



“Creating wealth is important;
Retaining wealth is imperative.”

Winter 2011



Spreng Capital Management
New office location at 201 South Sandusky Avenue.

You have to love politicians, especially the ones who, from time to time, feel the sudden urge to break away from their handlers just to say what is actually on their minds. Joe Biden certainly jumps to mind immediately but now there is a new hero of the working man, Governor Ed Rendell from Pennsylvania. In the heart of a crippling, two foot, post Christmas snowstorm, Governor Rendell chose to bash the NFL for cancelling a pro football game in his beloved city of Philadelphia. Calling it the further “wussification” of America, the soon to be ex-Governor, who is stepping down due to term limits, may just have fired the opening salvo for the 2012 Democratic Primary race for President. If the quote is correct, the Governor indicated that the Chinese would walk to the game in the snowstorm and do calculus computations along the way. I don’t know if they were walking uphill both ways but I think he certainly got people’s attention. I doubt if the snow plow drivers or the emergency crews loved his outburst but it certainly garnered headlines for a soon to be semi-retired politician.

We can’t help but equate Governor Rendell’s outburst with the state of the economy last year. Try as they might, Congress and the Administration just could not seem to lower un-employment numbers much below 10%. I guess they could blame it on those pesky Chinese who just continue to export low wages as well as boatload after boatload of clothing, electronics, iphones and ipads with which the US consumer can continue to spoil their children. In a never ending battle to stimulate jobs, Congress, the Administration and even the Federal Reserve sailed into waters not seen since the Great Depression. The Fed’s desire to drive down interest rates and to keep rates at historic low levels induced even the most sagacious investor to venture into more and more risky investments. And why not acquire more risky investments? After inflation and taxes there were literally no positive returns to be found in savings accounts, fixed income, certificates of deposit or the old stand by-real estate. It does not take a great deal of courage to buy a stock paying a 5% dividend each year rather than to accept the miniscule offerings from the perceived safety of fixed income or CDs.

Index	4th Quarter	2010
DIJA	7.32%	11.02%
NASDAQ	10.72%	16.91%
S&P 500	10.20%	12.78%

Corporate profits soared to record levels as company after company found ways to squeeze more productivity and profit out of fewer workers. Harsh, anti-business rhetoric out of the White House did nothing to

calm small business owners or entice them or their large corporate brethren to hire more workers in such an uncertain environment. The irony of the stimulus package of late 2008, Quantitative Easing 2 and the continuation of the Bush tax cuts in late 2010, is that research back into the 1940s has shown that it takes \$15 of government spending to have the same economic effect as \$1 of private sector spending. It does not take a genius to understand why unemployment stays so stubbornly high. What small business owner, who has taken out a second mortgage on his house to fund his business, would

want to expand and hire more workers with so much uncertainty?

2010 turned out to be a fairly successful year for investing based upon the major indexes. The Dow Jones Industrial Average was up 7% for the fourth quarter and 11% for the year. The NASDAQ Index was up 10% for the fourth quarter and 17% for the year and the S&P 500 Index, probably the most relevant of all the indexes, was up 10% for the last quarter of the year and 12% for the entire year of 2010. The problem was that we had incredible volatility in the markets to achieve these gains. From January until the end of April, the S&P 500 rose 7% only to fall 16% from April until July. On July 2nd the overall market had delivered a negative 10% for the year. However, from July until the end of the year the market slowly climbed out of this hole to eventually end with the 12% return for the year on the S&P 500 Index.

“Whatever method you use to pick stocks... your ultimate success or failure will depend upon your ability to ignore the worries of the world long enough to allow your investments to succeed. It isn't the head but the stomach that determines the fate of the stock picker”.
~ Peter Lynch ~

Depending upon your particular electoral leanings, the reason for this rise will make you either euphoric or despondent. The rise in the market from July until November was almost entirely driven by the prospects of a Republican “shellacking”, President Obama’s own words, of the Democrats in the mid-term elections. Polls had indicated quite early that there was extreme displeasure with the Democrats and that there was going to be a “throw the bums out” mentality as voters ventured into their voting booths. The specter of Congressional and Administration gridlock, the probable extension of the Bush tax cuts, a more business friendly Congress and chastised Administration, fueled the market gains. While this may seem to be an overly simplistic explanation of the market’s performance, it certainly played a significant role in investors’ attitudes. We can’t help but wonder if the US economy has taken on the aura of a “third world emerging market” economy. If our markets perform based upon who is going to be elected,

how does that make us any different from a country that experiences a military junta that overthrows a government and places into power a new set of advisors and bureaucrats and a new set of rules and regulations regarding business in the country? It is sad to think that the American Experience incubator that gave us Andrew Carnegie, John D. Rockefeller and J. P. Morgan could now be relegated to the perception of a third world banana republic!

The Great Recession officially ended in June of 2009, almost 19 months ago. I would hate to be the one who has to tell this to the people who are still un-employed or under-employed. This combination of workers accounts for almost 17% of our entire working population. Either they cannot find a job or are working multiple part time jobs due to the inability to find one decent job. Combine the employment issue with the stark reality that home prices continue to drop in value and it is easy to see why there is a pervasive unease amongst the inhabitants of this fair land. To that end, President Obama was “held hostage” by the Republicans in Congress and worked with them to extend the Bush tax cuts for two more years. We think that his choice of words was extremely poor for someone who will have to find a way to work with a more empowered opposition party over the next two years. The liberal wing of the Democratic Party howled and the conservative wing of the Republican Party gloated over the end result. The more introspective of us really did not care who won or lost. We were more concerned about another \$800 billion give away. Surely there could have been some compromise that extended the necessary tax cuts while also starting down the ultimate path upon which we are all headed, a sacrifice of services and higher taxes. We cannot help but wonder where have all of the grown ups gone?

While the electorate voted in November to reduce government spending and not to raise taxes, we remain concerned about the collective will to sacrifice when the eventual pain arrives. President Obama appointed an 18 member bi-partisan commission to make detailed suggestions on ways to reduce our budget deficit and begin to pay off our national debt. The first suggestions that we heard certainly seemed reasonable but the cheap shots began the very day that the report was released. The Commission suggested that we raise the social security retirement age to 69 to become effective in the year **2075!** The vast majority

of the people that this would affect are yet to be born. Yet the head of the AFL-CIO labor union came out that very day the report was released, lambasting the fact that you were going to solve the financial problems of the country on “the backs of the working man”! I hate to state the obvious to this poor gentleman, but if not the poor working man, just upon whom does he think the pain and sacrifice will fall? In 2008, 51.6 million federal income tax filers paid exactly **NO** federal income tax. Total federal expenditures for Medicare, Medicaid and Social Security will double over the next ten years. The Congressional Budget Office projects that over half of all federal expenditures will be for entitlement programs, and this does not even factor in National Health Care that was just enacted. The only way out of this mess is to cut services and raise taxes; and not just one of these options but both must be put into place. The pain from cut services is just around the corner. The Governor-elect from Ohio has already announced to expect a 15% reduction in state aid to all entities effective July 1, 2011. New York City cut 10,400 jobs and still has a \$2.4 billion budget deficit. Did anybody hear the complaints emanating from New York City during Ed Rendell’s recent blizzard concerning the lack of snow removal from the New York City streets? Cutting employees and services that taxpayers have come to depend upon and expect, will not be received well. The National League of Cities projects that 80% of its’ members will lay off employees in 2011 and that 70% are delaying or cancelling capital spending projects.

“The world hates change, but it is the only thing that has brought progress”.
~ Charles Kettering ~

The job loss and the accompanying reduction of services by the states and cities is one of our biggest concerns for 2011. We have been preaching for several years that the municipal bond market would encounter distress long before it became a fashionable worry in late 2010. Illinois, California, New Jersey and New York have all borrowed money to prop up underfunded public pensions. The plan is that the market returns from these borrowed monies will far exceed the cost of interest on these bonds from which the money was borrowed. We can only ask these paragons of financial wizardry, “How were their stock returns over the last ten years”? Do they not remember that

a great deal of the Crash on Wall Street in 1929 was driven by investors who had to cash in their falling stocks to pay off the margin calls on the money they had borrowed to buy their stocks in the first place? No state has defaulted on its’ debt since Arkansas during the Great Depression. As a pure statement of fact, no state will default now. President Obama and Congress cannot, and will not, let a state go bankrupt. If they bailed out GM it would be political suicide to let a state, or states, declare bankruptcy. However, the voters of a state like North Dakota who have always kept a neat and clean set of books for their state will not be very pleased to assume the debt of their more spendthrift neighbors. Now you know how Chancellor Angela Merkel and her German constituents feel about bailing out Greece, Ireland and probably Portugal and Spain.

The ultimate layoffs and cutting of services will continue to drag down employment within the US economy. Keep in mind that a great deal of the original stimulus money went directly to the states to pay their wages and cover their expenses. Without this federal largesse in 2011, cash flows will become tighter even more quickly. While no states will go broke, the same cannot be said for the cities and towns within the states. How many insolvencies will there be? We have no idea, but at the very least, the specter of the possibility of defaults will make borrowing for local cities and towns much more difficult and costly as lenders will demand higher interest rates to compensate for the additional risk that they are undertaking lending to the cities. To summarize, voters spoke and politicians appear to have listened. But anyone who thinks that reducing our dependence upon borrowed money, both on an individual basis and as a country, will be easy is deluding themselves. It will be painful and some pet projects that you might think are worthy of governmental support may completely disappear. As was shown by the civil unrest in Europe in 2010, budget cuts and higher taxes hurt when they apply to you.

2010 is over and it was a good year in the markets. The overall economy is improving but unemployment will stay stubbornly high. Instead of the traditional 5% unemployment that we deemed normal the new acceptable level might become 7 or 8%. We anticipate continued volatility in the markets in 2011. We also will be on the lookout for distress in the municipal bond market. This will be worrisome but also provide

opportunities for us as investors. Gasoline prices will be higher in 2011. As we close 2010 prices have risen to over \$3 a gallon. There is some speculation that this could rise to \$5 a gallon by 2012. The home real estate market will continue to struggle to regain its footing among persistently high unemployment. Our job will be to acknowledge all of these challenges and recognize them more as opportunities than as roadblocks.

We are excited and optimistic about the future both for you and for our company. We closed 2010 with record assets under management. We did well in the markets but we also received large influxes of new funds thanks to you. Please notice our updated email addresses and website address. 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 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, part II, 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”**.

Spreng Capital Management is an investment advisory firm registered with the SEC. 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 17 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.



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