Spreng Capital
Management Inc.

FALL 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.

"No one would ever have crossed the ocean if they could have gotten off the ship in the storm"
Charles Kettering

Most of us remember the retail store Radio Shack. At its peak in 1999, there were over 8,000 stores in America. Over 90% of the population lived within 20 miles of a Radio Shack store. By comparison, Wal-Mart has 4,600 locations in the U.S. now. Radio Shack was so large that they were able to manufacture their own inventory and sell it under proprietary brand names. It was so large that they were the world's largest personal computer manufacturer as late as 1990. Online sales began to chip away at Radio Shack in the early 2000s and by 2015, Radio Shack was bankrupt. What started out as a single store, grew to incredible relevance in its 70-year existence, only to melt away just 15 years after the business peaked. The growth of consumer technology over the last 50 years is stunning. Computing power per dollar has doubled roughly 25 times since 1975. Carried to its extreme, that means that today's computer chips are roughly 33.5 ***million*** times more productive now than they were 50 years ago.

Index	3rd QTR	YTD
DJIA	8.21%	12.31%
NASDAQ	2.57%	21.17%
S&P 500	5.53%	20.82%
10-Year Treasury		3.79%
30-Year Mortgage		6.08%
Unemployment Rate		4.20%
U.S. Inflation Rate		2.20%
Oil		$71.33/bbl

I remember when the first portable, hand-held calculators came out while I was in college. One fraternity brother bought one for ***$750***! There were several of us in the fraternity house that were in the same courses which required extensive mathematical calculations. This calculator was the greatest thing ever! It was accurate and fast compared to doing everything by hand or, please forgive me for those of you who have no idea what this is, a slide rule. The professors were fine if six of us all used this one calculator and all had the same answers, as long as we listed everyone's name that we had worked with on the paper that we turned in. What a wonderful time-saving device this was. Now, every phone is literally a mini-computer or you can buy a small calculator for under $10. This is a stunning change in computing power. It is said that we landed a man on the moon with less computing power than you hold in your hand with your current cell phone.

Radio Shack is not the only company to suffer from the onslaught of technology over the last 50 years. Ford trades for roughly the same price as it did in 1993, 30 years ago. One will have gotten a dividend from Ford through most of these years but with absolutely no growth in stock price. Goodyear Tire trades for the same price it did in 1980 at roughly $7 a share. That is 44 years ago! Volkswagen trades for roughly the same price as in 2007, 17 years ago. The fact that all three have something to do with the auto industry is no anomaly.

"The S&P 500 index companies get an average of 42% of their revenues from non-US sources. Tech and Materials are the most with 57% and 53%. Utilities and Real Estate are the least at 1% and 17%."

The car business is very capital intensive, prone to over-production and very cyclical.

What is the point of this discussion? This is the basis for why technology stocks now make up 40.3% of the S&P 500. A ten-year treasury bond yields roughly 3.8%, the same as it did in 1963. The price of oil is $71 a barrel, the same as in 2006. Foreign developed countries stock index is the same as 17 years ago. Foreign emerging markets stock index is the same as 17 years ago. Human ingenuity is the single most powerful driver of growth. The U. S. system, for all of its flaws, is by far the largest promoter and supporter of technological change. Mario Draghi, who basically was the Jerome Powell of the European Union, recently detailed Europe's lack of competitiveness. He said, "On a per capita basis, real disposable income has grown almost twice as much in the US as in the EU since 2000. The EU is entering the first period in its recent history in which growth will not be supported by rising population. By 2040, the workforce is projected to shrink by close to 2 million workers each year. EU companies face electricity prices that are 2-3 times those of US companies. Natural gas prices are 4-5 times higher." Compare that to US technology companies that are running 50% profit margins and it is easy to see why the US equity markets are still vibrant and growing.

The economy is doing well. Your house is at an all-time high in value. The stock markets continue to hit new all-time highs. Incomes are the highest they have ever been. The ports of Los Angeles and Long Beach, which handle a third of US imports, reported their third largest month ever in July. Consumers are spending. The Federal Reserve began to raise interest rates in the first quarter of 2022. In the last two years of rising interest rates, the US GDP has grown 5.5%. As a comparison, Germany's GDP in the same time period is down (0.3%). The economy is slowing down but that was the goal of raising interest rates, to try to gently slow down a $20 trillion economy and control inflation and engineer a "soft-landing" for the economy. It is far too early to tell if it was successful. The Federal Reserve cut interest rates by 0.50% so their information must indicate that it was appropriate to begin to cut rates. What is important from the days of Federal Reserve Chairman, Paul Volcker, who raised interest rates to ***19.1%*** in 1981, is that the markets must believe that a central bank is willing to risk a recession for the institution to be credible in its fight against inflation. We certainly hope that this Federal Reserve Committee is willing to raise rates again, and quickly, if it appears that inflation is not continuing its long grind down.

The talking heads on television, in an effort to fill 24 hours of air-time, are now once again talking incessantly about an impending recession. The US economy has been in recession for exactly 2 months out of the last 15 years! That recession was caused by a total shutdown of the world's economies due to a pandemic. It is important to note that all recessions since 1970 have been caused by some external shock to the economic system, most of them by an oil price shock. Obviously, we will have another recession. What will cause it and when will it occur? No one, even the talking heads on the "opinion shows," has any idea when the next recession will occur. It is not something we spend anytime thinking about or worrying about. We, as investors, have no control over what external shock might occur, or when it might occur, so why spend one moment obsessing over something over which we have no control?

There is something that we do have control over, your emotions concerning the upcoming election and how you deal with these emotions as they relate to your investments. We have said this so many times, please ***do not let your politics run your portfolio!*** Anyone who thought the current administration or Congress was going to ruin the equity markets was terribly wrong. The same sentiment holds true after the 2016 election. Ned Davis Research went back 70 years to the Eisenhower Presidency. If you invested $1,000 only when a Republican was President, it would be worth $27,400 today. If you invested $1,000 only when a Democrat was President, it would be worth $61,800. However, if you invested $1,000 70 years ago and left it alone no matter who controlled the White House or Congress, it would be worth $1.69 million today! Time in the market is your friend, not who is in office. Please try to ignore all of the "embellished" statements and outright pandering for votes from both sides and just stay invested no matter the outcome.

We had a nasty sell-off in the US equity markets in August. This was caused by the fact that the Japanese Central Bank raised interest rates 0.25%. Yes, you read that correctly. One lousy quarter point rise in Japan caused a significant sell-off in our holdings. Why? There were a lot of hedge funds in the US who had borrowed money in Japan at 0% interest rates to buy US stocks with this borrowed money. When Japan raised rates it shocked the borrowers so they sold US stocks to pay off their loans to Japan. It was that simple. A relatively minor activity on the other side of the globe hit our investments here at home. Fortunately, the markets recovered but this points out several important issues to understand about today's equity markets. With money having the ability to move electronically, literally at the speed of light, what happens on the other side of the world affects all of us as investors. Money can move in and out of investments and around the world in the blink of an eye. There are stories about the San Francisco earthquake in 1906. Everyone had to wait for

"US workers make a lot more money than people in most countries. Mississippi has higher average wages than Germany or Canada. Oklahoma, West Virginia, and South Carolina have higher average incomes than Belgium, Denmark, and Austria." Economic Innovation Group

“The Federal Funds interest rate from 1950 until 1990 averaged 6.4% with a low of 1.2% in 1954 to a high of 19.1% in 1981. From 1990 until now, the average has been 2.8% a year.” Federal Reserve

newspaper stories the next day to have an idea how much damage had occurred. Those that had access to ***accurate*** telegrams had an advantage over everyone else in knowing how to respond in that moment.

Markets move up and down every year. In eight of the last 10 years, including 2024, the US equity markets have had positive returns. Excluding 2020 due to the extreme circumstances of the pandemic, 7 of the 8 up years have had an average of 23 trading days where the market has dropped 1%. There are roughly 252 trading days in a year. So approximately 10% of the time the market will be down 1% in a day. One day every two weeks, the market will average being down 1%. In the same 7 years, the average number of days that were down 2% for the day was four days a year. In 2024, we have had 3 days so far of being down 2% for the day. As of September 24 2024, the S&P 500 was up 20% for the year. 14 days make up the entire 20% gain so far this year. If you were out of the market on those 14 days you would have approximately 0% return year-to-date. As of September 24th, there had been 184 trading days in 2024. 106 of those days or 58% were positive. 78 days or 42%% were negative. This is why trying to day trade is a losing proposition. Even in a very good year for returns in the market the market is negative over 40% of the time. What does all of this mean? It simply means that markets are now world markets, not national, not regional, not local. Markets go up and they go down. They should. They are not markets if they only move one way. Every year has its unpleasant days for investors but the law of averages always wins out in the end.

Long term interest rates have more than doubled since 2019. The S&P 500 Index is up almost 75% in the same time because corporate earnings have grown by almost 50% and are expected to keep rising. As long as the US economy continues to grow, the expectation is that earnings will grow along with the economy. The only way any economy can grow is to employ more workers or help existing workers to become more productive. It is also very difficult for an individual company to grow without its employees becoming more productive. This can be measured by something as simple as revenue produced per employee. US employees are 252 percent more productive now than they were in 1960. This is an incredible number. But it also explains why the post World War II era belonged to America.

Again, this is why the push for Artificial Intelligence or AI is so strong now. It is anticipated that AI is the next path to productivity gains. The 1990s saw massive gains in productivity primarily due to the technology that came from the Space Race with the former Soviet Union and the moon landing. Then, we were able to develop the software to allow computers on desks thousands of miles apart to communicate with each other and productivity soared. To date, the gains from AI have been meager given the billions of dollars that have been invested searching for the AI Holy Grail. The “Magnificent 7” tech stocks are spending billions on AI. No one else can afford the arms race but these 7 companies. They are running 50% profit margins. No one else generates those kinds of profits. There is a darker side to their aggressive pursuit of the next “Big Thing.” If they don’t pour billions into research to try to keep pace with their tech company brethren, they risk becoming obsolete like Radio Shack, Dell, Sun, and Compaq, destined to be absorbed by a larger company, or worse, delegated to the scrap heap of “used to be great” companies.

Many of you have noticed a significant change to your accounts with us. You know that we are not active traders. We are investors. We buy and hold and let our investments grow. We do not jump back and forth between holdings trying to squeeze out a 50-cent profit. We want a much larger gain than that and that takes time and patience. However, with the change in the interest rate environment, a slowing economy, and hopefully, a controlled inflation rate again, we felt it was necessary to make some significant changes to our clients’ holdings to try to take advantage of this moment. Do not be alarmed if you have not had any activity. You have not been forgotten. This newsletter goes out to all of our clients and everyone has different needs and circumstances. The changes were made in tax-deferred or tax-free accounts so as to not trigger any capital gains taxes with our changes. The difficult accounts are the taxable accounts in which we have done well and have significant capital gains issues for our clients if we make changes. We will be analyzing each one of those accounts and make the necessary changes that we feel will best position these accounts for the future all the time being extremely cognizant of the tax issues.

The world keeps spinning. The sun rises every morning. Politicians “exaggerate,” the equity markets move up and down. People go to work to feed their families and provide a better life for their offspring. Patience and perspective have always been important, maybe now more than ever. Be patient with your investments and your life, everything will be fine.

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

“The US government is currently paying out $3 billion a day in interest expense on the National debt. To be fair, as a percentage of GDP, this number is still lower than it was in the 1980s and early 1990s.” Torsten Slok

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 positive 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, acole@sprengcapital.com and lemory@sprengcapital.com Please be assured that we are always monitoring market situations.

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."

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