for inflation to fall. Will employers lay-off workers or are workers so difficult to find that employers continue to carry them on their payrolls? So many questions, so few answers. The economy is strong. Unemployment is incredibly low. Inflation continues to be an issue and rising interest rates to deal with this persistent inflation presents increased costs for borrowers. Is a recession already "baked into the pie?" No, it is not. Of course, it is possible and probably likely, but not guaranteed. All that we can do as ***long-term investors*** is be patient and not over-react. Don't ever bet against the U.S. and its economy. As the Panic of 1907 proved, there are always challenges but patient investors will always prevail.

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 sometimes 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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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

Spring 2023

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.

No depositor has ever lost a penny in a bank failure since 1933

Mark Twain has a famous quote, "History never repeats itself, but it does often rhyme." Such is the case with the recent bank failure of Silicon Valley Bank in the heart of the Silicon Valley in California. For convenience we will just refer to this bank as SVB. As of the end of December 2022, SVB was the 16th largest bank in the country. How could a bank this large and in such a vibrant economic area possibly have failed? Let's not make too much of this, this was a ***very poorly*** managed bank. I hate to say that they deserved to fail because there were investors in this bank that lost a lot of their money but the facts are the facts. This was a very poorly managed bank.

Index	YTD
DJIA	.48%
NASDAQ	16.78%
S&P 500	7.01%
10-Year Treasury	3.55%
30-Year Mortgage	6.32%
Unemployment Rate	3.60%
U.s. Inflation Rate	6.04%

Why the lead with Mark Twain? The 24/7 cable news beast has to be fed every day. Everyone on all of the business shows, even the political hacks, were talking about SVB's failure and who was to blame and who was to be next to fail. I doubt if anyone told their listeners or readers that since the advent of FDIC insurance in 1933, no depositor has ever lost a single penny in a bank failure. Investors and bond holders have been wiped out, but no depositor has ever been harmed. That statement of fact is not salacious enough for today's news cycles. But I digress, back to Mark Twain. Banks run and survive not on money but on confidence. There is never enough cash inside a bank's vaults to give everyone their deposits back on demand. The 1946 Jimmy Stewart classic movie, It's a Wonderful Life, epitomizes the classic description of banking. You give the bank your money and they lend it out to your friends and neighbors for houses, cars, college educations, medical bills and businesses. The reason banking is such a wonderful invention is that it takes short-term money, your deposits, and turns it into long-term economic growth that benefits everyone. But we live in a capitalist society and there are economic winners and losers. Banks can lose too and then we have bank failures. I know that the small government cohorts in the current House of Representatives think that President Franklin Roosevelt was the devil-incarnate for his expansion of the government during the Great Depression and World War II. The reason no depositor has ever lost a penny since 1933 is because of FDIC insurance on a bank's deposits. Not all government is bad.

Which leads us to the Panic of 1907. The trigger point was the failure of the Knickerbocker Bank in New York City. The Panic was so severe that it lasted 15 months. GDP fell 30% and the stock market fell 50%. Unemployment jumped from 2.8% to 8%. 42 banks and trust companies failed in 2 months. J.P. Morgan was the pre-eminent banker of this time. He was smarter than everyone else and wealthier. He supposedly called all of the bankers of New York City into the parlor in his mansion on Madison Avenue on a Sunday afternoon and said, "This ends here." This being the "runs" on all of the banks, whether they deserved the run or not. He locked the doors and put the key into his vest pocket and declared that no one was leaving until the banking mess was resolved. He personally pledged $255 million in today's dollars of his own money to back the other banks and coerced the Federal government and the rest of the bankers in the room to contribute as well. He instructed tellers at the bank to count out the money that depositors were withdrawing very slowly in order to slow down the amount of money that was being withdrawn. Basically, Morgan had taken over the role of government in the crisis by backing the teetering banks with his own fortune and those of his competitors. The Panic was so severe and with the recognition of what Morgan had done, Congress enacted the Federal Reserve Act in 1913 so that the government now became the back-stop for banks in trouble.

I will try to summarize why SVB was different and why they failed. First of all, SVB was what we refer to as a mid-size bank. Thus, they did not fall under the description as a large bank that regularly undergoes a "stress-test" by the Federal Reserve. The regulators had warned the bank of their management issues. The regulators were either negligent in enforcement of their warnings or in waiting for the bank to correct their issues. What really happened at SVB? When Covid struck, the Federal Reserve lowered interest rates to try to support the economy. This sparked a boom in lending to new companies from venture capital firms. When money is free, why not? SVB was the bank of choice for these new start up firms. SVB was the cool kid of banking. They threw great parties on yachts, rooftops and in the finest restaurants to entice these newly minted millionaires to deposit their money with SVB. Basically, they were the traditional "quick with a joke and to light up your smoke" kind of guys! SVB received a large surge of depositors during this time. That sounds great but too many deposits are not always a good thing. SVB had to invest those funds to make money to cover interest they were paying on these deposits. SVB chose to invest in long-term government bonds. Then inflation hit and the Fed started to raise interest rates very quickly. The free money dried up for the new companies and they started to withdraw their money from SVB to cover their daily operations. SVB had to sell those bonds to cover these withdrawals. Unfortunately, as we talked about in previous newsletters, 2022 was a horrible year for bonds. As SVB was selling these bonds to raise cash they were losing money because their bonds were worth less than when they purchased them. As an indication of how poorly managed this bank was, during this time SVB did not have a chief risk officer. I know that doesn't sound like much but a chief risk officer's job is to tell the officers NO when they obviously are doing something that can damage the bank. Moody's, the stock and bond rating firm, alerted SVB that they were going to downgrade the bank. The bank decided to sell stock to new and existing investors to raise more cash so that Moody's would not down-grade SVB's stock and credit rating. This idea failed miserably. It frightened depositors and the "bank run" was on. Fueled by Twitter and social media, depositors withdrew $42 ***billion*** in just 24 hours. This was the first electronic run on a bank. Depositors were not lined up outside the bank to withdraw their funds. They clicked a mouse and the funds were gone in seconds. 97% of SVB's deposits were not insured. They exceeded current FDIC limits even though the FDIC has always covered every depositor's deposit since 1933. There were no tellers to "count out the money slowly." The money was gone in an instant. There is a final note on J. P. Morgan in 1907 and SVB in 2023, Peter Theil is a billionaire who made his fortune selling Pay-Pal. Thiel has used his money to become a novice political Kingmaker. It is reported that he gave over $15 million dollars to help elect J. D. Vance to the Senate seat in Ohio in the 2022 election. He also pulled his money out of SVB. Could he have stopped the "run" on SVB with just a few words on Twitter and to the press? We will never know.

We have one final comment on the banks. 73 banks have failed over the last 10 years. There are always winners and losers. SVB failed due to poor management, an electronic "run" and rising interest rates. We have talked to you for months about inflation and why the Federal Reserve is raising interest rates to try to get inflation under control. There are a multitude of risks involved when the Federal Reserve starts to raise interest rates. We experienced these risks last year when, for the first time in history, bonds and stocks fell by double digits at the same time. As we said in our last newsletter, that had never happened since the formation of Treasury bonds in 1788! There are also risks associated with rising interest rates for banks. SVB is the "poster-child" for what can happen when your investments are not timed appropriately. Once again, I go back to history and my life's experiences. Continental Illinois was the 7th largest bank in the country in 1984. It failed just like SVB. It failed in large part because of the huge increase in interest rates that then Federal Reserve Chairman, Paul Volcker, had instituted in the early 1980s. Just like SVB, they had not balanced their long-term investments with their short-term needs. There is a reason that after every Federal Reserve meeting on interest rates there is a press conference. The Fed wants everyone to know what they are thinking and planning and how that may affect the economy. They not only are signaling to the stock market their intentions, but possibly even more importantly, they are signaling to the banks

what they anticipate they might do with interest rate hikes or cuts in the near future. This allows the banks to position themselves to avoid problems like Continental Illinois and SVB. Chairman Volcker realized that with the failure of Continental Illinois he had raised rates as far as he could go without jeopardizing the rest of the banking system. He also had thrown the economy into two recessions in 1980 and 1981-82. Ronald Reagan was in his first term as President. His approval ratings at the same time in his first term were 5 points lower than current President Biden's.

SVB highlights the bind that the Federal Reserve is in. Inflation is still running hotter than anyone would prefer. Proving again that inflation is a result of the Pandemic and not politics, France's inflation in February was 7.2%, Spain's was 6.1% and the U.K.'s was 10.4%! If the Federal Reserve continues to raise interest rates they may find that there are more banks like SVB out there lurking in the weeds. Also, while they have been relatively mild and almost completely in high-tech which greatly over-hired employees during the Pandemic, layoffs are starting to become more frequent. Higher interest rates are a very effective tool to slow down an over-heated economy. We were discussing it internally last week in our weekly planning meeting and asked if we had a choice would we prefer to keep our job and pay more due to inflation, or lose our job and pay less for the necessities of life. That is a pretty easy question to answer. We already witnessed some hesitation from the Fed on interest rate increases at their last meeting on March 22nd. The inflation numbers were not good in February. Everyone assumed that the Fed would raise interest rates another 0.50% on the 22nd. SVB blew up on March 10th and the Fed wisely only raised interest rates 0.25%. It is better to fight inflation slowly than to trigger a banking crisis.

So where do we go from here? Will the Federal Reserve continue to raise interest rates? Will inflation cool down? Will the U.S. economy, and of course, the world economy, slide into a recession? Will there be massive layoffs with a rising unemployment rate? I would love to wave my magic Harry Potter wand and give you the answers but life nor investing work that way. We only can make educated assumptions. As we have said before, when the U.S. has experienced inflation over 5% we have had a recession, every time. This is also one of the most highly anticipated and planned for possible recessions in history. As a result of the San Francisco earthquake in 1906, September 11 and the OPEC oil embargo of 1973-74 it is pretty clear in retrospect that damage had been done to the overall economy. The accompanying recessions were an obvious by-product of the initial actions. This time there is no physical catalyst, just an increase in interest rates from an almost obscenely low level which had never before been seen in modern finance. Interest rates actually went negative on $18 trillion of debt worldwide. Lenders were actually paying borrowers to borrow the money! It was "free money" there for the taking.

Are we going to have a recession? How severe will it be? When will it begin? How long will it last? How will that affect our investments? Again, no one, we repeat, no one really knows the answers to these questions. All that we can do is point out the current economic conditions right now. First the good things. Our economy is doing well because of lower energy prices, strong labor markets, and China's economy recovering from lock-downs and consumer spending. Here is a new question that has been rarely asked in modern finance, "Can we have a recession with full employment?" We don't know, we have never been in this situation before. The New York Federal Reserve just released a research paper that indicates that the entire drop in the labor force participation rate in the U. S. economy is not due to lazy people sitting at home collecting welfare checks but it is due to an aging population. We always have known that the Baby-Boomers demographic was a ticking time bomb for available workers, they are now retiring in record numbers. It is here, it is real and it has major implications for the economy going forward. In 2022 U.S. companies invested in industrial robots at record levels to address higher wages and labor shortages. Another conundrum, is that every time oil prices have doubled in a 12-month period we have had a recession. The brutal recession of 1973-74 is a prime example when an OPEC oil embargo took oil from $1 a barrel to $40 a barrel! Iraq's invasion of Kuwait in 1990 was another instance. Oil went up 96% in one year. In 2000 oil went up 141% in one year. Even if we had not had the dot. com crash we would most likely have had a recession just from oil prices. Where is the price of oil today? A year ago, oil peaked at $124 a barrel when Russia invaded Ukraine. It is now around $68. Based on this these conditions it is difficult to foresee a recession caused by energy prices.

Our primary concern continues to be inflation and interest rates. Will inflation slowly start to ratchet down or will shortages of labor and subsequent higher wages make inflation more "sticky?" The Fed is pulling levers and pushing buttons that have not been utilized in years to try and control inflation. The basic money supply has contracted for the first time in over 60 years. My concern continues to be that the only way that we have ever truly broken a nasty bout of inflation has been to raise the interest rate, thus raising the cost of borrowed money, to a level above the inflation rate. That is a painful remedy. Inflation peaked at 14.8% the last time we had inflation in the 1970s and 80s and the Fed raised interest rates to 20%. As we indicated in the last newsletter, these high interest rates drove the U.S. economy into two back to back recessions. Steel workers unemployment rate soared to 29% and auto workers to 23%. If that holds true in 2023 we may be looking at interest rates at 6% or more to suppress consumption enough