lived paycheck to paycheck suddenly found themselves in a financially precarious position. Many found that they had little money to pay bills, or insufficient funds to tide them over until they found work or became eligible for unemployment benefits.

Financial pressures and worries about being able to afford unexpected expenses can affect people in multiple ways. It's not unusual for workers stressed out by their finances to experience decreased focus and productivity. In fact, 34% of employers who participated in a recent survey from consulting firm Willis Towers Watson, said financial stress is creating workforce challenges.[2]

THE VALUE OF EMERGENCY FUNDS

More employers are recognizing that offering an employer-sponsored emergency savings plan can help employees stabilize their financial situations. It can also help employers stand out in an environment where competition for workers is intense.

Emergency savings accounts give employees access to a liquid account when they need emergency cash, helping them avoid having to take out a high-interest loan or make a withdrawal from a retirement plan account. Retirement plan withdrawals are typically subject to taxes and penalties that can greatly reduce the total sum withdrawn.

HOW EMPLOYERS ARE BECOMING INVOLVED

An emergency savings account should ideally hold three to six months of household expenses in cash. Employees fund their emergency savings plans through payroll deductions, like in an employer-sponsored retirement plan. Employers may offer a match for a certain percentage of the total set aside in the fund by each employee to help increase employee participation.

Some employers work with a bank or brokerage firm to craft a stand-alone emergency savings account program for their employees. If your company is considering offering an emergency savings program as part of your overall benefits package, you may want to contact a financial professional for insight and assistance.

[1] Report on the Economic Well-Being of Households in 2020, Federal Reserve, May 2021.

[2] 2020 U.S. Defined Contribution Plan Sponsor Survey, Willis Towers Watson, December 2020.

CRISIS MANAGEMENT — TAKE THE NECESSARY STEPS TO PREPARE

No matter the size of your business, its essential to have a plan in place to mitigate the impact of a crisis.

It may never happen. Still, it's wise for a small business owner to assume that their business may face a crisis that threatens its operations or even the company's viability. The crisis could take the form of a natural disaster — a tornado, hurricane, flooding, earthquake, or severe winter storm. Or it could be caused by events such as a natural gas explosion or fire.

No matter the size of your business, you should have a written plan in place that outlines the necessary steps to mitigate the impact of a crisis. Here are some ideas that can help you and your managers plan.

STAFF AND PHYSICAL ASSETS

Develop detailed procedures for employees to follow in case of an emergency; distribute these internally and keep copies in safe locations offsite where they can be accessed quickly. If you don't already have one, draw up a list of employee names and phone numbers, personal email addresses, and emergency family contacts for communication purposes.

Assess who among your employees can work from home and include that information in your personnel list. Determine if those employees have adequate bandwidth and the proper tools to do their jobs securely. You may need to buy laptops to enable employees to work remotely.

You'll also need to create a list of customers, suppliers, and other vendors along with relevant contact information. Keep that list accessible and update it frequently as you will want to be able to stay in touch regularly during a crisis. Consider how you and your employees could use social networking tools to keep the lines of communication open in an emergency.

LINE OF SUCCESSION

Establish a line of succession so that everyone is clear as to their responsibilities should you or other key employees become critically ill, seriously injured, or die. Update this outline regularly and feature it prominently in your disaster plan.

DATA BACKUP AND RECOVERY

A disaster could damage or destroy your computer equipment and wipe out your data. A key goal of any crisis plan should be to ensure that critical business records are protected from potential destruction. You may have to invest in additional surge protectors and arrange for secure storage by transmitting data to a remote server or by performing a daily back-up to an offsite location. An information technology consultant can provide guidance regarding data backup and IT recovery if you don't have experts on staff.

ALTERNATIVE WORKSPACE

What happens if your building must be evacuated, or your current workspace is unusable? Could your business function? If you answer "no" to this question, you will want to look for alternative space and equipment your firm can use to maintain operations in the event of an emergency. You may be able to limit physical damage by taking some preemptive steps such as having a generator and a pump on hand.

INSURANCE COVERAGE

Having the proper insurance is critical to protecting your business. Meet with your financial professional to conduct a full review so that you can identify any gaps in your coverage. In addition to property and casualty insurance, you should have disability, key-person life insurance, and business interruption insurance. And make sure your buy-sell agreement is up to date, including the life insurance policies that fund it.

GET STARTED NOW

You may think your business is too small to need a disaster/crisis plan or that it will take too long to create one. If that's the case, take a step back and assess how much you stand to lose by not having one.

HOW SMALL BUSINESSES CAN USE ARTIFICIAL INTELLIGENCE

Small businesses can use artificial intelligence to improve customer service, reduce costs, and help drive revenues.

At one time, Artificial Intelligence (AI) was purely the subject of science fiction. The reality today is that AI has become an integral part of our daily lives.

AI is being used by large corporations in a range of areas, including sales, marketing, customer service, employee training/coaching, and logistics. Small businesses can also employ AI to improve customer service, reduce costs, and help drive revenues.

WHAT IT IS

AI is a branch of computer science that focuses on building smart machines capable of performing tasks that typically require human intelligence. Essentially, it endeavors to simulate human intelligence in machines. Examples of AI applications that many people are familiar with include smart assistants (such as Siri and Alexa) and virtual agents that interact with customers and guide them to possible solutions. Looking ahead, self-driving trucks and cars are in various stages of development and some vehicles already offer self-driving features.

CUSTOMER SERVICE

AI can be deployed using chatbots to handle a variety of tasks, such as directing callers to the function they want (e.g., automatic payments). On a more complex level, AI can be used online to help customers with product search and discovery and respond to requests with relevant recommendations. Businesses can use data gathered from AI chatbot customer interactions to identify where in the process problems may arise and what these problems are so that they can be eliminated in the future.

LOGISTICS

Moving goods from one point to another requires up-to-the-minute data so that items are shipped efficiently and cost-effectively. Certain AI programs can predict points where congestion may happen and help redirect trucks and vans so that they avoid bottlenecks and slowdowns. AI essentially streamlines the supply chain. It can do something similar when it comes to warehouse management — identifying choke points that slow the movement of goods from point A to point B.

MARKETING

AI marketing leverages customer data and machine learning to anticipate a customer's next move and influence their buying decisions. Businesses are using AI to attract, nurture, and convert prospects.

By tracking a customer's online searches, AI programs can identify what products an individual might be interested in. AI can then target that individual with ads highlighting products or services previously identified as being of interest. This approach essentially uses machine learning to offer personalized product recommendations.

SALES TRAINING

AI can be used to coach salespeople and help them increase their percentage of successful sales calls. For example, AI programs can analyze the number of variables used by the most successful salespeople and apply that data to identify strategies that can be replicated by other salespeople within the organization.

As with any technology, there are costs involved in incorporating AI into a company's operations. A financial professional can assist you in analyzing the costs and potential financial benefits of integrating new technology for your small business.

WEB RESOURCES FOR PLAN SPONSORS

Internal Revenue Service, Employee Plans
› **irs.gov/ep**

Department of Labor, Employee Benefits Security Administration
› **dol.gov/ebsa**

401(k) Help Center
› **401khelpcenter.com**

BenefitsLink
› **benefitslink.com**

Plan Sponsor
› **plansponsor.com**

Plan Sponsor Council of America
› **psca.org**

Employee Benefit Research Institute
› **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.

Financial Concepts Inc.
(734) 214-9770 | finconcepts.com

M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | **mfin.com**