

Spring  
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.

*"I actually think this may be the worst hundred days  
we've ever seen in a President."*

*David Gergen former advisor to Presidents Nixon, Ford, Reagan and Clinton.*

Well, that didn't take long. The honeymoon between newly elected President Trump and his Republican cohorts in Congress lasted about 2 months. After railing against Obamacare for the last seven years and claiming that if the American electorate just had the wisdom to elect Republicans into power in both branches of government, the Republicans, and President Trump, fell flat on their faces in their first audition with the American people. President Trump revealed his naiveté in actually governing when he said that reforming health care was "hard". Really? The Republicans in Congress were given the task to write a better bill than the piece of sausage that was the original Obamacare bill but they failed miserably, not only with the electorate at home in their various Congressional districts, but with the "small government" hawks of the Freedom Caucus wing of the Republican Party. The Freedom Caucus eventually doomed the bill by refusing to support "Obamacare Lite", as they derisively referred to the bill, along with all of the Democrats who refused to abandon the last remaining vestige of the President Obama's eight years in office.

With the roll backs of President Obama's environmental initiatives, almost everything that President Obama accomplished in eight years through Executive Order has been rescinded by President Trump's Executive Orders. Such is the risk

when you don't bring Congress along on your agenda. It is much easier to issue Executive Orders to make rules, or to demolish rules, than it is to pull Congress along, sometimes kicking and screaming, to pass the likes of the Civil Rights Act in 1964. When Congress passes laws the laws tend to last forever. Executive Orders, much to President Obama's chagrin, can be swept away with the stroke of one person's pen!

The Republicans are finding out the bitter reality of being the Party in power. Actually governing is hard work! Instead of carping and complaining about ***everything*** that the Democrats proposed over the last eight years, maybe they should have put petty politics aside and actually chosen to work with their political rivals for the benefit of the country. Does anyone actually believe that there wasn't one good idea put forth by the Democrats in eight years? The mathematical probabilities of there not being at least one good idea that would benefit the people are just staggering.

	2017
DJIA	4.56%
NASDAQ	9.82%
S&P 500	5.53%

To be fair to President Trump, David Gergen's quote to begin this quarterly epistle is so far over the top that it is laughable. As was pointed out by Gergen's co-contributors on CNN, Lincoln probably had a tougher 100 days in his first term as all of the Southern states seceded from the Union after his election. Lincoln was assassinated in the first 100 days of his second term! William Henry Harrison died in his first 100 days. More recently, Kennedy suffered the disastrous CIA led Bay of Pigs invasion of Cuba in his first 100 days. Such are the emotions that President Trump elicits from people. You either love the man or you hate the man. Gergen is "old school" and President Trump is anything but conventional. Every time Trump tweets some absurd comment, Gergen and his old cohorts probably just about have a stroke! That is not the way it used to be done. With the failure of the repeal of Obamacare and the failure to implement a new law that the Republicans could promote as their ability to get things done, it was probably just too much for Gergen to take. Thus, the hyperbolic comment.

Is it just me, or have we seen a rise in animosity towards our sitting Presidents since the election of Bill Clinton? Think about it, Clinton and his affairs, Bush "stole" the election from Gore, Obama and Obamacare and his "excessively liberal" agenda and now Trump and all of the baggage he brings to the table with the Russians, immigration and the wall. Is this due to the rise of the internet and instantaneous news at virtually the same time that these men took office? Or is this a function of "Baby Boomers" coming of age with all of their selfishness and sense of entitlement who are now being placed in positions of power for the first time ever? It is probably a combination of the two but Presidential politics over the last 25 years has become nastier with each passing year. With this rise in vitriol it becomes more and more difficult to pass meaningful and impactful legislation.

Where does the Trump agenda go from here? Tax reform, immigration reform, infrastructure repair and building the wall were all promises that were made by candidate Trump. He certainly cannot blame the American electorate for not giving him the Congress that he wanted and supposedly needed to make actual change. Ah, but the devil is in the details. When President Trump acts like the CEO of America Inc. he butts up against the harsh reality that each Congressperson and Senator is actually the CEO of their own little fiefdom, their District or state. They don't like being told what to do because they think, and with some degree of accuracy, that they know their constituents' wishes better than a President or national political Party can know. When President Trump threatened the members of the Freedom

Caucus with the wrath of the voters in 2018 if they turned down his wishes on health care, he forgot a basic fact of today's elections. The Congressional districts have been gerrymandered or rigged geographically to protect sitting members of Congress from being picked off in an election. So, as is almost always the case, voters can say "throw (vote) the bums out" but my guy is ok. I know him and he thinks like me and represents my wishes in Washington". That's why 92% of all members of Congress are re-elected every cycle. It is highly unlikely that more than just a few will "pay a price" for not supporting President Trump's legislation agenda. Without this threat to hold over the heads of recalcitrant members of Congress, what leverage does a President or Speaker of the House now hold over these renegades? To be blunt, not much! They can threaten to withhold Party funds at election time or threaten to run someone against the incumbent in the Primary. But realistically, name recognition and the mailing powers of the office make it very difficult to unseat someone who is already in power.

President Trump promised a very aggressive political agenda. To be honest, the US stock markets responded quite favorably to his election and the hope that his election promises would be fulfilled. Now, the fulfillment of these promises is in serious doubt. Let's walk through these promises and dissect the options. Tax reform: any tax reform will probably have to be revenue neutral to have a chance of passing through the House. One of the Freedom Caucus' biggest complaints with Trump and Speaker Ryan's health care bill was the cost of Medicaid. They felt that Medicaid costs had to be rolled back to reduce the deficit and return to "small government". It is hard to imagine that they would support a tax reform bill that reduced total federal tax revenue as it would surely "bust the federal budget" and lead to higher deficits. Infrastructure: If ever anything needed to be done it would be this. Our bridges, roads and power lines are a disgrace for a country of our wealth. But once again, with the budget deficit hawks pounding the table, will they find a way to finance the trillions of dollars that it is projected over the next twenty years to take to fix our crumbling infrastructure? An increase in the gasoline tax would go a long way towards alleviating some of this cost but the Freedom Caucus appears to be dead set against any tax increase for anything! This one may garner support from Republicans and Democrats and probably has a good chance of passing over the objections of the Freedom Caucus. Immigration: Every time you touch the "third rail" and discuss amnesty or allowing those that are already in

*"When Henry Ford introduced the assembly line in 1913 the time it took to assemble a Model T dropped from 12 hours to 90 minutes and the price dropped from \$850 to under \$300."*

the country illegally to stay, things reach a boiling point very quickly. Can a compromise be found that can appease all of the existing factions? And finally, the wall. President Trump promised to make Mexico pay for the wall. This is not going to happen and once again, the deficit hawks and the liberal wing of the Democratic Party will probably band together to defeat any legislation that would build a wall. President Trump can try to do an Executive Order on this one but it will probably die a painful death in the Courts.

We have not even broached the two "elephants" in the room, North Korea and Russian meddling in the election and possible connections with advisors to the White House. North Korea is a big deal and it crosses all political lines. Over the last 25 years, through two Democratic and one Republican Administration, very little has been done to contain the rising threat of a despot with nuclear weapons. What is so dangerous about North Korea is their apparent lack of rational thought processes in anything that they do. The Cold War was based entirely upon the threat of mutually assured destruction, that is both the US and the Soviet Union knew that both would lose if anyone crossed the line. It would appear that North Korea totally ignores this reality and continues to poke both the US and North Korea's only ally, China, to what end no one seems to really know. It has been said that while China defends North Korea publicly, North Korea has only hated the US for the last 70 years. They have hated China for thousands of years! North Korea with nuclear weapons should concern everyone.

Russia, where do we begin? We are not going to spend any time discussing what did, or did not, happen because we simply do not know. It would appear that there will be Congressional and FBI inquiries into this question for months, if not years. The problem lies in the fact that this has the potential to overwhelm and distract the Trump Administration for the next four years. One only need remember the Bill Clinton years to know how crippling constant investigations can be to an Administration's goals and agenda. A distracted and embattled President, especially just beginning his first term, is not a good omen for progress on our major issues. Time will tell where the Russian connection leads, how much North Korea threatens the stability of the Pacific Rim and how an independent President like Donald Trump handles the Freedom Caucus in Congress who holds no allegiance to him as a Party leader. It will be interesting.

All of these political machinations are important because they greatly affect our investments. The economy is doing

better. The unemployment rate is down below 5% but the quality of the jobs and the pay scale for the American worker can certainly not be described as robust. The GDP, Gross Domestic Product, of the US economy grew at a very tepid rate of 1.6% in 2016, down from 2.6% in 2015. That is the eleventh consecutive year of GDP growth under 3% a year. This has never occurred in our country's economy since GDP was originally calculated in the 1930s! The longest previous time was four years from 1930-1933 in the throes of the Great Depression. It is no wonder that American workers, and voters, do not think the economy is doing well. Couple this lack of growth with a lack of wage growth and an increase in out of pocket health care costs and you can see why there is a general malaise in the mindset of the public where the economy is concerned. That was the Trump promise, to get the economy going again and to "Make America Great Again".

The markets responded very well to President Trump's election and economic promises and delivered a "Trump Bump". Since the election, the S&P 500 is up over 10%! However, this fast rise in the markets coupled with the low unemployment rate gave the Federal Reserve the information that they needed to start raising interest rates again. The Fed raised rates by 0.25% for just the second time in a decade and indicated that they were anticipating raising rates again several times in 2017. While we think that rising rates are a good thing for savers and is an indication that the overall economy is healthy enough to withstand higher interest costs, there will be certain segments of the economy that will suffer and slow down with an increase in the cost of borrowing. Large ticket items that require large sums of borrowed money like house purchases or cars and trucks will most likely suffer in sales as interest rates rise.

It has been said that the Federal Reserve has caused every single recession by raising interest rates. That is nonsense but, as is the case with most blanket statements like this, there is a grain of truth to this supposition. The Federal Reserve's task is to control inflation and promote employment. The irony is that these two goals are almost exactly diametrically opposite of each other. Raising interest rates to control inflation will destroy jobs and promoting full employment and wage growth will fuel inflation. What a paradox. Another fascinating piece of information, the last Republican President voted into office who did **not** suffer through a recession within 18 months of his inauguration was Warren G. Harding who served from 1921-1923 before dying from a heart attack. Does this fact coupled with the fact that the Federal Reserve is raising interest rates literally

guarantee that we are headed for a recession? Absolutely not, strings are meant to be broken. Just ask the Connecticut women's basketball team with their 111 consecutive victories how they were upset by Mississippi State last night in the women's Final Four basketball tournament. Strings are meant to be broken, it is just the law of averages or mean reversion. With all of the uncertainty and controversy swirling around a politically naïve President, a bellicose dictator in Asia trying to secure the ability to rain a nuclear nightmare onto whomever he desires and a Federal Reserve starting to remove the punchbowl from the party by raising interest rates, investors need to exhibit caution and remain diligent. This is not a time to fear the investment environment.

The companies in which we invest are doing very well. Their profits are exceptional, their expenses are rising but are well contained. Their debt loads are manageable and at very low interest rates. We own good investments for you that over the **long-term** will perform very well for you as investors. Economic headwinds always exist, they always have, they always will. Our task is to manage the risks and opportunities that these headwinds present and use them to our advantage.

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. Please set aside the evening of September 6, 2017 for our annual Client Appreciation event. We do hope that if you are in the area you can join us that evening.

***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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