

Fall
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 21 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.

Something wicked this way comes! I used to sleep very well. I don't know if it was a function of youth, naivety or growing up on a farm with lots of hard physical work accompanied with lots of sports. I just closed my eyes, and in what seemed like no time, it was morning. Then of course, growing up in the 1950s and 1960s was a magical time. The only time I really remember being concerned was during the Cuban Missile Crisis in 1962. My parents were stoics. They never let their emotions show, especially to their children or nieces and nephews. They were wonderful parents, there to help us grow and guide us into adulthood and to become good members of our society and communities. But my mother was truly frightened during the Missile Crisis. Even at the age of 8 years old I could sense that something was radically wrong.....***something wicked this way was coming***.....

I've never been one to require a lot of sleep, six hours is all that I have ever really needed along with an occasional 20 minute nap over the lunch hour. Tom and Leslie give me a hard time about my naps but I tell them that I can't help it, it is genetic. My grandfather Kiess used to take a nap every day at lunch time. He lived until age 86 and died on the job at a Board meeting. An occasional nap for me is genetically predispositioned and probably good for me!

Something is causing me to have more difficulty than usual in getting a good night's sleep. Tom and Leslie, and even clients who have called into

Index	Qtr Return	YTD
DJIA	1.48%	15.46%
NASDAQ	10.82%	24.90%
S&P 500	4.69%	17.91%

the office in the early morning hours, wonder why I am often in the office before 6:00. If I am awake at 4:00 and I can't go back to sleep I might as well go to work! The markets are doing very well, why should I have difficulty sleeping? I remembered a dream that I had a few nights ago. This is a very rare occurrence for me to remember any of my dreams. This one must have made an indelible impression upon me because I remembered it image for image. I was sitting in on a meeting that Tom was conducting with three sisters who were obviously clients. The sisters were faceless and nameless in the dream which is not unusual. Tom was very accurately going through the various concerns and issues that always linger in the back ground of any investment choice or time line for investing. Suddenly, Tom started discussing the reason for my current angst and sleeplessness.....***the United States government***. In my dream, Tom was going through, item by item, the laundry list of issues that the government has undertaken over the last five years that have directly affected our investment choices and the performance of many of those investments! These ranged from bailing out banks that were "too big to fail", to bailing out Chrysler and General

Motors, to artificially low interest rates, to 99 weeks of unemployment payments, to the pending implementation of Obamacare, to Quantitative Easing 1-2-3, to TARP, to “tapering of bond purchases” and even the bankruptcy of Detroit. And once again, we face the possibility of either a government shutdown because we can’t pass a budget or a default on our considerable national debt due to our inability to raise our debt ceiling. It might be possible that we could experience both a default and a government shutdown occurring at the same time!

My lovely bride of 37 years dispensed her usual calming words to me as I was leaving for the office this morning to begin the task of writing this newsletter. She said, “Remember, this is an investment newsletter written to inform your clients about what is occurring in the investment world. This is not a political op-ed piece in the New York Times.” As is usually the case, she was correct. But the stark reality is that the hand of government has greatly altered the investment landscape over the last five years since the Great Recession and even before that with Alan Greenspan’s penchant for lowering interest rates to incredibly low levels every time the economy sneezed! I must make this clear. I emphatically agree with the actions that were taken by the government in the crisis of 2008 and 2009. In hindsight, the mistake was in letting Lehman Brothers fail which started the cascade of bank and brokerage house failures. TARP for the big and small banks and insurance companies, the bailout of AIG and all of the other incredibly messy bailouts, were absolutely necessary to keep the entire financial world from hurtling into another Great Depression.

If we thought that the bailouts were messy, we now face the stark reality that disengaging ourselves from all of the unintended consequences of 2008 is going to be just as disquieting as the original bailouts. And now we get to the crux of my sleeplessness. I have great concerns that Congress and the Administration are not up to the task at hand. For proof that my concerns are valid, one need look no further than the current fiasco that passes for discussion and legislation in Washington. Make no mistake about it, the economy is in much better condition than it was in 2008 and 2009. But there are still major areas of concern of which the number one issue would have to be very anemic job creation. Coming out of most previous recessions, by this time in the historic economic cycle, jobs should be plentiful and wages should be rising and workers difficult to find to fill the awaiting jobs. Nothing could be further from the truth this time around. Job creation has been very poor and wages of existing workers have risen very little, if at all, over the last twenty years! Welcome to the New Normal

that we have talked so much about over the last five years. Tepid economic and job growth accompanied with increased productivity per worker leads to stagnant wages for workers. China and the rest of the developing world are very good at exporting low wages!

So into this quagmire of economic soup we now add a Legislative and Executive branch that have shown no ability to lead the country through this current situation. Instead, like little kids fighting in a sandbox, Congress and the Administration are beating their respective chests and threatening to shut down the government and default on our national debt. Either of these options would not be conducive to stimulating a moribund economic recovery. It’s no wonder that I have trouble sleeping. We need legitimate, adult discussion about the best way to deal with our issues and problems and all we are receiving is posturing and inane sound bites from our elected officials.

My quote last quarter was “in a further sign that the apocalypse is upon us”. I went on to describe the attempt by Congress to exempt not only themselves and their families from Obamacare but all of their legislative staff as well. In a gesture of kindness, President Obama granted a waiver to Congress for just such an action; doing this just as Congress, and the media, were leaving Washington for their summer vacations. You certainly would not want this to be voted on by the elected members of Congress and then have to justify this vote to their constituents back home.....No, it is much easier to have a President, who cannot run for re-election and therefore will not have to answer to the voters, just arbitrarily grant this waiver to Congress. Oh yes, and the Supreme Court, which ruled that the bill is constitutional, is also exempt from having to use Obamacare for their health care. To summarize, Obamacare is going to be great for everyone and we should readily embrace it. Yet, none of the leaders who are preaching this gospel to us are required to use this program. Instead, they are actively exempted from utilizing it. How is that for a vote of confidence?

However, it now appears that Congress and their families and their staff may not be exempt from having to participate in Obamacare. There is serious discussion that the wording in the law says that Congress, their families and their staff are not exempt, only that their costs for participating in Obamacare will be completely subsidized by the taxpayers. This is the stance that those supportive of Obamacare and Congress are now espousing to the public. So let’s try to understand what this means to the taxpayers and eventual participants in Obamacare. Essentially, the law was so hastily and poorly written, that even Congress can’t discern how their own individual participation in Obamacare

is supposed to be handled. Yet we are supposed to believe that this program will be good for everyone and we should trust the government to handle all of the details for us. You just can't make this stuff up folks.....

The current legislative battle over the funding of Obamacare is a fruitless exercise. No matter how distasteful the process of its' passing the Senate in the wee hours of the morning was, the law has been challenged and the Supreme Court has ruled that the bill is constitutional. It is the law of the land and to try to deny funding when you know full well that you do not have the votes in the Senate or the votes to override a veto from the White House is a waste of time. The continued discussion detracts from other high priority issues and only fuels the bi-partisan rancor that already exists in Washington. The focus on Obamacare detracts from the budget or debt ceiling discussions and only adds to the likelihood that an impasse on these two critical issues will develop.

I think that the probability that we will have a default or a shutdown is low. We will tiptoe right up to the edge and at the very last minute some deal will be struck. It may actually go past the deadlines and the government could shut down for a few days to a week. Obviously, there is an inherent danger to writing my opinions two days before the deadline. I can look pretty out of touch one day after this is sent to the printer. But, and this is where all of my rambling about my sleep patterns has led us, the markets will not respond favorably to the uncertainty that is currently swirling around in Washington. It is quite possible that we could have increased volatility in the markets. We certainly had volatility the last time we were in the same predicament. The Dow Jones Industrial Average dropped over 600 points one day and recovered over 400 points the next day on hopes that a deal was about to be brokered only to drop again on the third day. Investors need to be prepared for this possibility. **This will be temporary!!!!** The markets recovered the last time in a very short time period and if a deal is not struck on a budget and debt ceiling before the deadline and the markets sell off in response, we will recover from this again. It is absolutely critical to think like a long-term investor and ignore the rancorous debates in Washington.

What gives me hope is history. Our nation's history is fraught with Congressional members who were thieves, crooks, racists, scoundrels, wastrels, sexists, liars, cheats and just plain old bad people. Our history is full of Senators who sold their votes for shares of stock in a railroad or land around a railroad line. Yet here we are, 237 years later, with all of our warts and imperfections, we are still the place that all freedom loving men and women want to be. Our rule

of law makes our businesses the envy of the world. Our education system, as imperfect as it might be, still attracts the very best and brightest from around the entire world to study and teach. I have faith that as messy as the process will be, a budget deal and a debt ceiling extension will be accomplished and the economy will continue to improve and grow, albeit at a reduced rate from historic proportions. It will be messy and the markets may not like the process and respond accordingly. Even though this dysfunctional government is causing me to sleep less well than I would prefer, I truly believe that this too shall pass. We have withstood momentous issues of the day like slavery, World Wars, a Great Depression and a civil war. If we can survive those issues and thrive as a country and an economy, we can survive our current malaise. Investors need to stay focused on the big picture and ignore the "daily noise".

The third quarter of 2013 was another excellent quarter. The Dow Jones Industrial Average was up 1.48% for the quarter and is up 15.46% for the year. The NASDAQ Index was up 10.82% for the quarter and is up 24.90% for the year. The Standard & Poors 500 Index was up 4.69% for the quarter and is up 17.91% for the year. By any measure, 2013 has been a very good year for the United States equity markets, at least through the first nine months! Any concerns about the impending implementation of Obamacare have certainly been ignored by US stock market investors. Will this oversized performance continue unabated? Again, ***"Something wicked this way comes"*** and it is the current inability of Congress and the President to deal with the urgent business of the country. A legislative impasse and subsequent government shutdown of any duration will certainly affect the markets. A default on our national debt obligations due to failure to pass a debt ceiling increase could be problematic to not only our stock markets but to the entire world's equity and debt markets.

Where do we go from here? The markets could remain flat or stagnant for the final three months of the year and 2013 would still go down in the record books as a good year. Could we have a sell-off in the fourth quarter of the year? Absolutely we could. Is it probable that a sell-off will occur? Not necessarily, again, excessive activity be it a sell-off, or exuberant buying, will most always be driven by external events, be they perceived as good, or bad events.

We have many risks and travails ahead. We have discussed many of them in past newsletters. Congressional inaction or damaging action, rising interest rates, Syria, North Korea, Iran, excessive national debt, immigration policy and yes, even Congressional mid-term elections just 13 months away, any and all of these issues are enough to make anyone

*Voter turnout for the Presidential election of 1860 in which Abraham Lincoln was elected President and subsequently 11 states seceded from the Union within 7 months of the election was 81.2%.
Voter turnout for the re-election of President Obama against challenger Mitt Romney was 60%.*

have difficulty sleeping at night. But these challenges are nothing new and our country and economy have faced similar issues before and ridden through the storms and come out on the other side. Turn off your electronics and go for a walk with your family or friends, leave the sleeplessness to us.

Our job of providing the best return for you with the least amount of risk continues to provide challenges each and every day. We continue to monitor events on a daily basis and how these events affect your investments. We continue to be optimistic, with a healthy degree of skepticism, that investors who continue to focus on their long term goals and needs will be rewarded. The world is an exciting and sometimes frightening place in the 21st century. We appreciate your confidence in allowing us to work with you, your families and your businesses to achieve your financial goals. It's been a good nine months. We will continue to strive to meet your expectations every day in the era of the "New Normal" of economics, politics and investments.

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 had over 200 clients, friends and guests for our annual Client Appreciation evening in early September. Another record number of participants enjoyed a quiet evening of music, great food and friendship. We neglected to thank Carmar Gardens for providing the beautiful mums for the table centerpieces. We do hope that you will be able to join us in 2014.

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