Winter
2014

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 22 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.

"If you like your health care plan, you can keep it." (President Barack Obama)

"We have to pass the bill to find out what is in it." (House speaker Nancy Pelosi D-California)

"It depends upon what the meaning of the word "Is" is." (President Bill Clinton)

"I did not have sexual relations with that woman, Miss Lewinsky." (President Bill Clinton)

"A billion here, and a billion there and pretty soon you are talking real money." (Senator Everett Dirksen R-Illinois)

"Brownie, you're doing a heckuva job." (President George W. Bush)

"Read my lips, no new taxes." (President George H.W. Bush)

Oh, the wonders of technology. Back in the days before videotape, a politician always could claim that they had been misquoted by an incompetent member of the fifth estate or at least a journalistic hack with a political axe to grind. But with the advent of videotape and the ability to listen, view, and do it over and over again, the ability to hide behind a misquote disclaimer has all but vanished. Ask Mitt Romney how damaging the hidden video of his speech to loyal supporters was when the proclamation that "47% of the voters will vote for the President no matter what" was made public. The insinuation that 47% of voters were on the public dole in some way, shape or fashion, may have been technically correct. However, the articulation of this idea was devastating none the less and it left Romney in a hole from which he never fully recovered. The quotes that led off this newsletter are a wonderful collection of the ridiculous, to the sublime, to the arrogant, to the just plain stupid, and last but certainly not the least, the slimy and sleazy. The fact that they were spoken by those elected to lead us certainly has to make one wonder about the stability and actual viability of the Republic, but that is a topic for another day.

Index	2013	4th Qtr.
DJIA	26.50%	9.56%
NASDAQ	38.32%	10.74%
S&P 500	29.60%	9.92%

As my lovely wife is so fond of reminding me, this is not an op-ed piece for The New York Times, or Wall Street Journal. This is a financial newsletter designed to keep our clients informed on financial issues, which leads us to the story of the year and quite possibly the story for the next ten years, Obamacare. Try to remember way back in October when the Republican Party tried to commit suicide by shutting down the government. They wanted to prevent Obamacare from ever getting off the ground on January 1, 2014. In their infinite wisdom, they decided to shut down the government in an effort to get President Obama and his Democratic supporters in

Congress to negotiate by giving up their signature legislation in exchange for keeping the government running. It is hard to imagine that every single Republican in Congress failed every math class and every government or civics class that they had ever taken in school, but that must have been the case. How else to explain the fact that they never, repeat never, had the votes in Congress to overturn Obamacare. Even if they had Chicago's former Mayor Daley switching parties and counting the votes for the Republicans so that they magically came up with additional votes, they could never muster the votes to overturn the inevitable veto that was awaiting them from President Obama! So the Republicans shut down the government and then to paraphrase the great movie, Casablanca, were "shocked, shocked I say" to find out that the American voters blamed them and blamed them very critically for the whole fiasco. The Republicans blinked, realized that they had probably just frittered away their opportunity to re-take the Senate in 2014, and totally collapsed in a pile of their own hubristic excess.

But then, in keeping with the Season of Giving just completed, along came the "Miracle on Pennsylvania Avenue" for the moribund Republican Party, better known as the actual implementation of Obamacare. Even to the most ardent supporters of Obamacare, the Democrats in Congress who have leveraged their political careers on its success, the rollout has been a disaster. The website did not work. The rates for most of the insured that will be using the program are higher than they were told that they would be. But by far the most damaging of all were the cancellations of existing policies for millions of voters who were satisfied with their policies because the Obama Administration had arbitrarily decided that these policies were inferior and had to be shut down. Thus, the pledge that you could keep your existing plan if you liked it, was never really an option from day 1. The reality is that a couple in their fifties or even sixties, ***MUST*** now carry, and pay extra for, maternity coverage. You ***MUST*** also carry, and pay for, pediatric eye and dental coverage, even if you have no children…………..you just can't make this stuff up folks. If, at the time, Speaker of the House, Nancy Pelosi, thought that the bill should be passed first and then read, well welcome to the wake-up call of unintended consequences and the inherent "shadow taxes" that accompany this health care rollout.

As these details have leaked out, it has become apparent why the business community was so anxious about this 2000 page bill that had been passed without even being read by most members of Congress! Unfortunately, the surprises will continue to cause ripples throughout the economy. It has been reported that 7 out of 10 doctors in heavily Democratic California are rejecting offering health care service under Obamacare due to low reimbursement rates. It has been reported that under Medicare, a long established government health care program, a doctor is paid between $500 and $700 for removing a patient's tonsils. Under Obamacare, reportedly they will be paid $160 for the same procedure.

There are literally hundreds of issues that need to be corrected or tweaked under the Affordable Care Act. The problem is that absolutely no Republicans, and several Democrats up for re-election, want to have anything to do with fixing all of these problems or even attempting to tweak it around the edges. Obamacare may become the polarizing issue of this generation just as Viet Nam was for mine. The most fascinating aspect is how quickly Bill and Hilary Clinton distanced themselves from the issue. Bill Clinton was the one who told President Obama that he needed to find a way to honor his statement on keeping your health insurance even if it was cancelled for being judged "inferior coverage". The very minute that the Clintons walked away from the issue, multiple Democrats up for re-election ran for cover as well.

We are just beginning to find out all of the complexities and machinations of this landmark legislation. To say that it will have a significant impact on our economy would be a huge understatement as we have already witnessed changes in small business employment patterns. Trying to be optimistic, we hope that Obamacare slows down the pace of health care expenditures in our economy and we readily admit that the fact that you now cannot be rejected for a pre-existing condition is long overdue. But even the most ardent supporter has to admit that "shadow taxes" have risen and small business employers are simply not hiring new employees until there is more clarity. As a resident of a small, rural community, my fear is that in twenty years there will be no doctors or hospitals left outside the large metropolitan areas. Time will tell how this all plays out. How ironic that the Republican Party tried to destroy itself and the Democratic Party came along just three weeks later and totally let the Republicans off the hook. Is this a great country or what?

So how did the markets do in 2013 with all the drama of Obamacare and the revelations of NSA spying? In summary, the markets were fantastic. The Dow Jones Industrial Average was up 26.50% for the year. The NASDAQ was up 38.32% and the Standard & Poors 500 Index of the 500 largest companies on the US stock exchange was up 29.60%. For the fourth quarter the Dow was up 9.56%, the NASDAQ was up 10.74% and the S&P 500 was up 9.92%. This was the best year in the United States equity markets since 1997. From these numbers it is clear that investors shrugged off the pratfalls of our solons in Congress and focused on the pure economic numbers of the

"The unfunded liability of Chicago's 6 pension plans for city workers is $26.8 billion, nearly 8 times the unfunded liability of Detroit's pension plans for its' workers. Detroit filed for Chapter 9 bankruptcy protection on 7-18-2013." CNBC

economy and liked what they saw. We have talked at length about Quantitative Easing and the risks to the economy when the Federal Reserve starts to back off the purchase of our government debt. Well that day has arrived. Chairman Bernanke announced in the middle of December that the Federal Reserve Board had reviewed the numbers on the economy and had felt that the overall economy was sound enough to begin the process of withdrawing Federal Reserve funds from the debt markets. The Fed has been purchasing $85 billion a month in US debt but will lower that amount to $75 a month in January. David Rosenberg, from Gluskin Sheff in Toronto Canada said, “Going from $85 billion of monthly asset purchases to $75 billion is like taking a Corvette from 160 m.p.h. to 140 m.p.h.” The markets responded very favorably to this announcement and we agree with the response. While some may fret that removing this economic stimulus, referred to as tapering, from the economy is risky, we cheer the fact that inflation is contained, unemployment is dropping, albeit very slowly, and GDP grew at a pace of over 4% in the last quarter. These are all very good signs for the economy.

Investors need to be mindful that when tapering was first broached in April of 2013, the markets shuddered in revulsion and sold off in protest. It was the only negative in the markets for the entire year and may have been a harbinger of things to come. As the Fed withdraws their support from the debt markets, there will be more bonds to be purchased by individuals and institutions since the Fed is no longer buying $85 billion of their own debt each month. But these investors may demand a higher interest rate to entice them into purchasing US government debt. The Fed did not care what the interest rate was on the bonds that they were buying, the lower the better. This artificial depression of interest rates was great for the largest borrower in the world, the US government, and great for consumers of big ticket items like houses and cars. Investors and consumers need to be prepared for a rise in interest rates. How much rates rise remains to be seen.

There is, of course, risk that this slowly induced withdrawal of stimulus from the economy may cause the economy to contract but it is a risk that the Fed must eventually take at some point in time. As we said in a previous newsletter, The Fed’s actions are like that of an Olympic gymnast who is flying through the air executing a never before done maneuver. The question on all the Olympic judges’ minds and the millions of viewers watching on television always remains the same, “Can they stick the landing?” The multiple Quantitative Easing programs that the Federal Reserve has undertaken in the last five years have served their purpose. It is time for these programs to end and to let the economy rise, or fall, on its’ own merits. Can the Fed “stick the landing”, only time will tell.

As this newsletter went to press, Congress had not renewed the extended unemployment benefits for millions of unemployed workers. The withdrawal of this stimulus package, the tapering of Treasury bond purchases and the “shadow taxes” coming with the implementation of Obamacare will all be drains on the economy to some degree.

So who were the winners and losers in the stock market in 2013? There is no question that “growth” stocks were viewed more favorably than “value” stocks. Investors, or at least stock traders, were willing to pay more for shares in companies that held out the promise of rapidly rising revenues even more than solid, boring companies that may actually have generated more profits! The poorest performing companies were the ones that had been viewed so favorably just two years ago, stocks that paid good dividends and that raised their dividends every year. Utility companies, Real Estate Investment Trusts and telecom stocks all under-performed the overall market in 2013. There were several reasons for this. Utility companies and Real Estate Investment Trusts all are industries that have to borrow a lot of money to build generating plants and apartment complexes or malls. The threat of higher interest rates makes their cost of borrowing rise and thus cuts into their net profits.

High dividend paying companies were also viewed in the past few years as proxies for bonds; their high dividend rates could replace bonds in a portfolio that needed income. There were some companies like Microsoft that were paying higher dividend rates on their stock than they were paying interest on their borrowed money! I would take that option any day. The stock can always go up in value. At the maturity date of the bond, you will only get back the original amount borrowed plus the yearly interest. Granted the stock can go down in value as well but over a long enough time periods like ten years, the probabilities favor the stock holder in a case like Microsoft’s.

The question of the day as always is, “Where do we go from here”? The Fed is apparently winding down its stimulus package. Interest rates should rise, but we have no idea how much they will rise. The roll out of Obamacare has been terribly flawed to this point, but, it is ***NOT*** going to go away. The economy will have inherent drag to overcome from the removal of unemployment compensation and “shadow taxes”. 2013 was the best year in the US equity markets since 1997. The European economy did not implode and Greece did not leave the European Union. Last, but certainly not least, 2014 is another election year! Congress and the White House will stop at nothing to push their own agendas in the process of seeking re-election. After the twin fiascos of shutting down the government and rolling out the Affordable Care Act, many pundits and voters were advocating voting for anyone in November as long as they were someone new. While this may appeal to many voters, the reality is that nothing will really change. Both parties have done such an abominable job of gerrymandering all of the Representatives' Congressional Districts that it is virtually impossible to defeat an incumbent. Over 90% of all incumbents are re-elected every two years and 2014 will be no different. The only difference is that instead of the voting margin for the winner being 70% to 30% they might be 60% to 40% now.

Many "experts" are calling for a major correction in 2014. We need to make one thing perfectly clear, these experts have no idea if there will be a correction or not in 2014. These resident experts are paid many millions of dollars a year to be prognosticators of the markets so they have to say something to earn their pay. When the markets have done as well as they have over the last five years, the law of probabilities would indicate that we are due for a correction or at least a slow-down. But, and we must stress this, a correction is absolutely nothing to fear. It is normal and healthy for markets to slow down or at the very least, retrench and build momentum for the next leg up in the markets. Will a correction occur in 2014? We have no idea and waste absolutely no time, energy or emotion trying to deduce if there will be a correction. We are investors, not speculators or traders. We look for opportunities to purchase great companies at a discount to their actual worth or value. If a correction improves our chances to do this and positions us for a great long-term investment opportunity, then we embrace a correction not fear it. Our task has always been to maximize your investment with the least amount of risk. 2013 gave us a great opportunity to do that. We will know how 2014 turned out exactly a year from now!

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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