Winter
2013

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.

"Elections have consequences, and I won". Barack Obama 10/25/2010 We have just concluded the most expensive election in the recorded history of mankind and the ultimate irony is that nothing really has changed. Yes, President Obama won re-election and the Republicans lost in every sense of the word. They lost the Presidency, but even more staggering, was their loss of seats in both the Senate and the House of Representatives. This after the Republicans spent massive amounts of money in an attempt to gain enough seats in the Senate to control both the House and Senate. The American public spoke and their message was loud and clear. The message was "no austerity budgets for us, leave that to Greece. Keep your hands off of my entitlements and take them from someone else". Even with an incredibly dismal 10% approval rate prior to the election, 91% of all members of Congress up for re-election in 2012 were re-elected. The message remains the same throughout every election. My guy in Congress is ok; your guy is the problem!

Index	4th Qtr	2012
DJIA	(2.48) %	7.26%
NASDAQ	(3.10) %	15.91%
S&P 500	(1.01) %	13.41%

Yes, President Obama did win and yes, his party did gain strength. With this win comes the right to dictate the policies for the next four years in the United States. While it certainly was not the "mandate" that the spin doctors of the Democratic Party are espousing, it was a clear cut victory and "to the victor belong the spoils". The reality is now very clear. Taxes are going up and Obamacare is now the law of the land. To continue to argue about the validity or fairness of either of these issues is just a waste of time and energy. It is time for all businesses, investors and individuals to acknowledge that the voters have spoken and fortunately, in this great country of ours, the voters still control their own destiny at the polls.

Even with the acknowledgment of the reality of the political landscape, significant hurdles still exist for our country and for investors. Congress and the President cobbled together a "stop-gap" legislation to avoid the "fiscal cliff" issue as this newsletter went to press. Simply put, Congress knows that they eventually have to undertake the ***very*** unpleasant task of raising taxes on everyone, not just the wealthy, ***and*** cut back on entitlements, or services, at the same time. Basic arithmetic is the enemy. An individual, household or a government simply cannot spend more money than it takes in.

This might be achievable over a short time period like during World War II or the Great Depression but it is not sustainable over extended periods of time. Anyone who truly thinks that our economy can grow its way out of our current malaise is simply wrong. The numbers of the deficit are just too large now. Basic arithmetic that we all were supposed to have learned in grade school indicates that we can't grow our way out of this without serious pain.

President Obama, in his first term, had appointed Erskine Bowles and Alan Simpson to assemble a "blue-ribbon commission" to study and to recommend ways to raise taxes and to cut entitlements. The commission did a great job of suggesting ways to accomplish the very difficult tasks. Two resulting issues immediately came under fire. The President of the Service Employees Union came out and criticized the proposal, saying that "the budget was going to be fixed on the backs of the working man". I hate to point out the obvious, but just upon whom did this guy really think responsibility was going to fall? The poor and the unemployed, or the middle class that has always borne the brunt of most tax increases? Secondly, Simpson-Bowles recommended raising the age of Social Security to 67, or one more year, ***in 2050!!!*** The reasoning was that this would be 40 years in the future and people who are probably not even in the work force yet, would have the time to adjust to an extra year before qualifying for full Social Security. AARP went ballistic on this proposal. How unfair it would be to do this to future retirees. The electorate is quite liberal and free with its criticisms of Congress and the President, but welcome to their world. Every voting constituency has their own lobbyist and press agent. There is absolutely no action that our elected officials can take that won't be met with withering criticism. Is it any wonder that the easiest route for Congress to take is to just do nothing? They will kick the problem down the road until they are retired on a nice cushy government pension (and health care plan, no Obamacare for Congress or the Presidents and their families). There is no reason to face the angry voters when they raise their taxes and cut their benefits, just delay until it is someone else's problem. We are fond of poking fun at France and Greece and their extensive financial follies that are mostly self-incurred. The sad reality is that, in the not too far off future, the United States will be in the exact same fix.

President Obama and Congress now have to do something very unpopular. They have to do what they were elected to do and that is to lead a country and ask their constituents to sacrifice. As his health fails, and the eventuality sets in, I constantly flash back to George Bush the First when he was President. He lost his re-election bid for President in 1992 because he did something Presidential, he led. He raised taxes even after his pledge of "read my lips, no new taxes" because he knew that raising taxes was the right thing to do. President Clinton then presided over 8 wonderful years of economic prosperity. The Berlin Wall had come down thus freeing up billions of dollars that did not have to be spent on defense spending. Because George Bush had raised taxes and put our economy on a very healthy footing it was smooth sailing for President Clinton. We even managed to have a surplus on our annual budget, what a novel idea! President Bush sacrificed his second term because he knew what was best for the country. He led. I have developed this very cynical view of our elected leaders. They are all "Baby Boomers" or younger now. They are accustomed to getting what they want, a lot of times due to the sacrifices of the previous generation rather than any sacrifices that they might have made themselves. I am a Baby Boomer so I can level this criticism at myself just as easily as I can at Congress. The "Greatest Generation" is just about gone. I'm afraid we will miss them the most in Washington. A generation that sacrificed during the Great Depression and walked into almost certain death on the beaches of Normandy and Iwo Jima knew what it meant to lead and to sacrifice for the greater good. The problem with expecting any meaningful legislation to be approved by Congress is the time lag of gratification. Just like President Bush's sacrifice of his second term so that President Clinton could benefit, any Congressman who imposes higher taxes and cuts spending will more than likely be voted out of office. Their elected successor will be the one to benefit with a balanced budget and a healthy, vibrant economy! I only hope Congress and the President realize the entire world is watching them and do the right thing, and lead.

2012 was a good year for US equity markets. For the fourth quarter just completed the Dow Jones Industrial

More American college students graduated with degrees in psychology, 97,216, in 2009-10 than the combined number of graduates with an engineering degree or mathematics and statistics degree, 16,030.

Average was down (2.48) %. The NASDAQ Composite Index was down (3.10) % and the Standard & Poors 500 Index was down (1.01) %. For the year the Dow was up 7.26%, The NASDAQ was up 15.91% and the S&P 500 was up 13.41%. We anticipated that 2012 would be a good year and indicated this in our newsletter exactly one year ago. It was an election year and the politicians always seem to have the ability to "juice" the economy right before their re-election campaigns kick into high gear.

What was unique about 2012 is that the entire year's gains were basically made in the first three months of the year. If you started investing for the first time or put new money to work after April 1st you probably had mediocre returns for the year. The Dow was up 8% in the first quarter and ended up 7% for the year. The NASDAQ was up 18% in the first quarter and ended up 16% for the year. The S&P 500 was up 12% in the first three months and ended up 13% for the year. Hindsight always being 20/20 we should have moved everything to cash on April 1st and just let it ride along in cash for the last 9 months! The return would have been similar with a lot less daily risk. But that is always the benefit of hindsight.

The uncertainty of the outcome of the elections, class warfare and taxes as issues in the elections, the Supreme Court's ruling on the legality of Obamacare, the fiscal cliff, an economic slowdown in China, continued economic crises in Europe, the normal 10 year change in China's leadership and Hurricane Sandy all led to a market that just meandered in the last nine months of the year. It has been said that markets hate uncertainty. That's a pretty silly statement because there is never really anything that is absolutely certain in life, except the proverbial death and taxes. However, due to the proliferation of instantaneous reporting of the news and the internet, investors now have more reasons than ever to fear uncertainty. They are constantly reminded of the vagaries and unfairness of life every minute of every day. Can you imagine what it must have been like before the invention of the telegraph in 1809? News would travel by stagecoach or ship across wide expanses of land or water. It could take weeks before someone in San Francisco found out about an election in Washington or the passing of legislation that affected them. The 24/7 cable news outlets live off of Hurricane Sandy and the Newtown tragedies of the world.

The Federal Reserve continues to artificially depress interest rates in an effort to stimulate the economy. For the first time, they announced very definitive guidelines for interest rates. The Fed will continue to suppress interest rates until the unemployment rate in the US drops to 6.5% or inflation rises to 2.5% a year. If either of these numbers were to be attained the Fed would probably raise interest rates a small amount. While we applaud the clarity and openness, we question the accuracy of the calculations and the willingness of the Fed to raise rates if the economy is still struggling. From all outward appearances, the housing market has finally hit bottom and in some areas, houses are starting to sell again. If this was the goal of the Federal Reserve originally, to stimulate the housing market with the lowest interest rates in recorded history, then we question why we need artificially low interest rates to continue. The reality is that even with obscenely low interest rates, we still have high unemployment and an incredibly slow economic recovery. Older Americans who are living off of their accumulated savings are absolutely being crushed by these depressed interest rates. Don't ever forget who the largest borrower in the entire world is, the US government. Who benefits the most from artificially low interest rates, the largest borrower! Time will tell if the Fed sticks to its' word or if there will always be another reason to keep rates low.

2013 may well be the year that our national leaders actually are forced into action, but we are not overly optimistic. There are only two catalysts that we can see that would force Washington to begin the painful task of balancing our expenditures with our national revenue intake. The first would be a massive revolt by the voters in this country. If the voters really were serious about our fiscal mess and started to vote out the Senators and Congressmen and Congresswomen from office, it would only take two elections to send the message. Unfortunately, it does not appear that the American voters are yearning for the pain that austerity would bring to them. The second catalyst would be a refusal on the part of foreign governments to buy US debt. China and Japan own about 50% of all US debt obligations. If either of these governments decided that US Treasury bonds were no longer a safe investment

One in 6.5 Americans were on food stamps in September of 2012. The ratio was 1 in 50 in 1970. Spending on the program has quadrupled in the last four years.

due to our constant deficit budgets and stopped lending us money, then Congress, the Federal Reserve and the President all lose control of the situation very quickly. Do we anticipate this occurring? No, we have been the cleanest shirt in a pile of dirty laundry so our debt is still better than anyone else's except for possibly Germany's. But it does not take much to change the perception of an investing public that now scours the entire world for investment choices. Just a few years ago, Greece, Spain and Italy were considered safe investments for debt instruments. How quickly their fortunes turned!

We are in a slow-growth, low interest rate environment, one that has been termed "The New Normal". It is not the end of the world, but it certainly is a different investing environment from which many of us are accustomed. Investment opportunities are always available in any kind of economic situation. Our task in the "New Normal" is to identify those opportunities and manage the risk inherent in any kind of investment. Every investment has risk. Even the FDIC insured CD has risk in that it does not even come close to retaining buying power when inflation and taxes are included. If Congress and the President can articulate a clear message on tax reform and spending cuts, we think the markets would respond very favorably. Time will tell, but the entire world is truly watching. 2012 was a good year. We remain cautiously optimistic that 2013 will deliver more of the same results.

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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