

Spring  
2020



# 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.

## *"Cut interest rates all you want to; I'm still not going to Disneyland"*

I have been attempting, in my own provincial, simple way to write four investment newsletters a year for over 20 years now. That is well over 80 attempts to put very complex financial issues into simple terminology that hopefully everyone can understand. I have been known to refer to asset diversification as similar to the fact that a farmer would never plant all 1000 acres of his or her corn crop with one variety of seed corn. Again, a simplistic approach but hopefully effective. Without question, this particular attempt is by far the most difficult one that I have ever attempted to write.

Several weeks ago, on the first day of our restricted world here in Ohio, I had a friend ask me if I ever expected to see something like this in my life. Of course, I responded no, but then I also said that never did I expect to see religious fanatics fly airplanes into skyscrapers. I didn't expect corporate greed to ruin the US housing market and trigger a global meltdown in 2008. I didn't expect the Berlin Wall to come down. I didn't expect a cure for polio. I didn't expect to land a human on the moon. I didn't expect the world to survive another Cuban Missile Crisis without incinerating the entire population. I didn't expect the gasoline rationing of 1973 to be a fleeting memory just a few years later. I didn't see climate change coming as a threat.

I miss my family right now. Please, let me put this into perspective. I've always missed them, but right now more than ever. I miss the comfort of my parents and grandparents making all of the decisions and I readily followed them. I miss the wisdom of their years of life's experiences. My grandparents lived through the age of electrification, World War I, The Spanish flu, the Great Depression, World War II and the beginnings of the Cold War with Communism. It would be very helpful to be reminded of the incredible challenges that they had to overcome in their lives.

Index	YTA
DJIA	(23.20%)
NASDAQ	(14.18%)
S&P 500	(20.00%)

I am a huge supporter of a free press. However, it is vitally important for people to recognize that the press must make a profit to pay reporters. You will never, ever see a positive, feel-good story lead the reporting of news. It does not matter if the source leans conservative, liberal, Republican, Democratic or Socialist. The lead stories will be different but they will all be reporting something negative. The old adage is "If it bleeds, it leads."

This whole newsletter is going to be about perspective. True stories are always the best. As a young child I grew up in the age of polio. Everyone my age knew someone that had been afflicted by polio. My wife's uncle was affected and walked with a minor limp his entire life. Every summer it came and attacked without warning. I remember my parents telling me the story that it came uncomfortably close to my family before I was born. It was 1950 and suddenly a young neighbor boy just 2 miles away died from polio. Another neighbor boy the same age and living 50 yards away from the boy who died became ill. He eventually recovered but also had a limp the rest of his life. My parents were terrified that my older brother would become ill since everyone attended the same church every Sunday.

My family was fortunate and was spared any illness. Polio was a huge issue during the first 50 years of the 20th century. Then along came the Salk vaccine that has basically eradicated polio from the world except for some minor outbreaks in Muslim countries that will not allow doctors in to vaccinate their population. I remember vividly the euphoria that accompanied this "miracle drug". Everyone stood in line two separate weeks to take the oral vaccine. It was truly a miracle drug along the lines of penicillin discovered in 1928 by Sir Alexander Fleming. It is ironic, that the discovery of penicillin was blind luck. Fleming admitted that the discovery was due to contamination of a bacterial specimen that had been left by an open window.

Probably the best comparison to the Covid-19 pandemic would have to be the Spanish Flu pandemic of 1918-1920. It is estimated that at least 50 million people died worldwide from this flu. It could be that as many as 100 million may have perished from the flu. The population of the world was about 1.8 billion at the time. Record keeping was rudimentary during this time. If 100 million did die, this would have been 5.6% of the world's population. It is believed that the flu originated in the slums of New York City. It erupted into a pandemic at an army camp in Kansas and then became worldwide with the movement of these troops to Europe to fight in World War I. It is called the Spanish flu because Spain was neutral during World War I. All of the other European countries, along with the US, were involved in the War. To prevent mass hysteria and an undercutting of morale on the home front, the governments involved in the War prevented any leaks as to the severity of the flu epidemic to make sure that people still gathered in crowds to sell war bonds. Spain was not involved in the War so they were reporting the outbreak and deaths when no one else was. Thus, Spain is unfairly tagged with the moniker of the Spanish flu just because they were doing the right thing by reporting. President Wilson ordered that no one was to know how bad it was here in the US. As a result of this deception, 675,000 people died in the United States from the Spanish flu. The total population of the US at the time was 103 million. 116,000 US soldiers died in World War I. Of this number, only 53,000 died in combat. 63,000 died from the flu!

The Spanish flu was particularly deadly for young people. Older people survived the illness much better than did younger, more healthy people. It is speculated that there was an out-break of the Russian flu in the 1890s and that most of the older population had been exposed to this flu virus. They had built up immunity to fight off the Spanish flu better than young people who had no immunity to the flu. Of particular significance, the Spanish flu lingered for **two** years until 1920!

We have had outbreaks of infectious diseases for centuries. The most famous was of course the Black Plague of the Middle Ages. Yellow Fever was a disease unknown until it was brought to American shores on slave ships from Africa. An outbreak of Yellow Fever in Philadelphia in 1793 killed 10% of the population, forcing the shut-down of the Federal government and President Washington to flee the city. Yellow Fever remained a scourge until

Dr. Walter Reed figured out that it was caused by mosquito bites. Smallpox and cholera spread fear and death for centuries. Cholera, caused by drinking tainted water, was one of the worst. You could be fine in the morning and dead by nightfall.

The bottom line, we have no more information on the Covid-19 virus than any of you do. It is deadly and you really do not want to become infected if you can avoid it. It also may linger around for several years until treatment protocols are devised or a vaccine developed to somewhat protect us. Yearly flu vaccinations do not prevent one from catching the flu the next year. Viruses mutate very quickly to survive. There are more viruses in the world than there are visible stars in the sky! I am sure that we will still be talking about this virus when the next newsletter comes out in early July.

We now shift gears to talk about investments and how they are being affected by the virus and the subsequent mandatory shut-downs. First, we must make something perfectly clear. **Drops of 20% or more in equity markets are perfectly normal occurrences.** We have been extremely fortunate and have not had one in almost 11 years in the US. This has been the longest time period without a 20% sell-off in the history of the markets in the US. The markets were down 19.8% in the fourth quarter of 2018 so there was not officially a 20% sell-off. However, in 2019 the markets were up 30% so everyone forgot about the 19% drawdown. For the first quarter of 2020, the S&P 500 is down exactly (20.00%).

What has been particularly frightening about this drawdown was the speed with which it occurred. It was the fastest 30% drop in the history of the US stock market. The average time necessary to drop 20% is usually 10 months. The drop to 20% down was accomplished in just 16 trading days! You can blame the rapidity on computerized trading and no transaction costs. Vanguard has reported that trading by their customers is only slightly up in March compared to previous years. More than 90% of their clients made no trades in March. Of the 8% that did trade, over half of these made only 1 trade in the entire month. Vanguard's customers tend to have smaller accounts so it would appear that the vast majority of the buying and selling has been done by institutional investors. Institutional investors are hedge funds, pension plans, Foundations, college endowments and brokerage houses that charge high fees for accounts that need to appear to be doing something, so they just shuffle holdings around. For example, they sell shares of AT&T and buy Verizon shares.

We have said from the beginning, that unless something changes structurally, we are going to remain invested. If you are under the age of 55, from a financial point of view, this correction offers a unique opportunity for you. You are able to buy everything on sale. Stocks of quality companies that will survive and thrive are selling for 40-50-60% lower than their prices in January. Disney stock has been hit hard. All of their theme parks are closed. Their cruise lines are closed. Theatres that show their billion-dollar revenue producing movies are closed. The Parks will reopen. The theatres will reopen and people who have been restricted to their

*“Saudi Arabia’s cost of producing oil is \$9.  
The cost to produce a barrel of shale oil in the US is \$23.” Source: Rystad Energy*

homes will flock to see entertainment. Does anyone really think that Disney will not survive, even thrive, in the future? Disney is just one example. There are many more examples too numerous to mention.

For our clients over the age of 55, this sell-off is disconcerting but manageable. While the short-term losses are painful, we must remind you that inflation, even at these low levels, will erode your purchasing power to buy the necessities of life later in life. The Federal Reserve cut interest rates to 0.25%. They will be cut to 0.00% very soon. Savers have been punished since the early 1990s when former Federal Reserve Chairman Alan Greenspan first started to manipulate interest rates in an effort to encourage consumers to keep consuming. With 10-year Treasuries paying under 1% interest per year for the next 10 years, CD rates and savings account rates even lower, we have no other option but to invest in equities to maintain purchasing power in the future.

There are two aspects of investment markets, risk and volatility. Risk is simple, what is the chance that I will lose all of my money? How risky is an investment in AEP, a federally regulated monopoly? How likely is it that Proctor & Gamble will go out of business? P&G has been in business since 1837! We all know the answer to these questions, it is highly unlikely that either will ever go out of business. However, the stock valuations can be volatile, in other words, the perceived value of the stock can go up or down. That is what we are dealing with in today’s markets. The increase in risk for most of the companies is minimal. However, investors, or shall we say institutional investors, feel the need to do “something” even if the “something” is nothing more than window-dressing!

What does the future hold for investors? We have no idea how long this will last. We have to have blind faith that our government has our best interests at heart and will act accordingly. We have already seen passage of the largest stimulus package ever passed... and there will be more to come. Interest rates are effectively at 0% right now. This relates to our opening “hook” line. It really does not matter if I can buy a house, car or a new refrigerator at incredibly low interest rates. If I am not working and I am scared for my health, I’m still not going to spend money and take my family to Disneyland. But this mindset will not last forever and when it ends, it will end with a burst.

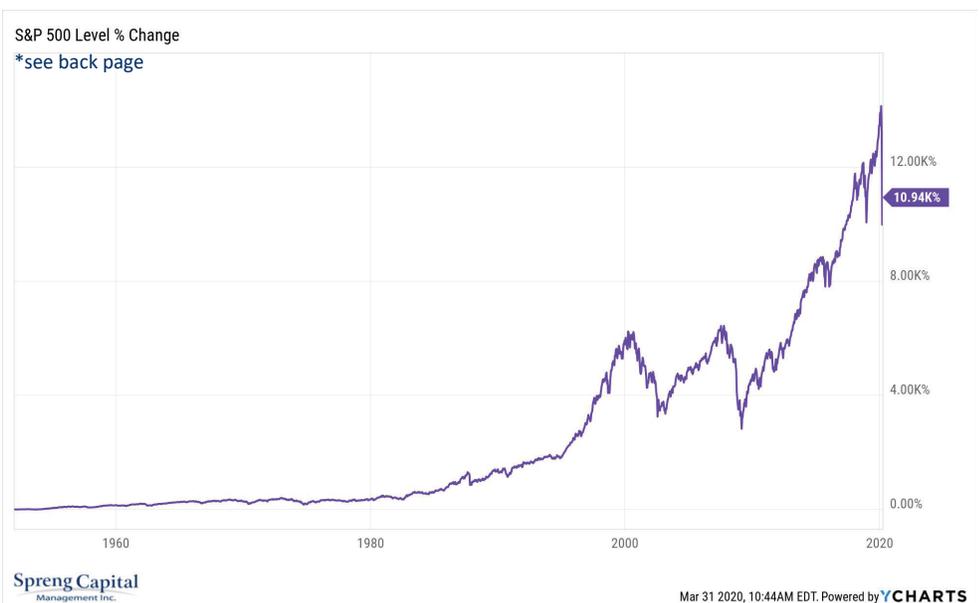
We would be naïve if we think this virus will disappear this summer and be gone forever. Even if we are fortunate enough that it dissipates this summer, it is highly likely that it will linger in the world’s population over the summer and return in the fall or winter like the flu does every year. All that the flu does now is move to the southern hemisphere during our summer months and

come back to us when the southern hemisphere turns to summer and we in the northern hemisphere return to winter. We would have to expect that this is possible for the fall of 2020.

The news is going to be bad for the next several months. Infections will rise, due to more testing and exposure, and so will deaths. We do not know how bad the news might become. We are in uncharted territory. The unemployment rate will probably surge from 3.5% to eventually 10% or more. Corporate earnings, the measure that dictates almost all value of stocks, will be completely meaningless for the next 6 months. Why would we even make any attempt to measure profits until people are back to work for at least 3 months?

Warren Buffet was quoted in a 2008 opinion piece for the New York Times. “In the 20th century, the United States endured two World Wars and other traumatic and expensive military conflicts; the Great Depression: a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced President. Yet the Dow rose from 66 to 11,497.” We have felt that this is a short-term issue, although we admit short-term can last a year or more. The average bear market in equities has seen the S&P 500 drop on average 29% and takes a year and a half to recover. This is the 12th “bear” market decline of over 20% since World War II. Average returns following these bear markets have been 52%, 89% and 132% respectively over the ensuing one, three- and five-year periods.

While we have had some nice recoveries already in the market from the low on March 23rd, you **must** be prepared that we could retest the lows again. The news will be all bad for some time but the stock market is a forward-looking mechanism. It is always trying to anticipate where things will be in the future. You must remember, 20% or more drops are perfectly normal occurrences!



*“There are 3,142 counties in the US. Just 31 counties, or 1% of 3,142, produce 32% of the nation’s Gross Domestic Product.” Source: Bureau of Economic Analysis*

Perspective is important during this time, both from a health standpoint but also from an investment standpoint. 70,000 people died from a drug overdose in the US in the past year. Approximately 35,000 people die every year in car accidents. I am not minimizing the dangers of this virus. Our government finally realized the dangers and has started to mobilize resources. We have also seen sell-offs in the markets before driven by many factors some even health related. Measles, SARS, Ebola, AIDS and H1N1 all caused sell-offs in the markets from which the markets recovered fairly quickly.

A final note, after the death and devastation of the "Great War", as World War I was called, and the subsequent loss of life from the Spanish flu, the US equity market ushered in an era of unbridled optimism and wealth during the 1920s. We ushered in the radio, automobile, airplane, assembly line, refrigerators, washing machine, television and more. The chart\* on the previous page shows the S&P 500 from the day I was born to 03/30/2020. While it was not a smooth, easy ride, I will gladly take the total return over my lifetime any day.

Please call us if you need to talk to us. These are frightening times. We are here to talk to you about anything at any time. We are discouraging face to face appointments but we are here every day to talk to you. Please, reach out to family members and friends. Please call your elderly neighbors and make sure that they are all right. I find myself listening to Christmas music every day in the office and watching the Hallmark Christmas movies every night. I find both activities incredibly soothing and reassuring. We will get through this, of that, I have absolutely no doubt.

If we do not have an email address for you, I strongly encourage you to make sure that we have one for you. Events move very quickly right now and we have found it necessary to send out several email alerts to everyone for whom we have an email address.

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 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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# Spreng Capital Management Inc.

P.O. Box 47, 201 South Sandusky Avenue  
Bucyrus, Ohio 44820-0047  
P: 419.563.0084 F: 419.563.0234

[www.sprengcapital.com](http://www.sprengcapital.com)

**Jim Spreng:** [jspreng@sprengcapital.com](mailto:jspreng@sprengcapital.com)  
**Leslie Lutz:** [lemory@sprengcapital.com](mailto:lemory@sprengcapital.com)  
**Tom Brown:** [tbrown@sprengcapital.com](mailto:tbrown@sprengcapital.com)

Monday-Friday 8:30am-4:30pm  
Closed 12:00pm-1:00pm