"The United States has its' own "zombie companies" just like Japan.
American Airlines and Carnival Cruise do not have enough free cash flow to pay their debt and interest."

under the age of 55 you need to ignore this volatility! You are buying everything on sale and you will remember, and learn, from this economic environment for the rest of your life. You need to view this as an educational experience and a great opportunity. For those of us who are older, this is disconcerting, but perfectly normal. We have just been spoiled for the last 10 plus years. Read the opening line of this newsletter one more time. I'll take one bad year in 10 years like we just experienced any day. Patience is necessary. As interest rates continue to rise this year in response to inflation, you need to be prepared that the markets could sell off some more. ***If you need to visit with us about any concerns that you might have, please do not hesitate to reach out to us.*** This is normal in the markets. The only things that vary through the years are the reasons for corrections. This one is driven by inflation and interest rates. We have been here before. It will all be fine but it will take time.

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. 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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"Investing is a marathon, not a sprint."

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Closed 12:00pm-1:00pm

Summer
2022

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.

The U.S. equity markets have averaged almost 13% a year for the last 10 years!

It is always nice when a client or someone to whom a client has given their newsletter to read, pays us a compliment and says how much they enjoyed reading the last epistle. It is hard work and the next one literally begins to take shape the week after the most recent one has been completed. Information is read, gathered and stored for about 10 weeks. The newsletter is written, set aside for a few days, re-read to make sure it conveys that which we want it to say, sent to the printer and then to you. Then the cycle begins all over again. I have received many compliments through the years but to be fair, I also have received criticisms as well. I have received two such dressing-downs in 25 years of writing 100 plus newsletters so I guess that is not too bad. We have over 1000 clients, their spouses and friends that regularly read our thoughts. While 100 plus additions are obviously a very small number in the total scheme of life and of viral videos on the internet, it of significance to our clients and their families that they know our thoughts and more importantly, our actions, as they pertain to their investments. All newsletters eventually take on a life of their own on the internet, generally under the company name or my name. That is why this is an important newsletter. A great deal of time and effort is committed to make sure that it says exactly what we want to convey.

Index	QTR	YTD
DIJA	(11.26%)	(15.31%)
NASDAQ	(22.45%)	(29.51%)
S&P 500	(16.45%)	(20.58%)
10-Year Treasury (Per Year)		3.10% Per Year

There is no way to sugar-coat the reality that the markets are performing poorly right now. We cannot stress this enough. That which is currently occurring in the U.S. equity markets ***is perfectly normal!*** The causes can be similar, or completely different, but corrections in the equity markets are a normal part of well-functioning capital markets. We have been spoiled over the last 10 years in that the market averages have been exceptionally good with minimal volatility. What makes this sell-off unusual is that the bond markets have performed poorly during the same time period. Bond prices are supposed to move in the opposite direction of stock prices. If stocks sell off, bonds are supposed to become more valuable as investors flee the more-risky stock markets for the safe, boring returns of bonds. It has not worked that way this time. Bonds are down double-digit losses at the same time as stocks. This is the worst bond market since the late 1700s. Bonds and the stock market are both down over 10% at the same time for the first time since 1981. This is no coincidence. In 1981 we had high inflation and rising interest rates to fight inflation, just like in 2022. Bonds hate two things that we refer to as the "double i's", inflation and interest rate hikes. This has made this correction more difficult than most. There has been no where to hide except in cash. Bonds have lost value at the same time that stocks have fallen in value.

Inflation is the number one issue for the turmoil in the markets. Inflation is the rate of increase in prices over a given period of time. It is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country. A brief history of inflation in the United States is vital to this discussion. Inflation was non-existent before the post-World War II era. From

"In defense of government regulation, all the banks were screaming back in 2008 when the Federal Reserve made all banks increase their Tier 1 capital. Now all of the banks are touting their "fortress-like" balance sheets as a good investment option."

1800 to 1940 the cost of living only rose an average of 0.2% per year. It actually was negative 69 times during that time period. We actually had deflation. In 1940, costs were only 28% higher than they had been in 1800. World War II changed everything. From 1941 to 1959 inflation averaged 4% a year. Prices doubled in that 19 years and inflation has been with us ever since. The latest number out of the U.S. economy was an 8.6% rate for the current year. While unusual, this is certainly not unprecedented. As I said in a previous newsletter, I personally lived through ten years from 1973 through 1982 where we averaged 9% inflation per year! I calculated that you have to be about 65 years of age now to have previously experienced inflation at this rate. The last time we had inflation over 5% was in 1982. In my calculation I assumed you had to be a young adult of 25 years of age in 1982 to have really dealt with the day-to-day problems of inflation. That means you had to be born before 1957 to really know what inflation looks and feels like in your daily life or investments. When you realize that the average age of professional money managers today is 45, it gives me an uneasy feeling about their management of their clients' funds in an environment in which they have no experience.

Covid has been the primary reason for this spike in inflation. The outbreak of war and poor politics play a roll as well but Covid is the primary culprit. Due to Covid restrictions, American consumers have pent-up demand for all kinds of goods and services. One need look no further than the huge demand for air travel and traffic on the roads for validation. People are on the move again! AAA reports that they anticipate more residents of Ohio will travel on the July 4th weekend than ever. All of this with $5 a gallon gasoline and expensive flights with horrible service from the airlines. A great deal of this current bout of inflation is demand driven. People are employed and they are spending their paychecks.

Globalization is dead! I said this in the last newsletter and I repeat it knowing how easily this may be turned against me in the future. I say it again because it pertains to this recent bout of inflation. The supply chain is broken, possibly forever. It is dead because of Covid, and the acknowledgement that some of our trading partners are really bad people. Trade wars and tariffs have already been imposed and instituted. We cannot get a lot of items, pieces and parts if you prefer, that we need in our daily lives. Therefore, there are shortages and delays. You cannot buy cars because there is a shortage of computer chips. You can't get new windows because the manufacturer is waiting for one plastic piece for windows that comes from China. China continues to lock down a major part of their economy and daily life in an effort to control Covid. In May there were more people in lock-down in the Shanghai area than there are total people in the United States! Industrial production was down 62% in May in Shanghai. One third of all Starbucks are closed in China. Smart phone sales in China were down 40% from the previous year. China is probably already in a recession due to Covid.

While voters cheer politicians who talk about bringing jobs back to America, remember two things. Moving factories and supply chains back to the U.S. will take years if not decades. When, and if, these factories are moved back to America, inflation will still rule because production that is moved back into the U.S. from overseas will automatically cost more. The U. S. is not the low-cost producer of many products. Farming and high tech are two areas where the U.S. has an economic advantage. There are not too many other economic sectors in which this is true. Our labor and regulatory costs are too high compared to the rest of the world. Any sector that requires a large labor force is highly unlikely to be as cost efficient as it would be overseas. Why do you think corporations moved factories overseas in the first place?

Russia invading Ukraine greatly affected inflation around the entire world. Energy and food prices have exploded upward with unfortunately, little relief in sight. Soybean futures hit an all-time high in June. Russia will subjugate Ukraine. The imbalance of weapons and men is too great. Russia will pay a fierce price and Ukraine will probably continue to fight a guerilla war like Afghanistan did against the Russians in the 1980s but Russia will ultimately swallow Ukraine and all of its resources. The question becomes, "Who's next, Latvia, Lithuania or Estonia?" Why do you think Sweden and Finland have given up decades of neutrality to apply to NATO? They know that "something wicked this way comes" and they don't want to be next.

Politics play a role in this inflation spike. The $1.9 trillion package of goodies that Congress and the President doled out early this year as payback to "their base" was totally unnecessary. Unemployment was low, millions of jobs were going unfilled and demand for all goods and services was expanding. This was driven by Generals "fighting the last war" like the World War II Generals trying to fight guerilla fighters in Viet Nam in the 1960s and 1970s. Treasury Secretary, Janet Yellen, was Federal Reserve Chairperson during the Obama Administration. Economic recovery from the Great Recession of 2008 was painfully slow due to lack of stimulus from the Federal government. The current Administration thought that the economy needed another boost, as well as a political payback, to make sure that the economy fully recovered from the shock of the complete Covid shut-down in March of 2020. This was a mistake and to her credit, Janet Yellen admitted it, which is unheard of in politics. Do not be misled and think that this is the sole reason for the current state of inflation affairs. If U.S. government largess was the reason for painful inflation please explain why Germany's inflation rate is 7.2%, Great Britain's is 8.8% and Canada is 6.1%. Covid, war and the resulting effects on energy and food, supply chain issues and consumer demand for goods and services are the primary reasons. The last government give-away was just icing on the inflation cake.

For anyone who thinks that gold or crypto currencies are a good inflation hedge, consider the following facts. On August 31, 2011, gold closed at $1,999.20 an ounce. With the highest inflation in 40 years, gold closed at $1,807.40 an ounce on June 30, 2022. Investors have lost $191.80 an ounce or (9.59%) return in almost 11 years. Bitcoin, the most stable of the crypto currencies, has also plummeted from over $70,000 a coin to around $20,000 a coin. So much for an inflation hedge.

"The unemployment rate for college educated workers is 2%. It could double and still only be 4%!"

"Tesla collects an incredible amount of data both inside and outside every Tesla on the road. The Chinese government will not allow any government official to ride in a Tesla."

The blunt tool of economic policy to tame inflation is interest rates. If you raise interest rates enough, it will cost consumers too much to purchase the goods and services that they demand. The economy slows down and inflation drops as consumer demand lessens. As an example, home mortgage rates hit a 13-year high last week with the 30-year fixed mortgage at 5.81%, still incredibly low from historic 30-year rates of 9% a year, but I digress. If the median price of a home is now $407,800, the monthly mortgage payment on an average home is now $669 a month more than it was just one year ago. The Federal Reserve raised interest rates 0.5% in May which was the largest single jump since 2000, 22 years. Then, as inflation continued to ratchet up, they raised them another 0.75% in June, the largest single increase since 1994. The consensus is that the Fed will raise rates another 0.75% in July. Unfortunately, interest rates are still laughably too low. The Federal Reserve also has ceased their Quantitative Easing which means they are no longer buying Treasury bonds or bonds that back mortgages. This should have been done years ago. As recently as 2018, then President Trump was screaming at Federal Reserve Chairman Powell that the Fed needed to lower interest rates to negative interest rates even with unemployment at 3.7% in November of 2018. The markets had sold off due to a tariff induced slow-down in the economy. What a disaster that would have been. The Federal Reserve is way behind in raising interest rates. Rates should have been rising for years.

The fact is that we have a tax-payer subsidized housing market. We want people to own their own homes and build equity in their homes, which coincidently happens mainly due to mild inflation over the years. We also want mild inflation to erode away our National Debt. One of my first classes at Cornell University was Economics 101. The Professor stood in front of the class the first week of classes and said, "Boys, (you could say those things in the 1970s and besides there were 3 men to every woman enrolled), stretch out your debt payments over as many years as you can. Inflation will erode the value of the dollar over time and you will pay off your debt with cheaper money." The government loves cheap money and moderate inflation. It makes their debt less onerous. Unfortunately, cheap money also creates inflation and too much demand for goods and services. We have had an artificially suppressed interest rate market since 1987. The price for this policy has now come due and is being reflected in the value of stocks and bonds.

Everyone underestimated how much "free money" from the Federal Reserve with artificially suppressed interest rates would feed into a "sugar-high" for all financial assets. Stocks, bonds, farmland, housing and commercial properties all rose in price due to free money to finance purchases. They are now being reset according to new parameters driven by rising interest rates and inflation. Unfortunately, we have never had inflation over 5% a year without knocking the economy into a recession. As we have indicated, interest rate movements are a blunt tool. The Fed can cut interest rates too much as well as raise interest rates too much. When they tighten too much, we slide into a recession. Is a recession guaranteed? Absolutely not, but the odds are not favorable for avoiding one. Of course, the question is when. Some pundits say we are already in a recession. We don't agree with that statement. We think it is highly likely that we will encounter a recession but it may be in 2023. In fairness, that is just a guess on our part as to when, but our guess is certainly as educated as anyone else's.

This is a moment in time when being older is an advantage. I've lived through circumstances that were quite similar to this period of time. The plan exists to eventually come out on the other side. I view this as very similar to the late 1970s and early 1980s era. We had a brutal recession in 1973 and 1974 driven by the formation of OPEC. Oil rose from $4 a barrel to $40 a barrel in one year. Imagine our $100 a barrel oil going to $1,000 a barrel and you can imagine the chaos with gas lines and shortages. We also had political malaise then as now. For all intents and purposes, we had lost the Viet Nam war. 55,000 Americans had died in the war. President Nixon had resigned in disgrace instead of being impeached. President Ford pardoned Nixon and lost the election of 1976 due to that single act. Congress and the Executive Branch could not get anything done. Russia had invaded Afghanistan and we had boycotted the 1980 Olympics in Moscow. The Cold War was extremely hot at the time. Due to the price shock from oil, inflation was running double digits around 11% a year. Federal Reserve Chairman, Paul Volcker, raised interest rates to 21.50% in 1980. This blunt instrument of interest rate manipulation eventually broke inflation but shoved the economy into two more recessions in 1980 and 1981-82. President Carter never stood a chance for re-election with interest rates at 21%!. He was never the greatest President because he had no allies in Washington to help him maneuver legislation through Congress. He was an outsider, a peanut farmer and a former Governor from Georgia. Along came Ronald Reagan and "Morning in America" and everything changed. A great deal of the heavy lifting had been done by Chairman Volcker in the previous Administration and inflation was already receding. Reagan instituted tax cuts and cut back on government regulation and the rest is economic history. Sometimes, timing is everything in life.

I anticipate the same scenario in 2025 as 1980. One party will control everything in Washington. Interest rates will be cut, regulations rolled back, the Senate filibuster will be done away with, tax cuts will be voted through and all sanctions against Russia will be lifted before the first inauguration dance thus lowering the price of energy and food. The European Union will be on its own to defend against Russia. I hope that I am mistaken on the lifting of sanctions but at this time, I believe that the sanctions will be lifted in early 2025.

In summation, it has been a difficult year so far. Actually, it has been the worst start to a year in the capital markets since 1932 for the Dow and since 1970 for the S&P 500.. Everyone's accounts are down to start the year, everyone's. Almost no investments have been immune from this sell-off. As we indicated earlier, there has been no place to hide this year as bonds and stocks sold off together. It takes time to wring out the excesses of a "free money" Federal policy. A President can't end the war in Ukraine nor force China to stop locking down their economy. ***If you are***

"Jobless claims fell to 166,000 in early April. The lowest since November 30, 1968!"