Fall
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.

The world doesn't end very often!!!! How simple, how poignant, how intuitive a few brief words can be. We feel so strongly about the content of this sentence that it bears repeating. ***The world doesn't end very often.*** I've discussed before, the significance of my ancestors' pictures in my office. I visually acknowledge them every day for the incredible gifts of education and a stable family life that they have given to me and to remind me that the world has faced incredible financial, physical and untold misery and fear. Yet the sun continues to come up every day. I am sure that the Civil War, World War I and II, the Spanish flu epidemic of 1918 that killed 50 million people worldwide, the Great Depression and even the decision to pack up all their meager possessions and immigrate to the United States in the 1830s, were far more traumatic and life threatening than the daily concerns that we face today. In a world dominated by instant information emanating from the internet, television or cellphone, it is very easy to lose sight of the important issues and larger picture, whether it pertains to the investment scene or life in general.

Index	3rd Qtr	YTD
DJIA	4.33%	9.98%
NASDAQ	6.17%	19.62%
S&P 500	5.76%	14.56%

From terrorists killing a US Ambassador to all the mud-slinging an election season can bring into our homes on a daily basis, investors and the general electorate have been inundated with negative information. (For those of you who do not reside in one of the infamous "Swing States", you can count your blessings. If you think your election advertising is intrusive, try living in a "Swing State"!) Despite all of this overwhelming negativity that surrounds us each and every day, everyday life continues to go on unabated. Perspective, it is something that is too easily lost in the rush to be the first owner of the latest iPhone. (Don't these people waiting in line for hours or days for the newest phone or gadget ever work? Has their old cell phone suddenly stopped working?)

We started our brief comments at our Annual Client Event last month with the sentence that begins this newsletter. We also suggested to our clients and to their friends in attendance that they should just turn all of their electronic devices off at the end of the day and go for a walk or to one of their children's or grandchildren's events. The news is the news, and as we have said before, the media will always tell you the worst because "if it bleeds, it leads". That is not the media's fault. It has been that way since the advent of the printing press by Gutenberg in 1439. The news is always bad. The economy or stock market is never doing well enough. Candidates for election always have a puerile brain. Abraham Lincoln was roundly criticized as a candidate in 1860 and he turned out to be a pretty good President. Step back from the information overload and keep everything in perspective. We invest in companies that make quality products that a great many consumers around the entire world want to use or own. We don't speculate or day trade on the latest hot gimmick or trend. The world doesn't end very often and it won't end in 2012.

We made a list early in 2012 of the possible things that could go wrong in the world or the United States that would affect the investment markets and force us to make significant changes in our investment strategies. We posted the list in our Spring 2012 newsletter. In no particular order of importance the list contained the following:

- Iran-Israeli nuclear standoff
- US Presidential and Congressional elections
- expiration of Bush tax cuts
- impending "fiscal cliff" of tax hikes and budget cuts on January 1st of 2013
- European debt concerns and recession
- slowdown of the Chinese economy
- and last but certainly not least, Quantitative Easing 1-2 and now 3 by the Federal Reserve (basically printing money with no backing but the word of the US government that the money is good).

So here we are in early October, with less than three months to go until we start another New Year and absolutely none of the obstacles that we listed in January have been resolved or are even close to a resolution. In fact, obviously there are some new ones that we could add to the list. A prudent person would surmise from this, that a vast majority of the list still will be of some degree of concern 10 years from now. We could choose 8 years or 12 years to guarantee inclusion of another election cycle in the process but you get the point!

So with all of these obstacles to overcome, we arrive at the end of the 3rd quarter of 2012 with very good results in the US equity markets. Three quarters of the way through the year and the Dow Jones Industrial Average is up 9.98%, the NASDAQ Composite Index is up 19.62% thanks to the cult of Apple and the Standard and Poors 500 Index is up 14.56%. If we closed the books for the year right now we would have had a very good year in the US equity markets.

We anticipated that 2012 would be a good year and alluded to this in our newsletter back in January. We were cautiously optimistic and to this point of the year, our optimism has been rewarded. Some of our optimism was driven by the realization that it is indeed a Presidential and Congressional election year. Our trusty solons will do anything legal to guarantee re-election. From 2002 until 2008, 12 Congressional incumbents lost in primary elections. 13 members of Congress died in office in the same time period. Therefore, one would have to deduce that the odds of losing a primary fight are lower than dying in office! Elected officials are very good at bringing home the bacon or pork in an election year. Even though Hugo Chavez of Venezuelan dictator fame had the same approval rating in 2007 as Congress did in 2011, a measly 9% approval rating, the vast majority of Congress will be re-elected and life will go on as before. It is always a case of your bum is the problem, my guy is ok! So to guarantee re-election, Presidents and members of Congress will pour money into projects back in their Districts, or Presidents will grease the wheels of industry in a "Swing State" to pull as many voters their way as possible. The net effect of this largesse is a happier electorate and a generally positive stock market and business environment.

Our optimism at the beginning of the year was fueled by more than just a perfunctory glance at past election cycles. Investing is always about staking ownership claim to the profits of a good business. The profits of US corporations have been on a phenomenal streak. Profit margins, the percentage difference between revenue brought in and total expenses of a company, and ultimately, profits in dollars, have been of historical proportions. Low interest rates and incredible corporate efficiency, driven a great deal by the Great Recession of 2008, led to record earnings at almost every corporation. Capitalism has led to the greatest standard of living the world has ever known, but there is a dark side to the pursuit of the almighty dollar.

Federal spending on Social Security, Medicare and Medicaid has risen from 16% of total government spending in 1967 to 41% of spending in 2011 (source: Office of Management and Budget)

Unemployment in the US still hovers over 8%. Only one President, Ronald Reagan, has been re-elected with unemployment over 8%. The U-6 employment report, or the under-employed rate, was 14.7% in August. Simply put, corporations laid off workers in 2008 in a direct response to the Great Recession and just have not felt the need to re-hire. Efficiency is great for corporate profits but horrible for trying to grow the middle class. “Robbie Robot” only needs a quart of oil every now and then to be happy. He never needs a break, never needs a vacation, never hurts his back or has carpal tunnel syndrome. It doesn’t take a great leap of imagination to realize that what jobs have not been exported to low wage countries have probably been undertaken by “Robbie” and his cohorts. Thus, the under-employment rate remains stubbornly high.

Without entering into the political minefield of a Presidential election cycle, we have two comments. The Supreme Court upheld “Obamacare” by the narrowest of margins, 5-4. For those of you that are upset by the fact that such an important issue as national health care can essentially be decided by one person who is never accountable to the American public, keep this in mind. The Presidential election of 2000 was decided by one person in another 5-4 vote. It doesn’t matter if it was Dred Scott in 1857 by a 7-2 vote or Obamacare in 2012 or Bush v. Gore in 2000 by 5-4 votes, once the Supreme Court decides, it becomes the law of the land. There has been a great deal of concern expressed by the business community, that regulations emanating from Washington would appear to be hindering all companies, small and large. The Affordable Care Act or Obamacare has 18 pages to define what warrants a description as a full-time employee. No wonder very few, if any, members of Congress read the entire 2000 pages before voting it into law. Efficiency plus fear of the unknown emanating from Washington have made all businesses wary of adding to their payrolls. 8% unemployment may be part of the “New Normal” for quite some time.

Another part of the “New Normal” is that the Federal Reserve continues to fear the effects of deflation more than inflation, and probably, rightfully so. Inflation is the erosion of buying power in the future of whatever currency is in use. If a house costs $150,000 today and inflation is present, the house will cost more in the future. Deflation is exactly the opposite. In a deflationary cycle, the value of your currency goes up just by waiting. For instance, in a pure deflationary environment, a consumer would delay buying a home or car because it will cost less in the future. The problem is that rational consumers will just continue to wait for the price to go down even more. Eventually, no one buys anything, waiting for the price to continue to drop but everyone loses their job because no one is buying! Welcome to the Great Depression from 1929 through 1941. Deflation is a state of mind. The Federal Reserve is going to great lengths to prevent deflation from taking hold of the American consumer’s psyche. To battle these deflationary effects, the Federal Reserve has embarqued upon what is referred to as Quantitative Easing. We are now in our 3rd stage of QE, as it is commonly referred. The basic premise is to keep interest rates artificially low. Low interest rates for home buyers encourage the buyer to buy in the first place or to buy a more expensive home. Low interest rates encourage buyers to buy cars and other big ticket items that need financing. Low rates encourage investors to buy more risky assets like stocks instead of conservative and relatively safer bonds because the return on bonds is so low. Thus the Fed pushes people into more risky purchases or investments in the name of fighting deflationary forces. The Fed has announced that they will keep interest rates low until at least the middle of 2015! This may be great for home buyers, car buyers and stock market investors, but retirees living off of the income from their assets that they have accumulated over their life-times, are absolutely getting crushed. We have often said that there are winners and losers every day in a purely capitalistic society. The Federal Reserve has chosen sides, consumers against retirees. Your outlook on the fairness and appropriateness of QE depends entirely upon which side of the equation you reside.

We are not in love with the QE concepts. We don’t think that these policies will create very many long-term quality jobs in the United States. By endorsing a pro-inflationary tact, the Fed is trying to keep the expense that the US government has to spend on interest payments on our $16 trillion in debt to as low a dollar amount as possible. Inflation also eventually reduces the national debt without ever paying it off. Paying off debt in the future with dollars that are worth less due to inflation actually makes the ultimate payoff of the debt less! The reality is, we don't make Federal monetary policy and no one asked for our opinion or input. Our task is to acknowledge what the Fed is trying to accomplish and to position our clients' accounts in the best possible way to take advantage of these policies. Investors and savers need to expect that interest rates will stay abnormally low for an extended period of time.

We have had a good 9 months in 2012. There will be many issues and surprises that will arise in the coming weeks, months and years that will cause investors anxiety. Remember to keep things in perspective, turn off your electronic gadgets and go for a walk. The world doesn't end very often.

We had another great response to our Client Appreciation Evening in September. We had record attendance again this year with well over 200 clients and their family and friends in attendance. We will be hosting this event again in September of 2013 so keep your busy social calendars open the first week of September next year.

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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