Summer
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 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.

"Follow the Fed-it prints money."
Tony Dwyer

"Don't fight the Fed."
Marty Zweig

Uncertainty abounds. The word of the year is "unprecedented". "Unprecedented times" yielded 149 million hits on Google. There have been protests in the streets, stock markets dropping the fastest 30% in history followed by the stock market accomplishing the best 50-day period of returns… ***ever*** in the history of the US equity markets. We need to repeat this as it is so outlandish, the fastest drop ever followed immediately by the best 50 days of all time! We had a complete shut-down of the world's economy in the face of a deadly virus. We then attempted a cautious re-opening of these economies followed by the expected increase in infections and deaths. Not surprisingly, we are now back to closing bars and possibly imposing more draconian measures again. As if these are not enough, in just 4 months we also face a Presidential election, all 435 seats in the House of Representatives and 35 of the 100 Senate seats will be contested along with 11 gubernatorial elections that will take place.

Yes, these are uncertain times. That being said, our 24/7 news cycle, our mobile devices and their ability to deliver instantaneous videos, make it appear even worse. If "a picture paints a thousand words", imagine what a video of 8 minutes and 46 seconds of watching a man slowly suffocate to death under police control can do. Actions and their accompanying responses have accelerated at incredible rates due to technology. In our case, the stock markets drop and recovery are a prime case.

Index	Quarter	YTD
DJIA	17.77%	(9.55%)
NASDAQ	30.63%	12.11%
S&P 500	19.95%	(4.04%)
10-Year Treasury	0.64% A YEAR	

I factiously have said for years that I am just old and crotchety. There is a certain amount of pride that I take in not over-reacting to the vagaries of the daily news "spin". There is no greater teacher than experience. Are these times unprecedented? They are only unprecedented within the unique set of circumstances that present themselves in this distinct time frame. As we indicated in our last quarter's newsletter, no one had ever flown jetliners full of innocent people into skyscrapers before. The Spanish Flu was just as devasting a pandemic in 1918 through 1920. The Great Depression and World War I and II were so horrible as to be almost indescribable. We've endured the Great Recession of 2008 as well as Arab oil embargoes and gas rationing in our lifetimes.

What has been added to this witches' brew of turmoil during the last 3 months is the current racial unrest and revival of the Black Lives

"The University of Southern California has announced its 2020-2021 tuition will increase by 3.5% regardless if classes are to be held in person or online" (source: LA Times)

Matter movement. We've had riots, burning, looting, and destruction of public monuments. While this has unnerved people, we've seen all of this before. 1968 was probably the year with the most civil unrest in our country since the Civil War ended in 1865. Nothing has approached the maelstrom of 1968 until possibly now. American cities burned with rioting and looting from April until the end of August in 1968. It began with the assassination of Martin Luther King in April, gathered steam again with the killing of Democratic Presidential front-runner Robert Kennedy in Los Angeles in June. It culminated with the Democratic National Convention in Chicago in August with the Chicago police unleashing mayhem on anti-war protestors in the streets of Chicago on live television. The inner cities were aflame off and on for those entire 4 months. The irony is, these racial riots were just the prelude or the junior varsity game for what was coming, the anti-war and draft protests of the late 1960s and early 1970s. While the racial disturbances subsided to much smaller incidents, the Viet Nam anti-war protests swelled regularly to hundreds of thousands of protestors on a regular basis for the next 5 years. While these protests were generally much more peaceful in nature, the huge numbers created a legitimate fear in the halls of power in Washington that there could be an actual political uprising and overthrow of our government. Political polarization was also extreme during this time. The World War II generation never questioned their government. If the government had asked them to go to Viet Nam, they would have packed their bags and left. The anti-war protestors questioned the call to arms and said the war was unjust. Unfortunately, over time, as more and more information leaked out and met the glare of the free press, it became obvious from the release of the Pentagon Papers and other documents that our government had been less than truthful about our South East Asia involvement.

While we acknowledge the legitimacy of present-day concerns, the destruction is counter-productive. The destruction and looting only turns sympathetic people against the movement. Will there be major structural changes in our society due to these protests? Absolutely, many have already occurred and more will be forthcoming. Will this end all inequities? Of course not, life doesn't work that way. Change is a process. It moves in fits and starts. Does this movement add another layer of uncertainty for us as investors? Of course, and for the elections as well.

As we have said before, we have no more insight into the impact of the virus or what state governments may do than you do. We know that businesses in non-essential areas such as entertainment and hospitality have been, and will continue to be, greatly affected until a vaccine is developed. The equity markets have been in a tug of war between stocks which do better during quarantine and the next day, re-opening stocks enjoy their day in the sun. It also has been readily apparent that businesses that provide goods and services that allow people to work and function in some degree of isolation, have been very profitable. The Big Five in 2020 have been Apple, Google, Facebook, Microsoft and Amazon. The stocks of these 5 companies have averaged double digit returns in the markets while the other 495 of the S&P 500 have been down an average of over 10%. The fact that these five are all, in some degree, technology companies that have allowed people to work from home is not lost on the investing public.

So, once again, where do we go from here? The primary questions that have been asked and rightfully so is, "Is the stock market crazy? How can it be up so much when the overall economy has been hurt so badly? We have 45 million people unemployed right now. How can the stock market possibly be up?" This is indeed the question of the day for investors and we have some hypothesis as to why this is the case. The stock market does not care if the economy is good or if it is bad. The market looks to the future. It only cares if the economy is getting better or if it is getting worse. Obviously, in this case, the economy is projected to get better because it is, at the very least, opening up again. Secondly, "Don't fight the Fed." The Federal Reserve and Congress have poured ***trillions*** of dollars into the economy and individuals' hands. Airlines received billions of dollars in bailouts and small businesses received low interest loans. The Federal Reserve released trillions of dollars to buy corporate debt, in effect, becoming a direct competitor to individual investors trying to purchase corporate debt for their own portfolios. All lower-income individuals received $1200 each plus $500 per child. A family of 4 would have received $3400. Congress upped unemployment benefits to $600 a week ***plus*** whatever a worker was entitled to from their state unemployment. It is estimated by JP Morgan bank that 75% of workers are making considerably more income from unemployment benefits than they do while working. This benefit stays in place until July 31st. The trillion-dollar question remains, will this be renewed, altered or dropped?

Financial writer Morgan Housel has an interesting take on these benefits. To summarize, he says that once the public knows what can be done, they will demand it be done every time. The TARP plan in 2008 worked. It saved the banks, saved the world from a Great Depression and

"The US government auctioned off $32 billion of new 10-year Treasury notes on 5/12/2020, the largest sale of 10-year notes in our history. The notes were sold at a yield of 0.70% a year, a record low yield at auction. The government has issued 10-year notes since 1790." (source: Treasury Department)

"Argentina defaulted on its sovereign debt for the ninth time in its history and the third time in the last 20 years." (source: Wall Street Journal)

made money for the US Treasury. Unfortunately, none of the bad actors went to jail. Once the public saw what was possible from government intervention in 2008 and in March of 2020, they will absolutely demand that it be done again. The Democrats in the House are asking for $400 a week in Federal unemployment benefits in addition to the state's unemployment benefits. This $400 a week would remain in place for the unemployed worker until a state's unemployment rate drops below 7%. If we were to place a bet, we think the Republican Senate will agree to some variation on this plan this month. After all, it is an election year! For those who wonder who will pay for all of this, the US Treasury just came out with a 20-year bond with a yield so low that the interest burden is ***72% lower*** than existing bonds. The overall interest cost for borrowing $3.6 trillion is just $24 billion a year, less than 0.1% of annual GDP. The Federal Reserve announced on June 10th that they expect interest rates to remain at 0% for years to come. No wonder the government loves artificially suppressed interest rates.

Is this the gateway to Guaranteed Annual Income for everyone that is one of the planks of the progressive movement? Is this also the vanguard of MMT or Modern Monetary Theory that we talked about several months ago? As a refresher, MMT espouses that deficits do not matter. As long as the government has the ability to print money it always has the ability to print enough money to make the deficits irrelevant. According to the Federal Reserve, for 3 months from 03/12/2020 to 06/12/2020 the Fed "digitally created" $2.9 ***trillion*** of new money to purchase Treasury bonds and corporate bonds!

We do have concerns going forward. While we understand why the markets have recovered, it doesn't negate the fact that there is still long-term systemic damage that has been done with the first shut-down and will be done by any subsequent shut-downs. We worry about how many of the 45 million unemployed will never be called back to work. Will we have ten, fifteen million chronically unemployed? Will the entertainment and hospitality industry ever fully recover or at the very least have a long painful decade ahead of them? A survey just conducted by UBS found that nearly 2/3 of those asked, indicated they would consider visiting a Disney park only when a vaccine is available! We also adhere to a comment made by Howard Marks, "Economists are often asked to predict what an economy is going to do. But economic predictions require predicting what politicians are going to do-and nothing is more unpredictable." We already have seen the equity markets surge every time there is a preliminary announcement. April 17th the Dow jumped 705 points on the drug Remdesivir appearing to be effective in treatment. April 29th the clinical data was released on Remdesivir and the Dow jumped another 532 points. On May 18th, Moderna announced early stage trials for a vaccine and the Dow jumped 912 points. Finally, on May 26th, Merck and Novavax announced a joint trial on a vaccine and the Dow jumped another 530 points.

We are concerned enough with the overall outlook that we have slowly increased our cash holdings over the last few months. This is an unusual stance for us. Generally, we are 100% invested but given the current health, economic, societal and electoral uncertainty we feel that excessive caution is warranted. This is not a market timing call. We do not do that. This is reducing risk in our portfolios. The reality is that levels of cash at 5% of a portfolio used to be a standard occurrence and strategy. Then Alan Greenspan started playing with interest rates in the 1990s and rates of return on cash literally went to 0% so suddenly holding cash in a portfolio became an albatross for returns.

Our concerns on the economy and the equity markets are valid, but any glimmer of hope for a treatment or a vaccine will render our cautious outlook moot. The markets will explode upward on any suggestion of an end to this malaise. To summarize, a small segment of the equity markets, the Information Technology sector, is doing very well. The rest of the market is struggling. What will Congress and the Federal Reserve do going forward to assist the unemployed and businesses affected? How many businesses will fail to re-open? How many of the 45 million unemployed will not have a job? When, if ever, will we have a vaccine? The bottom line is that investing is hard!

On a small celebratory note, we officially have clients in 25 states or half of the country now. We certainly are grateful to all of our clients for their continued faith in us. Also, for out clients in this month's mailing of your statements and newsletter, we are enclosing a new form that we are now required by the SEC to deliver to all clients. All firms that are large enough to be regulated by the SEC are required to deliver this now. It is called the Client Relationship Summary or CRS. It is a basic information piece that explains fees, potential conflicts of interest, obligations and questions that investors should ask their advisors.

We will ***not*** be able to host our Annual Client Appreciation evening in September this year due to health concerns for our clients. We hope that you share our disappointment but understand that we only have the best interests of our clients and their friends in mind.

"Private US heath insurance pays an average of $241 for health care services for every $100 that Medicare pays and for every $72 that Medicaid pays." (source: RAND, Health Affairs)

If we do not have an email address for you, I strongly encourage you to make sure that we have one. 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, 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, Form CRS 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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