Fall
2015

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.

"Something wicked this way comes"
- Ray Bradbury

"If nominated, I will not run. If elected, I will not serve"
- William Tecumseh Sherman

What a tumultuous three months we just have endured. What do you personally find the most intriguing? Was it the realization that China's economic boom of the last 30 years is slowing down? Was it watching hundreds of thousands of people storm Europe's unprotected borders in an effort to escape the killing fields and crushing poverty of the Middle East? Did you enjoy watching hundreds of thousands of people line the streets of Central Park and New York City and Philadelphia for a glimpse of the Pope visiting America? Were you moved to tears by the Pope's speeches to Congress and to the United Nations? We need to break them down individually and analyze what has happened. The current Pope is a wonderful human being. He has eschewed the trappings of his office and tried to portray a kinder, more humble Papal court. He truly feels for the less fortunate of the world and his message to the US and to our leaders in Congress was that we should work harder to take care of the poor and needy. No one, except possibly an Afghan warlord or Middle East dictator would disagree with that premise. Unfortunately, what the Pope is asking us to do requires personal sacrifice on everyone's part, to give up the wealth and luxury that we have accumulated and distribute it to the less fortunate. While that tends to work for awhile, Christmas time benevolence being a prime example, the chances of human beings sacrificing for the overall good just has never been, and probably never will be, sustainable over a long period of time. So while the Pope's visit was a feel good moment, it was probably, sad to say, just that, a moment.

This brings us to item number 2, the massive migration from the Middle East to Europe. What a human tragedy this has become! When it became readily apparent that neither the United States nor the United Nations was going to intervene in the Civil War in Syria, the killing and bombing escalated exponentially. When you see the devastation from the bombings and realize that even the most basic of services are no longer available to the residents of Syria, you can certainly understand why anyone who can leave is trying to escape. Iraqis, Afghans, Syrians.....everyone is trying to flee repressive regimes and devastating poverty. I defy anyone to say that they would not try to do the same if we were in their situation. The cost of assimilating these people into European society will be staggering. The dark reality is that not all of these immigrants will be law abiding citizens. You

Index	Qtr.	YTD
DJIA	(7.58%)	(8.63%)
NASDAQ	(7.35%)	(2.45%)
S&P 500	(6.94%)	(6.74%)

"China's current $28 trillion national debt has quadrupled from $7 trillion in 2007"
(source: McKinsey)

would have to be incredibly naïve to not think that there are literally thousands of would-be terrorists that are sliding into Europe among the waves of humanity that are overwhelming law enforcement and border control in these countries.

There is a bright side to this massive migration. Europe is like the United States and Japan in that we all have aging populations that need an influx of new workers to stimulate our economies and our societies. The fact that Japan allows no immigration and their economy has been stagnant for over 20 years is not a coincidence. At current birth rates, Japanese population and along with it, their culture, will be extinct in 1000 years. If Europe is able to assimilate these new immigrants into their societies and find them jobs, it could be a wonderful renaissance for Europe and for their economies. Young people with families appear to be the ones fleeing the Middle East. These are not only the workers of the future, but they are the consumers of products and services. While this massive migration is full of too many pitfalls to mention, economists and social scientists may look back in 50 years and say that this was the beginning of the rebirth of a vibrant and growing Europe.

China. The very word itself leads the imagination to wander through cities so crowded and polluted that one has to wonder how anyone survives. Or we can picture beautiful silk clothing and rugs, green and lush terraced hillsides being farmed the way that they were a 1000 years ago. We can imagine 1.4 ***billion*** consumers of everything from copper to cell phones to cement to steel to automobiles to Cokes and Kentucky Fried Chicken! No wonder sales managers of corporations the world over salivate like Pavlov's dog at the opportunity China offers for sales of products. China has delivered, to some degree, on the promised riches of the Far East but has also remained a very difficult market to establish. When Richard Nixon cracked open the door to China way back in 1972 by being the first US President to visit China, it ushered in an era of incredible hopes and dreams both politically and from a business viewpoint. Western corporations lusted after a seemingly endless supply of consumers to provide luxuries, feed, and to clothe. Politically, at the time, it was viewed that if the US and China worked together against the then powerful Soviet Union, that the geopolitical alliance would thwart some of the USSR's political ambitions around the world. This thaw in relations with China was initiated by China inviting the United States National ping pong team that was playing in Japan at the time, to visit and play the Chinese National ping pong team in an exhibition. When the US ping pong players crossed the bridge from Hong Kong into mainland China in April of 1971, they were the first Americans to set foot in China since the communist takeover of China in 1949. Here we are, 44 years later, still trying to work out our relationship with what has now grown into the second largest economy in the world. It all started with a ping pong match. Fact is truly stranger than fiction.

However, as China has slowly cracked open their markets, there have been growing pains. Since the Communist government decided to open their markets 30 years ago to a quasi-free market/communist controlled economy, we have been told that China's economic growth has averaged around 14% a year, which is a very large number for growth. Most of the world's established economies would kill for a consistent 3% growth per year so you can see why there is the absolute obsession with China's economic growth. Unfortunately, as we pointed out in our email that we sent out at the height of the market volatility on August 24th, when China's economy sneezes the whole world now catches a cold, or worse, a full blown case of the flu! China's growth is slowing. We can try to pick a number and guess that it is growing at 6% a year but it would truly be a guess since the communist government controls the calculations and has been known to be less than truthful when it serves the government's needs. When the lower growth estimates hit the western press, the markets did not respond very favorably. Investors started dumping their holdings indiscriminately and the US equity markets experienced their first correction in quite some time. A correction is any market sell off and drop of 10% or more in value. We had an official correction in August as the markets dropped a little over 12% from their previous high in the month of May of 2015. As we indicated in our email, this response was a perfectly normal and healthy response to a market that had become a little too expensive for the existing economic conditions. The market has since stabilized, albeit at a lower level, which is again, very normal. Yes, China's economic boom is slowing, but the world's second largest economy is still growing at very acceptable rates. Growth in an economy, or in a stock market, is ***NEVER*** a nice, smooth, straight line to your expected goal. The fact that China is experiencing some growing pains is actually a very good thing. Capitalism is brutal. It picks winners and losers every day in the eventual allocation of scarce capital to the winners to allow them to keep on growing. The losers wither and die and go away. China has fluff in their economy just like any other civilized country and economy. The Chinese government has to figure out how to pull capital away from these inefficient industries and allocate it to the more efficient and more in demand industries. Politics and personal issues always make this a difficult transition no matter which country or society is involved. Venezuela and Brazil are deep in the throes of scandals that are affecting their government's ability to lead their constituencies so China is not unique in this endeavor. While it can be painful and nerve wracking for us as investors to accept this cold, hard truth, the reality is that the

"It only costs $6 a barrel for Saudi Arabia to pull oil from the ground but Saudi Arabia needs an average oil price of $90 a barrel to cover their day-to-day expenditures of their government. At $45 a barrel, Saudi Arabia is short $450 million a day" BTN Research

"The unemployment rate in the 19 country Eurozone was 10.9% at the end of July, a 3 ½ year low. The unemployment rate in the United States was 5.1%, a 7 year low." Department of Labor

correction that we experienced in the US equity markets this quarter is normal and healthy.

The Federal Reserve met in the middle of September and decided once again to leave interest rates untouched. The last time they raised interest rates was in 2006, over 9 years ago! Many people had expected the Fed to raise rates in September to try to begin the process of raising artificially low and depressed interest rates to more normal levels. However, China and the stock market interceded. The Fed feared that a rise in interest rates of only 0.25% would "shock" the markets too much and cause more widespread fear and loathing in the markets. I don't know about you but if the Fed is worried that a rate increase of only 0.25% is too much for the US and world economy to handle, I have to have serious reservations about just how healthy our economy might actually be. I would hate to think that as we criticize China's economic growth numbers that they put out for investors to peruse, that the numbers that our government puts out on inflation and growth might actually be called into question as well.

All of this preliminary discussion of the Pope, the Federal Reserve and China actually is just the lead in to the really big story this quarter, the resignation of the Speaker of the House of Representatives, John Boehner. It is hard to imagine that the historic visit of a Pope, who spoke to a joint session of Congress and the United Nations General Assembly, a pending increase in interest rates and the economic condition of an economy as large as China's, could be relegated to the Junior Varsity level but that is the case this quarter. This resignation has the potential to be a really significant event for world politics and investors. This resignation is just something that is not fathomable by politicians who have spent their entire lives climbing the political ladder. Speakers of the House are the first in line behind the Vice-President to assume the Presidency if both the President and Vice President are incapacitated! The position of Speaker of the House is a really big deal! A resignation as Speaker of the House has only occurred a handful of times in the entire history of our country back to the election of the first Speaker in 1789. We are not going to delve into the reasons why he chose to resign. The press has reported and opined in the editorial pages so that everyone knows the specific reasons why Speaker Boehner chose to resign. We choose to focus on the aftermath of the resignation and how it pertains to our clients and their investments. Simply put, this resignation and the eventual succession of a new Speaker have added a tremendous amount of uncertainty into the markets and Federal Reserve responses.

The Republican Party is in turmoil and it may very well cost them the Presidential Election in 2016. We've seen this dance before. In 1964 Barry Goldwater was the Republican Presidential candidate running against then current President Lyndon Johnson. Goldwater was a conservative to his very core. He had written "My aim is not to pass laws, but to repeal them. It is not to inaugurate new programs, but to cancel old ones." The conservatives of the day wanted to repeal all of Franklin Delano Roosevelt's New Deal programs that had been enacted during the Great Depression and World War II. While there is no doubt that the right wing of the Republican Party in 1964 felt that they were right and what they wanted to do was best for the country, the rest of the electorate vehemently disagreed with them. Goldwater got slaughtered in the Presidential election with Johnson carrying 44 of the 50 states. This electoral disaster also handed Johnson a liberal super majority in both Houses of Congress which ultimately led to the implementation of two of the largest government programs ever conceived, Medicare and Medicaid.

The Democrats have a history of their own political suicide. In 1968, President Johnson shocked the electorate every bit as much as Speaker Boehner just did by announcing in March of 1968 that he would not seek another term as President. On such short notice, this announcement threw the Democratic Party into absolute chaos. Eugene McCarthy ran on a Viet Nam anti-war platform, Hubert Humphrey ran as the traditional pro-union Democratic candidate and Robert Kennedy tried to attach his candidacy to another version of Camelot that his brother's shortened Presidency had envisioned. The in-fighting was atrocious leading to the eventual electoral debacle of the television age, the riots in the streets of Chicago at the Democratic National Convention in August of 1968. With the chants of "The whole world's watching," Chicago police and National Guardsman clubbed and drug protestors into police wagons to haul them off to jail, bloodied and bruised and on camera for the whole world to see. Needless to say, Richard Nixon won the election and we all know how that turned out for the American Presidency.

The problem for investors is once again the threat of a government shutdown or default on US debt. As of the printing of this newsletter the date for concern is December 11th. As Speaker Boehner leaves at the end of October, it is widely assumed that he will make a deal with the Democrats in Congress and with moderate Republicans to extend a continuing resolution that will keep the government running and paying it debts until December 11th. At that point, the new Speaker will have to find a way to work with the ultra-conservative wing of the Republican Party that appears to want to shut down the government unless their demands are met to roll back legislation that they find offensive. A government shut down or a default on US debt will

"68% of the total cost of an employee in the private sector is for wages. The other 32% is for benefits such as Social Security, insurance, retirement plans and paid leave." Department of Labor

NOT be good for any markets anywhere in the world. It will not be good for the Republican Party or its' Presidential candidate as polls have consistently shown that voters hold, and eventually punish, the Republican Party for any shut downs. Time will tell how this all plays out; a lot can change in 2 months. Speaker Boehner's resignation and more importantly, the reason for his resignation, only adds to the uncertainty and fear that have a tendency to grip the markets from time to time. We will closely monitor this and don't be surprised if we begin to take some preventative action later this fall.

We had the opportunity to celebrate with 300 clients and friends in early September at our 9th Annual Client Appreciation Evening. The weather was beautiful, the food, music and flowers excellent and hopefully everyone in attendance had a delightful evening. Tom and Jim both talked about the need for investors to tamp down their expectations for future returns in the market. It was pointed out that the average return for the last 3 years in the US market ending on 5/31/2015 was +19.7% a year which was ***twice*** as large as the +9.9% per year that the market has averaged over the last ***50 years!*** They both stressed that this was not a reason to panic or fear the markets, but that it was vital to understand that high returns will be more difficult to achieve in the coming years simply due to the extraordinary returns that we have enjoyed over the past few years. With another record crowd this year we appreciate the support and confidence that our clients continue to show to us. We do hope that you will be able to join us next year.

Our task as investors the rest of 2015 will be like any other year, to garner good rates of return with an acceptable amount of risk. This is not an easy task and requires diligence and hard work. As investors we need emotional stability and above all, patience.

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."

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