The Compass™

1st Quarter, 2004

The Appleton Group
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The Appleton Group, LLC was founded to fulfill an investor's desire to participate in the U.S. equity markets while simultaneously addressing the need to manage investment risk. Our firm was founded in April of 2002 by Mark C. Scheffler who serves as Senior Portfolio Manager.

The Appleton Group, LLC currently serves 45 clients, and manages $31.1 million of investable assets. We serve individuals, families, corporations, institutions, endowments, trusts and company sponsored retirement plans.

The Appleton Group, LLC is a Registered Investment Advisor, regulated by the United States Securities and Exchange Commission.

"The Compass" is published quarterly, and is produced by The Appleton Group, LLC which is solely responsible for its content.

Inside this issue:

In the Right Place, At the Right Time

2003 certainly was a banner year for the stock markets, as each of the major indexes appreciated by double-digit amounts. For the year the Dow Jones Industrial Average was up 25%, the S&P 500 Index was up 26%, and the NASDAQ 100 was up a whopping 49%. Add in the Russell 2000 Small Cap Growth Index (+49%) and the Russell 2000 Small Cap Value Index (+45%) and you've got what could be best described as a "dartboard" year: throw a dart, and no matter what you hit, you made money.

On the other hand, let's look at one of last year's most popular investments: high quality bonds. Using the Vanguard Total Bond Market Index as a typical bond investment (it invests primarily in higher quality corporate bonds with an average maturity of approximately 4 years), this market didn't fare quite as well. It finished the year up only 2.4% and a typical money market returned less than 1%.

Now, both of these investments certainly have their place. From 2000 through 2002, these asset classes served investors very well, counteracting the weakness that the stock markets exhibited, but their time may have come and gone. Investing in these vehicles when the stock market is in long-term decline is a great idea!. When the markets are rising, however, the results can be disheartening.

In the volatile markets of the new millennium, one thing is clear: stay in one place too long, and you run the risk of significant underperformance. Worse yet, be caught on the wrong side of the market, and the results can be devastating.

In the Right Place, At the Right Time

There is no greater joy in the discipline of wealth management than being on the right side of the market. What does that mean? Participating to as large an extent as possible during rising markets and participating as little as possible during falling markets. Achieving investment "nirvana" should be the goal of every investor. After all, when given the choice between a high risk/high reward portfolio and a portoflio with high returns and low risk, the choice becomes clear.

Mark C. Scheffler

Senior Portfolio Manager, Founder

Inside the Numbers…

Morningstar™, an independent provider of financial information, collects

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Inside the Numbers...

Statistics have never been my passion. Nine out of ten people who know me might argue with that statement, but I'm 99% certain there is very high probability you'll enjoy this article just the same.

Morningstar™, an independent provider of financial information collects, analyzes and reports quite a bit of data on investment manager performance. As you may know, they are an objective, third-party source not only for reporting gains and losses, but also for measuring risk, dependability, value, and cost. Here's what they say about our signature wealth management offering, The Compass STAR Portfolio:

Mean Return

What it is not: Mean Return is not a description of the temperament of my wife when I get home late. What it is: It is a way of calculating

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In the Right Place, At the Right Time (continued from page 1)

and reports investment management performance. But did you know that they also provide data that turns each manager "inside out?" That is, they take a look not only at the returns a manager achieves, but also at the amount of risk the manager takes, the value added or subtracted by the manager, how much of the manager's returns were due to the markets themselves, and how predictable the returns have been (see **Inside the Numbers** on page 1). In a nutshell, the Compass Wealth Management Discipline, available only through The Appleton Group LLC, is an industry standout.

According to Morningstar™'s independent analysis, our two most popular Portfolio Offerings (which the majority of our clients use) have each achieved their stated goals: market-like returns with substantially reduced risk and volatility. Over the past three years, The Compass STAR and the Compass STAR PLUS Portfolios, our signature wealth management offerings have each offered our clients returns that are significantly better that the S&P 500, with only 1/3rd the risk.

These are powerful statistics, and are reflective of being positioned prudently for the market we are currently in. Being prudently defensive during periods of market declines has resulted in controlled losses (largely single digit losses compared to 25% or more for many indexes); being properly positioned for rising markets (as during 2003) has resulted in solid 20%+ gains.

Taken together, the greatest benefit of being properly positioned means having more dollars at work during bull markets because fewer dollars were lost during bear markets.

Trick question

Which will make you more money: a 25% gain or a 20% gain? Before you go on to read the answer, take a moment to think it through. The question sounds easy, but the right answer depends on how much you start with! For example, if ,during the bear market of 2000 through 2002 an investor who started with $100,000 went on to lose 50% of his/her nest egg, s/he'd be down to only $50,000. During 2003, if the investor does a bit better and is now up 25% (just about what the S&P 500 managed to do), the portfolio would only be worth $62,500. A step in the right direction, but still a long way from breakeven!

Here's why being positioned properly is so important: Take the same $100,000 starting value, but instead of losing 20% a year or more, the investor reacts prudently to a declining market and only loses 5% per year. S/he still lost money, but ends up with $85,750 (which is still painful). But wait! During 2003 the investor underperforms the markets, only achieving a 20% gain. Where does the portfolio end up?

The answer is quite comforting:

"Which will make you more money: a 25% gain or a 20% gain?"

$102,900. Ahead of breakeven, when other investors still have to somehow achieve an <u>additional</u> 60% return just to be square.

Being positioned properly requires innovative thinking, realistic expectations, and an objective and professional manager to execute the discipline accordingly. If you already have a relationship with our firm, rest easy, knowing that The Appleton Group LLC is on the job every day. If you have yet to join us, we welcome the opportunity to serve you with the same dedication, professionalism and objectivity our clients have come to expect.

-MCS

Tidbits...

Words of Wisdom

"The lottery is a tax for people who are bad at math."

-Anonymous

"The stock market has predicted nine out of the last five recessions"

- Paul Samuelson, Newsweek, 1966

"To be sure of hitting the target, shoot first, and call whatever you hit the target."

- Ashleigh Brilliant

Fast Facts

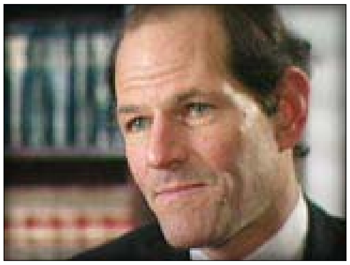
President Bush and his Democratic opponent are expected to raise and spend more than $240 million on their combined election campaigns this year. For those who believe this amount is excessive, it only represents 12% of the amount Americans spend on bubble gum each year.

-The Wrigley Company

As of September 30, 2003, 85% of listed stocks and 99.32% of growth mutual funds were sporting gains for the calendar year.

-Morningstar™

The Lion Tames the Bear: a Profile of Elliot Spitzer



"This is no longer the case of one or two improper actors or bad apples somehow sullying the entire crate. It's beginning to appear as though the entire crate is rotten."

-Elliot Spitzer

Since becoming New York State's attorney general in January 1999, Elliot Spitzer has forced power plants to reduce pollution, exposed labor abuses in the green-grocery industry, and served as the chief prosecutor in Manhattan's racketeering unit. He has also created new privacy protections for consumers nationwide by revealing fraudulent practices at Internet companies and direct-marketing firms.

But it was Spitzer's 2002 investigation of Wall Street's research practices that brought him national attention. After uncovering e-mails that proved Wall Street analysts had publicly recommended stocks they privately panned during and after the Bubble, Spitzer helped secure a landmark $1.4 billion settlement with 10 major investment banks. The agreement forced the industry to change the way it does business — and put the Securities and Exchange Commission on notice that if it didn't start enforcing its own rules, state regulators would do so. Some even started calling Spitzer the top cop on Wall Street, upstaging much of the SEC's own regulatory efforts.

As Spitzer's small army of attorneys now focuses on ferreting out corruption in the mutual fund industry, the Federal Government is quietly taking steps to significantly limit the ability of states attorneys general to enforce consumer protection practices. The office of the Comptroller of the Currency, a division of the U.S. Treasury, is currently proposing new federal banking rules that would overstep a state's civil and criminal laws covering lending, deposit taking, credit cards, checking accounts, escrow

Inside the Numbers… (continued from page 1)

an average return over a period of years. Using data collected for the three-year period ending September 30, 2003 Morningstar™ reports that The Compass STAR Portfolio has achieved an average annual return of +3.84% compared to an average annual return of –10.08% for the S&P 500. Result: Compass STAR produced higher returns than the S&P 500. Let's dig deeper.

Standard Deviation

What it is not: Standard Deviation is not something your mother warned you to avoid.

What it is: a measure of how predictable a manager's returns actually are. The lower the number, the greater the predictability. The Compass STAR Portfolio sports a standard deviation of only 9.74 compared to a whopping 16.59 for the S&P 500. Result: The Compass STAR Portfolio produced greater predictability versus the S&P 500. On we go...

Sharpe Ratio

What it is not: Sharpe Ratio is not a measure of cheddar cheese aroma.

What it is: a way of measuring whether or not you'd have been better off placing your portfolio in a risk-free investment, such as a U.S. Treasury Bill. Positive numbers indicate that you would have been rewarded for taking on risk, negative numbers indicate that you should have stayed in bed. Morningstar™ gives The Compass STAR Portfolio positive results, scoring +0.14. The S&P 500, however, returned –0.83. Result: Investors were adequately rewarded for the risk of owning the Compass STAR Portfolio; those in the S&P 500 were not.

Alpha

What it is not: Alpha is not the nickname of an accounting fraternity at The University of Wisconsin.

What it is: It is a measurement of the amount of value a manager adds versus just investing in the S&P 500 Index. Compass STAR came out ahead again, with a measure of 5.72 versus 1.00 for the S&P 500 itself. It should be noted that 1,447 domestic growth mutual fund managers (57%) actually produce negative value (you should avoid these managers). Result: Because of it's focus on objective wealth management, The Compass STAR Portfolio offers investors meaningful results during both bull and bear markets.

Beta

What it is not: Beta is not a fish you keep in a small vase on your desk.

What it is: Beta is a measure of market related risk. The higher the number, the greater the risk you're exposed to. Easy! Compass STAR comes in with a Beta of only 0.34 compared to the S&P 500 which has a Beta of 1.00. Result: Compass STAR exposes clients to only 1/3 the risk of the S&P 500!

R-Squared

What it is not: The stage name of a hip-hop economist.

What it is: R-Squared measures how much of a portfolio's return can be attributed to the markets. If you're fully invested and the markets go up 20%, your portfolio should do the same. Right? The same can be said about a 20% decline in the markets. The

Compass STAR sports a reading of 42, which means that only 42% of the portfolio performance is a result of what the markets have done. The S&P 500 comes in with a reading of 100% of course. Result: Because we're selective about when we participate in the markets, we have demonstrated the ability to meaningfully minimize the negative effects of unsupportive markets.

We'll continue to share these stats as we go forward. Our thanks to Morningstar™ for their objective work in compiling this data (see page 4 for important disclosures).

-MCS

The Compass Portfolios: Historic Performance Summary*

Compass Portfolio Component	Morningstar Category	Q4 2003 Total Return	YTD 2003 Total Return	2002 Total Return	2001 Total Return	2000 Total Return	Average Return Since Inception
Compass Classic PLUS—NASDAQ 100	Lg. Cap Growth	+12.31%	+41.29%	-2.85%	+49.89%	+18.11%	+24.85[a]
Compass Classic—NASDAQ 100	Lg. Cap Growth	+12.29%	+42.07%	-12.47%	+8.27%	-7.41%	+5.66%[a]
Versus NASDAQ 100 Index		**+12.60%**	**+49.12%**	**-37.58%**	**-32.65%**	**-36.84%**	**-20.68%**[a]
Compass Classic PLUS—S&P 500	Lg. Cap Blend	+11.64%	+19.73%	-12.86%	+25.77%	-8.12%	+4.78%[a]
Compass Classic—S&P 500 Index	Lg. Cap Blend	+11.64%	+23.62%	-14.31%	+4.02%	-8.88%	+0.09%[a]
Versus S&P 500 Index		**+11.64%**	**+26.38%**	**-23.37%**	**-13.04%**	**-10.42%**	**-6.73%**[a]
Compass Classic—Dow Jones Ind. Avg.	Lg. Cap Value	+12.73%	+24.93%	-12.26%	+2.24%	-6.01%	+1.35%[a]
Versus Dow Jones Industrial Average		**+12.71%**	**+25.32%**	**-16.76%**	**-7.10%**	**-6.17%**	**-2.35%**[a]
Compass Classic—Russell 2000 Sm. Cap Gr.	Sm. Cap Growth	+12.59%	+44.52%	-14.97%	NA	NA	+12.61%[b]
Versus Russell 2000 Sm. Cap. Gr. Index		**+12.54%**	**+47.56%**	**-30.70%**	**NA**	**NA**	**+1.12%**[b]
Compass Classic—Russell 2000 Sm. Cap Value	Sm. Cap Value	+16.12%	+46.00%	+2.07%	NA	NA	+22.06%[b]
Versus Russell 2000 Sm. Cap Value Index		**+15.85%**	**+43.27%**	**-13.21%**	**NA**	**NA**	**+11.51%**[b]
Compass Classic—Managed Income Portfolio	Domestic Hybrid	+5.80%	+16.76%	+14.96%	NA	NA	+15.85%[b]
Versus Balanced Benchmark		**+6.75%**	**+17.42%**	**-10.72%**	**NA**	**NA**	**+4.85%**[b]

*Important information: The Compass Portfolio performance information provided indicates what effect the buy and sell signals generated by the Compass Wealth Management Discipline would have had on an investment portfolio comprised of the index shares (iShares) indicated if such buy and sell signals were implemented. Although the buy and sell signals are actual recommendations which have been generated by the Compass Portfolio Management Discipline since December 31, 1999, the performance results are for a model portfolio and do not represent the actual performance of accounts managed using the Compass Portfolio Management Discipline. Performance statistics have been calculated net of a 1.00% management fee, net of applicable mutual fund expenses and net of brokerage costs using the internal iterative rate of return (dollar weighted) calculation method. While performance is compared to the benchmark indicated, client accounts may be fully invested, partially or partialy invested in cash equivalents, or invested in inverse ("bear market") funds, depending on the portfolio selected. The actual amount of time invested in the market will vary with economic conditions. Unlike an actual performance record, these performance results do not reflect the impact a client's economic circumstances might have had on the investment adviser's decision making if the investment adviser were managing a client's money. Investors should not consider the performance data a substitute for the performance of actual client accounts, nor should investors consider this data as an indication of future performance. The principal value and return of common stocks and equity mutual funds will fluctuate with changing market conditions, and may be worth more or less than your initial investment. All dividend, interest, and capital gain distributions assume reinvestment into the targeted investment. Performance statistics do not consider potential tax liabilities as a result of management activity. Please consult your tax advisor for further information. The Appleton Group, LLC became the investment advisor for The Compass Portfolios on April 5, 2002, with Mark C. Scheffler serving as the sole portfolio manager. Prior to that date, Mr. Scheffler managed The Compass Portfolios on a non-discretionary basis while employed as a broker with Robert W. Baird & Company, Inc. A complete history of all portfolio recommendations is available upon request. The unmanaged index for the Compass Classic—Managed Income Portfolio is a composite of the S&P 500 Index (60%) and the Vanguard Total Bond Market Index Fund (40%). Deviation from the models will produce substantially different results. The Appleton Group LLC is regulated by the U.S. Securities and Exchange Commission and by the State of Wisconsin, Department of Financial Institutions. [a]Inception date:12/31/1999. [b]Inception date: 12/31/2001.

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accounts and "all other powers authorized by federal law."

A bipartisan coalition of all 50 States Attorneys General have signed a letter objecting to the federal government's proposed new rules, which, if enacted would cause consumers to lose an enormous range of protections. Spitzer's litigation against the brokerage and mutual fund industries would be pre-empted, making it virtually impossible for civil and criminal charges to be brought against corporate criminals.

Financial institutions are currently lobbying the federal government to weaken the ability of each of the 50 states to enforce existing statutes in favor of "self enforcement" practices which continue to place consumers at risk. In a recent interview with Bill Moyers on PBS's NOW, Spitzer said "...I think that there is a larger effort afoot to limit the capacity of reasonably aggressive and proactive state prosecutors who are actually protecting investors and consumers... and those who don't like what we're doing (are saying) 'Kick them off the playing field, put handcuffs on the cops who are doing this.' "

Short of a federal power grab, it is likely that Spitzer's efforts will continue in 2004, as will stepped-up enforcement actions by the SEC.

-MCS