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."

"Investing is a marathon, not a sprint."

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

Jim Spreng: jspreng@sprengcapital.com
Leslie Lutz: lemory@sprengcapital.com
Tom Brown: tbrown@sprengcapital.com

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

Fall
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.

"Don't fight the Fed"
Martin Zweig-1970

Simple, blunt, to-the-point, accurate, short; these are all adjectives that properly describe the lead to this newsletter. The meaning is quite clear. If the Federal Reserve is raising interest rates, or tightening, as it is commonly referred to in the economic press, then you need to understand that investment in stocks will not do as well when the Fed is raising interest rates. It is not just stock investments that suffer. Investment in commercial real estate, commodities and housing become more precarious when the Fed is raising interest rates. If you are borrowing money, it is going to cost you more to borrow due to the increase in the yearly interest cost to purchase an asset! Conversely, when the Federal Reserve is lowering interest rates, investments in stocks or other investments tend to do better. Therefore, you want to buy assets when the Fed is lowering interest rates. It sounds simple and **usually** this is the case. Notice that we said usually because no system is fool-proof.

Index	QTR	YTD
DJIA	(6.7%)	(20.95%)
NASDAQ	(4.1%)	(32.40%)
S&P 500	(5.3%)	(24.77%)
10-Year Treasury (Per Year)		3.8% Per Year

We are in the process of normalizing the abnormal. The beginning of this abnormality goes back to 1987. Alan Greenspan was the newly appointed Federal Reserve Chairman. He was on the job just two months when the U.S. stock markets dropped 22% in one day, still the largest one day drop in history. Chairman Greenspan announced the next morning that the Federal Reserve would "serve as a source of liquidity to support the economic and financial system". In layman's terms that means print money and lower interest rates. The stock market recovered and actually ended positive 2% for the year. Thus was born what came to be called "the Greenspan put". Again, to simplify, it means that whenever things get a little uncomfortable in the U.S. stock markets or economy, the Federal Reserve will step in by printing money and lowering interest rates. This has been the game-plan for the last 35 years.

Traders and investors in the stock markets and real estate have known and understood this strategy for many years. To be fair, it is not a bad policy. It was used extensively in 1999 leading up to the Y2K concern. It was used again post 9/11, in 2008 when the housing market collapsed and during the pandemic shut-down in 2020. These are all times that extreme support of the economy was a necessary and a correct use of these tools. Unfortunately, like many good things, it has been way overdone and abused. One of the worst abuses of this policy occurred just recently. ***Eight of the last 12 years in the United States, interest rates have effectively been at 0% a year!*** On top of that, the Federal Reserve was also buying billions of dollars of government bonds a month, driving down the cost of home mortgages to sometimes less than 3% a year for 30 years! A great deal of the rise in the cost of housing was driven by the fact that the Fed was effectively giving away free money in the form of subsidized 30-year home loans. Forget the traditional starter homes that you used to buy, remodel and eventually sell and move up to a larger home in a nicer neighborhood and school system.

"Wal-Mart sells $1.1 million of merchandise or food every minute of every day".

Subsidized interest rates by the taxpayer made this possible. Many people bought homes they never could have afforded if interest rates had been "normal". It was absolutely absurd that the Federal Reserve was subsidizing interest rates by continuing to buy bonds with Quantitative Easing when the unemployment rate was under 4% in 2018 and 2019. The Administration encouraging the Fed to go to negative interest rates in May of 2020 would have been an absolute disaster and would have exacerbated our current inflation problem. Interest rate cuts and printing money should only be used when circumstances merit their use. These economic tools have now become "political" levers and buttons to be pushed and pulled to achieve political gains at the expense of the taxpayer and investors.

Again, we are in the process of trying to normalize the abnormal. There have been 35 years ofan easy money policy. A 100-year pandemic and shut-down of the economy, government payments directly to its citizens, a realization that several of our significant trading partners cannot be relied upon and are actually evil people with completely different views on human dignity and rights, the accompanying movement back to "onshore" production in the U.S. and finally Covid lock-downs in China, the world's factory floor, and the shortages that these shut-downs engender in the U.S. and the rest of the world, have all taken a toll on the economy. ***This normalization is going to take time. Investors <u>must</u> re-evaluate their expected rates of return in the current economic environment!***

As the chart on the front of this newsletter vividly shows, it has been a difficult year in the equity and bond markets this year. As we indicated in our July newsletter, this is being driven by the double i's, inflation and interest rates. We are experiencing the worst bond market since 1926! Gold was down 8% in the last quarter and has been down for 6 straight months. Fed Chairman, Jerome Powell, made it very clear at the Fed's annual meeting in Jackson Hole that they are going to continue to raise interest rates in an effort to break inflation. Inflation in the U.S. is currently running at 8.3% per year in August of 2022. If anyone thinks that this is a political issue in the U.S. only, England is running 9.9%, Germany is at 7.9%, France is at 5.9%, Brazil is 8.7%, Mexico is 8.7% and Canada is 7.0%. The whole Euro Zone of 30 countries just reported that inflation was 10%. Year over year energy costs were up 41%. This world-wide bout of inflation is a function of pandemic disruptions to supply-chains, an unprovoked invasion and war by Russia into Ukraine which drove energy and food prices higher and all the accompanying policy machinations that each of these countries governments activated in trying to combat these issues.

Historically, whenever we have had a bout of inflation in the U.S., the Federal Reserve has had to raise interest rates to above the level of inflation in order to slow down the economy enough to combat inflation. That is why then Fed Chairman, Paul Volcker, raised rates to 20% per year in June of 1981. If that becomes necessary in this era of inflation, the Fed will have to raise rates to close to 10% from the current 3.25%! I am not certain that this aggressive response is possible in today's world of 24/7 opinion shows on cable television. While it would be brutal on families with job layoffs and difficult to finance houses and cars, I am not sure that Congress would tolerate interest rates this high. Interest rates on the National debt would explode and eat up most of the Federal budget. I can just see and hear the" performance politics" of the twitter and internet crowd in Congress now. The race to blame and excoriate the opposition would be comical if it were not so sad.

Where is the correct level for interest rates to be set by the Fed? We do not know. The Fed does not ask our opinion. I am glad that they don't ask us. The economy is slowing down already. We already have had two consecutive quarters of lower GDP reported. The lazy talking heads on cable news have all been screaming that we are already in a recession because of this statistic. This is totally incorrect. They are just trying to score political points. The GDP calculation is just one of the factors that is used to decide if an economy is in a recession. There are eight economists that sit on the NBER, the National Bureau of Economic Research, that determine if we are in a recession. There are many other factors other than just GDP numbers such as employment numbers. Cable reporting is just lazy and looking for 30 second sound bites. The GDP numbers fit the narratives they want to spin. If they actually did their homework they would realize that in 1947 we had two negative GDP quarters, in the 2nd and 3rd quarters, and never went into a recession. Let me be clear, we think, and are planning for, an eventual recession in the U.S. due to the rise in interest rates slowing down economic growth and consumer spending. We just don't think that we fell into a recession last summer. To argue if we are in a recession, or are going to be in a recession, is a waste of time and energy.

The world economy is struggling worse than the U.S. economy. Europe will have a brutal winter this year. Natural gas and electricity will be rationed and factories shut down because of restrictions of natural gas from Russia due to their invasion of Ukraine. I vividly remember factories and schools being shut down in Ohio in the winter of 1977 due to the high cost of energy. That was a remnant of the OPEC oil embargo that was first instituted in the fall of 1973. OPEC embargoed all nations that had supported Israel in the Yorn Kippur War. The circumstances are eerily similar today. China is probably already in a recession. Their housing market has collapsed from over-building. The shut-down of millions of people trying to contain the spread of Covid will also hurt China's economy. China does not refer to it as lockdowns. They spin it and call it "Lives First". The Chinese government speculated that 1.5 million elderly Chinese would die from the Omicron variant. Even worse is that they speculate that due to a shortage of ICU beds in China, there would have been 15,000% more demand for ICU beds than were available. It is not a good look to see sick people lying in hallways or in the streets with no beds available. As if these issues are not bad enough, China is suffering from the worst drought in its very long history!

Interest rates are a blunt instrument for containing inflation. I refer to it as a 20-pound sledge hammer looking for a nail to pound. Raising interest rates has been effective in the past in reducing inflation by the reduction of economic output and consumer spending. The one thing that bothers me personally more than most economists is that I fear that the cost of food may stay elevated regardless of interest rate manipulation. The current drought in the West is the worst in 800 years! There are 3 major sources of water in the Southwestern United States, Lake Mead, Lake Powell and the Colorado River. Lake Mead will be at 22% capacity in January. Lake Powell will be at 27% capacity. The Colorado River is already taxed to the maximum between the demands for people and agriculture. 80% of the river from the Colorado River goes for agriculture. The Imperial Valley in southern California and Arizona bordering on Mexico has 474,000 acres of farmland. It has no wells for irrigation, only the Colorado River. Who will get the dwindling supply of water, 40 million people or some of the most fertile land in the whole world? Lake Mead and Lake Powell are so low already that there may not be enough water to generate electricity through their hydroelectric dams. It is not inconceivable that a leaf of lettuce will cost $1.00. I think you can forget about enjoying all you can eat salad bars ever again. You will tell your grandchildren that we used to throw lettuce and tomatoes away! I am probably overly sensitive to this given the friends that I have in agriculture in California and Arizona. The drought could end this winter with heavy snow packs and storms off the Pacific Ocean. Then again, the drought could get worse. Imagine trying to live in Phoenix without electricity to operate air conditioning!

"Human life expectancy has increased more in the last 50 years than in the previous 200,000 years. 67% of all people in history who have lived to 65 years of age are alive today. Never have we lived so well and complained so much".

While food costs make it difficult to rein in inflation, energy costs have come down substantially since the high this summer. The United States carries what is called the SPR which stands for the Strategic Petroleum Reserve and is controlled by the Department of Energy. Crude oil is stored underground in salt domes in Texas and Louisiana to be used in a national emergency. The capacity is somewhere in the vicinity of 800 million barrels. In an effort to lower the price of gasoline, the Biden Administration tapped heavily into the SPR. There are approximately 422 million barrels in reserve as of the end of the week of September 23. Gas prices hit an average high of $5.03 a gallon and are now averaging $3.66 a gallon. Tapping into the SPR to reduce gasoline prices worked, at a cost. Higher prices are not always a crisis. The government encompasses The Federal Reserve, the Administration and Congress. Everyone is supposed to be acting in concert to lower inflation. Why work so hard to lower energy prices to put more money into consumers' pockets to spend and then raise interest rates to slow down the consumer? This seems a little counter-productive. By reducing the SPR by half, we have made ourselves more vulnerable to a crisis due to a shortage by over-reacting to higher prices. Dan Pickering of Pickering Energy Partners said it best, "High prices are inconvenient, lack of availability is a crisis".

There are three major changes all occurring at once affecting the world's economies. Central banks around the world and the Federal Reserve in the U.S., are all raising interest rates at once and tightening monetary policy. Economic growth is slowing significantly in the three major regions of the world, Europe, China and the U.S. As we have said previously, "globalization is dead". Geopolitical tensions and broken supply chains will continue to increase the costs of production and lead to scarcity of products. This might make breaking the current inflation cycle more difficult than in the past. Any one of these occurrences by themselves would increase the concern of investors and add to volatility in the markets. Combine all three at once and it is easy to see why it has been a difficult year in the stock and bond markets.

In summary, the Federal Reserve has made it clear that they will continue to raise interest rates to control inflation. The Fed is indicating that they may raise interest rates to 4.75% by 2023. The current rate is 3.25%. This will drive up the cost of financing a house, car or other large purchases. Rising interest rates do make bonds look more attractive with a 4% yearly coupon now instead of 1% a year. However, with inflation running at 8% a year your purchasing power from the bond return is still negative for the year. History has shown that a 4.75% interest rate may not be enough to break an 8%+ rate of inflation. Putin gives all indication that he may be willing to escalate action in Ukraine to try and save face with the Russian public. This will continue to exacerbate high food prices no matter what the Fed does with interest rates. Europe and China are probably already in a recession and the U.S. economy will be soon.

The pain in the stock and bond markets is all a function of the issues listed in the previous paragraph. Again, three things to remember, ***"Don't fight the Fed", the U.S. stock market averaged 13% a year for the last 10 years, "interest rates were at 0% a year for 8 of the last 12 years".*** We are in the process of "normalizing the abnormal". Corrections such as we are experiencing are perfectly normal. The reasons may differ but there are always good reasons for which the markets need to recalibrate. We are in one of those moments now.

If it is any conciliation, historically the stock market ***"bottoms six months before the economy does".*** The stock market is forward looking. Investors know that a recession is approaching. They know that earnings will be affected by layoffs and higher borrowing costs and are adjusting the price that they are willing to pay to purchase these investments based upon the new outlook. If inflation starts to drop, investors will anticipate that the Federal Reserve is close to being done raising interest rates and respond accordingly. If something were to happen to Putin and the war in Ukraine ended, energy and food prices would drop immediately as would inflation. Again, while painful, this is all perfectly normal. We have just not experienced inflation in 40 years. We have had artificially suppressed interest rates for 35 years. We are normalizing the abnormal. As an older, more experienced investor, I can assure you that we have been through so much worse and have always come out on the other side. We averaged over 7% a year inflation for 11 years in the 1970s and early 80s. Interest rates were 15% or more to borrow money for a house. The recession of 1973-74 was brutal! We are close to the bottom of this correction. It is never a good idea to bet against the American economy. Be patient, this too shall pass and there will be good days ahead for patient investors.