Summer
2018

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 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.

"You will never reach your destination if you stop to throw stones at every dog that barks"
Winston Churchill

In September 1944, Prime Minister of England Winston Churchill had a delicate problem. The population of Barbary macaque monkeys on the Rock of Gibraltar was dwindling to dangerously low levels. The British had a naval base on Gibraltar guarding the narrow straits linking the Mediterranean Sea to the Atlantic Ocean. According to legend, as long as the monkeys remained on Gibraltar, so would the British. Churchill ordered that extraordinary measures be taken immediately to bolster the monkey population.

In retrospect, as silly as this sounds today, Churchill's knowledge of English history left him with little alternative but to save the monkeys, and hopefully to keep the British in control of the strategic point. According to the book, Gibraltar, written by Roy and Lesley Adkins, an episode involving Gibraltar over 200 years ago had ramifications that affected the American Revolution. They still reverberate today as the United States has evolved into the economic and military super-power.

Index	Qtr.	YTD
DJIA	0.70%	(1.81%)
NASDAQ	6.33%	8.79%
S&P 500	2.94%	1.67%
Bal 60/40	2.82%	2.95%
50/50	1.88%	0.33%

From June 1779 to February 1783, the combined armies of France and Spain lay siege to the British garrison and the town's English inhabitants on Gibraltar. The siege involved artillery salvos, a blockade by sea and land and the digging of trenches closer and closer to the garrison and town. Spain had relinquished the ownership of Gibraltar to the British in 1704 after the British had captured it from Spain in battle. To this day, over 300 years later, Spain still covets the return of Gibraltar to its sovereign control. With the blockades effectively cutting off most food, ammunition, medicine and water from the garrison and the town, Gibraltar's governor, Lt. General George Augustus Elliot, ordered his men to stop powdering their hair with flour so that bread could be made with the flour. Soon, the inhabitants were suffering from scurvy due to a lack of Vitamin C. A captured Danish vessel loaded with lemons saved the Rock's soldiers and townspeople for a while in 1780.

The situation was dire in the spring of 1781 when King George III made a fateful decision. To save Gibraltar, he ordered the British naval

"The US farm income has dropped by 52% over the last 5 years because of falling commodity prices, even before the current trade disputes!" Department of Agriculture

fleet, under the command of Vice Admiral George Darby, to abandon their blockade of the French port Brest and to sail to Gibraltar to break the blockade. Because of this action, the French fleet escaped from Brest and sailed to America to help the American colonists in their battle against France's arch-enemy England. The British army had 8000 troops at Yorktown and was expecting help from the British navy moored in New York City. The French ships prevented the English ships from leaving New York harbor thus preventing the English ships from reaching Yorktown. The French fleet that escaped Brest was the same fleet that bottled up General Charles Cornwallis at Yorktown and blocked his escape by the sea. Cornwallis had to surrender in October of 1781 and for all intents and purposes, the Revolutionary War was over. If not for the British obsession with Gibraltar, who knows when, or how, the American Revolution would have ended.

In fairness, what in the world does this story have to do with investing? The world changes, sometimes very rapidly, almost it seems like, in the blink of an eye. King George opted to save Gibraltar and lost the American colonies in the process. Does anyone really think that England gladly would trade Gibraltar today for the entire United States? It has often been said that our military has to be careful not to try to fight the last war with today's armies and technology. Vietnam was a prime example of this folly. Saturation bombing like that of Germany and Japan in World War II did nothing to disrupt supply lines in Vietnam or neighboring Cambodia that were often cramped tunnels that went right underneath US bases. Investors have to be careful not to invest in yesterday's news or the newest and shiniest invention the same way the pentagon has to adapt to modern warfare.

The story of Netflix versus Disney is a prime example. This year for the first time, investors valued Netflix more than they did Disney. What is Netflix? I assist with local high schools trying to teach their students how to invest. When I asked the class to explain Netflix, a young man immediately gave the correct answer. "It is an app." App is short for application which allows a user to navigate the internet. That is all that Netflix is, an app that allows the user to access television shows or movies through the internet. Netflix has very few original television shows or movies, although they are starting to realize that they need to produce more of their own content. They pay a fee to the providers of content and then sell subscriptions to their app users who want to go through the internet to watch this content. In short, anyone could replicate Netflix's business model with very little capital outlay. You just would need to convince the 125 million Netflix subscribers to shift to the new provider, which is not very likely. Netflix added 7.4 million new subscribers in the three months from January of 2018 to April of 2018. That is a huge number! Their growth is why investors are bidding up the value of Netflix to a higher level than Disney. Disney has physical facilities in theme parks all around the world. Disney has a vault of classic movies clear back to Snow White and the 7 Dwarfs made in 1938. They have the Pixar, Star Wars and Marvel comic book franchises from which they continue to make movies and sell ancillary merchandise. They have their own movie and television studios and yet.....investors still value Netflix's growth potential over Disney's trove of hard, physical assets. To add insult to injury, Disney had $9.6 ***billion*** of profit in 2017. Netflix had $560 million of profit in 2017! Such is the investing world of the 21st Century, where growth and potential for growth supersedes all other metrics of valuation.

While we acknowledge the importance of growth, our experience gives us pause. What is unsettling to us is that we remember 1999 all too well. In 1999, any new company with .com in its name was bid up to incredibly stupid valuations just on the theory that the internet was going to change the world. Investors just had to own stock in anything associated with the internet or risk being left behind. We all know how that turned out. The internet has changed the world. Railroads changed the world in the late 1800s, and radio changed the world in the 1920s. There were also obsessions to own shares in any railroad company until investors realized that too much track had been laid and most railroad companies were drowning in incredible debt levels. Radio was king, until television came along!

I attended a meeting last week of financial advisors and industry people. As the discussion swirled around the hot new tech companies that are revolutionizing the way consumers consume and the way families interact with one another, I was struck by a very uncomfortable feeling. Everyone in the room looked incredibly young! Now I know that I am "seasoned" or just old and crotchety, you can take your pick. I just couldn't help myself. I asked, "How many of you were in the financial business in 1999?" There were only two of us out of an entire room. I then asked, "How many of you were in the financial business

"GM sold more cars in China than in the US last year. There are 310 million active iPhones in China, more than double the number in the US." Deutsche Bank

in 2008?" Less than half of the room had lived…… and advised…….during the Great Recession. You can say that this was a biased sample. Perhaps the "seasoned" financial advisors had sent their younger counterparts to bring back information to them and that could be a fair response. Or you could have viewed the show of hands with a little more trepidation as did I. We have a myriad of people giving out financial advice that have not learned anything from the "school of hard knocks". Being young and inexperienced is not a crime. It is only when we hear these young, inexperienced financial advisors and industry experts obsessing over the newest and hottest tech stock darlings that we start to experience a certain degree of, dare we say, fear.

Netflix is a great company and we are subscribers to their service. Everyone "googles" for information now. The company name has actually become a verb! Facebook is an advertising machine and as our elections have proven, a horrible source from which to get your information or news! Apple phones rule the US smartphone market. Amazon has remade the consumer marketplace. Amazon and Microsoft dominate internet cloud services with their massive server farms. Some of these farms are even placed on the ocean floor to generate electricity with the movement of ocean currents and are cooled by the ocean water. These companies are incredibly sophisticated, have gleaned billions of pieces of personal information from their users and will continue to harvest and use this big data for their own purposes. But what is their value as an investment? We would be fools to not think that they are worth hundreds of billions of dollars. Apple will soon become the first company to be valued at a trillion dollars! We also need to be very careful that we do not slide into the same "group-think" of 1999. Just because companies are high tech and offer all of these great new services and time saving innovations doesn't mean that they are good investments at any price.

At the beginning of 2000 the 10 largest market-cap tech stocks in the United States stock market collectively represented 25% of the S&P 500. Does anyone remember Microsoft, Cisco, Intel, IBM, AOL, Oracle, Dell, Sun, Qualcomm and Hewlett-Packard in 2000? Over the next 18 years ***not a single one of these stocks beat the average market!!!*** Five returned positive returns averaging 3.2% a year compounded, two outright failed. Five of the ten produced negative returns with an average loss of 7.2% a year!

This issue can be very important as investors. Making comparisons is always a fool's game. Was Michael Jordan better than LeBron James? Is Jimmy Fallon as funny as Johnny Carson or Jay Leno? Was Lincoln our greatest President? These silly questions are great for arguments or discussions, but really accomplish nothing. It really doesn't matter either way! Comparing individual investment performance to an index like the Standard & Poors 500 is a difficult venture as well. Are the goals and timelines of the individual the same as the overall index? Does the investor want more risk, or less risk, than the average? Does the investor have a need for funds in the near future? The events of the last 18 months are a prime example of this conundrum. As an investor, if you were comparing your investments to the S&P 500, unless you owned the distinct FAANG stocks, your overall performance has lagged the index. The FAANG stocks are Facebook, Apple, Amazon, Netflix and Google. This is what is eerily like 1999. The dull, old boring stocks of the 495 have done fine, but not anywhere close to the performance of the FAANG stocks. Do investors want the glitz, glitter and growth of the FAANG's? Do they want these at any price? These are hard decisions and choices. Let us be clear, we do ***NOT*** think that we are in a 1999 situation! It is just the parallels that force us to think extra hard about our investment choices right now. We have to own technology stocks, we just do. They are the future. But we must acknowledge that they are distorting the markets again, just like in 1999.

The 800 pound gorilla in the room is the current "tariff tiff" between the US, China, Europe, Canada and Mexico. This is not a minor issue as 38% of all S&P 500 companies' revenues come from overseas and 58% of technology companies' revenues do as well. Thousands of articles have been written about it and every news report every night has at least one segment allocated to the discussion of the pros and cons of tariffs. We have no idea how this will play out or end. Our opinion is no more valid, or worthless, than anyone else's because simply put, no one has any idea how this is all going to play out! Therefore, we are not going to spend a lot of time trying to explain or analyze our thoughts on how we might position your investments because it is simply too early to know. Common sense would dictate that everyone has too much to lose and cooler or more "seasoned" heads eventually will prevail and will coax everyone back to a mutual level. Therefore, to modify investments now in response to the

current situation would seem premature. But if the last 18 years leading up to, and immediately after, the Great Recession have shown us anything, it is that common sense and experience are sometimes the first to go.

The Federal Reserve continues to raise interest rates, as they should. The Fed has signaled that they plan on raising rates two more times in 2018. Unemployment is as low as it has been in decades and corporate profits are very good. Wages are rising, albeit at a low rate due to global competition and improvements in technology, which is code for robots and Artificial Intelligence. Historically, in the short run, equities have performed well in a rising interest rate environment. It is only in the late stages of interest rate hikes that equities have under-performed. Of course, we are watching events as they play out both from a tariff and interest rate perspective. We will make any adjustments or changes as we feel they are warranted.

If you are able to attend, please plan on joining us on September 5th, 2018 at 6:00 for our 12th annual Client Appreciation Evening at the Crawford County Fairgrounds in Bucyrus. Everyone always tells us how much they enjoy the evening and it must be true because our number of attendees grows every year. We do hope that you are able to join us.

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." ***"Risk means more things can happen than will happen!"*** Elroy Dimson-London Business School

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