Winter
2015

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.

"I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma, but perhaps there is a key. That key is Russian national interest." Winston Churchill October 1939

"The secret of politics? Make a good treaty with Russia."
Otto von Bismark-1st Chancellor of Germany 1871

2014 may well go down in the history books, or be chronicled on the internet, since books seem to be as ancient a device as a manual typewriter, as the year that the former Soviet Union started its climb back to the heights of a super-power nation. Russia's Premier for Life, Vladimir Putin, had quite a year in 2014. It all started in Sochi in February as Russia hosted the World for the 2014 Winter Olympics. Russia spent over $51 ***billion*** to construct venues and housing for the athletes, world press and tourists. Despite huge cost overruns, which gave Sochi the title of the most expensive Olympics ever by exceeding the paltry $44 billion that China spent on the 2008 Summer Olympics in Beijing, events seemed to go off without a hitch. Even the US and Western Europe, who had feared massive terrorist attacks by Muslim separists from the neighboring area of Chechnya, grudgingly accepted the fact that Putin's Olympics were a success. Little did the world know at the time that this was only Russia's opening act and far more sinister events were to follow.

The Olympics officially ended on February 23, 2014. On February 26 Russia sent in troops to secure all vital communications and transportation centers in Crimea. Russia basically invaded Crimea which was, at that time, a part of a sovereign nation and one of Russia's neighbors, Ukraine. As we have pointed out in previous newsletters, this action by Russia bears a striking resemblance to Nazi Germany's invasion of Austria and the Sudetenland, which was a part of Czechoslovakia, in the late 1930s. The "Annexation" of these lands was done under the guise of uniting the German speaking populations of Austria and Czechoslovakia with the German Fatherland. Hitler correctly read the politics of Europe in the late 1930s and surmised that the governments of Europe and their subjects had no stomach for armed conflict with Germany over such a small affair as this. Putin correctly read the politics of NATO and the current US Administration and realized that they would not go to war over the Crimea! While it is safe to say that foreign affairs is not one of President Obama's strong suits, it would be unfair to blame him for this event because the American voters and European members of NATO would not support armed conflict over a region as insignificant as Crimea. But a dangerous precedent was set by this inaction!

At the same time that Russian troops were moving into Crimea, Russian Special Forces were infiltrating Ukraine itself and fomenting armed conflict against Ukrainian troops by Ukrainian residents of ethnic Russian ancestry. The plan worked to perfection and soon Russia had established a "buffer

zone" between its own borders and the increasingly pro-western Ukraine government. The culmination came on July 17th when Russian forces, or at least their proxy soldiers, shot down a commercial airliner with a surface to air missile over eastern Ukraine killing hundreds of innocent civilians.

Why would Russia risk an all-out armed conflict over such insignificant pieces of land? Crimea is easy to understand. It was historically a part of Russia until 1954 when Nikita Khrushchev literally gave Crimea to Ukraine. To try to reclaim Crimea as part of Russia does make some historical sense. But more importantly, Crimea gave Russia a warm water port for their Navy and submarines without the risk of being frozen into their northern ports. This is hugely significant when viewed through the prism that is Vladimir Putin's Russia. As a former KGB officer, Putin was devastated at how the once powerful Soviet Union was broken up, and in his mind, forced to grovel to the West for recognition and survival of the Russian state. Putin clearly wants to revive the old Soviet state in its entire perceived splendor. He will go to great lengths and take great risks to accomplish this goal.

Russian history also makes quite clear the need for "buffer states" to protect the Motherland. One would be hard pressed to find a country that suffered more loss during World War II than Russia. It is estimated that Russia lost a minimum of 20 million ordinary citizens and soldiers during World War II. Some estimates range to over 40 million lost or over 14% of their 1939 population. For perspective, the United States lost 420,000 soldiers and civilians or 0.32% of our 1939 population. Russia survived Hitler's and Napoleon's invasions because both armies had to march thousands of miles across satellite countries of Russia to reach Moscow. Attrition by fighting over so many miles and exposure to cold weather doomed both invasions. Russia believes, and quite understandably, that "buffer zones" of satellite countries are necessary to defend her from invasion. In today's world of cruise missiles, cyber-attacks and drones I am not sure that this thesis holds up as it once did but all that matters is that Putin believes it is necessary.

The West responded with economic sanctions. Then to pretty much everyone's surprise, the world market for crude oil collapsed by over 46% in the last few months of 2014. 60% of Russia's foreign exports come from the sale of oil and natural gas. Russia's economy imploded from the combined effects of Western sanctions, the prices of crude oil and natural gas plummeting and the collapse of their currency, the ruble, in response to the sanctions and oil prices.

While those of us who remember the Cold War and the constant overhang of nuclear annilation may take delight in Russia's current plight, great care needs to be taken to not push Russia too far into a corner. In 1999 Russia was experiencing great distress from the conversion to capitalism, democracy and free markets. Russia defaulted on all of its debts in 1998 and the world viewed Russia as a poor, Third World country, much to the disgust and chagrin of former KGB officers like Vladimir Putin. The Chechnya War that killed thousands of Chechnyians began when an apartment complex was blown up and 300 civilians were killed in the blast. Chechnyian separists were blamed and called terrorists. Russians troops were sent in to quell the "uprising" and thousands were killed or displaced and property destroyed or taken. Unfortunately, it would appear that the apartment blast that killed 300 and started the shooting was set by Russian Security Forces to distract the media and world eyes from Russia's economic and political issues that were fomenting at the time. Russian Security Forces were actually caught setting explosives in another apartment building in the city of Ryazan, presumably to keep everyone occupied with Muslim terrorists in Chechnya. The Russian government issued a statement at the time the Security Forces were caught indicating that it was a "training exercise". The bottom line is that Russia has been and will be ***very*** unpredictable when cornered. Our current Administration and Congress need to tread very carefully and not provoke the old Soviet Bear into doing something incredibly dangerous and stupid in order to distract their people from their current misery.

What does this long dissertation on Russia have to do with our investments? The obvious answer is that I don't think anyone but the most aggressive and adventuresome would want to have any money invested in Russian companies right now! But more to the point, the reality is that there are a lot of things that affect our investments that go far beyond profits, losses, sales and new products. It is truly a world market in the 21st Century. The casinos in Las Vegas are struggling because the wealthy of China are not flying to Vegas to gamble like they have in previous years. The new Premier of China supposedly is cracking down on the graft and corruption that are undermining the Chinese government. The wealthy Chinese elite are avoiding Las Vegas so as to not draw attention to themselves and the obscene wealth that they have pilfered from their country. Who knew that an investment in Las Vegas hotels and casinos could be so adversely affected by a change in Chinese political leaders!

For all of the issues with Russia, Ebola, lost airliners and a mid-term election in the United States, the US equity markets had a good year. For the year the Dow Jones Industrial Average, comprised of 30 large US companies had a return of 7.52% for the year. The NASDAQ Index, comprised of technology companies, had a return of 13.40% and the Standard & Poors

"The life expectancy at birth of an average American was 61.7 years in 1935, the year that Social Security was created. Life expectancy at birth today is 78.8 years. (Center for Disease Control)

500 Index, consisting of the 500 largest companies on the US stock exchange, had a yearly return of 11.39%. At the start of 2014, all of the "experts" predicted that bonds would have a terrible year in 2014 as interest rates started to rise. This speaks volumes to the accuracy of ***all*** of these so called experts, the US 10 year Treasury bond rose basically 7% for the year and the 20 year and longer US Treasury bond was up over 23% for the year! So much for the accuracy of television and investing personalities!

2014 is over and in general it was a good year for investors. If you owned oil or energy holdings you received a lump of coal in your stocking at the end of the year. All energy companies, no matter how well run or financed, took quite a beating in the last few months of 2014. Anyone driving a car or heating a home or business is very pleased with the low prices but investors counting on their energy companies to fund their Christmas shopping were sorely disappointed. The low energy costs will certainly be a tail wind for the economy in 2015 as consumers will have more cash left over from each fill up to spend on other needs and wants. Will low energy costs persist for a long period of time? Probably not, but energy prices certainly could stay low throughout most, if not all, of 2015.

Economic growth and lower unemployment both were pleasant surprises in 2014. Unemployment inched down to under 6% and the best news of all was that GDP or Gross Domestic Product growth appears to be growing at a 5% clip for 2014. That is a very good growth rate for an economy as large as the US. Most experts think that if we were able to sustain a 3% annual growth rate that it would be very good. A 5% growth rate bodes very well for future employment and economic output.

While we criticize politicians and Administrations on a rather regular basis, we try to be fair and compliment them when a compliment is warranted. This is one of those times when a compliment is necessary. We don't know if it was President Obama's actions or the inactions of Congress (maybe a combination of the two) but whatever Washington did, or did not do, obviously helped the US economy. We would love to say to our elected officials, "Keep up the good work" but that is probably stretching it a little too far!

The mid-term elections went as the pundits predicted and President Obama's party and policies took a significant pounding by the voters. Voter turnout was an abysmal 37% of registered voters, second lowest voter turnout ever recorded to the 34% in 1942 when the US had millions of men scattered all over the world in World War II. An absolutely staggering statistic is the fact that exactly half or 30 of the 60 Democratic US Senators that voted for Obamacare are no longer in office just 4 years later. That is a stunning repudiation by the voters! Three Senators died in office and the rest were either defeated in their bid for re-election or 19 of the 30 read the political tea leaves and chose not to run again but to retire to a lucrative position as a lobbyist or work for a government contractor. Is it possible that the Republican held Congress will submit a repeal of Obamacare to President Obama to sign or veto? Anything is possible but it will be like Don Quixote tilting at windmills. President Obama will veto the repeal and it will die on the floors of Congress. How difficult is it to overcome a Presidential veto? Of the 1497 vetoes in US history only 110 have been overridden or just 7%. US voters have not elected a veto proof Congress since 1964 when Lyndon Johnson and the Democrats destroyed Barry Goldwater and the Republican Party. In another stunning admission, Senior Democratic Senators Chuck Schumer of New York and Tom Harkin of Iowa both threw Obamacare under the bus by announcing that the Democrats had wasted an opportunity to help all Americans with a better economy and more jobs after 2008. Both Senators indicated that Americans wanted better economic opportunities not a change to their health care! Former Speaker of the House Nancy Pelosi, who was responsible for marshalling the Democratic votes in the House of Representatives to pass Obamacare, was appalled that Schumer and Harkin would make such statements saying that Schumer's comments were "beyond comprehension"! Isn't politics grand?

Voter discontent concerning Obamacare certainly was not helped by an admission from a gentleman named Jonathan Gruber, an economist from MIT. He had been hired by the Obama Administration to help write the rules for Obamacare. Mr. Gruber indicated that basically the American voter was too stupid to understand the complexities of the bill and that the voters had been lied to about the bill to ensure its support and passage in Congress. As you might expect from such an ill-conceived comment, opponents of Obamacare were given more fuel for the fire of rage against the bill. Mr. Gruber contended that he thought that his remarks were "off the record"…….as if that makes them any less true. Sometimes the smartest and brightest people can say and do the most stupid things.

One final note, Lois Lerner of IRS infamy conveniently claimed, as she retired and headed out the door with her public pension, that her hard drive had crashed and destroyed all of her emails concerning targeting of opposition groups to the Administration. Surprise, surprise, an Inspector General magically found over 30,000 of Ms. Lerner's emails in question on a back-up server at IRS headquarters.

"Things may come to those who wait, but only the things left behind by those who hustle."
Abraham Lincoln

In spite of all of the usual shenanigans in Washington, perpetuated by both parties, we actually anticipate a favorable environment for investors in 2015. In 19 of the last 20, third year of an Administration's term, the US equity markets have had positive returns. 1939 was the only third year out of the last 20 terms in which the US equity market did not have positive returns for the year. That is a high probability of success. Why would this occur? Presidents and Congress are juicing the economy to try and have a favorable economic outlook for re-election and for their Party's success in the upcoming Congressional and especially, Presidential election. Favorable economic stimulus packages, trade pacts and tax treatment are all staples of Washington to, in essence, put the economy on steroids leading up to an election. The third year election cycle, along with low energy costs, lower unemployment and a growing economy all give us cautious optimism for a reasonable rate of return in the equity markets in 2015. Of course, Russia and a myriad of other dark storm clouds are always hovering over us each and every day.

Our task as investors in 2015 will be like any other year, to garner good rates of return with an acceptable amount of risk. This is not an easy task and requires diligence and hard work. Energy investments are a prime example of the obstacles that we face. We all know that energy costs will rise again in the future. However, how long is in the future? We can buy great energy companies on sale right now…… and then watch them drop even more in price if the price of crude oil continues its free fall in price! As investors we need emotional stability and above all, patience.

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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