

Summer
2014

Spreng Capital Management Inc.



Spreng Capital Management is an investment advisory firm registered with the State of Ohio. Founded in 1999 by James Spreng, Spreng Capital has grown to encompass the very best in service and support for our clients.

Our client base is quite diverse. With clients in 23 states, we offer structured, customized investment management for individuals, profit sharing plans, Foundations, endowments and businesses. We are fee only investment managers, receiving no commissions nor do we sell any financial products. We are paid only by the investment management fees of our clients. We advise our clients on financial planning and manage their assets, making recommendations based entirely upon our clients' needs and goals. Everyone on the Spreng Capital team has a vested interest in the success of our clients' portfolios. Our team has a unique blend of experience, youth and business credentials.

Our use of high quality stocks and mutual funds along with investment grade bonds, allows us the opportunity to deliver consistent long term returns. We focus on minimizing risk and volatility, striving ultimately to deliver the very best after-tax returns possible, within the constraints you have established.

There is nothing that signals success more than referrals from existing clients. Our success is a result of our clients' continued confidence in us and their willingness to recommend us to their family and friends.

"What did the President know and when did he know it?"

Howard Baker-1973

In spite of all of its critics, the Constitution of the United States, and its amendments, is a remarkable document. While it struggles to encompass the incredible and unforeseen technological advances that have occurred over the last 200 plus years, the basic freedoms that were conceived in its writing over two centuries ago are still beacons of light around the entire world in the 21st century. The foundations that were laid by this document which were written by mortal men, with their own human shortcomings and demons, have served the country and world incredibly well. Some of these men were slave owners, some were hellfire and brimstone abolitionists and some were, what would be termed today, moderates. In spite of their disparate views on their world as they knew it, they managed to find common ground on the one thing that truly mattered to each and every one of them, freedom. They put aside their personal animas and found a way to work together to create a living, breathing, perfect yet flawed, document that has stood the tests and trials of an ever changing, sometimes violent world. As we celebrate one of our nation's holidays, the 4th of July, which honors another timeless document, I can only marvel at the sacrifices, turmoil and hard work that the founding fathers endured to create such a masterpiece as the Constitution. It must have been a truly magical time as these foundations for our incredibly wonderful lives were laid.

As you would expect, a document written over 200 years ago when leeches were used as a form of medicine, modern plumbing was a fantasy, transportation was by horse or water, electricity was

Index	Qtr.	YTD
DJIA	2.24%	1.51%
NASDAQ	4.98%	5.54%
S&P 500	4.69%	6.05%

only a concept and air conditioning was a hand held fan on your porch at night, struggles with some of today's more modern advances. One issue that the Founding Fathers never could have envisioned was the rise of today's modern city state. New York City had 33,000 inhabitants in 1790. It had 8.1 million in 2010. Consequently, elections are decided by, and thus money flows to, the metropolitan areas where the most votes can be delivered. When I was in college in upstate New York in the early 1970s, voters and taxpayers in upstate New York *hated* New York City and Long Island. They had found out the hard way that Albany really didn't care about them nearly as much as they cared about the voters in the five boroughs of New York. Not surprisingly, the manna from heaven of tax dollars flowed quite generously down state. I remember vividly, discussions that upstate wished that NYC and Long Island would just split off and form their own state and leave upstate New York to form their own 51st state. When Hilary Clinton moved to New York she certainly didn't

buy a quaint house in beautiful, upstate Cooperstown, New York. No, she bought in the metropolitan area to strengthen her political base for her future run for the Presidency. In the 2010 gubernatorial election in Illinois, the winner carried only 4 out of 102 counties in the entire state! Let me repeat that for emphasis, he only won 4 out of 102 counties. But as long as Cook County and the city of Chicago went with him, that was all that was necessary. Is it any wonder that there is a movement in California to split the state into six separate states? This is an especially hot topic now as the water wars heat up in the San Joaquin Valley. Several counties in Colorado are trying to split off away from Denver and Boulder to form their own state. The rise of the city state has huge implications for the future of the United States. From bridge and highway construction and maintenance to hospitals and health care under Obamacare, politicians will cater to, or if you prefer, pander to, the geographic areas that deliver the votes and money for elections and re-elections. The Electoral College mitigates this concentration to some degree in Presidential elections but all other elections are at risk of being high-jacked as the city states continue to expand.

One of my personal concerns, just call me Don Quixote tilting at windmills.....it has no chance of changing, is a President being able to serve two four year terms. I am in favor of one six year term and then they are out! Could the news and negativity swirling around President Obama be any greater than it is now? This is not a singular phenomenon. It seems that around the sixth year in office, everyone, including his supporters and even his own party, tire of a President's policies and scandals and are wistfully gazing across the dance floor at the potential candidates for the next election in two years. President Bush's approval ratings dropped in his sixth year and plumbed the depths of the lowest ratings in the history of the polls. What a surprise that President Obama's are right there in the same, exact, historically low depths in his sixth year just like his predecessor. Who or what is to blame? Maybe it's the age of television, tweets, twitters, emails and the most self-absorbed of all.....selfies. Maybe it is just the hubristic excess that comes with constantly being referred to as the most powerful person in the world. I'm afraid the President just gets over-exposed by all of the instant media and we find out that there is no mystique to the man or the office, that the Emperor has no clothes! When you are the most powerful person in the world you need to hold yourself in reserve a little. Let someone else promote you and talk about your policies and all of the great things you have done or will yet do. This is not a new issue. Peruse this list of our last 6 Presidents who served 6 or more years and judge for yourself. Lyndon Johnson-Vietnam;

Richard Nixon-Watergate; Ronald Reagan-Iran Contra; Bill Clinton-Monica Lewinsky & Whitewater & Marc Rich Pardon; George W. Bush-Iraq & Afghanistan; Barack Obama- NSA spying & Syria & Iraq & VA hospitals & Benghazi & the ever-widening scandal at the IRS. Before anyone accuses me of being heavy handed, I readily agree that several of President Obama's current crises were inherited from the previous Administration. The VA scandal probably has the most long-term deleterious effect because it reflects very poorly on government run health care which is the bedrock upon which Obamacare is founded. The VA scandal needs to be addressed quickly and successfully or Obamacare will again be set upon by those wanting to shut it down. This time they have real ammunition for their attack! Is this what the future of Obamacare and government care looks like, long lines, months to see a doctor, a shortage of doctors, questionable care when you finally do get in?

What possibly can be said about the IRS at this point? If the IRS was truly innocent of specifically targeting political enemies of the Administration, they certainly did themselves no favors with the recent revelation that 7 computer hard drives had crashed and all of the emails that Congress had requested were lost. Of course, all seven of the hard drives have supposedly been destroyed and they were not backed up, how convenient. Who else but the IRS can get away with, not one hard drive under investigation, not two hard drives under investigation.....but with seven hard drives under investigation all having magically disappeared. When we realize how demanding the SEC and other regulatory agencies are of us to retain electronic communications for quite an extended period of time, it becomes quite incredulous for us to believe that this was an accident! This is Richard Nixon at his finest, turning the IRS loose on his political enemies and then the mysterious 18 ½ minute gap on the tapes of Nixon's discussions with his sycophants in the Oval Office on the Watergate scandal. Congress will continue to turn up the heat on this through the mid-term elections. Nothing will come of this until a few brave Democrats step up like the 6 Republicans on the House Judiciary Committee did in 1974. They voted with their Democratic colleagues to recommend impeachment of Richard Nixon. These 6 brave men faced a withering barrage of criticism from their Republican allies in the House and Senate. This is why the opening quote from Senator Howard Baker becomes so relevant again today. Senator Baker recalled how he thought that Watergate was just a Democratic Party ploy to discredit the President until a few weeks into the investigation he started to truly listen to the accusations and reluctantly admitted that they had substance. They were right and deserve the highest praise from a grateful public for exposing corruption at the highest

level in our government. Will any Democrats have the courage to push for a deeper investigation? Who knows, I hate to be the perpetual cynic, but I sincerely doubt that you'll see this kind of courage to do what is right for the country at the expense of personal gain. The generation raised on sacrifice for the common good is dying off every day. There is no proof that the White House had a hand in the targeting of political enemies by the IRS. Unfortunately, with the destruction of any evidence to the contrary, a generation that was raised on Watergate and the missing 18 1/2 minutes on a tape is left to draw its own conclusions on 7 lost computer hard drives.....and it just doesn't smell right.

Political unrest in Syria, Iraq and Ukraine roiled the oil markets of the world and caused the price of gasoline to spike just as American consumers climbed into the Griswold family truckster to head off for vacation in the Great Outdoors. Iraq appears to be heading into the abyss of a religious civil war. Link Iraq with Syria's civil war trying to overthrow their President for life and the Middle East remains as volatile and deadly as any time in recent memory. Are there diplomatic avenues that can be pursued to try and stave off the potential blood-shed? Will diplomacy be successful? Unfortunately, based upon literally thousands of years of history and blood shed, a prudent man cannot be overly optimistic that diplomacy has much of a chance to succeed.

How ironic, that much of the disaster we now call the Middle East is a function of the spoils of war from World War I. The Ottoman Empire which ruled the Mid-East during the 1800s and early 1900s, was based out of Istanbul in what is Turkey today. The Ottoman Empire chose poorly during World War I and chose to side with Germany in the war. When Germany and its allies were defeated, England, France and the US split up the Ottoman Empire into what are today's boundaries for much of Iraq, Turkey, Syria and a considerable number of other countries in the Mid-East. Unfortunately, absolutely no consideration was given to establishing political boundaries which aligned with already existing religious or tribal affiliations, areas or boundaries. Thus, Sunnis and Shiites, who already hated each other in 1918, were forced to co-exist and function as neighbors and political allies for 100 years, a toxic brew that we are now dealing with in the age of advanced weaponry and biological warfare. It has been said that the peace derived from World War I eventually led to the rise of Adolph Hitler in Germany due to the high cost of reparations for the cost of the War that were imposed on Germany. Japan, who was also an ally of England, France and the US in World War I, was also greatly miffed at the peace process because they felt that there was overt racism in dividing up the spoils of war. Japan

felt that they were dealt a short hand at the table after the War's end and vowed never to be in a position of weakness in dealing with Europe and the US again. It is not a stretch to blame much of World War II and the current fighting in the Middle East on the peace treaty that was brokered to end World War I. Sometimes the road to hell is paved with good intentions.....

One of our biggest concerns going forward is the continued drought in California and the eventual effect that it will have on food costs in the US. For anyone who has not travelled inland away from the coast in California, the Imperial Valley and the Central Valley are two of the most important areas for the production of food in the entire US. Well over 90% of many of our fruits and vegetables come from these two areas, foods that are picked straight from the fields and delivered to our grocery stores. These are not commodity based feedstuffs like the corn, soybeans and wheat that those of us in the Midwest are accustomed to seeing every day. Commodity feeds have to be processed or fed through animal agriculture to end up on our plates. Not so with the products from California's deserts. Hundreds of thousands of acres of farmland are lying fallow this summer. There is just no water to irrigate the fruit trees or vegetables in the ground. The days of unlimited salad bars in restaurants may eventually be as quaint as someone pumping your gas for you at the gas station. Settlers always knew that the West was dry. That is why water wars have raged in the West for generations and he who controls water in the West, controls everything. However, there is now some very good research that would indicate that over the last 100 years, while settlement of the West has been at its peak, it may very well have been an unusually wet time period in the history of the West in the United States. If this is the case, there will be incredible pressures on many existing populations and industries in the Western area of our economy. This will not only affect inflation expectations and the price of our food, but immigration reform, housing, gambling, recreation and industry will all be adversely affected. In extreme cases, we could have considerable migration back out of the West over the next few decades if the drought persists. The resources would just not be there to support the current populations. This current drought may be an anomaly. There could be heavy snow in the Sierra Madre Mountains next winter and all could be right with world in California again. But California by itself has the world's sixth largest economy. If we are truly heading into a sustained period of minimal or shrinking water in the West, things could get much hotter during fire season but also politically and economically.

The US equity markets continued their slow meander upward in the second quarter of this year. The 30 stocks

"37% of employed college graduates are working in jobs that required only a high school diploma"
Department of Labor

that comprise the Dow Jones Industrial Average lagged the smaller companies that make up the NASDAQ and the S&P 500 indexes. For the quarter the Dow was up 2.24% and is now up 1.51% for the first six months of 2014. The NASDAQ index which is made up primarily of technology firms rose 4.98% for the quarter to finish up 5.54% for the year. Finally, the S&P 500 which is comprised of the 500 largest companies in the US stock market rose 4.69% for the quarter and is currently up 6.05% for the year. Investors who were spoiled by last year's incredibly good returns are no doubt disappointed with this drowsy, albeit positive, first half of the year. Slow and steady wins the race. If we double the present returns by the end of the year we will have an almost 12% return on the S&P 500 for the year. I would take double digit returns any year, no matter how we got there or the pace of gain.

As usual, there are plenty of things that could keep us awake at night. The markets and investors know all of this information and assimilate and price in the risks every day. Owning stable, well run, well financed businesses never go out of style. That is our task as investors, to identify the best opportunities with the least amount of risk and allocate our resources accordingly. We work hard every day to try to achieve that for our clients. In spite of all of the turmoil in the world today, the US equity markets are off to a good start for 2014.

Please plan on joining us on the evening of **September 3rd at 6:00** for our annual Client Appreciation Event. This is a great opportunity for you to bring along family or friends who you would like for us to meet and enjoy an evening of great food, music and friendship. Please watch for an email or letter in August reminding you and asking for an RSVP. We do hope that you will be able to join us.

We are excited and optimistic about the future both for you and for our firm. We continue to receive large influxes of new funds thanks to you and your many referrals that we receive every month. No one said securing a viable financial future is easy; nor should it be. There are many challenges and headwinds that we will face every day. The markets contain risk and they offer reward. Our task is to balance the two and to deliver good returns with an acceptable amount of risk.

If you have questions about your holdings or about the general condition of the economy, please contact us at once. If we do not have a current email address for you would you please email us and allow us to add you to our regular list of clients with whom we correspond. Our email addresses are jspreng@sprengcapital.com, tbrown@sprengcapital.com and lkunzer@sprengcapital.com. Please be assured that we are monitoring market situations at all times.

If there have been any changes in your financial circumstances of which we should be made aware, please notify us at once. If you would like a copy of our most recent Form ADV or our Privacy Policy, please call the office. If you have not visited our website, please do so at www.sprengcapital.com.

We appreciate the opportunity to work with you, your families and your businesses. We are very grateful for the many referrals that you have provided to us. We can think of no greater compliment than to have you recommend us to your family and friends. We will continue to do our very best to provide you with healthy, consistent returns with a minimum of risk. Always remember, "Investing is a marathon, not a sprint."

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