Spreng Capital Management Inc.

SUMMER 2024

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.

"There are decades where nothing happens; and there are weeks where decades happen"

My life (Jim) is spent reading various corporate Annual Reports and news releases. I don't use television for information. Television offers only 30 second sound-bites that give you no context or depth of reporting with way too much political opinion! I have always said that our information overload is like trying to drink from a firehose. To that end, we subscribe to a few reputable, professional newsletters that do not give us daily stock recommendations. We are investors not day traders. Instead, they condense the vast volumes of information down into usable overall world economic coverage of about 5 printed pages a day which we use as guidelines to help us manage our clients' accounts.

Index	2nd QTR	YTD
DJIA	(1.73%)	3.79%
NASDAQ	8.26%	18.13%
S&P 500	3.92%	15.29%
10-Year Treasury		4.34%
30-Year Mortgage		6.86%
Unemployment Rate		3.90%
U.S. Inflation Rate		3.27%
Oil		$78.96/bbl

One of the better newsletters is written by Nick Colas and Jessica Rabe. Nick is probably 60 years old with a wealth of experience. Jessica is in her late 20s and brings a youthful perspective to their discussions. Nick's parents were immigrants from Cuba. They fled Castro in 1960 with $200 and a small suitcase and settled in New York City. The Colas strongly resisted television so they read to their children. Since they were not from America, the books they chose were not of your usual childhood fare but of a more eclectic nature. Their preferred material for bedtime stories was <u>One Thousand and One Nights</u> better known as <u>Arabian Nights</u>, a strange choice for children to say the least. The basis of this tome is: A Middle Eastern king marries a different maiden every day and the next day at sunrise, he executes her so that she will never cheat on him. He marries another maiden the next day, executes her, and this goes on for months. Eventually, he marries a woman named, Scheherazade, the daughter of his vizier. She asks the king to allow her sister to visit her that evening since she will be dead in the morning and wants to spend her remaining time with her family. Scheherazade then spins an exciting tale to her sister that takes the entire night but it cannot be completed before sunrise. The king, wanting to know how the story ends, agrees to let her live one more day. The next night, she finishes the story but begins a new cliffhanger that cannot be finished before sunrise. Again, the king allows her to live one more day to hear the ending. This goes on for years, 1001 nights as the title indicates. The king eventually learns to trust and love Scheherazade and they live happily ever after.

What is the significance of Nick Colas's story in an investing newsletter? Even in investing, stories keep you alive. The stock

The International Energy Agency estimates that the Artificial Intelligence ChatGPT, uses 10 times the electricity that Google Search uses.

markets are full of stories every day, every minute, but just like Scherherazade's stories, they are incomplete. They might be resolved the next day, they might not. It might take months or years before the conclusion of an investment "story" is completely known. The most dangerous stories are those that tell you a "crash" is coming and that you need to get completely out of the markets and buy gold, or real estate or whatever else the hucksters are hyping. These people have always been wrong. Let me repeat that, ***they have always been wrong!*** Markets correct, and they should. Corrections can be painful and seem like they will never end. Since 1980, in a perfectly average year, the stock market will experience a drawdown of (14.2%). This means that even though the markets may end up 20% for the year, at one point it is was down over 14% from its high. Over the last 50 years, a two-year rolling average of the S&P 500 was only down 3 times. The markets were down in 1973 and 1974 due to the oil shock. They were down in 2001 and 2002 due to the dot com bubble bursting and 9/11. Finally, they were down in 2008 and 2009 for the Great Financial Crisis. Every other 2 year rolling average for 50 years has averaged a positive 18.2% return for the two years or 8.7% a year. Corrections always end and the markets move upward and onward again.

There are multiple "stories" bouncing around now. There are worries about 'stagflation," a word popular from the 1970s. It encompasses the fear of inflation coupled with an economic downturn or a perpetually slow, underperforming economy. Trust me, I lived through the 1970s and 1980s. We are so far removed from that economic time-period that the pundits who enjoy throwing around this word obviously are young and have no idea of what they speak. Unemployment is 3.9% and has been below 4% for more than two years. That is the longest stretch of 4% or under unemployment in more than 50 years! Inflation, while obviously higher than it has been over the last 40 years, is still only 3.27%. The years of stagflation were 1973 to 1981 when we averaged 9.2% inflation per year with an average interest rate of 8.54% a year! The unemployment rate averaged 7.5% per year for 13 years from 1974 to 1986. Current GDP is up 5.38% from the same time last year so any discussion of "stagflation" is just some "young pup" trying to move from the kid's table at Thanksgiving to the adult's table. The economy is doing well because of higher wages, good corporate profits, and low oil prices. All of this discussion about how bad the economy is right now is just plain wrong.

Another story pertains to the strength of the United States dollar and its supposed imminent collapse. We constantly hear that crypto currencies are going to replace the dollar! It is surmised that U.S. budget deficits will drive the world to replace the US dollar as the "reserve currency"! Meanwhile, the US dollar has appreciated 32% against the rest of the currencies in the world over the last 24 years. This very increase by itself, has greatly reduced the pain of inflation for U.S. consumers. A great deal of the goods that we purchase from other countries cost us 32% less than they did 25 years ago. Again, another story that fails to accurately depict what actually is occurring.

Of course, as we head into the throes of a Presidential campaign, we will be inundated with talk of what an election of this candidate or that candidate will do to your 401k or your other financial assets. Again, just another "story" of dubious accuracy but impossible to know until many years down the road. One of the most lucrative investing niches is the prediction of doom and ruin. Peruse YouTube or any website with financial reporting and you'll find hundreds of places to click to "Prevent losing all of your money in the impending Depression!" or "Buy our newsletter today to save your wealth and your family from financial ruin!" Just like the opinion shows on cable television, these "stories" exist only to sell you a subscription to their newsletter or advertising for their cable television. If any of these charlatans really knew what was coming do you really think that they would be sharing it with the masses in a newsletter or on cable opinion shows?

Negative "stories" are easy to write. We can pick one obscure fact and develop an entire "the economic world is ending" tome. Again, they are always wrong. A patient, thoughtful investor who understands their financial needs, time frames, and tolerance for volatility will always be rewarded for ignoring market corrections and the daily "fear-mongers" selling you a product. Sometimes you have to choose between sounding smart and making money. You have to choose between being an investor or a day-trader.

The economy and the stock markets are doing well. However, that does not mean that there are not impending issues and possible volatility ahead. The U.S. has a structural labor problem. We have had it since 2010. Continuing baby boomer retirements only add to the issue. The ratio of job openings versus unemployed has fallen to 1.2 times in April. This means there are 1.2 jobs available for every 1 unemployed worker. That number is exactly the same as it was in February of 2020 right before the pandemic. The ongoing labor shortage pre-dated the pandemic. In 2018 and 2019, the ratio of job openings to unemployed ran between 1.1 to 1.2 times. From 2000 to 2017, the average was 0.5 times or there were twice as many people looking for work as there were jobs available. This is one of the reasons why corporate America is embracing Artificial Intelligence so robustly. Corporations can't find enough workers, or at the very least, the type of workers that they want and need. The hope is that AI can replace some workers that

Since December of 2021, car insurance is up 46% due to the increased cost of new and used cars and the hundreds of thousands of cars damaged by hurricanes, wild fires, and tornadoes.

The market value of Nvidia at $3 trillion is larger than the entire amount of the German, French or English individual stock markets.

do routine, labor-intensive tasks to free up humans to do other jobs that need to be done.

The U.S. stock market is having a very good year through the first six months. The S&P 500 is up 15.29% at the end of June. Even if we did not have any more gains the rest of 2024, that is still a very good rate of return. The gains have been driven extensively by the tech stocks with which we have become so familiar. These companies are truly money-making machines. They are innovative, not afraid to take chances and as we have spoken before, very light on assets. Their most expensive asset is a 26 year-old carrying around a laptop computer writing computer code. This asset is easily let go when demand falls, easily replaced when needed with thousands of new college-graduates each year. I think some context on just how profitable these companies are is appropriate. Microsoft's average 1 year price return is ***14.3%*** since 2002, 22 years. It is up 20% for the first six months. Apple's average 1 year return for the last 22 years since 2002 is ***40.8%*** per year. It is only up 11% for 2024 due to concerns about growth, or lack of growth, in China. Trade wars do have consequences. Alphabet's (Google) average return for one year since 2005 is ***24.1%*** per year for 19 years. It is up 30% so far this year. Amazon is averaging ***36.7%*** a year since 2002. It is up 28% for the first six months. These are incredible companies that have changed our world, and will continue to impact it in very positive, and negative, ways.

So why not just own 5 tech stocks and nothing else? It is because their sell-offs, drawdowns, or volatility, whatever we want to call them, are so incredibly severe. Amazon was down (94.40%) at one time. Nvidia was down (89.73%) at its peak. Apple was down (81.80%) at its worst and Microsoft was down (69.41%) at one time. Any investor that would tell you that "they would have held on to that stock because they knew how good it was going to be" is lying to you and to themselves. As we talked about in last quarter's newsletter, diversification is the investor's best friend. It always has been, it always will be.

These companies do not operate in a vacuum. They compete in a world market, especially against China. Tesla's predominate value is not as a car company. It is priced on the hope that they will be the first car company to deliver autonomous or self-driving cars. China would like to deny Tesla that opportunity. To that end, there are 19 car companies in China trying to develop driverless cars. To say that the government is assisting them in their endeavors would be an understatement. There are at least 16 cities that are allowing driverless taxis to test on their city streets. Government censors are limiting on line discussion of safety incidents and crashes to restrain the public's fears about this new technology. Life is cheap in China. Worldwide dominance of driverless cars is a goal worthy of a few mangled citizens with no voice or recourse. I think that it is highly unlikely that Tesla will win this race. There are 19 companies to 1 with the 19 receiving huge assistance from the government. These are not good odds.

The economy is doing well. Inflation remains "sticky" but certainly not at excessively high levels like we've experienced before. Corporate profits remain good and that is what drives stock market returns. At the beginning of the year, investors, and the press, anticipated that the Federal Reserve would cut interest rates 4 to 6 times during 2024. Now the speculation is for cuts 1 to 2 times, probably in September and December. We think that they should leave rates alone. These are historically "normal" rates. The economy is doing fine. Why do we need a boost now by cutting rates? Unemployment is low and the stock market and corporate profits are good. Implementation of low interest rates over the last twenty years was a failure as far as economic growth. We had the lowest interest rates in history. There were even countries that had negative interest rates. Banks in these countries paid people to borrow money! Yet during that time period, GDP growth was very low and anemic. Low interest rates do not lead to economic growth.

As a final note concerning stories, our clients are very kind and constantly tell us how much they enjoy reading our newsletters. Composing and writing the letters is very difficult! Information is collected daily in a file because it is very easy to forget what occurred in the investing world 12 weeks after the fact. The information is pulled together a week before the end of the quarter. The newsletter is written a week in advance and then edited and added to until publication. To actually put onto paper, or computer screen, our thoughts, along with the "stories" to reinforce our investing perceptions, helps us immensely by forcing us to reevaluate our previous investment perceptions. Many successful professional investors keep a daily journal of their thoughts on a holding or investment. They then wait some time and go back and read their musings to ascertain how accurate they were. More importantly, they try to see where they were wrong and to learn from their mistakes. Writing a newsletter is our journal, our "stories" if you prefer, to not only hold ourselves accountable but to keep you informed as well. It is difficult work, but one that is professionally useful to us, and hopefully, informative to you as well.

There are always geopolitical issues particularly in Ukraine and the Mid-East, potential oil shocks, sticky inflation and an election that defies logic. All or anyone of these issues can cause us problems through the remainder of 2024. There are always concerns and fears that the markets always overcome and this year will be

Jensen Huang, the founder of Nvidia, first job was as a busboy at Denny's. He is now worth $117 billion.

There are enough unsold houses in China to house every home in California and New York combined.

no different. There are always "stories" to be told in the investment world. Be patient, choose your information sources well, do not listen to the doomsayers. Over the long run, they are ***always*** wrong.

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 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 do not 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 do not 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**, **lemory@sprengcapital.com** and **acole@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. There have been no material changes in any of our filings. 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."

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
Anne Cole: acole@sprengcapital.com

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

"Investing is a marathon, not a sprint."