

# **SPRENG CAPITAL MANAGEMENT, INC.**

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**Firm Brochure  
(Part 2A of Form ADV)**

*This brochure provides information about the qualifications and the business practices of Spreng Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 419-563-0084 or at jspreng@sprengcapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*Registration with the SEC does not imply a certain level of skill or training. The oral and written communications of an Adviser provide you with information with which you determine to hire or retain an Adviser.*

*Additional information about Spreng Capital Management, Inc also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **MATERIAL CHANGES**

### **Item 2.**

Since the filing of our last annual update in March 2020, Spreng Capital Management Inc. has not had any material updates to Form ADV Part 2A.

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**Item 4.**

Spreng Capital Management, Inc. (hereafter referred to in this form as (SCM) has been a Registered Investment Advisory Firm since September of 1999. Previously, the Firm was known as Spreng & Pigman Financial Advisory Group, Inc. but underwent an ownership and official name change in February of 2010. James A. Spreng is the principal owner and the primary investment advisor representative. Thomas R. Brown is also an owner and an investment advisor representative working with the firm. SCM offers Investment Supervisory Services to clients which are tailored to their individual circumstances. The firm reviews client's assets (sometimes in conjunction with other services offered by the firm) and makes recommendations based upon client's individual needs and objectives. Clients are not required to utilize any other services of the firm.

As a registered investment advisor subject to Section 206 of the Advisers Act, SCM acts as a Fiduciary related to the conduct of its investment advisory services. As such SCM has an obligation to act in the best interest of its clients guided by the core fiduciary duties of loyalty and care.

Client, in consultation with SCM, chooses the investment strategy (ies) the firm is to employ. Most strategies primarily invest in mutual funds. However, in some circumstances, SCM employs strategies that invest primarily in individual equity and debt securities or Exchange Traded Funds.

Strategies that primarily invest in mutual funds seek either portfolio growth, portfolio income or a combination of portfolio growth and income. Within the context of these objectives (growth, income or a combination thereof), client may select an asset allocation strategy that focuses on the issue of market risk. It is expected that the great majority of the firm's clients will employ this strategy which will from time to time seek to reduce the market risk associated with equity and fixed income investments by reducing or eliminating certain investment positions in mutual funds or separate accounts that primarily invest in equity or debt securities. Alternatively, client may select a "buy and hold" strategy that does not seek to reallocate portfolio assets in response to market risk. In most circumstances, SCM has investment discretion over the accounts it supervises. Therefore, the firm usually issues investment instructions to the custodian of its clients' accounts without prior consultation with client. Investment instructions given by SCM are consistent with the general goals and objectives of the investment strategy (ies) that is selected by client. However, SCM will try to accommodate a client's individual instructions with regard to the firm's supervision of client's account. SCM has discretion to select the amount and nature of securities which are purchased and sold in relation to those investment strategies selected by the client for SCM which provides a continuous and regular service. No options will be purchased nor will any securities be purchased on margin without first obtaining the consent of the client. In some instances, margin balances may be initiated by the client either through securities purchases or by writing a check for an amount which is greater than the cash available in the account.

Client selects either a mutual fund group(s) or a custodian broker from those recommended by SCM as being compatible with the investment strategy(ies) selected by the client.

SCM assists or advises clients or individuals who request more detailed financial planning. We have found that most clients or individuals do not really need expensive, comprehensive financial planning. Their needs generally revolve around segments of their lives such as retirement planning, college funding, life insurance questions, debt restructuring or any combination of these issues. We work with these clients and individuals and are compensated on an hourly basis to derive the appropriate solutions for these issues.

Client must enter into a contract for this type of service which can be terminated by either party at any time by sending written notice to the other party indicating a desire to terminate the contract. No assignment of any agreement shall be made without the written consent of client.

### **IRA Rollover Considerations**

SCM provides, as part of its investment advisory services, recommendations for client to withdraw the assets from an employer's retirement plan and roll the assets over to an individual retirement account ("IRA") that SCM manages on the client's behalf. If a client elects to roll the assets to an IRA that is subject to SCM's management, SCM charges an asset-based fee as set forth in the agreement between the client and SCM. This practice presents a conflict of interest because persons providing investment advice on SCM's behalf have an incentive to recommend a rollover to a client for the purpose of generating fee-based compensation rather than solely based on the client's needs. Clients are under no obligation, contractually or otherwise, to complete the rollover. Moreover, if the client decides to complete the rollover, that client is under no obligation to have the assets in an IRA managed by SCM.

Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, clients should consider the costs and benefits of each option:

An employee will typically have four options:

1. Leaving the funds in the employer's (former employer's) plan.
2. Moving the funds to a new employer's retirement plan.
3. Cashing out and taking a taxable distribution from the plan.
4. Rolling the funds into an IRA rollover account.

Each of these options has advantages and disadvantages and before making a change SCM encourages clients to speak with their CPA and/or tax attorney.

Clients who are considering rolling over retirement funds to an IRA for SCM to manage, here are a few points to consider beforehand:

1. Determine whether the investment options in the employer's retirement plan address your needs or whether you might want to consider other types of investments.
  - a. Employer retirement plans generally have a more limited investment menu than IRAs.
  - b. Employer retirement plans may have unique investment options not available to the public such as employer securities, or previously closed funds.
2. Your current plan may have lower fees than SCM's fees.
  - a. If you are interested in investing only in mutual funds, you should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  - b. You should understand the various products and services you might take advantage of at an IRA provider and the potential costs of those products and services.
3. SCM's strategy may have higher risk than the option(s) provided to you in your plan.
4. Consider whether your current plan also offers financial advice.
5. If you keep your assets titled in a 401k or retirement account, you could potentially delay your required minimum distribution beyond age 72.<sup>1</sup>
6. Your 401k may offer more liability protection than a rollover IRA; each state may vary. Generally, federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies. However, there can be some exceptions to the general rules so you should consult with an attorney if you are concerned about protecting your retirement plan assets from creditors.
7. You may be able to take out a loan on your 401k, but not from an IRA.
8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or the purchase of a home.
9. If you own company stock in your plan, you may be able to liquidate those shares at a lower capital gains tax rate.
10. Your plan may allow you to hire us as the manager and keep the assets titled in the plan name.

It is important that you understand the differences between these types of accounts and to decide whether a rollover is best for you. Prior to proceeding, if you have questions contact your investment adviser representative, or call our main number as listed on the cover page of this brochure.

As of December 31, 2020, SCM managed \$193,174,653 of discretionary assets.

**Item 5.**

Fees are negotiable and are based upon an annual percentage of the net asset value of client's portfolio or an hourly charge. The fees are determined taking into account the time and

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<sup>1</sup> 70 ½ if you reach 70 ½ before January 1, 2020.

costs associated with the supervision of the client's assets. Generally, annual fees do not exceed 1.00% and are not less than 0.25% of the net asset value of the client's portfolio. While fees are negotiable, SCM has adopted the following investment advisory fee guideline for new clients.

Clients with Investment Assets in Equity and Fixed Income

1.00% of the first \$2,000,000; 0.55%  
of the next \$3,000,000; and 0.25% on  
all amounts thereafter

In some instances, employees, close friends and relatives of the principals and employees of SCM will not be charged an investment advisory fee or can be charged an annual fee which is less than the suggested guidelines.

Fees are generally billed quarterly in arrears. Quarterly fees are calculated by applying the annual fee schedule to the value of the assets that are supervised by SCM at the end of each calendar quarter. Initial fees for new client accounts will be pro-rated to the end of the initial quarter. Likewise, fees for contributions to existing client accounts will be pro-rated to the end of the current quarter at the discretion of SCM. Due to the associated administrative costs involved, SCM's investment advisory fee is not refundable in the event that a client withdraws only a portion of the funds in the client's account during a given quarter.

In addition to the foregoing fee arrangement, to the extent that client's assets are invested in a mutual fund, the fund's investment advisor will also receive an investment advisory fee. This fee will vary depending upon the mutual fund or separate account. Generally, it is no less than 0.15% and no greater than 1.00% annually, but may be greater or less. These amounts are deducted from the mutual funds or separate account's assets before determining the net asset value of each share of the fund or separate account. Also, the fund or separate account will incur certain other administrative expenses. These amounts will vary from fund to fund or separate account to separate account and are deducted from the mutual fund's or separate account's assets before determining the net asset value of each share of the fund or separate account. It should be understood that client would not pay SCM an annual advisory fee in the event client invested directly with each mutual fund.

SCM believes in the use of no-load Mutual Funds as the best way to deliver the lowest possible costs to the client. SCM will strive to use no-load Funds as much as possible in the formulation of portfolios.

In certain situations, clients transacting in over-the-counter securities will pay an agency commission in addition to a markup or a markdown on the security.

Fees are generally deducted directly from the clients' accounts at the end of the quarter. Some clients wish to pay SCM from funds outside of their accounts and this is acceptable. If a

client wishes to use individual securities or debt instruments, there will be an additional transaction charge levied against the client for each transaction by the custodian. No one at SCM receives any compensation from any source other than the management fees collected from our clients. Clients can purchase recommended securities through a different source or custodian than the one that SCM might recommend. If SCM is retained by a client or individual to assist with financial planning our rate is \$250 an hour for these services.

**Item 6.**

SCM does not charge any performance-based fees or side-by-side management. All fees are based upon assets under management.

**Item 7.**

SCM provides financial advisory services to individuals, business entities, trusts, foundations and endowments and qualified and non-qualified retirement plans.

**Item 8.**

SCM uses several methods to decide which, and in what concentration, investments are appropriate for our clients. Our primary focus is to attempt to identify which investments or economic sectors are in a position to benefit from long term economic trends that might not be readily apparent to the average investor. We then decide if these investments meet several criteria such as current attractiveness of price, size and liquidity of the stock or bond issuance in question and appropriateness for the individual client's risk tolerance.

In the case of Mutual Funds, we map the performance over as long a time period as possible trying to gauge how effective the manager has been in different economic cycles. We compare the internal fees of the Mutual Fund against similar types of Mutual Funds. Finally, we check the length of time that the current manager or group of managers has been managing the Fund.

We are **not** market timers or day traders. We are traditional buy and hold investors. We focus on trying to position our clients' holdings into a well-diversified portfolio that will deliver the maximum performance with the least amount of risk and lowest possible fees. For individual securities, we try not to exceed 5% concentration in any one holding.

Obviously, there will be exceptions to this rule due to smaller accounts or inherited positions with considerable imbedded capital gains.

Since we do not attempt to time the market, there will be times when due to ordinary market corrections or external world events, there can be a loss of capital in the accounts. Clients need to be prepared for this eventuality and take precautions tailored to their own unique

financial situation. Investing in any type of securities involves a risk of loss that clients should be prepared to bear.

**Item 9.**

There are no current or past disciplinary or legal actions against the Firm or the principals or investment advisor representatives involved with the Firm.

**Item 10.**

SCM is affiliated with Thomas R. Brown, CPA, a certified public accounting firm by virtue of Mr. Brown's sole ownership of Thomas Brown, CPA. The two companies share the same office space and certain personnel. The two companies refer business to each other, which raises a potential conflict of interest because of their common interest. While there are no referral fees provided for this arrangement, Clients of SCM can choose to receive discounted or nominal fee tax services as a result of the affiliate.

**Item 11.**

SCM recommends to current or prospective Investment Supervisory Services clients the purchase of securities or mutual funds, some of which, the officers or representatives of the firm personally invest. Any such event will only be in a security that is widely held and normally immediately marketable or redeemable such as mutual funds, or individually listed equities on a national exchange or the over-the-counter market. Such activity by any party would have no material effect on the underlying market price.

To avoid any potential conflicts of interest involving personal trades, SCM has adopted a Code of Ethics ("COE") which includes policies and procedures for the personal trading as well as insider trading. SCM's COE requires, among other things, that employees:

- \*Comply with the applicable provisions of the Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession.

- \*Place the integrity of the investment profession, the interests of the clients, and the interests of SCM above one's own personal interests.

- \*Adhere to the fundamental standard that an employee should not take inappropriate advantage of his or her position.

- \*Avoid any actual or potential conflict of interest.

- \*Conduct all personal securities transactions in a manner consistent with this policy.

- \*Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

- \*Practice and encourage others to practice in a professional and ethical manner that will reflect credit on oneself and the profession.

- \*Promote the integrity of, and uphold the rules governing, capital markets.

\*Maintain and improve one's professional competence and strive to maintain and improve the competence of other investment professionals.

\*Comply with applicable provisions of the federal and the state securities laws.

SCM's COE also requires employees to 1) pre-approve certain personal transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide SCM with a detailed summary of certain holdings and securities accounts over which the employee have a direct or an indirect beneficial interest.

This Code of Ethics Policy is available to any client or prospective client upon request.

#### **Item 12.**

SCM recommends that clients establish brokerage accounts with the Schwab Institutional® division of Charles Schwab & Co., Inc. (Schwab), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although SCM recommends that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. However, a client can choose to use any custodian that they prefer. SCM is independently owned and operated and not affiliated with Schwab. Spreng Capital Management, Inc recommends Charles Schwab because we feel that the combination of quality execution, availability of services and securities and cost structure will meet the needs of our clients. In return, SCM does not receive any compensation from Schwab other than the convenience of handling all of our accounts through one custodian. We do not have the ability to negotiate fees for our clients with Schwab.

Schwab provides SCM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Institutional. These services are contingent upon SCM maintaining a certain amount of assets in custody at Schwab. Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. For SCM client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts. Schwab Institutional also makes available to SCM other products and services that benefit SCM but do not directly benefit its clients' accounts. Many of these products and services are used to service all or some substantial number of SCM accounts, including accounts not maintained at Schwab. Schwab's products and services that assist SCM in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of SCM fees from its clients' accounts; and (v) assist with back-office functions,

recordkeeping and client reporting. Schwab Institutional also offers other services intended to help SCM manage and further develop its business enterprise. These services include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab makes available, arranges and/or pays third-party vendors for the types of services rendered to SCM. Schwab Institutional discounts or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to SCM. Schwab Institutional also provides other benefits such as educational events or occasional business entertainment of SCM personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, SCM will take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely the nature, cost or quality of custody and brokerage services provided by Schwab, which creates a potential conflict of interest.

SCM subscribes to certain electronic information services offered by Schwab. The primary services to which the firm subscribes are the capability to: (1) direct Schwab via electronic means to purchase and sell securities in client accounts; (2) electronically produce copies of Schwab forms and applications; receive copies of client trade confirmations via electronic means; (3) receive via electronic means certain account status reports; (4) download daily account transactions for all client accounts via electronic means that is acceptable to SCM's portfolio management computer software; (5) download the daily closing price of all security positions held in client accounts via electronic means in a format that is acceptable to SCM's portfolio management computer software; and (6) cross reference composite client investment information with individual account balances and positions. To the extent that client accounts at Schwab for which SCM provides Investment Advisory Services have a minimum asset value and if the firm directs mutual fund trades via electronic means, receives electronic trade confirmations, and generates Schwab forms and applications via electronic means, then Schwab does not charge SCM a fee for those services.

The waiver of fees for electronic information services is available to all investment advisors that meet the foregoing criteria. However, a conflict of interest exists since a condition of the fee waiver is that aggregate accounts at Schwab for which SCM provides Investment Advisory services must have a combined minimum value. SCM acknowledges its duty of best execution for its clients and the client's right to select a broker-dealer other than Schwab. Clients who designate the use of a particular broker-dealer other than Schwab should understand that;

(a) SCM will generally not attempt to negotiate commissions with designated broker- dealers; (b) clients may pay higher commissions; and (c) clients may not enjoy the same selection of mutual funds or enjoy as efficient execution as they might have had they not made such designation.

SCM does not aggregate trades. All of our trades for both buys and sells are entered

under each client's account number for exactly the amount of the investment that we want to own or sell for the client. There is no aggregation of trades and therefore, no allocation of trades back to our clients' accounts.

### **Mutual Fund Share Class Selection**

Mutual funds generally offer multiple share classes available for investment based upon certain eligibility and/or purchase requirements. For instance, in addition to retail share classes (typically referred to as class A, class B and class C shares), funds may also offer institutional share classes or other share classes that are specifically designed for purchase by investors who meet certain specified eligibility criteria, including, for example, whether an account meets certain minimum dollar amount. Institutional share classes usually have a lower expense ratio than other share classes. When recommending investments in mutual funds, it is our policy to review and consider available share classes. Our policy is to select the most appropriate share classes based on various factors including but not limited to: minimum investment requirements, trading restrictions, internal expense structure, transaction charges, availability and other factors. When considering all the appropriate factors, we can select a share class other than the 'lowest cost' share class. In order to select the most appropriate share class, we consider retail, institutional or other share classes of the same mutual fund. Regardless of such considerations, clients should not assume that they will be invested in the share class with the lowest possible expense ratio. Clients should ask their adviser whether a lower cost share class is available instead of those selected by the Firm. [Firm] periodically reviews the mutual funds held in client accounts to select the most appropriate share classes in light of its duty to obtain best execution.

#### **Item 13.**

James Spreng and Thomas Brown are responsible for the financial and investment advisory services, the client relationships and the coordination of client services for fewer than 700 households. Each account involving investment supervisory services is reviewed as frequently as necessary. The review of a client's investment account, their investment objectives, the continued appropriateness of the investment strategy selected by the client and the client's tolerance for risk are reviewed with the client on a schedule which is jointly agreed upon between the client and the officer of SCM who is responsible for the relationship with the client.

Additionally, once per quarter, investment supervisory clients are provided with a statement outlining the value of their account. Accompanying this statement is an inquiry seeking to ascertain whether or not a client's investment objectives, financial circumstances or personal needs have changed. Clients are requested to contact the firm if there is a change in their investment circumstance. Generally, an officer of SCM is available during normal business hours to discuss these changes and to take any and all appropriate actions.

Reviews of the investment positions contained in a client's account are conducted as necessary. Most client accounts are invested in mutual funds. The performance of all mutual fund investments which are owned in a client's account in conjunction with a given investment

strategy(ies) is reviewed as necessary. Other securities are reviewed as is necessary. If a change of investment position is dictated in a client's account and SCM has discretionary authority to direct trades in that account, then instructions are given by SCM to the custodian broker or investment company to execute the appropriate change of investment position. These instructions are given without prior consultation with the client.

If a change of investment position is dictated in a client's account and SCM does not have discretionary authority to direct trades in that account, then the client is notified and the client is responsible to provide investment instructions to their custodian broker or investment company.

**Item 14.**

SCM does not compensate any clients or other professionals for referral of clients to SCM.

**Item 15.**

SCM's custody of client's funds is limited to its ability to automatically deduct fees from the client's accounts and because certain clients have executed standing letters of authorization ("SLOA") for distributions to third parties. SCM has implemented procedures to meet the specific conditions as stated in the SSEC's SLOA no action letter under which the obligations to obtain a surprise examination is waived.

We deduct our fees directly from clients' accounts on a quarterly basis only. Clients receive regular statements from their selected custodian as well as quarterly reports from SCM. We urge clients to reconcile their statements from their selected custodian with the statements that are sent to them by SCM and contact us with any discrepancies or questions

**Item 16.**

SCM has investment discretion over the accounts it supervises. Therefore, the firm usually issues investment instructions to the custodian of its clients' accounts without prior consultation with client. Investment instructions given by SCM are consistent with the general goals and objectives of the investment strategy(ies) that is selected by client. However, SCM will try to accommodate a client's individual instructions with regard to the firm's supervision of client's account.

SCM has discretion to select the amount and nature of securities which are purchased and sold in relation to those investment strategies selected by the client for SCM which provides a continuous and regular service. No options will be purchased nor will any securities be purchased on margin without first obtaining the consent of the client. In some instances, margin balances will be initiated by the client either through securities purchases or by writing a check for an amount which is greater than the cash available in the account.

**Item 17.**

SCM will not exercise proxy or class action voting authority over client securities. The obligation to vote client proxies and class actions shall at all time rest with the client. Client shall in no way be precluded from contacting SCM for advice or information about a particular proxy or class action vote. However, SCM shall not be deemed to have voting authority solely as a result of providing such advice to client.

Should SCM inadvertently receive proxy or class action information for a security held in a client's account, then SCM will immediately forward such information on to the client, but will not take any further action with respect to the voting of such proxy or class action.

**Item 18.**

SCM does not have custody nor require prepayment of fees. Therefore, we are not required to submit any financial information for the Firm.