

Winter  
2017



# Spreng Capital Management Inc.

*Spreng Capital Management* is an investment advisory firm with the Securities and Exchange Commission. 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.

*"It's the economy, stupid." James Carville 1992*

I must admit, I never saw this coming. I thought that Donald Trump could make the election close based upon voter turnout but I never in my wildest imagination thought that he could win the election. I was the one who was talking about a "Goldwater moment" for the Republican Party in reference to the Barry Goldwater disaster of 1964 in which the Republican Party not only lost the Presidential election in a landslide of biblical proportion, but also got buried in the Congressional elections setting up the "Great Society" programs of Lyndon Johnson. No, I, like all of the talking heads on television, just could not foresee a path to an Electoral College victory for Mr. Trump. Campaign strategies that had been honed for generations to be inclusive, to try not to offend any demographic group, and to project

Presidential style, behavior and speech, all were thrown out the window in an aggressive campaign style that some are projecting to be

	Quarter	Year
DOW	7.94%	13.42%
NASDAQ	1.34%	7.50%
S&P 500	3.25%	9.54%

the wave of the future in national campaigns. When the result started to become obvious around 11:30 on election night, it was absolutely stunning to listen to the television pundits sitting around their glitzy desks and graphic displays. They were incredulous. You would have thought that someone of great importance had just died or that an event of incredible magnitude like September 11th or Pearl Harbor had just occurred. I honestly don't know if this reflected their personal beliefs or if they were stunned that all of their polling, interviewing and prognostications had just been proven to be completely worthless. I would imagine that it is a difficult pill to swallow to realize on television, in front of millions of viewers, that your life's work is a sham and that you really are not as important as you nor your peers think that they are. I wonder if the press who predicted Dewey's triumph over Truman in 1948 felt the same way?

Everyone who predicted the demise of the Republican Party after the election is now beating the Democratic Party to death. The comment that will probably stick with me for the rest of my life concerning this election was the question raised by someone on television late on election evening, "Do you really think that Bernie Sanders would have lost Wisconsin?" What a biting criticism of Hillary Clinton to infer that a 75 year old, self-avowed Socialist stood a better chance of winning this election than a woman with the backing of the Clinton and Democratic Party machines! Trump supporters will say with some degree of accuracy that that is exactly why she lost. It would appear that only someone as disliked and distrusted as Hillary Clinton could have lost to Donald Trump. While there

were 120 million votes cast, the staggering reality is that there were approximately 96 million more registered voters that did not even vote! The Clinton campaign can complain about the FBI and hacked emails. If just a portion of those 96 million disenfranchised or disgusted voters had gone to the polls to vote for Clinton it would have become a moot point.

We are asked every single day what this election will mean for the economy and the world order as we have known it for the last 70 years. We readily profess that we don't know. I have said that I really don't believe that Donald Trump personally believes in or will push half of the agenda that he espoused on the campaign trail. I think that he found that he was getting traction with voters and crowds by taking a controversial tack. He just decided to continue to push that agenda and see how far it could take the campaign. Realistically, a lot of what he talked about doing is just not practical or feasible or even legal to implement. Will manufacturing jobs come back from China and Mexico? Some might, but the vast majority are there until the plants and equipment are worn out in these countries or until US wages and tax incentives make it more profitable to relocate back into the United States. This will not happen in Mr. Trump's first four years or even in his potential second term. Major business decisions like that take time. Businesses will want to make sure that any changes are permanent and not easily revoked by a new President after four years or a new Congress in two years. The migration of jobs to Mexico and China has happened over decades, not over four years. They will not come back within four years!

In trying to ascertain the effectiveness of an incoming Trump Presidency we constantly invoke the name of Jesse Ventura, the former governor of Minnesota, from 1999 to 2003. Mr. Ventura was elected as an Independent who promised to "shake up" the status quo. Does this sound familiar? The reality was that as an Independent, neither Party in Minnesota feared his wrath or felt the need to support his policies. He was a "one and done" governor and really accomplished very little during his term because he had no political support from either Party. The question begs to be answered, is Donald Trump a Republican or an Independent? I would venture that he is to some degree, both. Therefore, how much will the Republican controlled House and Senate work with him when he veers away from established Republican Party dogma? Will there be a price to pay for Republicans who do not support his "drain the swamp" rhetoric when it becomes evident that the Republicans are part of the swamp? Will the Democrats in

Congress take a page from the Republicans and President Obama's terms and perfect the skill of becoming the "obstructionist Party", fighting everything that President Trump wants to implement? It is all well and good to campaign as an "outsider" but the hard work of leading and enacting meaningful legislation requires hard work and compromise in our Republican form of government.

It is ironic how words come back to bite you. President Obama's famous quote that "Elections have consequences and at the end of the day, I won" and of course James Carville's pithy quote about the economy in 1992 certainly ring true when you consider the response of the American worker in middle-America in the presidential election of 2016. The Clinton machine ignored, to their own peril, the words of their bombastic advisor in 1992. If the Democrats would have concentrated more on the economy perhaps the outcome would have been different. As a side-light, I often wonder if we would have ever heard of Hillary Clinton if Ross Perot had not run as a third party candidate in 1992 which guaranteed that a little known governor from Arkansas would become President.

So many questions, so few answers. Has there ever been a more uncertain incoming Presidency since FDR in 1932? We tend to view things in a glass half full mood. Nowhere is it implied or stated in the Constitution that just because someone is not a lawyer or previously has not served in some level of government that he or she is unfit for the office. Actually, we anticipate that a Trump Presidency will be good for the economy. Our concern remains with his lack of experience, and his apparent lack of interest, in foreign affairs. Notice that we said apparent lack of interest. Donald Trump is an enigma and it is possible that all of his bluster about the CIA and Russia and Taiwan and Israel is just posturing; that when the hard, dirty work of foreign diplomacy takes front and center, his advisors will give him wise council and that he will listen to them. The world needs that from the leader of the free world. We need that from a President!

We anticipate a decent economic revival under a President Trump. While the economy under President Obama has muddled along and created jobs, the facts from the government agencies tasked with following such statistics show that it has been the slowest economic recovery from a recession since World War II. There certainly has been no lack of government borrowing to try to stimulate the economy over the last eight years. The national debt has added trillions of dollars of debt during this time period

*"The average 30-year fixed rate mortgage over the last 45 years is 8.26%. The average as of 11/17/2016 was 3.94%!"*  
Source: Freddie Mac

and punished savers with 400 year lows in interest rates. To be fair, the Great Recession of 2008 was very extreme. There was a lot of work to do to clean up the mess and excesses that Alan Greenspan and his cohorts at the Federal Reserve and the banks under their control had created. I came out of college during the last difficult recession in 1973-74 which was caused by a sudden spike in oil prices and violent turmoil in the Mid-East. I think that if you asked anyone who was working or attempting to find a job during that period that they would agree that it was a particularly nasty recession as well. The recovery from the recession of 2008 has been tepid at best.

We think that a Trump administration will work very aggressively to lessen the rules and regulations that have hampered economic output over the last eight years. It has been said that the average time to receive approval for a building permit in the United States is now up to 81 days. That being said, not all of the rules and regulations that are currently in place are bad for business. One only need look at the smog and pollution rampant in the air and water in China to realize how important the EPA is to our quality of life in the United States. What good is economic activity if your children and grandchildren cannot go outside and play because the air will make them ill? As is always the case, moderation is always the best medicine whether eating, drinking or rolling back rules and regulations that may have overstepped their stated goals.

Will we finally have comprehensive tax reform? Will tax reform be the shot in the arm necessary to revive the sluggish economy? It has been said that there is 2.5 **trillion** dollars of profits from US corporations that are sitting in investments outside of the US. This money is just sitting there to avoid the 35% corporate tax rate that the US imposes on profits realized by selling goods and services to foreign consumers by US businesses. There is talk of a "tax holiday" which would mean lowering the onerous 35% corporate tax rate for about six months to allow businesses to bring these dollars back into the United States. Hopefully, businesses would distribute what is left to shareholders like us, in the form of dividends or expand their businesses with these funds and hire more employees. This sounds like a win/win proposition for everyone. Except, this is not tax reform, it is just a band aid on the larger problem. There have been "tax holidays" before and look what happens after the sweet heart deal expires. Companies just build up trillions of dollars sitting overseas again! No, a lessor tax, say 15% on profits, generates a lot more tax revenue than 35% on \$0 dollars that just will never come back into the country.

This seems pretty simple to us but in the complicated world of Washington D.C. nothing is ever simple, especially tax reform.

To finish the election synopsis, we are optimistic that the economy will chug along and reward patient investors. We are concerned about President elect Trump's lack of foreign policy experience and his penchant for his Twitter account. If he surrounds himself with wise, experienced foreign advisors and actually listens to them, then everything should be all right. As far as bringing manufacturing jobs back to the US from Mexico and China here are a few sobering statistics from the New York Times. One facility in China that assembles Apple iPhones covers 2.2 square miles, employs 350,000 workers, and assembles 350 iPhones a **minute**, all working for about \$1.90 per hour in wages. Do you really think those jobs are ever coming back to the US? Where could we possibly find that many workers in one community who could pass a drug test and are willing to show up for work every day let alone work for those wages? We are also amused by the Republican chest beating that they will repeal Obamacare immediately. Be careful what you wish for, repealing and taking away a benefit from voters is easier said than done, especially if you have no plan in place with which to replace Obamacare.

2016 ended up being a very good year in the US equity markets. Let's review for a moment all of the negative events in 2016. We had the most contentious, nasty Presidential election in generations. A foreign power, Russia, hacked into computers from the Democratic National Committee and leaked damaging emails to the press. The FBI investigated a Presidential candidate for possible indictment. An avowed Socialist won 22 states in the Democratic Party primary. North Korea continued to try to develop missiles to deliver nuclear weapons to the shores of Japan and the continental US. Russia invaded Crimea and Ukraine. England voted to leave the European Union casting into serious doubt if the EU will survive another 10 years. Brazil and South Korea both voted to begin impeachment proceedings against their Presidents. Venezuela has no food, electricity or clean water as their socialist experiment in government implodes. Saudi Arabia is running a budget deficit for the first time since oil was discovered in the Arabian Peninsula and are imposing austerity cuts on their people to try to reign in their expenses. How ironic that none of the Saudi princes or princesses are feeling any cuts. No, they still frolic in the Mediterranean Sea on their yachts and buy expensive jewelry and homes in Paris outside of the eyes of their people and limited press.

*"The yield on the 10-year Treasury note closed at 1.36% on 7/8/2016, the lowest closing yield ever for the 10-year note. They have been traded in the US since 1790.....226 years of trading!"* Source: Treasury Department

All of these terrible things have occurred and yet the markets were up for the year. Also, does anyone remember how bad the month of January 2016 was for the US stock markets? January was the worst start to a year for US stocks ever. I repeat, EVER! This is an appropriate time to debunk all of the experts and prognosticators who are making predictions for 2017. None of them know. I repeat again, none of them know! So, just like we do not know how President Trump's presidency will pan out, no one else does either. If someone tells you otherwise or they sound convincing on late night television pontificating that the world is headed for a financial meltdown and gold is the only answer, take a deep breath and realize that they are being paid to make these proclamations and that there are no consequences for them when they are incorrect.

We just completed a very good year in the US equity markets despite all of the issues listed above, the most contentious Presidential election in recent memory and multiple terrorist attacks on our home soil and abroad. Yet the business of business continued to reward patient investors with good returns. What will President Trump do in 2017? What will the markets do in 2017? We have no clue, nor does anyone else. We will intently follow the daily actions in the markets and the news around the world that could impact, both positively and negatively, our investments. We will respond accordingly or remain patient, like January of 2016, and work to deliver the very best returns with the least amount of risk to our clients.

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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