Spring
2013

Spreng Capital
Management Inc.

Spreng Capital Management is an investment advisory firm registered with the State of Ohio. 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 19 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.

"They called him Jupiter, the king of all financial gods". Once again the world has witnessed long lines waiting to withdraw their money from banks, this time in Cypress. The two largest banks in the country have been deemed to be insolvent and the predictable "runs on the bank" have ensued with depositors struggling to remove their life savings before the banks closed forever. A deal was struck with the government regulators to re-capitalize the two banks. Unfortunately, any depositor who had over $140,000 of money in the banks lost 40% of their money as a "tax" to prop up the failing banks. Such is the face of the "New Normal" but lest any US citizen think that this could never happen to them, they need to remember the crisis of 1907. An individual, J. P. Morgan, singlehandedly rescued the US government and New York City from financial ruin. In 1907 the Knickerbocker Bank of New York City went broke, just like the banks in Cypress. Long lines snaked around the streets of lower Manhattan at not only the Knickerbocker Bank but at many of the banks who were "painted with the same brush" and thought to be insolvent whether they were or not. It was a crisis of confidence. President Theodore Roosevelt gave to J. P. Morgan, the then princely sum of $25 million dollars from the US Treasury, and simply told him "Do whatever you think best. But save us". Morgan proceeded to lock all of his competitors into his stately library and told them they were not leaving until they committed funds from their own banks to prop up their competitors' banks and thus help stop the runs on all of their banks. In the gilded age of the early 1900s Morgan had the nickname "Jupiter" because of all the financial gods, Carnegie, Rockefeller, Ford and Frick, J. Pierpont Morgan was the "king of all the financial gods". But only Jupiter had the ability and power to meld all the individual, selfish interests of the bankers in New York to do what was best for their country, city and individual banks. It is no coincidence that the Federal Reserve System came into being in 1913 as a direct result of the financial crisis of 1907. Congress recognized the need for a large, central entity to be able to step into the abyss of any financial or confidence crisis that might arise. While the Federal Reserve has its' flaws like any large government entity, thanks to "Jupiter", not only US citizens but citizens of the entire world breathe a little easier with the financial backstop that the Federal Reserve provides.

Index	YTD
DJIA	11.25 %
NASDAQ	8.21 %
S&P 500	10.03 %

The Presidential and Congressional elections of 2012 clearly articulated the policy that the goal of government is now to figure out how to "split the pie instead of grow the pie". As in all significant governmental policy shifts, from an investment standpoint, there are winners and losers. Contractors and companies who traditionally have been part of the military-industrial complex will see significant reductions in government contracts going forward. Firms that are poised to benefit from the implementation of Obamacare and providers of other social services will be the new winners for government largess and contracts. Investors need to understand that money can be made in any economic environment, even one that is now "splitting the pie". To that end, we need to be nimble and even contrarian in our thinking on investments. We cannot invest in the same old companies that have benefitted investors over the last 50 years. The investing philosophy of the post-World War II era was to invest in companies that were rebuilding Europe. These companies were designing, building and providing the raw materials to build the suburbs and interstate highway system that revolutionized the US economy and its' consumers. These were companies that were "growing the pie". We must now shift our focus and look for companies that will be the beneficiaries of the government's new focus.

There is a famous saying in the markets, "Don't fight the Fed". This basically means that if the Federal Reserve is trying to stimulate the economy, as it is doing now with lower interest rates, then investors should respond to the Fed's actions and buy into the equities market. If the Fed is raising interest rates, investors need to be very wary of this action and not be as aggressive in their pursuit of equities. If the Fed is raising interest rates, the Fed is trying to slow down the economy, and probably inflation. As investors, our new mantra may very well be "I want my piece of the pie" and invest accordingly.

The markets' response to higher taxes, more social services and more Congressional gridlock has been nothing short of remarkable. For anyone who thought that the election results would kill the market they were obviously mistaken, at least to this point. All three major indexes reflecting US equities had an excellent first quarter. The Dow Jones Industrial Average was up 11.25%. The NASDAQ Index was up 8.21% and the S&P 500 Index was up 10.03%. These were very good returns for a quarter and reflect the overall health and prosperity of corporate America. The Federal Reserve continues to support low interest rates and a "cheap" dollar. Low interest rates promote economic activity while severely abusing savers, and a cheap dollar is great for companies that export their goods or services. The government and corporate America are walking hand in hand through the garden of economic stimulus and the markets are reflecting this cooperation.

The Dow and the S&P 500 Indexes have passed all time record highs in this quarter. What that means is that finally, since the internet meltdown in 2000, the US stock market has achieved new highs. From a true comparison basis, these new highs have a dark side. The following information was compiled by Liz Ann Sonders, Chief Investment Strategist for Charles Schwab & Co:

	Oct. 9, 2007	Mar. 15, 2013
Dow Jones Industrial Average	14,165	14,514
US Budget Deficit	$169 billion	$1 trillion
Federal Reserve Debt	$858 billion	$3.85 trillion
Gross Federal Debt	$9 trillion	$16.4 trillion
Debt as a % of GDP	64%	104%
Americans Unemployed	7 million	12 million
Unemployment Rate	4.7%	7.7%
S&P Rating of US Debt	AAA	AA+

And now the "bright" part of the story:

Dow Jones Industrial Average	14,165	14,514
S&P 500 Average	1,565	1,561
S&P Earnings	$89	$97
S&P Dividends Per Share	$28	$32
10-Year US Treasury Yield	4.7%	2.0%
Inflation	2.2%	2.0%
Household Debt	$13.5 trillion	$12.8 trillion

This is a lot of information that basically says that you can choose to look at either side of the coin. If you are a pessimist, you can focus on the top part and say that eventually, the economy and thus the stock market, is in trouble. If you are an optimist, you focus on the "bright" side of the story and feel comfortable that the economy and the companies in which we invest will continue to perform well. We tend to be optimistic. Investors need to remember that from 1926-2010 we have survived a legendary stock market crash, a Great Depression, World War II, Korean War, Red Scare, Cuban Missile Crises, assassination of a President, Vietnam, 1968 Democratic Convention in Chicago, Watergate and the subsequent Impeachment of a President, stagflation, Jimmy Carter, Arab oil embargo, another impeachment of a President for lying under oath, 9/11, two wars in Iraq, a war in Afghanistan, a housing and mortgage crash, Lehman Brothers bankruptcy, TARP, Bernie Madoff and a $50 billion Ponzi scheme and still the US economy has survived and thrived. While we readily admit that a great deal of the additional profits that our companies generate are due to lower employment and the lowest interest rates in 400 years, we still think that the productivity of these firms will continue to grow and generate even more profits for us in the future.

The US debt rose by an average of $4.3 billion dollars a day for the first two months of 2013.

The excessive debt of all government entities continues to worry us greatly. But capitalism is still the best avenue to raise the standard of living of all people in the world today. There are hurdles and obstacles to clear every day but we continue to believe that prudent investments with a sharp focus on risk in our holdings is still the best way to accumulate, and retain, wealth.

So where do we go from here? Investors will recall that the first quarter of 2012 was an extremely good quarter with the S&P 500 gaining 12% in the first three months of the year before ending the year up 13%. The year's entire gains were made in the first three months of the year! A vitriolic Republican Primary followed by a bitter and partisan Presidential and Congressional election pretty much guaranteed that investor confidence would hit the skids in the remainder of 2012 and the US stock market reflected this angst. The uncertainty now is gone. As we have said previously, higher taxes are now a reality as is a greater emphasis on distributing the country's wealth. The clarity has actually been a good thing for the markets and the economy. We do not anticipate that 2013 will be a repeat of 2012 for the economy or markets. Industrial production, retail sales, car sales, home builders and home sales, consumer confidence and general employment are all on an upward trend. There are monthly aberrations to the overall economic numbers but the overall general trend is positive. This bodes well for future gains in the economy and overall markets.

What does keep me awake at night is the effects of the eventual rise in interest rates. My partner Tom articulated the concern very well about two months ago when he asked in our Monday morning meeting, "What will the American consumer do when interest rates get back to normal?" Stop and think about this issue for a moment. Interest rates have been artificially depressed by the Federal Reserve for the last 13 years! With the internet melt-down in 2000, then Chairman of the Federal Reserve, Alan Greenspan, drove interest rates down to try to stimulate a wobbling economy that was trying to recover from a stock market bubble. Current Federal Reserve Chairman, Ben Bernanke, has been using the same playbook from 2008 to 2013 by trying to stimulate asset values and an economy staggered by the home and mortgage bubble. Will consumers balk at buying a home when they are presented with an 8% interest rate for a 30 year mortgage? Will they buy a car or a major appliance on credit if the going rate is 8 to 10% a year? Will consumers just go "on strike" and not buy anything that requires them to pay what they deem is an exorbitant rate of interest? There are those of us old enough to remember the 1980s when 12 to 15% interest a year was the norm. We survived but obviously we put as large a down payment on our first home as was humanly possible. What a novel idea, skin in the game so that I can't afford to walk away from my mortgage the minute my house is worth less than I paid for it!

Millions of investors around the world have flocked to fixed income investments over the last 5 years. Burned once again by an asset bubble and a collapsing stock and housing market, they fled equities in record numbers to invest in "safe" fixed income investments. The bottom line fact: as interest rates start to rise, fixed income investments will lose value. This is an absolutely true statement. Even if you own an individual bond and have every intention of holding the bond until maturity and collecting your original investment back from the borrower, the value of that bond will drop as interest rates rise and/or you approach the maturity date of the bond. This is an axiom of investing that is always true, as true as the fact that the sun rises in the East and sets in the West. As interest rates rise, the value of all existing fixed income investments will fall in value. Conversely, as interest rates fall, the value of all fixed income investments rises. The problem is, we have been in a 30 year cycle where interest rates have dropped from 20% a year in the early 1980s to record lows for interest rates in 2013, the lowest in the last 400 years! Interest rates only have one way to go from the bottom and that is up. As these rates rise the value of all of those "safe" investments that investors purchased out of fear and loathing for the equity markets will drop in value.

When will interest rates rise? Welcome to the $64 billion dollar question! Simply put, neither we nor anyone else, really know when rates will rise. To understand the forces that act on controlling or setting interest rates we need to ask and answer three basic questions. Who benefits the most from low interest rates? The largest borrower benefits the most from low interest rates. Who is the largest borrower in the world? The US government is the largest borrower in the world. Who sets the artificially low or depressed interest rates currently in use? The US government through its' Federal Reserve System sets the low rates for the largest borrower.........the US government. So even though we can predict with a great deal of certainty that interest rates will rise in the future, we have absolutely no idea when whey will rise or by how much.

The largest borrower in the world is very happy with 400 year lows in interest rates. The government is certainly in no hurry to allow interest rates to rise on their $16 trillion dollars of debt, but things can move very quickly. Foreign governments currently own about 34% of our national debt. If China and Japan, the two single largest consumers

According to Better Investing, the number of investment clubs has declined by 90% since 1998 from 400,000 to 39,000.

of US debt, were to suddenly decide that a paltry 2% return a year for the next ten years for a US Treasury Bond was inadequate and they demanded a higher rate of return, then the US government loses control over interest rates very quickly. We absolutely must find buyers every month for our national debt or we can't fund our $1 trillion dollar a year budget deficit. As I was explaining this to my mother-in-law on the way to Easter dinner she summarized it very well. She said it was like "boiling a frog very slowly". If the government can control the rise in interest rates so that it is a slow, insidious rise instead of a drastic jump in rates, we might "boil" consumers in the US and world to continue to borrow money to buy their necessities and trinkets. Interest rates and their eventual rise concern us. There is nothing that anyone can do except monitor the situation very closely. If it is a controlled and orderly rise, the markets will absorb this change and move on. If inflation and then interest rates were to jump quickly, millions of fixed income investors would find out the terrible truth, which is that their fixed income investments were anything but "safe".

This is the "New Normal" of which we have spoken so often. Slow growth, low interest rates, high public debt and the inability or desire on the part of government to deal with huge issues. Just as we are now forced to look for investments that benefit from "splitting the pie instead of growing the pie", so too are we forced to monitor more than ever our investments and their relationships with today's realities, political and economic. The investing process in the "New Normal" is difficult. It is not impossible, just more difficult. Rest assured, that we are monitoring events and your portfolios at all times for any and all actions that we would think appropriate to take.

We are excited and optimistic about the future both for you and for our firm. We continue to receive large influxes of new funds thanks to you and your many referrals that we receive every month. 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 have questions about your holdings or about the general condition of the economy, please contact us at once. If we do not have a current email address for you would you please email us and allow us to add you to our regular list of clients with whom we correspond. Our email addresses are jspreng@sprengcapital.com, tbrown@sprengcapital.com and lkunzer@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 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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Closed 12:00pm-1:00pm