



The Compass™

The Appleton Group, LLC
100 W. Lawrence Street, Third Floor
Appleton, WI 54911

1st Quarter, 2006



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 56 clients, and manages \$46 million of investable assets. We serve individuals, families, corporations, institutions, endowments, trusts and company sponsored retirement plans.

The Appleton Group, LLC is an independent Registered Investment Advisor.

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Conducting a Great Ensemble

A Happy New Year to all from The Appleton Group!

I have to admit that December is one of my favorite months of the year. I've found myself thinking back to my childhood in Wausau, growing up in a family that had many traditions, especially those of the Christmas season. We all have our memories, no matter the tradition, no matter the location, no matter the belief.

Among the many holiday memories I hold dear, there is one that I keep close to my heart: hearing my father play the organ in church on Christmas Eve. Picture this: a frosty evening with stars glimmering brightly overhead as we walk into church, lights surrounding a grove of evergreen trees, greeting us warmly as we enter the grand space of St. Michael's church. Silence wraps

us as we sense that something special will happen tonight, magical in its own way, in the way that reminds us of miracles that happen everyday in our lives.

For me and my brothers, the magic event was hearing my father lead our parish in song, rows of white and black keys aged soft amber with the many hands that have touched them over the years. Sweet sounds of trumpets, flutes, violins, oboes, horns and myriad instrumental voices sent spiraling upwards propelled on a column of air. The miracle of Christmas, indeed the miracle we experienced weekly, was the power of music, a regular gift from my father to the many parishioners whose lives have been touched over nearly fifty years of service.

From one man comes the power to move the soul with



Mark C. Scheffler
Senior Portfolio Manager,
Founder

a single thread of music, one sound, one instrument, one voice lifted high above. More powerful still is the combination of sounds put together to create limitless ensembles. At the flip of a switch come duets, trios, entire sections of an orchestra, a chorus angelic, mighty at times and then at once soothing. Always humble, my father sat in the unique position of

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Introducing Wendy Hoeft, Director - Retirement Plan Relations



Wendy Hoeft
Director - Retirement Plan
Relations

The Appleton Group is pleased to announce that Wendy Hoeft has joined the firm as the new Director – Retirement Plan Relations. Her role is to market the firm's 401(k) program to area businesses by delivering innovative and cost-effective 401(k) wealth management services to retirement plan sponsors and their participants. Wendy is excited about helping individuals and companies contain their 401(k) expenses. Wendy joins the firm

with over 10 years experience in the financial industry, most recently with Members Financial Services. Wendy has her Series 7, 65 and 63 licenses.

"Don't go it alone. Let us help you analyze your true retirement plan costs, ensure ERISA compliance & monitor fund performance."

-Wendy Hoeft

Looking Ahead to 2006...

As we look forward into this New Year, we believe that many of the significant issues that affected the markets this year will bleed over into 2006.

On the positive side, we are optimistic that U.S. corporations will continue to post solid earnings gains, although at a slower pace than we've had over the past year. Long-term interest rates are likely to remain at historic lows as demand for U.S. treasuries will help to contain any significant spike upwards. Also, the Federal Reserve will briefly continue to raise short-term interest rates into early 2006, further slowing the construction boom, but not far enough as to burst the housing bubble. We further believe that valuations are reasonable, especially in light of the current interest rate environment.

While stock valuations are slightly above historical averages, they nevertheless represent excellent value given current economic conditions. A standard starting point for valuation is to compare the price-to-earnings (P/E) ratio of equities based on expected 2006 earnings to the yield on the 10-year U.S. Treasury note. On this basis, stocks are significantly undervalued. The P/E for 2006 based on an estimated 7% growth in operating earnings stands at 15.4. That is equivalent to a 6.5% earnings yield (earnings/price). That compares extremely favorably to a current 4.44% yield on the government 10-year note (Source: Briefing.com). Using this methodology alone indicates that stocks are collectively undervalued by nearly 40%. MOST IMPORTANTLY, this valuation is meaningless unless the market itself begins to recognize that stocks are cheap. Were the 10-year

note to reflect a more reasonable valuation, say at 5.5%, stocks would be undervalued by about 20%. Should the Federal Reserve halt their campaign of interest rate hikes (and not be forced to reverse course and cut rates later in the year), the market may at long last be able to demonstrate meaningfully higher valuations.

We believe a slowing housing and commercial real estate market is the most important factor for the economy in the upcoming year as it directly impacts consumer spending, the stock market, and commodity prices. As many homeowners have taken steps to refinance their mortgages at 2005's low rates, they have also "cashed out" part of their home equity to finance home improvements, miscellaneous purchases, and to pay down less desirable debt. Now that the refinancing boom has likely run its course, this source of funding has been significantly reduced. We have already seen housing prices begin to slide in several key markets, such as in Phoenix and southern California as speculators have taken steps to reduce their exposure to these hot markets. Where has the money gone? Mainly to the stock market, As real estate

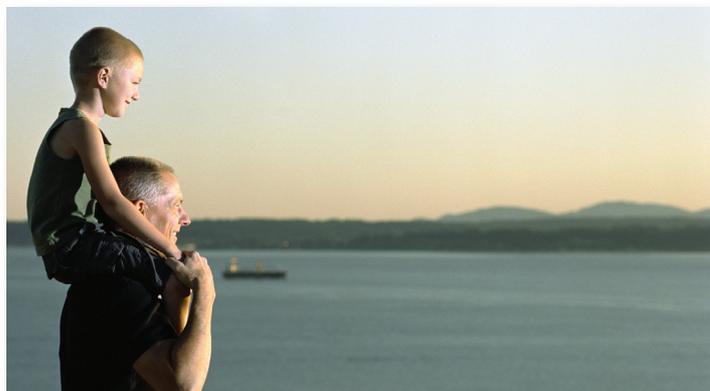
is significantly less liquid than equities, we may continue to see further deterioration in housing prices as investors continue to shift into more timely and less inflated assets, such as equities. We believe the stock market may benefit from this asset allocation shift into 2006. We also believe that a slowing housing market will help to keep inflation in check. Construction is exceptionally commodity intensive, driving higher the price of diesel fuel, plywood, steel, cement, asphalt, etc. If the Federal Reserve is successful in engineering a soft landing for the housing market, the slowing demand in 2006 for basic materials is likely to cause a softening of prices, helping to keep inflation at bay.

As always, there will be challenges. We are already seeing a significant uptick in the number of planned layoffs by U.S. corporations, highlighted by the prospect of significant layoffs in the automotive sector. Both GM and Ford have announced plans to lay off a total of 55,000 workers over the next few years. The trickle down effect (layoffs by parts suppliers, distributors) is likely to compound the effect. In addition, we foresee numerous

large corporations abandoning their pension plans to avoid the kinds of issues faced by GM, Ford and other corporations. Recently, Verizon announced plans to freeze their current pension plan for managers (non union workers), and while it doesn't affect current union workers and retirees, it will certainly become a bargaining chip when their next round of contract negotiations begins.

In closing, the U.S. markets have demonstrated resiliency in the face of higher energy prices, deficit spending, and rising short-term interest rates. These issues are all likely to see some resolution by late 2006. As is always the case, risks will be present. Participation in the U.S. markets is more important than ever, and the need to manage long-term investment risk continues to be an inseparable component of any investment strategy. We stand ready to address all of these issues in the upcoming year, helping our clients achieve their personal investment goals by producing high returns over time while simultaneously managing the risk of uncooperative markets.

-MCS



*“Every season
has its peaks
and valleys.
What you have
to try and do
is eliminate the
Grand Canyon.”*

-Andy Van Slyke

Conducting a Great Ensemble (continued from page 1)

being able to command unlimited combinations of sounds. On Christmas Eve (as always) these ensembles were carefully chosen, sweet, angelic, shepherding a full house of the gathered to sing familiar carols with one purpose, one message, one voice. Silent Night, Still Still Still, Infant Holy Infant Lowly, Of the Father's Love Begotten, and many others over the years, the sounds of the organ invoking the fragility of the baby.

But not on Christmas Day. On December 25th the ensembles came alive as if overnight something had changed. Now came heralds of trumpets, horns, mighty orchestras of sound in shouting Joy to the World, Hark the Herald Angels Sing, Angels We Have Heard on High. (I have this all too familiar tingling in my spine as I remember!)

Chief among my father's many talents is his timing. Knowing exactly when to evoke a single instrument when needed, and knowing when to add to the ensemble. As many of my friends and colleagues know, I too am a musician, trained in the ways

of a conductor both of music and a conductor in my daily craft. Bridging the gap between music and a daily occupation like portfolio management on its face seems impossibly difficult at times, but doing so can produce great beauty, great intention, and often great results.

Building a Great Ensemble

For six years, The Appleton Group Wealth Management Discipline™ has been a standout in the field of portfolio management. Our discipline continues to offer our clients an unparalleled balance between risk and reward, preparation for cooperative and uncooperative markets, growth over time, and critically meaningful protection from unlimited market decay. Over time, our process of applying both a brake and an accelerator of sorts to our clients' portfolios has led to greater predictability, less risk, and substantial growth for many. Most importantly, I believe it has led to greater comfort, a non-measurable but valuable piece of our experience. The majority of our clients use us for managing

large portions of their portfolios, with many entrusting us with their entire net worth. Humbling indeed, and a great responsibility.

In a very real way, we are soloists in many of our clients' portfolios. We are one voice, one instrument, one message. At the right times, primarily during both cooperative and uncooperative market environments, our way of thinking tends to add a whole lot of value, arguably at the times that are most critical. Being a soloist is sometimes exactly what is needed, as many soloists are able to provide focus, singularity of purpose, and often a technique that a larger ensemble cannot provide.

In contrast, a well crafted ensemble can draw on the experience of many voices, many players, many sounds, each with their own specialty, each working harmoniously to make the experience great. Imagine the power of seven or eight great players all brought together for an exceptional performance! It is with this in mind that The Appleton Group Composites have been crafted.

The Appleton Group Composites

We have expanded our wealth management offerings to give investors exposure to several outside money managers that specialize in a particular segment of the market. With The Appleton Group Wealth Management Discipline™ at the core of the portfolio, an ensemble of seven additional like-minded managers is chosen to manage the remaining 50%. Each outside manager invests in a specific part of the market (small cap, international, fixed income, etc), and each must meet stringent requirements to continue as a part of the portfolio. For example, the chosen manager cannot expose investors to losses in excess of 9.99% during any market cycle, the management team cannot

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"...a well crafted ensemble can draw on the experience of many voices, many players, many sounds, each with their own specialty, each working harmoniously to make the experience great."

Core & Explore

The Appleton Group Composites use a combination of management styles from leading money managers, including the Appleton Group. By combining our in-house wealth management style with that of various other managers, the portfolio demonstrates exceptional balance.

The core of the portfolio (The Appleton Group Wealth Management Discipline™) prepares for both cooperative and uncooperative markets, while the talents of additional outside managers creates the potential for meaningful gains during flat markets as well.



Data as of December 31, 2005				
The Appleton Group Portfolios	Morningstar Category	Q4 - 2005 Total Return	3 Year Total Return (Annualized)	5 Year Total Return (Annualized)
Appleton Group Portfolio	Large Cap Blend	-2.60%	+10.98%	+6.21%
Appleton Group Plus Portfolio	Large Cap Blend	-3.75%	+10.09%	+10.55%
Appleton Group - Balanced Income Portfolio	Moderate Allocation	-2.52%	+9.76%	+6.63%
Appleton Group - Tax Managed Growth Portfolio	Large Cap Blend	-3.09%	+12.09%	+10.54%
<i>S&P 500 Index</i>		+2.25%	+14.33%	+0.52%

Data as of December 31, 2005				
The Appleton Group Composites	Investment Objective	Q4 - 2005 Total Return	3 Year Total Return (Annualized)	5 Year Total Return (Annualized)
Appleton Group Conservative Composite	Conservative Growth	-1.76%	+10.10%	+8.46%
Appleton Group Moderate Composite	Moderate Growth	-1.71%	+12.04%	+9.57%
Appleton Group Assertive Composite	Aggressive Growth	-1.62%	+13.79%	+10.25%
<i>S&P 500 Index</i>		+2.25%	+14.33%	+0.52%

Performance quoted represents past performance and is no guarantee of future results.

*The Appleton Group Portfolio performance information provided indicates what effect the portfolio adjustments generated by the Appleton Group Wealth Management Discipline, strictly implemented, have had on a model portfolio as such portfolio adjustments were implemented. Although the portfolio adjustments are actual recommendations which have been generated by the Appleton Group 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 Appleton Group Portfolio Management Discipline.

**The Appleton Group Composite performance information reflects weighted historic performance, uses the benefit of hindsight, and does not represent the actual performance of accounts managed by The Appleton Group LLC.

Performance statistics have been calculated net of management fees, net of applicable 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 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. A complete history of our performance analysis is available upon request.

The principal value and return of exchange traded mutual funds and other 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 Appleton Group Portfolios on April 5, 2002, with Mark C. Scheffler serving as the sole portfolio manager. Prior to that date, Mr. Scheffler managed The Appleton Group Portfolios on a non-discretionary basis while employed as a broker with Robert W. Baird & Company, Inc.

Deviation from the models will produce substantially different results.

Conducting a Great Ensemble (concluded from page 3)

change, and the style of the wealth management discipline must remain consistent. The outside managers are not traded in the way that many of our clients are most familiar; rather, they are allowed to invest in their own particular part of the market without interruption. This feature enables half of a portfolio to be invested at all times.

Our family of composites also simplifies the portfolio selection process, as investors are able to easily choose one of

three composites (aggressive, moderate, conservative) based on their risk tolerance.

By combining this group of seven outside managers with our internal wealth management discipline, we believe our family of composites also creates exceptional balance. We balance the active discipline of The Appleton Group with the more passive approach of outside managers. We also balance our tendency to produce gains during both cooperative and uncooperative markets with the

likelihood that gains produced by other managers will be achieved during flat and rising markets.

The ultimate goal of the portfolio remains the same as using The Appleton Group Wealth Management Discipline™ by itself: producing portfolio gains in a way that is consistent, in a way that manages the risk of sustained market declines, and in a way that makes the overall investment experience as comfortable and predictable as possible, regardless of the overall market environment.

Whether an investor uses us as a “soloist” in their portfolio, or as a conductor in assembling a world-class ensemble, we believe our additional wealth management offerings can help any investor create a real masterpiece. For additional information on putting The Appleton Group Composites to work in your portfolio, contact Mark Scheffler.

-MCS