Winter
2018

Spreng Capital Management Inc.

Spreng Capital Management is an investment advisory firm with the Securities and Exchange Commission. 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 25 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.

"May all your troubles last as long as your New Year's resolutions."
Joey Lauren Adams

What a year! If I knew any other languages I would repeat this phrase multiple times in multiple languages just for emphasis. In an investment year that literally began the day after the 2016 Presidential election, investors around the world rejoiced in exceptional gains. The US markets recoiled initially at President Trump's election and then immediately began an inexorable rise over the past 14 months. It has risen 25% since Election Day in 2016. Those obsessed with politics would give all of the credit to President Trump and his cutting of onerous regulations that had been imposed by his predecessor. To be fair, based upon surveys of small business owners in the US, credit must be given to President Trump for relieving small business owners from regulations that the owners felt were strangling their efforts to grow their businesses. But that does not explain why the rest of the world's stock markets rose so substantially this year. While the United States stock markets enjoyed very nice returns, we lagged behind the rest of the world's markets. Japan, Europe and emerging markets all garnered equal or better returns than the US this year. Why was it such a good year? One word sums it all up…….profits. Of the over 20,000 companies that comprise the world's equity markets, profits and revenues rose in the vast majority of these companies. It is not complicated. We can obsess all that we want to over politics, threats of war, weather and hurricane damage and the rise of the robots but when all the noise subsides, profits and revenue growth are still the king in the investment world!

	Year	Quarter
DJIA	25.08%	10.33%
NASDAQ	28.24%	6.27%
S&P 500	19.42%	6.12%

As is always the case, there are two sides to every coin or discussion. While corporations are reveling in record profits, employees continue to get squeezed by meager pay increases, rising health insurance costs and the looming rise of the robot overlords and artificial intelligence. Ray Dalio of Bridgewater Associates terms it best when he alludes to the two economies in the US. He surmises that the top 40% of the population in the US is doing very well but that the bottom 60% is really struggling with the fast paced changes in today's globalized economy. Lack of education, lack of mobility to move to where the jobs are located and to some degree, lack of effort or desire to improve their lot in life, can make life quite miserable

when you can see those doing so much better than you on your television set every night. We do not portend to know the answers. Income inequality has been around for thousands of years so it is not something new nor unique to the US. Monarchs and Emperors in the past lived lives that make today's gilded age look impoverished. But almost all kings and emperors are gone now, swept away by the masses that they once ruled.

Time will tell how this all plays out. Societal pressures from income inequality tend to run in cycles. The billionaires of the original gilded age of railroad and oil tycoons in the late 1800s were reduced to merely millionaires by Teddy Roosevelt and his Trust Busters. The Roaring 20s came into being with the advent of new technologies like the car and radio. Teddy Roosevelt's cousin, Franklin Roosevelt, ushered in the New Deal and Social Security during the Great Depression because things were so bad that anything had to be better than the way that it was at the time. Society has a way of balancing power and wealth, either through the ballot box or violence. We are a long ways from social upheaval but if Ray Dalio is correct, the seeds are being planted.

The Federal Reserve raised interest rates three times in 2017, a quarter of a percent each time, and the markets still did well. The Fed has announced that they anticipate raising rates three more times in 2018 to try to return interest rates to more normal rates. The problem is that when it is all said and done, the Fed does not really control interest rates, investors do. While the Fed might like to have interest rates rise in the US, 17% of the world's debt is currently yielding a negative rate of return! Over $10 trillion dollars of bonds are guaranteed to lose money for their owners at current interest rate levels. That means investors are paying the German government to take their money for the next ten years to just hold it for them! Now imagine that the US continues to raise interest rates, what are you as an investor going to do with your German bonds that are yielding -0.7%? You are going to sell your German bonds and buy US Treasury bonds. In the process, you will drive down the interest rate on the US Treasury bonds because $10 trillion dollars from around the world will flow into US Treasury bonds at the higher interest rate. The end result is that interest rates in the US will remain lower than the Fed would prefer. The sword of globalization always finds a way to cut on both sides!

The big news at the end of 2017 was the passage of the Republican Party tax cut. While it was passed completely along Party lines, which conjures up horrible images of Obamacare's passage, it will take time to ascertain how successful these changes will become. As is usually the case in today's polarized political scene, this was either the greatest tax cut in history or the biggest giveaway to the wealthy ever, depending entirely upon whether you got your news from Fox or the New York Times. I would dare to venture that in the end, the truth lies somewhere in between the two.

For those bemoaning the tax breaks to corporations, blame it on the global economy, not the Republicans. The average corporate tax rate around the world is 24%. The US was at 35% before cutting it to 21% to keep in step with the rest of the world. It should come as no surprise that several countries are already contemplating reducing their corporate tax rate to lower than 21% to counter the newly implemented cuts.

We do have concerns about how the corporations are going to spend this permanent windfall from the corporate tax reductions. Yet we readily acknowledge how difficult, if not impossible, it would be to legislate how each company should spend their new found cash. It would be wonderful if the companies gave raises or increased benefits, shored up their pension plans, or spent funds on new plants and equipment to expand their businesses, and as a result, hired more workers. Some will, but some won't either. Several companies have already announced year-end bonuses for their employees. We highly commend these companies for their immediate actions. The danger is that this is a publicity stunt that this is done for one year and never again. We always asked during our internal deliberations about companies that we add to your portfolios, "How much is enough? Do you really need $1 billion profit a quarter? Can't you give $50 million in bonuses to your employees and ***only*** make $950,000,000?"

If corporations choose not to spend their new-found money on employees, new equipment and plants or to expand their businesses, they will probably give it back to shareholders in the form of increased share buybacks or dividends. Now as much as we love dividends, especially those given by companies that routinely increase their dividends by more than the rate of inflation, this practice raises issues as well. Only 50% of US households own any stocks at all, either directly like

you do through investing with Spreng Capital or through a company retirement plan. Therefore, not everyone will benefit from the additional benefits that the tax cuts will provide to corporations. We can only hope that the vast majority of companies will choose to re-invest these new funds in jobs and growth which will benefit all of us much more in the long term.

The caps on mortgage interest and state and local taxes will definitely hurt individuals residing in high-cost-of -living states, but we've never known of anyone who bought more house than they could afford just to take advantage of the interest rate deduction on their taxes. Additionally, if living and working in the high cost of living states is so great, we imagine people will still choose to live and work there no matter how onerous the taxes become. If not, we've had migrations before and we'll have them again.

For all of the television air time and ink spent on the tax bill, we are much more excited about the possibility of an infrastructure bill. Let's be clear about something, we ***desperately*** need to get to work as a country on fixing our electric grid, roads, bridges, rails, tunnels and water plants! We have not done nearly enough to maintain our current infrastructure or expand it and both political Parties are to blame. It takes a long time and a lot of money to do these projects. Commitment is required from elected officials whose attention span sometimes runs only as long as the next news or election cycle.

For those of you who live in Ohio, exhibit A is the 270 Outer Belt around Columbus. It is 55 miles long. Construction began in 1962 and was completed in 1975 at a cost of $175 million. I defy anyone to tell me that almost all of Columbus, Grove City, Reynoldsburg, Delaware, Westerville, Dublin, Hilliard, New Albany and Pickerington's growth has not been 100% due to the building of this highway around Columbus!

Estimates are that a major infrastructure bill could cost a trillion dollars over 10 years. Now I know that any member of Congress who is a card carrying member of the Freedom Caucus just had a stroke when they heard a trillion dollars. They have never met a "good" tax in their life. Does anyone really want to know how much we, as a country, have spent in Afghanistan, Iraq or Syria over the last 15 years? Very simply, gasoline prices are low due to increased oil production from fracking. We need to raise the gas tax 10 cents or more a gallon for the next ten years to be used solely for infrastructure. Take the tax off after ten years and force it to be re-instated by Congress at that time if they feel they need to continue with the additional funds. Can you imagine how much concrete, steel, copper, rubber, bulldozers and backhoes would be used? Can you imagine what construction workers who are working overtime during the summer months are going to do with the paychecks they would receive? It is called velocity of money. When people are employed and feel secure in their jobs they will spend money on restaurants, cars, houses and college for their children. If President Trump wants GDP to grow to 3 to 4% annually and add high quality jobs, there is no better way than a massive infrastructure bill! FDR put millions of people to work with massive public works projects in the 1930s. It worked then, it will work now.

It is not going to be easy because the Democrats will be very reluctant to give the Republicans a "win" in an election year, especially one that could boost the economy so much. But the traditional Democratic trade unions will be applying immense pressure to their Democratic friends to support these high paying construction jobs. If ever there was an action that all elected officials should get behind, we are hard pressed to think of one more appropriate. This is one of those "no-brainers" where everyone benefits. Workers get high paying jobs, investors get better profits in their holdings, and the country (remember Columbus) gets much needed repairs and immediate long-term growth prospects. We can think of no better way to help bridge the divide between the 'two economies" and income inequality that currently persists than a massive infrastructure bill.

So once again, it is time to turn the page to another year, to reflect upon all of the good, and all of the bad, that occurred over the last twelve months. There has been joy, there has been personal loss, there have been setbacks, and there have been fortunate gains. It is now time to focus on 2018. We have discussed already the potential gains from the recently signed tax bill and the hopes that we have for an infrastructure commitment as well. What challenges lie ahead for investors in 2018? One thing caught our attention last week. The US consumer is spending money again. Retail sales for the Holidays generally were reported to be quite good and new housing construction has been positive for several months. These are both good signs for a continued economic expansion. However, (don't you just hate it

when I always have to give both sides of the discussion), disposable income is not keeping up with consumer spending. The US savings rate, which has averaged over 8% a year since the 1960s, is only 2.9% a year now. One only can deduce from this that consumers are starting to rack up more and more credit card debt again. There is good debt and there is bad debt. If consumers are using credit cards to buy essentials for their daily lives because their income levels have been stagnant since the 1970s, then this is a serious societal problem. If they are using it to buy an $8 Starbucks coffee every day, then shame on them!

Of course, North Korea and the potential for nuclear Armageddon is constantly a potential issue. Of all of the daily issues that can cause one to lose sleep, North Korea and the collapse of the electric grid can cause as many sleepless hours as everything else combined. But as we said in the very first paragraph of this newsletter, we must force ourselves to ignore the daily noise and focus on the big picture……..corporate profits. I know, I know, the irony is not lost on me that I am telling you to ignore a possible nuclear holocaust and focus on corporate profits, but this is an investor newsletter after all! As long as consumers continue to consume and corporations continue to innovate and market, as investors we will be fine. It is highly unlikely that 2018 will be as good of a year for returns as was 2017. Patient investors who can ignore the daily noise will be rewarded in the long run.

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 lemory@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." ***"Risk means more things can happen than will happen!"*** Elroy Dimson-London Business School

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