The Compass™

Appleton Group Wealth Management, LLC
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January 2009

Appleton Group Wealth Management LLC is an independent, Registered Investment Advisor (RIA) located in Downtown Appleton, Wisconsin. We solely provide wealth management services for investors, using time-tested asset management strategies that prepare for cooperative and uncooperative markets. Since our founding in 2002, our firm has been recognized both locally and nationally as a leader in the wealth management community.

Appleton Group Wealth Management, LLC currently manages $113.841 million, serving advisors, individuals, families, trusts, corporations, institutions, endowments, foundations, and company sponsored retirement plans.

The Compass™ is published quarterly, and is produced by Appleton Group Wealth Management which is solely responsible for its content.

Inside this issue:

Apple Tree Investing

From the desk of Mark C. Scheffler

Many of my friends know that a few years back my family moved closer to our offices – we purchased an old Victorian house near City Park in downtown Appleton. I've written a bit about how we're slowly renovating it to make it more efficient but at the same time keeping so many of the charming features that make it truly special. One of the things we love about the house is actually an outside feature: a wonderful apple tree that produces the most delicious and sweet and reddest apples I've ever seen!

This tree is somewhat unique because it is grafted with a crabapple tree, so in the spring we get an incredible show of pink blossoms around the middle of the tree and a burst of lily white blossoms a bit further up. Wow!

I'm a huge fan of nature. More specifically, I'm a huge fan of natural systems. I believe that the system at work in our front yard relates so well to how I invest. First, our apple tree produces both new growth and annual fruit (just like our portfolios are designed to produce both growth and dividends). The apple tree requires tending, just like our portfolios (both need to be pruned from time to time). The apple tree is self-diversified: it has pieces that are designed for structural support (trunks, roots and limbs) just like our portfolios (we have bonds, cash and a whole lot of flexibility).

Mark C. Scheffler
Senior Portfolio Manager, Founder

But there's one overwhelming similarity that is uncanny: both the apple tree and our portfolios experience winter from time to time. For the tree, it hunkers down in a rather obvious way: it sheds

continued on page 3...

Appleton Group Wealth Management Receives Prestigious Award

Appleton Group Wealth Management was one of thirteen finalists in the prestigious 2008 Torch Awards for Business Ethics and Integrity from the Better Business Bureau of Wisconsin.

The businesses, judged by an independent panel of nine business ethics experts, were chosen based on submissions that demonstrated excellence in ethical practices, service excellence, reputation, honest advertising, peer recognition, management practices and employee training in ethical behavior.

"These companies are fine examples of how ethical companies in Wisconsin should behave," said Randall Hoth, president/CEO of Wisconsin BBB. "Their business practices make Wisconsin a better place to do business, and I applaud their commitment to ethics."

2008 BBB RUNNER UP
BUSINESS ETHICS TORCH AWARD
BBB SERVING WISCONSIN

Appleton Group Wealth Management received the runner up award in category II (6 to 50 employees). "Being recognized once again by the Wisconsin Better Business Bureau says a lot about how we seek to treat our clients, and where our heart truly lies. We're proud of how we operate our firm, and we remain as committed as ever to treating our clients with the respect and care that they all deserve," said Mark Scheffler.

Retirement Plan Corner...

2009: A Time for Action

This column is written specifically for those advisors who make retirement plans a part of their overall practice, as well as for retirement plan sponsors who are looking for a better way to build and manage their company's retirement plan offerings.

Wendy Hoeft
Director -
Retirement Plan Relations

These are extraordinary times for investors and advisors. The worldwide economy and markets are seeing one of the most difficult periods ever recorded. Now that 2008 is in the books, it is time to carefully evaluate your company's retirement plan offerings and structures to see which, if any, need to be changed. As a plan fiduciary, it is your obligation to objectively screen which investments are best suited for use in your plan(s). These screens traditionally include style consistency, peer group rankings, expenses, and manager tenure.

But how often do you really look at the risk management of your investment offerings and the impact that extreme volatility has on the final outcome? In other words, do you actively screen for "maximum drawdown?" When we base our assessment of our line-up solely on the measurement of how each fund ranks within its peer group we are, in effect, "grading on the curve." While this has become the accepted "norm" and works fine in favorable markets, is it enough? Shouldn't the actual outcome of the long term experience be the important thing? I'm afraid we've become so conditioned to mindless, style-box alpha measurement that we can't see the forest for the trees.

The Dow Jones Moderate Portfolio Index was down -24.75% for 2008. If a moderate risk-based asset allocation fund, balanced fund or target-date fund was "only" down -23%, is that really a good thing? Investments that accept large losses as just a normal part of investing are not effectively meeting the needs of Defined Contribution plan participants or pension plans. But those that manage investment risk along the way and that work to keep losses at a minimum can provide a solution. Appleton Group Wealth Management has designed a strategy with the interests of investors and advisors in mind. We focus on a dynamic, real-time response to changing conditions using what we believe is an effective risk management strategy. This strategy actively participates in the growth of a favorable market, yet takes steps to reduce exposure to unfavorable ones.

This is a great area to evaluate carefully for three important reasons: First, for plan sponsors it's good for employee relations. You make every effort to protect your employees from a dangerous work environment. While your company's 401(k) or pension plan might not be putting your participants in physical danger, many have been the source of great emotional stress (to put it mildly!). Having seen traditionally conservative investments lose 30% or more as many did in 2008, participants look to their plan providers to make their retirement savings plans more secure, and it starts with using the most consistent and most "risk managed" investments available.

Second, it's good liability management. Disgruntled participants have a higher propensity to be litigious participants, especially after a year like 2008. What if you could provide a managed solution as a key benefit, a viable option to address the excessive and devastating losses? Many retirement plans have between 12-20 risky investment options for every risk-free investment option. Asking your participants to choose which of these risky investments they will bet their life-savings on puts their likelihood of a successful retirement experience in jeopardy.

Third, for investment advisors, it's good practice management. You know how competitive the marketplace is, and you can be sure that your competitors are soliciting your clients with solutions to help make retirement plan participants more secure. Many more advisors are getting in front of their retirement plan prospects using Appleton Group Wealth Management's suite of risk-managed portfolios and mutual fund to better address the opportunities and risks present in today's marketplace. You can too! Isn't it far better for your clients to receive meaningful and powerful solutions from you than from a competitor? 2009 will be a year in which advisors face increasing pressure to find and secure access to quality alternative strategies for minimizing volatility on behalf of their clients. The current environment is complex and changing every day. As a result, even the most sophisticated investment advisors can find it difficult to effectively meet their clients' needs.

Be more proactive; it all starts now. All advisors and plan sponsors want to be helpful, and we all want to do our part to make peoples' lives easier. I believe it is part of our human nature to get more efficient, to offer better solutions to today's complex problems, to be seen as heroes in our own circles of influence. We're all in this together, and our firm offers real solutions and services that can make your life, and the lives of those whom you care about, better this year than they were in 2008!

Let's get started together!

-WH

"When the wind changes direction there are those who build walls and there are those who build windmills."

-Anonymous Chinese Proverb

Apple Tree Investing... continued from page 1

its leaves and becomes dormant, waiting for spring to come and start the process of growth once again. The cold of winter can be harsh, and the lack of liquid nourishment is a challenge. Long gone is the fruit for which it is treasured, and hidden are the seeds that will eventually produce more and more trees just like it.

So too has capitalism recently experienced an economic winter like few have witnessed in living memory. The growth of the past is gone. Economic branches have been broken, cold has set in, and it feels as if the dead of winter has gripped us for an eternity. The time to harvest has passed, and everything around us lies sleeping.

Yet there is hope, an innate understanding that to all things there is a season. A time for creation, a time for growth. A time of harvest and a time for renewal. Nature's seasons come and go with consistency and regularity. So much so that you could set your clock by her endless processions (in fact, we do). Economic seasons are much less predictable, more human, and more difficult to ascertain. For certain, growth will come again, but when and to what degree? Economic springtimes don't come and go on a calendar – no obvious sign will herald its return. But come it will, sometime, and for that we must be ready.

Looking Back…

It was certainly a bittersweet year for Appleton Group Wealth Management LLC. Those who know me find out right away that I hate losing money. The goal is of course to make progress, and taking a step backward certainly isn't fun. There's only one thing worse, and that is for a money manager or investment professional to be cavalier about market losses, glossing them over with the belief that there's nothing that you can do to either manage them or to avoid them – they're just an unavoidable part of the game.

There are no two ways about it: losing money is frustrating, stressful, annoying, and potentially life-changing. The potential always exists for "at-risk" assets and growth strategies to participate in market downturns – that's part and parcel of risk. However, no-one signs up for the king of losses that the markets and many investors experienced in 2008.

I used the word "bittersweet" a moment ago – the bitter part of 2008 was that every one of our investment strategies lost money last year – every one. I hate that. I hate coming into a client meeting at the end of the quarter to explain why their portfolio was down. I mean, down is down, and not making money is contrary to everything that we're in business to do. With each of our managed portfolios down for the year, it also means that our compensation goes down. We lost money, and so we take a pay cut on each portfolio management fee. But that's the way we want it to be.

The sweet part is that every one of our strategies handily beat its benchmark, as well as significantly outperforming the overall equity markets. For 2008, the S&P 500 Index was down by an even 37.00%, the third worst annual performance in history. Not good. In order to get back to where it ended in 2007, the S&P will now have to go up by 59%. No small task.

By comparison, all of our core portfolio offerings (Appleton Group PLUS Composite, Appleton Group Tax Managed Growth Composite and The Appleton Group Portfolio Composite) successfully limited losses to single digits – quite a feat given the terrifically volatile market environment we were in. For our asset allocation portfolios (Appleton Group Assertive Composite, Appleton Group Moderate Composite and Appleton Group Conservative Composite) losses exceeded our single-digit target, but were still less than half that of their appropriate benchmark. The buy and hold components of these portfolios helped us in every other year, with 2008 being the notable exception. Getting back to breakeven is a whole lot easier than so many of the portfolios that are offered in the marketplace. For every client, our core offerings make up at least 50% of their overall managed portfolio (in some cases it's closer to 100%). So having at least 50% of a portfolio down less than 10%

continued on page 4...

Thoughts on Creation, Growth, Development and Renewal...

To excel in the spring, the season of creation, we must know our objective, and plant many seeds that may contribute to it.

To excel in the summer, the season of growth, we must choose and nurture a very few seeds - those seeds best matched to their environment, those seeds most capable of extraordinary growth.

To excel in the fall, the season of development and challenge, we must learn to be thrifty - to improve our efficiency and our quality, our degree of perfection.

And to excel in the winter, the season of destruction and renewal, we must know again our objective - we must know the garden we intend to grow - and preserve the seeds, some the same and some different, from which to begin a new phase of creation and growth.

-William K. Shireman, President & CEO, Global Futures

Apple Tree Investing... concluded

"Nature is the greatest teacher. Man can only receive and respond to her teaching."

-Frank Lloyd Wright

during one of the worst market environments in history really is a great thing.

Looking Forward…

Winter has come to Wisconsin with a vengeance this year, and we're now coated in record snowfall and covered with a thick sheet of ice. Driving is a challenge – you can put your foot on the accelerator and you might just spin your wheels for a while. This is probably exactly how Ben Bernanke of the Federal Reserve and Hank Paulson of the U.S. Treasury feel right about now. Everything that they've thrown at the economic downturn hasn't really worked all that well, yet. Record low interest rates haven't helped much, the TARP program – designed to take bad assets off the balance sheets of banks – has been remodeled several times, and the capital injections into financial institutions has largely eaten up half of the program's funds with little to show for it.

The way I see it, one of two scenarios is likely to occur in 2009. The first scenario is that the Fed's and the Treasury's spinning wheels will eventually grab on to the pavement and anything that's standing in front of their vehicle will probably get run over. If successful, the economy will re-inflate as will real estate prices, most equities, commodities (including gas and oil), and just about all other at-risk assets. It will be time to plant once again.

One thing that I'll say with certainty is that Bernanke and Tim Geithner (the new incoming Treasury Secretary) will stick to their guns until something positive happens. As the old saying goes, "The floggings will continue until morale improves!" It is possible to engineer inflation, after all, but the medicine that needs to be taken in order for that to happen is powerful and may have some adverse side effects.

So what about the other scenario? Well, we probably shouldn't even talk about that.

> *"We're all looking for the same thing: investment success."*
>
> *-MCS*

How about we just whisper then, shall we?

Actually, talking about it is important and so too is being prepared for it. In reality, the actions of the Federal Reserve and the U.S. Treasury might not work. Put otherwise, winter may continue for a while longer. Then what? Well, real estate might continue to slide in value, unemployment might cascade higher, more companies may file for bankruptcy, additional banks may fail, and the severe stock market declines could continue. Significant exposure to at-risk assets such as equities and commodities and real estate may be harmful, but fixed income and money markets and bear market investments may be right again.

Make no mistake – the economy will eventually recover, and the lower the stock market goes the more potential it has to rebound sharply when the economy begins to heal. Only one market bottom will prove to be THE ONE that ends the slide, and there is no way of knowing which one it will be until we pass it. Each of our core offerings has so far engineered a "soft landing" if you will, and we remain committed to following the same discipline that has served us so well over the years.

What Every Investor Needs…

The important thing – and the thing that every investor and every advisor needs – is a whole lot of flexibility in their portfolios right now. It cannot be seriously disputed that if this downturn isn't the significant economic event that it appears to be, heaven help the overwhelming majority of investors when a real significant event does come along. Let me say that another way: for many investors the layers of bureaucracy and decision making and committees and paperwork and stubbornness and fear that have to be overcome to get ahead of the curve in managing risk are simply too great. It simply takes too long to reduce exposure to risky assets to make any real difference.

Individual investors tell us time and time again how much they appreciate our proactive style (with many clients significantly increasing their exposure to our core holdings). Time and time again we hear the frustrations of investors who had experienced little if any response to both deteriorating market conditions (by reducing market participation) and to improving market conditions (by increasing market participation). It is our experience that investors expect us to adjust their exposure to the markets in an effort to produce portfolio gains over time with as little risk as is absolutely necessary along the way.

We're all looking for the same thing: investment success. I believe we've got what every investor needs: a way to have a significant portion of a portfolio that adjusts to either increase participation in the markets or to reduce participation in the markets. While not the only way to make money, it has proven time and time again to be the best way to navigate both good and bad markets over time.

For many institutions (such as governments, school districts, corporations, universities and foundations) that require months of painful debating to decide what to do, a new structure is desperately needed. Today's markets move at a rapid pace, and it is clear from the experience of 2008 that by the time a decision to change course is made it is often in the throes of a major economic blowup. Delegating the authority to change direction as needed (always in a systematic and disciplined fashion) is the first and the most important step to take. Once you decide that a more flexible approach is needed, the path to choosing which money manager to use will probably lead you right back to Appleton Group Wealth Management.

2009 has the potential to be a banner year – no question about it. The stage is set, but along the way there are sure to be some bumps. For those that can consistently remain on the right side of the market, volatility is to be welcomed and not feared. For it is by managing the market's volatility that real opportunities for growth can occur.

Here's to a great 2009!

-MCS