

Spring
2016



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 25 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.

"When I was a boy I was told that anybody could become President; I'm beginning to believe it." Clarence Darrow

Ah, the summer of 1968. I had my driver's license which opened up a whole new world of dating, proms and parties after basketball games. Gasoline was 30 cents a gallon. I had an old 1962 Chevy Biscayne to drive. Cars were so poorly made at the time that I laid extra floor mats under my feet while driving to keep the water from splashing up through the holes that had rusted through the floor. Tuition at an Ivy League school cost \$1000 a semester. I was 16 years old and it seemed as if anything was possible. But there was also a **very** dark side to 1968. Assassinations of key political figures in the United States and a very unpopular war in Viet Nam with the accompanying draft into military service of fighting age men, led to race riots and the burning and looting in America's inner cities. Just as the end of World War II ushered in problems with the partitioning of the spoils of war with which we are still struggling today, the riots of 1968 gutted former great cities like Detroit as businesses and "white flight" left the inner cities in droves in the years following these riots. Detroit's recent bankruptcy is a direct response of this flight of tax base which was started years ago by the events of 1968! Anti-war demonstrations comprised of thousands of citizens protesting a war for which there was dwindling support, clogged Washington DC and college campuses all across the nation. President Lyndon Johnson decided in the spring of 1968 that he had had enough and stunned the nation when he announced that he would not seek re-election in the fall of 1968. This threw the Democratic Party into chaos as several candidates jockeyed for the nomination. Eugene McCarthy

Index	YTD
DJIA	1.49%
NASDAQ	(2.75%)
S&P 500	0.77%

led the anti-war plank. Hubert Humphrey cornered the traditional union base. Robert Kennedy appealed to the women voters. George Wallace promised to roll back desegregation in the South trying to appeal to old line Democrats in the South who still hated the Republican Party because of Abraham Lincoln, the first Republican president, and the damage that the Civil War had done to the Old South! Martin Luther King Jr. was assassinated by a white supremacist in April which was the flash point for the ensuing race riots all summer long. Robert Kennedy was killed in June after winning the Democratic California primary. At the time of his death, it appeared that the Democrats were headed towards a "brokered" Convention in Chicago in August as none of the multiple candidates had achieved a majority of the delegates' votes heading into the Convention. Does this sound familiar? All of the turmoil of the summer of 1968 culminated in Chicago at the Democratic National Convention in August. Protestors took to the streets and were beaten and arrested by Chicago police and National Guard troops as the whole spectacle played out on live television. Reports flashed from inside the Convention Hall where reporters and delegates were "roughed up" by Chicago Mayor Richard Daley's operatives as they tried to report on activity from the Convention floor. Outside on the streets, protestors were clubbed

*"For every 100 American workers, there are 24 retired Americans at least age 65.
For every 100 European workers, there are 42 retired Europeans." Source: European Commission*

and dragged away to be arrested. If today's young people think television award shows where clowns like Kanye West attempt to hijack the proceedings for self-promotion make for interesting live television viewing, they should have been around in the summer of 1968!

Why does 1968 matter so much today? It is very possible that the Republican National Convention in Cleveland in July of 2016 has the potential to be as consequential, but hopefully not as violent, as Chicago in 1968. As a sidelight, some delegates are circulating petitions to allow guns to be carried into the Republican Convention by those that are legally licensed to carry firearms! Our political Conventions have been very boring over the last 50 years. Usually, the nomination is all locked up and the fighting is over some social issue that is important to a certain segment of the delegates. This is why television viewership has plummeted and most of the networks don't even bother to televise anything but the acceptance speeches anymore. The events of this summer may change that situation.

Abraham Lincoln went to the Republican Convention in 1860 trailing his eventual Secretary of State, William Seward by 71 votes. Seward was 60 votes short of the nomination. On the third ballot, enough delegates had switched allegiances to put Lincoln over the top and he garnered the nomination. I think it would be hard for anyone to say that a "brokered" Convention in 1860 turned out badly for the country. In the Republican Party, five nominees who went on to become President did not have a majority of the delegates' votes when the Convention began. Donald Trump's claim that if he has the most delegate votes going into the Convention the nomination should be his, rings hollow. The Republican Party has had the rule of needing a majority of the delegates' votes in place, since the very first Republican Convention in 1856, 160 years ago. This is not something that has been put into place in 2016 just to make things difficult for Trump. It would appear, at least at this time, that no candidate will have a majority of the delegates' votes and that good old fashioned "horse-trading" will dictate who the eventual candidate for President will be. This has the potential to be an incredibly explosive and divisive event. Whether you like him and his policies or not, Donald Trump has definitely struck a nerve with his rhetoric and views that resonate with what appears to be a large segment of the voting population. If Trump and his supporters feel that the nomination was stolen from them and given to someone else like Speaker of the House, Paul Ryan, as a compromise candidate, the Republican Party as we know it, as it was founded in 1854, may be permanently fractured. Would Trump with his reported billions of dollars run his own third party candidacy like Ross Perot in 1992? How ironic that Bill Clinton won thanks to a third party candidate and Hillary Clinton would win due to a third party candidate splitting the Republican vote

again! No one knows the answers to these questions. It is possible that Trump will garner enough votes to pull it off. But remember, the delegates are only required to vote for the candidates for whom they have been pledged, on the first ballot only. They are free to vote anyway they wish once there is a second ballot. It took 36 ballots to nominate James Garfield over Ulysses Grant in 1880 and Garfield was not even a candidate when the Convention began!

The Democratic nomination is locked up. Bernie Sanders's insistence on continuing to act like Don Quixote tilting at windmills, is forcing Hillary Clinton to spend money that she was saving for the general election and force her to publicly support policies more to the left of center. Reliable sources, not talk radio, indicate that it is very possible that the FBI will recommend to Attorney General, Loretta Lynch, that Clinton be indicted for her email scandal as Secretary of State. The reasoning is that former General David Petraeus basically breached the same intelligence secrecy with his mistress who was writing a book about him. Petraeus plead guilty to a misdemeanor to make it go away. Will a Democratic Attorney General issue an indictment to the Party's nominee? Of course not, Hillary Clinton is not the first person running for the office of President to be embroiled in a scandal at the time of nomination or election. However, it speaks volumes as to her ability to pull together a very fractured electorate if she is the ultimate winner in the fall's election. With a possible federal indictment hanging over Clinton's head and Trump not exactly "rallying the troops" from within his own Party, the ultimate survivor of the election enters office as "damaged goods" before they even attempt to deal with Congress on terrorism, a Supreme Court nominee and a tax code that is damaging our economy!

If Clinton is elected, it would appear that nothing would radically change from the current Obama Administration's policies. Her support of Obamacare and her time as Secretary of State in the Obama Administration would indicate that she will differ very little in substance from current policies. If Trump were to be elected, it is a completely different story. If he truly means what he has said on the campaign trail and is not just saying what he thinks he needs to say to be elected, then we will have a Trade War with China and probably Mexico soon after he is inaugurated as the oldest President ever to be elected. He has said that he will go after China to stop them from manipulating their currency which gives them an unfair advantage in world trade. Can he force them to change their currency policies? Of course not, China is a major player on the world stage and will not acquiesce to someone who they would perceive to be a neophyte in the ways of governing. Would Trump's unpredictability puzzle and even concern them, absolutely. How does the US respond to North Korea and Russia when they do things of which the US does not approve? We don't do very much because there is not much

*"There were 12.33 million manufacturing jobs in the US as of 2/29/2016.
There were 12.38 million manufacturing jobs in the US as of 7/31/41 or 75 years ago!" source: Department of Labor*

"The average price of brand-name prescription drugs increased by 16.2% in 2015. Inflation increased by 0.7% in 2015." Source: Express Scripts

that we can do. We don't know how Kim Jong-un and Putin would respond if they did not like the actions that the US might take. Trump probably brings the same uncertainty to the table when dealing with foreign governments. What happens if we enter a trade war with our traditional trading partners? Nobody knows, because just like in traditional wars, there are winners and losers, and there are always casualties and collateral damage. Some industries would benefit by a trade war and some industries could almost be wiped out entirely by the splash-back of sanctions. There are many of Trump's supporters that say what do we have to lose by a trade war? They contend that our economy has already been gutted by free trade that is anything but fair and balanced. There is no answer to this supposition because trade wars are not fought in classrooms or text books. They are fought on the factory floors, loading docks and cubicles of the Silicon Valley. Rest assured, trade wars with trading partners always cause damage. The question always remains, was more gained than lost?

The US and world economies continue to struggle to sustain adequate economic growth. The economic growth over the last 50 years in the US has been fueled by borrowed money. The debt in the US in 1970 was \$1 trillion. It is now \$58 trillion, an increase of 58 fold! However, the traditional levers that were pulled and buttons that were pushed in the past to prod economic growth no longer seem to work. We drop interest rates to 0% and growth remains anemic. We enter into Quantitative Easing 1, 2, 3 and 4 and each time the "juice" that we got from the easing is less than the one before it. So now, in an ever increasing game of trying something new to stimulate economic growth, we enter into NIRP. How would the government survive without acronyms? Is there a department somewhere that sits around all day on government wages and pensions coming up with these things? Where do I sign up for employment in this department? We had TARP and QE 1 and now we have NIRP, Negative Interest Rate Policy. Yes, it is exactly like it sounds; negative interest rates where you will pay the government for the privilege of loaning them money. Banks have surpluses of cash on hand from time to time that they lend back to the Federal Reserve and historically, the Fed has paid the Banks interest on the cash stored at the Fed. The excess funds are moved around the country to the various regional Federal Reserves, our closest one is in Cleveland, to be lent out to banks in regions of the country where there are higher demands for loans. It is a great tool for moving funds to where they are needed to be and the Fed can make millions of dollars a year on the difference in the interest rates. However, the Fed has decided that banks are not lending enough money now to stimulate the economy. In an effort to force them to lend to borrowers, they will now charge the banks interest on any cash reserves that they house at the Fed instead of historically paying them interest on their excess cash reserves. Now remember, this is the same government

that promoted home ownership and borrowed money through home mortgages to everyone with a pulse in the 1990s and early 2000s. Then, when it was discovered that all of these loans that were being sold to fraudulent borrowers could not be repaid, the government cracked down on lending criteria and made borrowing money, even for the best credit risks, about as pleasant as root canal surgery. It's no wonder that no one wanted to borrow money for expansion of their business. The requirements for borrowing had become so onerous that it just wasn't worth it. The best way to fix this situation, just start charging people and banks for not borrowing or loaning money! The US currently is not in a NIRP situation but it is being discussed. However, 30% of the current government bonds circulating in the world are paying a negative interest rate. The countries currently involved with an active NIRP are Japan, Switzerland, Sweden, Denmark and the biggest fish of all, the European Union. It is estimated that there are \$7 trillion dollars floating around right now for which investors are paying the borrower for the privilege of lending to them. NIRP absolutely destroys life insurance companies, public and private pensions and the value of the bank stocks around the world. If a pension or life insurance company is planning on a 7% rate of return from bonds to meet their obligations, how will that be possible at 400 year lows in interest rates in which we already find ourselves let alone dealing with potential...negative rates! Consider this scenario, you deposit money into a savings account at the bank and the longer the bank holds your money for you, the less you will have in your account. It gets even better. If you were fortunate enough to refinance or get your first mortgage and it was at a negative interest rate, the longer it takes to repay a negative interest rate mortgage, the less you owe, even if you pay nothing at all! In this topsy-turvy world of new rules from the world's central Banks, savers will lose money and borrowers will make money, all in the name of trying to stimulate banks to make loans. Will we end up with NIRP in the US? It is seriously being discussed at the Fed. If the Fed feels that they are running out of options, it is very possible that we will encounter persistent negative interest rates in the near future. If savers thought they were being unfairly punished with low interest rates before, just wait.

Why the obsession with economic growth and the accompanying political unrest that goes hand in hand with changing demographics of a society? Simply put, we have too many young people in the world who remain unemployed or under-employed and too many old people needing financial support from an under-employed younger population. China's one child policy has had a devastating effect on China's social fabric. Little did the Chinese government understand the strong preference for sons in Chinese families, even to the point of "selecting" male heirs through abortion of less desirable female pregnancies. China does not have enough women for the eligible

"46.3% of revenue generated by companies within the S&P 500 came from sales to consumers outside the US." Source: S&P Dow Jones Indices

bachelors in Chinese society to marry and have children to sustain China's growth. It is estimated that China's population of people over the age of 65 will grow by 50% by 2025 and be 130% larger in 2030, just 14 years from now. At that rate, there will be more seniors in China than in the US, Europe and Japan **combined!** India has 1 million people turning 18 **every month** and must find jobs for these people or risk societal instability like is currently present in the Middle East with their youth unemployment rates hovering around 25%. The world, including the US, needs jobs. 25% of all the people in the world today are between the ages of 10 and 24 and the vast majority of these are in the "developing" world. If government and Central Bank policies cannot find ways to stimulate world economic growth and provide jobs for this burgeoning population segment, then common sense would indicate a great deal more social and governmental unrest is in store.

So why have we spent so much time, space and ink in this newsletter talking about politics and economic growth? Our Presidential primaries have already affected your investments and will continue to impact your financial well-being for many years to come. American politics matter in the world. Even if we do not like it, America is stuck being the policeman for the world. Who we eventually elect is very important to not only our investments but to stability in the world. As this incredible election season plays out, we need to be prepared for increased volatility in our holdings. Increased volatility does **not** mean that our investments are somehow now more risky than they were. It just means that all investments will move higher, and lower, more rapidly and sometimes for what seems to be no good reason at all. Investors around the world may migrate into less risk-averse holdings which can cause significant daily swings in the markets. Patience and perspective are absolutely needed now more than ever. Everything will be fine... but things could become very bumpy very quickly as we head into the political Conventions

this summer. Prudent investors need to understand this and be prepared for what may turn out to be a 1968 deja vue!

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. Please mark your calendar for **September 7, 2016** for our 10th annual Client Appreciation Event. We do hope that you will be able to join us.

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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