Summer
2012

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 19 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.

"Give me control of a nation's money and I care not who makes her laws". Mayer Amschel Rothschild

"When sovereign debt reaches a certain size, it is never repaid". Adam Smith

There are certain maxims that we are taught early in life. Don't run with scissors. Don't lend money to friends and family. One personal family favorite is to never work for a Board of Directors, the Board constantly changes. And of course, don't argue over politics or religion. You would never want to argue as to whether or not the four Presidents whose faces grace Mount Rushmore were worthy of such adulation. In my humble estimation, Alexander Hamilton has never received his proper place in history. An early death due to an inane, male, ego-driven duel with Aaron Burr, doomed Hamilton to the back pages of United States history. We have spoken before in our newsletters about the incredible importance of Hamilton's role in convincing the ultimate small government advocate, Thomas Jefferson, to allow the newly formed national government to assume all of the debts incurred by the individual states during the Revolution. The moral argument at the time was that the American Revolution would never have been successful without financing by the individual states. However, what has been lost in history is that Hamilton ***never*** agreed to assume ***future*** debts of the states, only the existing debts. Several states actually went bankrupt in the 1800s and had to file for bankruptcy until all states passed constitutional laws that, in essence, prohibited the states from running deficit budgets.

Index	2nd Qtr	YTD
DJIA	(-2.51)	5.42%
NASDAQ	(-5.06)	12.66%
S&P 500	(-3.26)	8.31%

In 1776 the colonies declared their independence from England. There was no country. There were 13 independent states that had a treaty, the Articles of Confederation. This treaty was similar to the Maastricht Treaty that created the European Union and the euro currency. The individual colonies, or states, had debt problems and tariffs that were charged on goods that were shipped across state lines, just like Europe before Maastricht. 13 years later the states began the process of forming the central, national government that we know today. A constitutional convention was called, a country was formed and a president was selected. Most importantly, a national treasury was formed and central taxation at the national level was imposed. The newly formed country had the ability to raise revenue through taxes, issue bonds to finance debt and to borrow for the common good. The disaster of the current European Union is that there is no central taxation, no central control of individual country budgets or spending, and no common treasury. It is a collection of countries operating for their own individual wants and needs with favorable trading privileges between the countries involved. As we have often discussed, Germany bailing out Greece, Spain, Portugal and possibly Italy is akin to United States taxpayers having to bail out Mexico's government because we share a trading treaty with Mexico called NAFTA. This would not be eagerly embraced by US taxpayers. German taxpayers are justifiably balking at a continuous blank check being given to their less productive Southern partners in the European Union. France's newly elected Socialist government just lowered the national retirement age in France to 60. Germany's national retirement age is 67.

The ultimate difficulties facing a potential United States of Europe are the centuries old animosities and memories of wars and perceived slights that exist in the collective minds of most Europeans. It is hard to imagine that the ancient citizens of Greece welcomed the Roman conquerors with open arms because they thought that becoming a part of the Roman Empire would allow Greeks to borrow money at a lower interest rate! Countries will not willingly give up their sovereignty and traditions just because it makes sense financially or allows them access to a lower interest rate. The Euro Zone is comprised of 27 voting members. Imagine if you chose 26 of your closest friends and tried to vote on some extremely divisive issue. Even though these are your best friends who obviously would share a great deal of your likes and dislikes, what are the odds that you would get 27 votes to line up one way? I think the answer to this question would be, slim and none and slim just left town!

So what does this history lesson of the 18th century have to do with the investment markets of the 21st century? Once again, 2012 has become a repeat of 2011 in the investment world. It has become all Europe, every day, all day! The relevance to Hamilton and assumption of states' debts has 100% correlation to what is occurring in Europe each and every day, driving the investment returns for our clients. France just voted in a Socialist government for the first time since the early 1980s. Greece had their latest election on June 17th and at least for the time being, has pledged to continue with austerity budgets and tax increases to stay in the euro currency. It was not exactly an overwhelming vote of confidence with only a little over 30% of the electorate supporting this vision.

We indicated well over a year ago in May of 2011, that Greece was broke and that they would eventually leave the euro currency. Nothing has really changed our opinion from that original hypothesis. Greece's wage scale, pensions, tax collections and spending on social programs makes them non-competitive as a society. They must compete with China and India's billions of workers. As an example, Greece has 600 categories of workers who can retire at the age of 50 with full pensions for life! It is little wonder that Germany is demanding concessions or austerity from Greece and that Greece's populous is revolting against the withdrawal of such amenities and perks. There already have been "runs" on Grecian banks as Greeks withdrew as much as $1 billion euros a day, worrying that their euros would be declared worthless and that the old currency, the drachma, would be re-issued. How would you like to have business dealings with Greece right now? Do you demand to be paid up front before any product is shipped? There are stories that Greek hospitals are suffering from shortages of critical drugs because drug firms won't ship the drugs to them for fear of either not being paid or being paid in worthless drachmas.

The worst repercussion that would result from Greece leaving the euro currency is the "contagion effect". If Greece fails, who is next, Portugal, Spain, Ireland, Italy or all of them? Vivid memories of October 2008 linger when Lehman Brothers fell followed by Wachovia Bank, Washington Mutual and Merrill Lynch all failing in a very short time just about bringing the world's financial markets down into the 2nd Great Depression. Investors are rightfully spooked when they contemplate whole countries going under instead of just corporations. Italy and Spain are having difficulty borrowing money for less than 7% interest per year. These governments think that crossing the 7% threshold is just terrible. How can they possible afford to pay so much interest? Seriously, would you loan your own personal money to them for any less than 7%? If it were our own money we would not even touch 7% a year. We would demand more for the risk incurred! When I was in Poland right after The Wall came down in 1991, inflation was running at 50% a year and to borrow money cost you 50% interest..........per year! It is ironic that Poland now has one of the healthiest economies in the entire euro zone in 2012.

Will we eventually see a United States of Europe? We truly don't know. Politics and thousands of years of personal animus are difficult obstacles to overcome. What is even more important for our clients is the time table. Will it take another 13 years for Europe to solve their issues? Remember that it took our founding fathers that long to realize that the Articles of Confederation no longer worked before taking the leap towards our current government and our Constitution. If investors are growing weary of Europe's issues affecting them so greatly over the last two years, imagine their consternation if it takes another 11 years to even begin the process of correcting their ills.

So how did the US equity markets perform during the quarter just completed? The Dow Jones Industrial average was down (2.51 %). The NASDAQ Composite Index was down (5.06 %) and the Standard & Poors 500 Index was down (3.26 %) for the quarter that ended on June 30th. After an exceptional quarter at the beginning of the year we should not be surprised that there was some profit taking or re-positioning by the daily traders. This coupled with Europe's issues made for a toxic brew that almost guaranteed that this quarter would not be positive in the markets. For the year the DJIA is up 5.42 %, the NASDAQ is up 12.66 % (largely thanks to Apple) and the S&P 500 is up 8.31 %. These are actually quite good returns for six months but it has certainly been a volatile ride to get to this point.

Again, the important question always remains, "Where do we go from here"? As we write this quarterly epistle, the Supreme Court just ruled by a 5-4 vote that Affordable Health Care, i.e. Obamacare, is constitutional in its entirety. This was a surprise to court observers who anticipated that the individual mandate section of the legislation would be struck down. Conservative Chief Justice John Roberts crossed ideological lines to vote for the constitutionality of the legislation. It is too early to know just how this huge new government program will affect the economy. When Medicare and Medicaid came into being in the 1960s I doubt that very few people anticipated that Medicaid would eventually grow to consume 24% of all the individual states' expenditures in 2011! How ironic that over the past 12 years, basically one Supreme Court Justice has elected a President and created a huge new government program. Such is the power of the Supreme Court and a 5-4 vote!

Of immediate concern is the incredibly anemic job creation that continues to plague the US economy's recovery as a result from the Great Recession of 2008. Unemployment still hovers around 8% and the under-employed, which is probably a greater reflection of the overall health of the labor market, is still 14.8% in May. At the current rate of monthly job creation, the US unemployment rate will not drop below 5% until ***2025!!!!*** Even if we created 250,000 jobs a month, which is higher than the job creation in the booming 1990s, it would still be 2020 before we settled down below 5% unemployment. This staggering stagnation of new job creation is a serious, long-term, structural issue. All-time record lows of below 3.75% for 30 year home mortgages do nothing to boost home sales if potential home buyers are unemployed or under-employed. US Gross Domestic Product or GDP, cannot grow above the pedestrian 1.9% a year in which we are currently mired, if there are not new jobs being created to fuel the recovery and potential growth. As investors, our returns on our fixed income holdings are almost negligible. In June US Treasuries hit a 200 year low for interest rates. English gilts, the English description for their government debt, hit a 300 year low and German two year bonds actually hit a negative interest rate of (0.012%). In other words, people were paying the German government money to guarantee that they would get their money back in two years! If fixed income returns can become negative, what does this mean for equities? Historically, equities have generally grown at the pace of national GDP plus dividends. If GDP languishes at 2% or below, then the returns that investors can generally expect to receive will be whatever the dividend rate is on the equities in an investor's portfolio.

This is the "New Normal" that we face. Slow job growth, anemic economic growth, generational low to negative interest rates on fixed income and low returns on equities. This really should not be surprising. If it took us 20 years to gorge on cheap debt we cannot clean up the excesses in 4 years. Individual investors have started cleaning up their own personal finances and most corporations are healthier than ever. But government finances have never been worse. The debt of the 1990s has just been transferred from the individual to the government.

It is never as bad, or as good, as it may seem. There are a lot of reasons for investors to be encouraged. As we pointed out earlier in this newsletter, we have had very good returns through the first six months of 2012. Traditionally, an election year has been good for the markets as Administrations and Congress throw money into the economy to try to stimulate activity and profits. Happy voters tend to vote for incumbents or the retiring President's party. Obamacare is now the law of the land. Hopefully, the business community can now plan for its implementation and calculate the costs to their businesses without the uncertainty that permeated any discussion prior to the announcement. While the markets certainly have been difficult to successfully navigate over the past few years, our clients have weathered the storm far better than the average investor. The Federal Reserve reported that from 2005-2010 the median value of stock and mutual fund holdings of the average American investor fell ***33%!*** Corporate profits remain good and more importantly for consumers, the price of gasoline continues to drop. It was just last March that all of the pundits were predicting that gasoline could hit well over $4 a gallon by summer. Instead, gasoline prices and oil have fallen for 10 consecutive weeks providing a much needed reprieve for strapped consumers; so much for the experts and their predictions. The Federal Reserve announced that they are ready to provide more liquidity and stimulus to the economy if economic conditions worsen. The G-20 met in Mexico and promised to boost government spending if it proved necessary. Both of these proclamations are wonderful for the world equity markets and short term economic activity…….but horrible for cleaning up government debt that was discussed previously.

Investing is a constant trade-off of risk versus reward. We are still comfortable that 2012 will be a good year in the equity markets. That does not mean for one second that it will not have its moments where fear overtakes greed and the markets sell off. This is perfectly normal and has been the norm for as long as there have been markets in which to invest. We are constantly monitoring the investing landscape. In every newsletter we urge you to contact us if you have any questions or concerns. The world is no worse, nor our investment options any more risky than they were in Mayer Rothschild or Adam Smith's era. Be patient, keep things in perspective and we will be fine.

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. 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".

As a final note, we will once again be hosting our Annual Client Dinner on ***September 5, 2012 @ 6:00*** at the Crawford County Youth Building at the fairgrounds in Bucyrus. Attendance continues to grow every year so please don't miss this opportunity to join us for an evening of music and meeting new and old friends. Please watch for your invitation in August. Once again the date is ***September 5th @ 6:00***. We do hope that you can join us.

"Investing is a marathon, not a sprint".

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Monday-Friday 8:30am-4:30pm
Closed 12:00pm-1:00pm