Spring
2014

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.

"We hang the petty thieves and appoint the great ones to public office."
(Aesop)

I always have felt that a problem with Bill Clinton's policies while he was President was that he had squandered a great opportunity to place the US government on a more stable financial footing during his tenure as a two term President. His personal issues so monopolized his and Congress's time that they failed to use, successfully, their budget surpluses to set a more realistic tone for future government expenditures. Clinton's timing was perfect. George H. W. Bush literally had sacrificed his chances for a second term by recognizing that it was necessary to raise taxes for the good of the Republic even though it meant certain doom for his reelection. How ironic that the JF Kennedy Library just awarded a Profiles in Courage award to President Bush for his act of raising taxes and for agreeing to a sound budget deal. This virtually guaranteed that the candidate who defeated him would have the luxury of a budget surplus and a roaring stock market for much of his eight years in office.

Index	YTD
DJIA	(0.72%)
NASDAQ	0.54 %
S&P 500	1.30 %

A second issue, and one just as important, that was a benefit to President Clinton while he was in office was the fall of the Berlin Wall and the end of the Cold War with the Soviet Union in November of 1989. With the end of the Cold War, US expenditures for defense dropped significantly, thus freeing up billions of dollars in government spending that had been earmarked for defense against the Soviet Union. This ability to contain defense spending, along with the rush of US corporate America into Eastern Europe and Russia to build infrastructure, spurred one of the greatest financial booms in US history. It was similar to the Marshall Plan to rebuild Europe and Japan following World War II which spurred the 20 year post war economic boom from 1945 until the mid-1960s. It would have been nice if President Clinton and Congress could have worked together to take advantage of these two incredible confluences in history to help the American public and taxpayers. Unfortunately, this was the beginning of the partisan politics that now dominates what passes for policy in Washington and a golden opportunity was squandered.

As the 21st Century begins, we enter a political mini Ice Age which could be perceived as a full blown resumption of the Cold War or just the era of Vladimir Putin. The West, led by the US and Europe, and through their military presence NATO, are coming to the realization that dictators like Putin do not play by the rules of the "civilized" world. By now, everyone is aware that Putin sent in Russian troops to "annex"

Crimea from Ukraine. Perspective and history are both incredibly important in how you view this confiscation of territory from a sovereign state.

Ukraine was, at one time, a part of the former Soviet Union. It was incredibly important to the USSR for two very significant reasons. It was the 'Bread Basket" of the entire country. A vast majority of all of the food produced and consumed by the Soviet bloc came from Ukraine. When Joseph Stalin starved millions of his own countrymen by forcing the peasants off of their land and collectivizing the fertile farm ground, it was done almost exclusively in Ukraine. Secondly, the only warm water port in all of Russia is in Crimea. The only way of shipping goods out of Russia in winter is through the city and port of Sevastopol. Of even more significance is the use of this port by the Russian navy. Without this warm water port the Russian Navy would be totally out of commission for at least six months out of the year. Obviously, this is totally unacceptable to a nationalist like Putin.

Crimea was part of Russia until 1954. Former Soviet Premier, Nikita Khrushchev "gave" Crimea to Ukraine reportedly as a conciliatory gesture for the immense suffering that Stalin had imposed upon the Ukrainian people, a move that many Russians to this day view as illegitimate. Just over half of the population of Crimea is ethnic Russians, about 25% are ethnic Ukrainians and the remainder is Crimean Tatars who were deported by Stalin in 1944 and hate Russia to this day. The 50% of Russian ethnicity are the key to Putin's land grab. Putin declared that he marched Russian troops into Crimea to protect the ethnic Russians who were afraid for their safety, a dubious assertion at the very least since there were no reports of harassment or threats to ethnic Russians from independent press in the area. The dark and sinister move greatly resembles Adolph Hitler's annexation of Austria in March of 1938 which was later immortalized in the musical and movie, <u>The Sound of Music</u>. Not satisfied with just Austria, Hitler then threatened to send troops into the Sudetenland of then Czechoslovakia if the Czech government did not give up this home to many ethnic Germans to Germany. In a move heavily criticized after the eventual outbreak of World War II, England, France and Italy acquiesced to Hitler's demands and told the Czech government to give up their territory or fight the Germans on their own. To her credit, former Secretary of State Hilary Clinton compared Putin's excuse of protecting ethnic Russians in Crimea to Hitler's claims that he only wanted Austria and the Sudetenland in order to protect ethnic Germans in the area. To quote Mark Twain, "History does not repeat itself, but it does rhyme." In a nod to the statement that "fact is stranger than fiction", Adolph Hitler was nominated for the Nobel Peace Prize in 1939 and Joseph Stalin was nominated in 1945 and 1948! Two of the most barbarous leaders in the recorded history of the world were nominated for a Peace Prize.

What will happen in Ukraine and how does that pertain to our world as investors? It is rather ominous that Russian troops are huddled on the Ukrainian border trying to hide their strength and location from US spy satellites and all the while operating under the guise of "routine military operations" within Russia's borders. Will Putin send his troops into eastern Ukraine to seize more territory and protect the ethnic Russians who live in that part of the country? This is impossible to ascertain because, if history has shown one thing time and time again, it is that dictators do not think like normal politicians or care about the welfare of their constituents because they never have to answer to them at the polls. Putin has the office of Premier until 2025, long enough to outwait any elected official in the West!

The West has started to impose economic sanctions against Russia as a country and against Putin's closest friends and political allies. History has shown that this is a very effective course of action over a long time period. However, let's be realistic about what will be gained. It is highly unlikely that Russia will ***<u>ever</u>*** give back Crimea. The warm water port, the history of the area and the potential of the incredible loss of nationalistic pride to the Russian government make the thought of giving up Crimea totally unacceptable to Putin and his advisors. The economic sanctions will most likely be used as a deterrent for more land grabs by Russia as Putin tries to rebuild the Soviet empire.

But there is a fierce price to be paid for imposing economic sanctions on Russia by our friends and allies in Europe. Russia's entire economy is based upon oil and natural gas and the sale and exporting of these two vital fuels to the West. Economic trade with Russia by the US is so miniscule that it is almost a rounding error in the total calculation of our economic output. Any retaliation economically by Russia on the US would be negligible at best. However, Europe receives 25% of all of their natural gas from Russia. If Russia retaliates against Europe for imposing economic sanctions by withholding natural gas

"The number of college students graduating in 2012 with a degree in Mathematics and Statistics was 18,842, down 24% from 1971. The number graduating with a degree in Parks, Recreation, Leisure and Fitness Studies was 38,993 up from 1621 in 1971 or a 2405% increase!!!!" (National Center for Education Statistics)

from Europe, then Europeans suffer considerably. Energy costs would soar in Europe, factories would go dark and consumers would face financial hardships. This does not bode well for an economy in Europe that is still trying to recover from its own financial crisis. It was only two summers ago that investors held their breath wondering if the European Union was about to disintegrate over Greece, Portugal, Italy and Spain's financial debacles. Russia needs the revenue from the export of their energy products very badly. Cutting off the exports to Europe would cause them even greater financial pain than just the imposed economic sanctions. It is not a stretch to imagine the total Russian economy collapsing under the weight of imposed economic sanctions and the loss of revenue to Russia should Russia withhold their own exports from Europe. But once again, do not underestimate how little a dictator cares for his people or their welfare. Power is all that matters to a dictator. Giving back Crimea would undercut Putin's power at home and abroad. Crimea is lost. The best that the West can hope for is to discourage Russia's expansion against the rest of Ukraine and its other neighbors like Moldavia, Estonia, Latvia and Lithuania. The cold war has returned.

So what does this history lesson have to do with us as investors in our never ending quest for good investments with acceptable risk? The most obvious answer would have to be the avoidance of any investments in Russia itself and the understanding that investing in any of the former economies of the Soviet bloc now carries considerably more risk than it did just six weeks ago. Investment in Big Oil now carries more risk. The world's largest energy companies have sunk billions of dollars into joint ventures and exploration projects in Russia and those investments are now at risk of being totally lost. Investment in European markets now carries even more risk than it did if Russia retaliates by shutting off exports of natural gas to the West. As cold and calloused as it sounds, there is an investing philosophy that espouses investing into areas that are undergoing turmoil or even conflict. It is an offshoot of the famous "Buy low, sell high" mantra. Investment costs generally plummet in areas that are in conflict and this time may be no different. Nathan Rothschild of the wealthy Rothschild banking family said it best in 1810 when he said "Buy to the sound of the cannon; sell on the sound of the trumpets." While this may sound appealing to some, the assumption of risk is huge. Realistically, if Putin is intent upon remaking the old Soviet Union the Russian stock market may not even exist in five years!

There is always uncertainty in the world. It has been that way for millions of years. As we head into the second quarter of 2014 we are mindful not only of the situation in Ukraine but also Syria, Iran and North Korea are always possibilities for the "sound of cannon". From a pure economic viewpoint, there is serious concern that China has its own lending crises brewing due to the construction of too many mega-cities and high rise apartment complexes for peasants from the country who can't afford to move to the city. Chinese bank stocks have fallen to 2009 lows based upon negative credit events that have occurred. Bank stocks were the proverbial canary in the coal mine in 2007 for the US economy and the European Union in 2011. Interest rates will eventually rise in the US causing all big ticket items to rise in cost for consumers who finance the purchases. Housing numbers in the US are mixed at best. About a quarter of the US population has a FICO score below 600 on their credit report making it virtually impossible for them to secure a mortgage. The number of Americans who signed contracts to purchase homes fell for the eighth straight month in February. Obamacare remains one of the most perplexing and uncertain pieces of legislation ever passed by Congress. There are 17 new taxes or penalties that will be enacted but who knows when, upon whom and how much they will be? Last but certainly not least, the drought in California's San Joaquin Valley has already driven up the price of food and will have a huge impact upon food prices and the hospitality industry going forward.

How did the markets perform this quarter? For the first quarter of 2014 the markets were basically flat. The Dow Jones Industrial Average was down (0.72%). The NASDAQ Composite Index was up 0.54% and the Standard & Poors 500 Index was up 1.30%. The month of January was not a good month losing (3.56%) in the S&P 500 while we recovered all of the January loss with a 4.31% return in February. March was break-even at 0.69% for the month on the S&P 500 for our summary of our current performance. The higher risk, higher growth stocks that investors favored so much in late 2013 did not perform well in the first quarter of 2014. Stock traders rotated from these more risk centric holdings into the lower risk spectrum of the stock markets.

The Federal Reserve has announced through their new Chairwoman, Janet Yellen, that they anticipate raising interest rates “sooner rather than later”. We have viewed, and continue to view, the raising of interest rates as a positive. The Fed will not raise rates back to more normal levels unless they feel very confident about the stability of the US economy. Savers and investors have been punished long enough at the expense of stock traders and house flippers. Logic would dictate that when the Fed first raises interest rates the markets will not react favorably in the short run. However, 14 years of artificially depressed interest rates have created some tremendous inefficiency in the market place. One only needs to remember the housing collapse of 2008 for a prime example of what artificial stimulus to a market can do to distort prices and activity.

As you can see, there are plenty of issues that we focus on every day to try and maximize the return on your investments while still managing the risk to make sure that it is appropriate for your own unique circumstances. But as we indicated, these situations that we are currently following are not unique. It is just another year, another month, another quarter, another dictator, another Congress, another President, another weather event. The only difference now is the instantaneous access to the information in the electronic age.

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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