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.

“History never repeats itself. Man always does” Voltaire

First of all, is anyone else having a difficult time wondering where 20 years have gone so quickly? I remember so vividly all of the fear that accompanied the rampant speculation of the complete meltdown of the systems that were controlled by computers as the calendar rolled over to the year 2000. It was going to be Armageddon. Nothing was going to work and the world would be plunged into total chaos. Well, that was 20 years ago already. How time flies when you are having fun.

A single year can make a difference, too. Last year at this time, we were licking our wounds from a nasty 20% drop in the US equity markets over the last three months of 2018. There was fear of an imminent recession caused by the trade war with China that President Trump promised was easy to win but the trade war still lingers as we head into 2020. Investors feared the worst and the S&P 500 ended up 2018 down 6% for the year. Suddenly, with absolutely no changes of significance except for one, the markets roared back in 2019 and finished the year up 29%! The trade war with China still festers and shows little signs of abating. North Korea is still developing long-range nuclear missiles with the ability to hit the US mainland. Hong Kong continues with street riots on a daily basis and whether it is man-made or natural, the climate is changing and it would appear, not for the better. All of the fears and uncertainties of 2018 rolled over into 2019 and still investors drove the markets to their best yearly returns since 2013 when the market was up 30%.

The significant exception from 2018 to 2019 was interest rates. The Federal Reserve cut interest rates 3 times in 2019 as it became more and more apparent that the trade war was affecting the overall economy. There is an old adage on Wall Street, “Don’t fight the Fed.” Simply put, when the Fed is cutting interest rates it is a great time to buy stocks and when they are raising interest rates it is a good time to sell stocks or at least to become more measured in what types of stocks you choose to own. 2019 was a textbook year for the old interest rate saying. President Trump excoriated the Fed that they didn’t cut interest rates more. He even advocated for negative interest rates, like those in Europe, to try to juice the economy even more heading into an election year. Thankfully, more reasoned economic minds followed a more measured approach and only cut rates as much as they did. Our last newsletter was dedicated to negative interest rates so we won’t belabor this point anymore. In summary, the Fed did exactly what they

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<th>Index</th>
<th>4th Qtr.</th>
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<tbody>
<tr>
<td>DJIA</td>
<td>6.03%</td>
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<tr>
<td>S&amp;P 500</td>
<td>8.53%</td>
<td>28.88%</td>
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are supposed to do, to stimulate with interest rate cuts when it is needed. They have appropriately determined that they will not be doing any more interest rate cuts, or increases in rates, until necessary.

While we certainly enjoyed the market returns in 2019, it is interesting to note just how difficult the last 3 months of 2018 actually were for investors. The following chart shows the returns of the S&P 500 over the last 15 months. While the average for the time period is very good it does show quite graphically that market returns are never a straight line!

So how does a great year like we just experienced in the markets extrapolate historically into the following year? We have had double-digit gains in the markets 8 out of the last 11 years. We thank Ben Carlson, who writes the blog “A Wealth of Common Sense”, for the following information. Since 1926, U.S. stocks have had double-digit gains 54 times excluding 2019. The average return in the year following a double-digit gain was 11.5%. The year following those double-digit gains saw positive returns 39 times or 72% of the time and negative returns 15 times or 28% of the time. There have been only 3 years on record where stocks were down double-digit in the year following a double-digit gain year. They were 1936 down 35%, 1965 down 10% and 1972 down 15%. This does not mean stocks are guaranteed to go up every year but, historically, about every 3 out of 4 years have seen gains going back 93 years.

I just finished a fascinating read on the 1930s written by Morgan Housel about the political upheaval the Depression created, not just in the U.S., but around the world. Everyone points to the stock market crash of 1929 as the beginning of the Great Depression in the United States. In reality, only 2.5% of Americans owned stock in 1929! The real pain began two years later when the banks began to fail. 500 banks failed in 1929. 2300 banks failed in 1931! When banks fail, people lose their savings, when they lose their savings they stop spending. When businesses fail, banks fail. When banks fail, people lose their savings. As the grandson of a banker who lived and worked in a bank during the Depression, I was able to gather some knowledge from the stories I heard as a young child about the terrible fear and despair that permeated the era. My mother told me late in her life how worried my grandfather was that one of his children might be kidnapped or that John Dillinger, who was freely roaming the Midwest at the time robbing small local banks, might drive into little Bucyrus one day and rob one of the banks.

The financial despair of the 1930s was the precursor of so much of what our world has become today. People’s views changed so dramatically during this time period that it created much of the political landscape under which we now live. Americans voted Herbert Hoover into office in 1928 with a huge landslide of 444 electoral votes. In the 1932 election against FDR he only got 59 electoral votes. This was only the beginning. Then the big changes came. The US dropped the Gold Standard to back the US dollar with gold in the vaults at Fort Knox. It actually became illegal to own gold. Public works projects proliferated to put people to work. Attempts to fund a type of Social Security pension system for old-age had foundered for years with no political will to ask taxpayers to support such a measure. Protestors favoring a Social Security type of legislation were actually arrested on the Capitol lawn during World War I for endorsing such a socialist agenda. The Social Security Act was passed in 1935 with a vote of 372 to 33 in the House of Representatives and 77 to 6 in the Senate.

Not surprisingly, these public works and embracement of radical social experiments were not completely endorsed by the entire public at the time. There was an “alleged” coup by wealthy businessmen to overthrow the President and to replace him with Marine General Smedley Butler. To Butler’s credit, he exposed the plot to a House Committee and indicated that he was an unwilling
participant and that the businessmen were trying to convince him to lead the March on the White House. History is so rich, you just can’t make these things up!

When I study past history, today looks relatively calm in my eyes. I lived through the 1960s when we had race riots and the actual burning of major US cities. 500,000 people marched on Washington D.C. protesting the Viet Nam War and the draft. There was actual fear in the halls of Congress that we would have a revolution in the streets like in Paris in the late 1700s. The 1960s were nothing compared to the 1850s. The Missouri Compromise Acts by Congress and the Dred Scott decision by the Supreme Court, both delivered in the 1850s, highlighted the incredible divisiveness that the country experienced leading up to the Civil War. I’ll take today’s issues any day over the 1960s and 1850s. Welcome to the 24 hour news cycle of cable television and the useless drivel that so many espouse. Never have we lived so well and complained so much!

Stories like these make me ponder more about the election of 2020. The Great Recession of 2008, while certainly not near as severe a downturn as the Great Depression, has had repercussions similar to those of the Great Depression. The Federal Reserve and the US Treasury eventually recognized the damages done by the failure of the banking system in the 1930s and feared the same results in 2008 if something was not done. The Fed and Treasury cajoled and persuaded Congress to pass the massive Troubled Asset Relief Program, or TARP as it became known, and authorized the injection of up to $700 billion into the financial system. It has since been determined that the actual cost that was spent was $426 billion. Surprisingly, the US Treasury was paid back $441 billion, earning the government a $15 billion profit. I had no idea, until researching this newsletter, that a profit was actually made on this incredibly divisive action. It was so unpopular because it went to bail out the banks, insurance companies and automobile manufacturers. Individual homeowners and shareholders were left to fend for themselves. The ultimate insult was that the government decided that all of the “bad actors” who had made all of the bad decisions and some blatantly illegal activities leading directly to the crisis, would not be prosecuted and jailed. A great deal of the political anger that abounds today is a remnant of those decisions made in the dark days of a truly frightening financial crisis that we had in 2008.

This leads us to our thoughts on the 2020 elections. There would appear to be a significant groundswell of vocal and financial support in the Democratic Party for a much more “Progressive/Socialist” agenda than we have witnessed in generations. Much as we experienced in the 1930s as a result of the Great Depression, with the passage of so many social services then that to that point had been unable to gather support, we wonder if 2020 will be an inflection point where significant programs that previously would have been unable to gather enough support, will become acceptable to the electorate. We have absolutely no idea who the candidate for the Democratic Party will be, not even an educated guess. What is interesting is how “left of center” many of the proposals are from the various candidates. Time will tell if the Party faithful are ready to remake America as they did in the 1930s and nominate and eventually elect a Progressive candidate that will offer Medicare for all, free college for all and debt forgiveness for all current student loans. It seems difficult to imagine that such sweeping changes will be possible. However, I am sure if you asked someone in 1928 if such changes as they witnessed in the 1930s were possible, they would have said absolutely not.

That is enough speculation for one newsletter. We deal in facts and probabilities. The economy is very healthy and vibrant as we head into 2020. Unemployment is at a 50 year low. Minority employment has never been higher. Yes, it is not perfect. Income inequality is an issue. I despise trillion dollar budget deficits when we should be paying off debt. While there is talk of breaking up “Big-Tech” because they have too much power over people’s data and lives, we think this highly unlikely. Congress has little idea what Big-Tech even does and shows little appetite to do the hard work of digging into their empires and deciding what to do about them. The Department of Justice is just as feckless in pressing anti-trust investigations into Big-Tech. Current investors in these firms have little to fear. The irony for investors is that breaking up the Big-Tech boys into smaller companies would inevitably lead to more value for the shareholders. The smaller companies would add up to more value with a sum-of-the-parts valuation than the one monolithic giant that they are today. We think the parts of Google would be worth more totaled in value than the current one company. We think the same is the case with Facebook. The Big-Tech firms and their investors have nothing to fear at the moment from Washington.
We have no reason to anticipate major issues in the economy and the markets in 2020. We know that President Trump and the Republican Party will do everything that they can to have a healthy economy in November. We would expect nothing less if the President was a Democrat. That being said, bad things happen very quickly. A natural disaster, China cracking down on Hong Kong like they did in Tiananmen Square in 1989, North Korea doing something incredibly stupid or the perpetual tinder-box that is the Mid-East, all have the ability to disrupt the best laid plans.

At this point, our investment plan is to continue the course of action that we have pursued over the last five years. We will make adjustments as necessary and tweak things from time to time. However, our asset allocations and investment choices will continue to favor U.S. holdings. We will continue to invest in companies with appropriate debt on their balance sheets and those that return their earnings to their shareholders in the form of cash dividends.

2019 was a good year for our firm thanks to you. Of course we all benefitted from very good markets, but we experienced growth way beyond just market gains. We picked up 59 new households in 2019 which is an average of 5 a month. That is a good year by anyone’s measure. We thank you for your confidence and trust in us. 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 don’t remember anything else from this newsletter please remember this from Tracy Alloway a financial blogger. “Risk is not a fluctuating account value. Real risk is arriving at a point later in your life and discovering that you have not saved enough or taken enough risk with your investments to lead the lifestyle that you had hoped to lead.” You don’t want to take more risk than is necessary, but there is no reward without risk. Volatility always accompanies 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 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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Monday-Friday 8:30am-4:30pm
Closed 12:00pm-1:00pm