

Fall  
2016



# Spreng Capital Management Inc.

## *"Facebook is not the new steam engine"*

*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.

Where do we possibly begin with this quarter's newsletter? There is so much uncertainty, fear, loathing, racial animus and antipathy floating around in the fall air that it is difficult to prioritize the issues. But of course, as is the case in 2016, it always comes back around to "the election". We are not going to take a stand or endorse any one of the four candidates running for President. That is not what we do, nor should we. Our task is to manage your hard earned funds that you have entrusted to us in a method and manner that delivers good inflation-beating returns to you with a minimum of risk. But to say that this task is now more difficult than ever, given the daily circus that our Presidential election has become, would be an understatement!

We always smile when there is a "winner" declared after one of the electoral debates. Who is chosen to judge these things? Are there points awarded for posture, eye contact, zingers or new and innovative ways of attacking your opponent? Is there a running scoreboard on screen for everyone to keep score at home? No, as usual, the media will tell you who has won. Fox will tell you that Trump has won and the old-line main stream media will tell you that Clinton has won. As is usually the case, the truth will lie somewhere in the middle. Will these debates actually matter in the long run or are they just another episode in the eternal run for election that the 2016 Presidential race has become? Do you realize that we have had to tolerate this nonsense since the spring of 2015 and according to the polls, it is still undecided!

We have no idea who is going to win. Traditional polling appears to be worthless in this election due

to the absolute disregard and disgust in which everyone holds the two major candidates. If there were an option for "none of the above" they would probably win this year. We did read a cute story by Meb Faber that said if Hillary Clinton had continued to trade cattle futures she would be a vigintillionaire! Yes, you have to look that one up. In 1978, she turned \$1000 into \$100,000 in one year which is about a 9000% return. In three years her \$1000 would have grown to \$700 million and she would have been worth trillions in less than 10 years! With a "gift" for trading like that, everyone should vote for her if she would just share some of her trading skills with our government and pay off our national debt and all entitlements going forward.

To be fair, since we just took a swipe at Mrs. Clinton, we need to present some comment on Mr. Trump, but where do we begin? He has insulted large swaths of the population and personally endured several bankruptcies with his business practices. He has refused to disclose his tax returns so maybe he is a

Index	QTD	YTD
DJIA	2.11%	5.07%
NASDAQ	9.69%	6.08%
S&P 500	3.31%	6.08%

very successful business man and maybe he isn't. The Clinton campaign is doing a very good job of using his past comments about women and the manufacturing of his clothing line in China against him but for those who think that all of Washington is corrupt, only an outsider like him can clean up Dodge City.

As we have said, we have no idea how this is going to play out. Voter turnout will be a huge issue. Will Bernie Sanders' young supporters rally for Clinton or will they vote for the Libertarian ticket or Green ticket as a protest against Clinton and Trump? Will African Americans and Hispanics turn out the vote for Clinton? What if the decision ends up at the Supreme Court again with only 8 Justices available even to hear and vote on a stalled election as it did in the election in 2000. If the vote at the Supreme Court ends up with a 4-4 tie, the decision reached by the lower Federal Court would be upheld. In essence, one person could once again decide who the next President would be. We don't think that it will come to that point but who thought that voters in Florida in 2000 would not read their ballots before punching out their "chads".

Obamacare will continue in some form since the Republicans will not gain enough seats to over-turn a President Clinton veto of a Republican led repeal of Obamacare. As President, Mr. Trump has indicated that he would repeal Obamacare but who really knows what a Trump Presidency would resemble. Obamacare and where it goes from here in 2017 concerns us a great deal. It is very obvious already that many of the insurance companies that were offering policies through the exchange have decided that this line of business is not profitable and have pulled out of the Federal Market Place. The vast majority of counties in the State of Ohio in 2017 will only have one company offering to underwrite policies on the exchange. One company does not allow for competitive pricing. According to the Wall Street Journal only 28% of citizens under the age of 34 are carrying policies. They are just too expensive for young people just starting their careers with college debt or with the purchase of their first home. The penalty of \$695 or 2.5% of income is just not severe enough of a penalty to force young, healthy people to purchase health insurance. All insurance, health, life or property and casualty, is really like Social Security, a glorified Ponzi scheme. But because the government gives its stamp of approval for these endeavors they are all deemed to be trustworthy. Any type of insurance and Social Security is based upon the fact that healthy or young people will pay into the system for years and the less fortunate or elderly in our society will collect on the premiums paid by the healthy and young. If you don't have enough young or healthy people or people living in houses located in non-hurricane zones paying into the insurance system, the system will collapse from too many claims against it.

As we read the details on Obamacare years ago when it was first exposed to the light of objective criticism, we were stunned by how little the penalty was for non-compliance. It was very obvious that the young, idealistic staffers who had written this legislation had no idea what the true costs of health care and insurance really were to the average American. They were so isolated in their Georgetown bars and restaurants that they had no idea what was coming down the road for the common American taxpayer. The numbers *never* added up. Anthem is our health insurance provider. Every year our health insurance rates go up around 8% per year like clockwork. Effective October 1, 2016 our rates went up 7%. Anthem is projecting for all of their group policies what the increase will be in 2018 when Obamacare is fully implemented. It is probably not a coincidence that Obamacare was fully implemented after the President's last term is over. Our rates go up 33% in 2018, and we have one of the lowest increases for any group plans that our agent has for group policies in 2018. Most of Anthem's group policies go up on average between 40 and 60% in 2018. One even goes up 102% in 2018!!!!!!

We have very serious concerns about how Obamacare and its substantially increasing costs are going to affect the US economy in 2017. We have already seen hours cut on employees to drive their total weekly hours below 30 hours a week to avoid having to offer health insurance to the employees. How does a President Clinton solve this potential disaster with a Republican House and/or Senate? Anyone who actually thinks that a Republican held House of Representatives is going to help her figure out this funding mess for universal healthcare has forgotten the way the legislation was passed on March 21, 2010. The measure passed after Speaker Nancy Pelosi urged members of Congress, "We have to pass the Bill so we can find out what is in it" by a count of 219-212. All 178 Republicans in the House and 34 Democrats voted against it. To think that the Republicans would now work with a President Clinton to fix this incredibly poorly written piece of legislation is not a very logical assumption. Candidate Clinton has gone on record as favoring a single payer method, which is a euphemism for the taxpayer.

We favor health care for everyone. The exclusion of health care insurance based upon pre-existing conditions was always wrong. But how to get this landmark legislation back on track, with a split and polarized Executive and Legislative Branch, is literally the \$64 trillion question. If Mr. Trump is elected and the Republicans retain the Senate and the House, it is conceivable that something could be worked out. However, ever since President Obama, Nancy Pelosi and Harry Reid passed the Obamacare legislation in 2010, the American electorate has chosen to have a split government with no one party in control of the government. If



the electorate continues with this method of controlling their legislators, refusing to grant too much power to any one party, then it is very difficult to see how Obamacare, or as we are now being encouraged to call it by the powers that be, the Affordable Care Act, can continue to be a viable option.

As we have indicated, the thing we fear the most from this potential funding nightmare is the effect that it will have upon the economy and specifically, employees. The penalties for not offering health insurance are too small to force employers to offer health insurance. Please don't think that we think that a \$3200 penalty per employee is a small number. But if your goal is to "encourage" employers to offer health insurance then the penalty must be greater than the actual cost of the health insurance annual premium or no employer will provide it to any employee. This is why the funding never added up. The "children" on staff of our legislators in Washington D.C. who wrote this legislation had no real world experience in running a business in America! They had no idea what the true costs of health care were in the 21st century. We have great concerns that with the impending very significant increases in health insurance costs, many employers will simply drop health insurance coverage for their employees. The employees will have to go out on the health care exchange to purchase health insurance even if they only have one option from which to choose. What does this do to disposable income and the purchase of consumer items in 2018? Will a family of four purchase an iPhone or health insurance? Will a family eat out at a local restaurant which employs many neighbors and friends in their community, or purchase health insurance? Will a family purchase a new vehicle or purchase health insurance? Obviously, we do not know the answers to something 15 months in the future. An optimist will believe that Congress and a new President will figure out a way to work together and resolve the funding debacle for the Affordable Care Act. A realist understands that in today's political environment, they may very well reach an agreement, but the road to a compromise will be brutal and bloody.

We obsess over the economy because our economic recovery from the Great Recession of 2008 has been so anemic. We will defend President Obama when he says that recovering from a recession as severe as the one in 2008 takes longer than an ordinary recession. However, when you realize that GDP growth over the last 10 calendar years is actually below that of the 1930s when the country suffered through the Great Depression with 25% unemployment, you realize that something more is at play than just government support through low interest rates and income redistribution or economic malaise due to too many regulations and taxes. We think that something else is at play and it refers back to our opening line in this newsletter. We

think that innovation and invention are lagging behind previous growth spurts in the world's economy. A vast majority of current inventions and innovations are nothing more than fun things to enhance our entertainment. The cell phone is great, but we already had telephone service! A cell phone is more convenient, more mobile of course, and it is a walking computer in your pocket. But we had phones and we had computers, just not mobile. Think about it. Which would you rather have, a new iPhone 7 or indoor plumbing? The single act of indoor plumbing enhanced the life span of humans more than any invention ever used by the human race. Facebook is great for keeping in touch and sending pictures. But again, you could do the unthinkable like we did in the 1960s in college and actually write a letter to your friends and family to keep in touch. Has Facebook really made anyone any more productive at their jobs? A few I'm sure, but there are thousands of supervisors that lament the wasted hours at work every day with people checking their Facebook page or YouTube videos. The rocket that blew up recently on the launch pad was going to send a satellite into orbit over Africa. The satellite was from Facebook! They wanted to beam internet service to Africa from this satellite so the Africans could access Facebook. Forget clean water, schools, paved roads, electricity and safe food. Facebook has decided that the African continent really needs Facebook more than these other necessities of life. There is no increase in productivity from the vast majority of innovations today, just entertainment value. A home that can control electricity consumption remotely is definitely a positive. But is it essential to offer television viewing on your little 5 1/2 inch phone when you could tape it and watch it at home on your 48 inch screen? Amazon is not offering anything new, just the convenience of one stop shopping and delivery to your door. All Amazon really has done is put local retailers out of business but has also made it more convenient than driving to four different locations to purchase instead of sitting in our pajamas on the couch. There are now apps on your cell phone to find someone to go fill your car with gas, a service that will deliver a new toothbrush head to your mailbox every three months, a sensor placed in your child's diaper to alert you when it needs to be changed and a "smart" button and zipper that alerts you when the zipper is open on your pants! I know that I am old and crotchety and sound like a troglodyte or worse, a Luddite, and my rants almost scream, "Kid, get off my lawn", but so much of our innovation and brainpower is now being wasted on frivolous, non-essential entertainment solutions. There are multiple reasons that our economic recovery has been so tepid despite trillions of government dollars spent and artificially suppressed interest rates at 400 year lows. When you have multiple factors involved in the economic drag it makes it more difficult to overcome than if there were just one or two issues to overcome. The reality is that the slow economic recovery

has led to a great deal of the voter dissatisfaction that we are witnessing in the elections this year.

So where do we go from here? This newsletter has been a little pessimistic in outlook so now it is time to view the other side of the coin. By the very nature of our business we are forced to look for potholes or obstacles that **could** present themselves in the future. Our job is to protect your funds so we naturally obsess over dangers that lurk around every corner that could endanger your financial well-being. However, so many of the possible dire predictions of the past have never occurred. Remember SARS, the bird flu, swine flu, the world was going to end on December 31, 1999? All of these causes of fear and trepidation were just little speed bumps along the road of life. It is quite likely that most of the things that we currently obsess over or fear, will actually never occur at all. I have a saying that is appropriate for these situations, "Never have we lived so well, and complained so much." The election will come and go. No matter who is elected, the Republic will go on. The two political Parties will still fight over the most mundane things like two children in a sand box. This has been going on for 240 years. If we think that today's political agenda is fraught with danger and drama, can you just imagine how impossible it was in the 1850s as Congress, the Supreme Court and the President all fought over the expansion of slavery into the Western states and territories? Our problems today are nothing compared to that. Congress will eventually figure something out on Obamacare. It will be messy and a compromise that will displease more people than it pleases, but that is the way that democracy works. Our task with this newsletter is to alert you and prepare you for the issues that can cause volatility in your investments. As long as we are aware of, and managing the potential risks, then everything will be fine. No matter who is elected, the Republic will survive, the stock markets will open

on November 9th and hundreds of millions of Americans will go about their daily lives. It will all work out, it always does.

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](mailto:jspreng@sprengcapital.com), [tbrown@sprengcapital.com](mailto:tbrown@sprengcapital.com) and [lemory@sprengcapital.com](mailto: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](http://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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