



APPLETON GROUP

WEALTH MANAGEMENT, LLC



*The Compass*TM

January 2011

Appleton Group Wealth Management LLC is an independent Registered Investment Advisor (RIA) located in Downtown Appleton, Wisconsin. Our firm provides wealth management and investment advisory services, 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 \$147.6 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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

©2011. All rights reserved.

Inside this issue:

First Fruits	1
The Difference is in the Details	1
Suggested Reading: Wikinomics	3
Return to Peak	3

First Fruits...

From the desk of Mark C. Scheffler

Many of my closest friends know that I have long been an avid student of history, nourished by the many ancient stories that seem to hold the same human truths today as they did hundreds, even thousands, of years ago. My son has recently started reading Aesop's Fables, a collection of short stories that each help to teach us about the many truisms of being human and about life in general. While taken from another source, this story has much to offer as well...

Many years ago (in a place not at all unfamiliar to any of us) lived a young boy who tended the most magnificent garden in which grew the most magnificent apple tree. But

this was no ordinary apple tree, as it had grown in the same garden for longer than anyone could remember and had always produced two very different kinds of fruit, a most unusual trick for any apple tree to be sure.

The first fruit was nearly always the same size from year to year. It was highly resistant to drought, often delicious to taste, but on occasion was smaller than the rest. Its branches were tender, flexible, and withstood all of the occasional summer storms and droughts with ease. During periods of famine its fruit was often small (as one would expect), and while its taste wasn't nearly as pleasant as during periods of abundance, its fruit led to many



Mark C. Scheffler
Senior Portfolio Manager,
Founder

generations of happiness, comfort and great health.

The second fruit born of the same tree was often unpredictable. From time to time it was legendary in its quality—sometimes quite large, continued on page 2...

The Difference is in the Details

Clients and future clients often ask "What's the difference between your firm's investment offerings?" Here's a quick primer:

All of our firm's offerings are broken down into two broad categories: core offerings and asset allocation offerings.

Core offerings are our three growth and income portfolios that use exchange traded funds to adjust our clients' exposure to a wide variety of growth segments. These include U.S. equities, foreign emerging markets, real estate, commodity-based equities, and high-yield bonds. Each core offering utilizes our proprietary trend-following discipline to keep

clients "on the right side of the market" as much as possible.

Our core offerings are: Appleton Group Portfolio, Appleton Group PLUS Portfolio, and Appleton Group Tax Managed Growth Portfolio. Each has a well documented history of performance through both favorable and unfavorable market environments, with complete performance, risk, market correlation and a host of other data.

Asset allocation offerings combine any one of our core offerings with a specific allocation to fixed-income assets (bonds) and/or to money market assets (cash), depending on our client's

needs and preferences. Each portfolio is rebalanced periodically and are typically used for clients who either more risk adverse and/or are approaching a point in time during which withdrawals from the portfolio will be required.

Our asset allocation offerings are: Appleton Group Portfolio – Moderate, Appleton Group Portfolio – Conservative, Appleton Group PLUS – Moderate, Appleton Group PLUS – Conservative, Appleton Group Tax Managed Growth – Moderate, and finally Appleton Group Tax Managed Growth – Conservative.

-MCS

First Fruits... continued

juicier and sweeter than almost any other fruit the boy had ever tasted. From time to time the fruit grew so large that its branches broke under the excess weight. It has been told that this fruit had an intoxicating quality and that anyone who ate it would want for nothing else.

But during periods of inevitable drought this fruit not only withered to dust but caused the entire branch on which it grew to wither as well. As a result, it would take many years to heal after periods of both great bounty and of great decay, producing no new fruit until the entire branch was once again whole.

One year, the unpredictable fruit surprised everyone with a bounty of great proportion. Everyone who ate of the fruit marveled at its sweetness. The first fruit grew too, and shared its predictable sweetness with everyone who wanted it, although it wasn't as large.

The following year, to everyone's surprise the second fruit grew even larger than the year before, and to many it seemed as though the flavor was richer and sweeter than ever. "What a great gardener you are, boy!" many exclaimed. "Give us as much as you can!" The first fruit grew as predicted.

Year after year, the second fruit far outgrew itself in size, taste and potency, so much that everyone who ate it clamored for more. They enjoyed its sweetness so much over those five years that at harvest time no one wanted the predictable fruit. The people had forgotten that this second fruit was prone to both periods of great bounty and terrible decay. At the time all they could see was the seemingly endless harvest and came to expect nothing less.

The first fruit, meanwhile, continued to grow smaller than the rest. Still sweet, still nourishing, but sometimes pale by comparison. To the dismay of the boy, the people for whom he had so generously toiled and to whom he had given his

harvest overran his garden's gates one night and cut out the branches of the first fruit to make room for the second fruit's annual bounty. Upon seeing the crowd in the garden the boy rushed in and begged them to leave at once. They did, leaving one, solitary branch of the first fruit.

The following year, great storms came to the land, which caused the branches of the second fruit to snap, falling in a terrible heap to the ground. Drought followed, causing both the second fruit and its branches



to wither. But through it all the first fruit managed to blossom, as it always had. Blossoms turned to fruit in its predictable way, enough as it turned out to nourish and satisfy all who visited the boy.

The second fruit was lost for many years, unable to blossom, spending its energy instead on healing its wounded branches. After several years the second fruit did begin to return – small at first, but over time became just as sweet and intoxicating to whoever chose to eat it once again.

You can probably understand my attraction to this “ancient” story. This story conveys an indisputable truth about the U.S. economy of the past eleven years, a great example of an unpredictable fruit. It sometimes has demonstrated a great bounty of growth and development, sometimes experiencing growth

so great that its “branches” break under the weight of an unsustainable harvest. The economy has experienced periods of great storms and long droughts and many investors have certainly experienced their share of ups and downs.

And to be frank, we’ve experienced our share of disappointment and frustration from time to time. It’s been several years since many of our portfolios have experienced all-time highs. With kudos to our

life-changing losses.

During this twelve-month period, our asset allocation portfolios experienced excessive unpredictability and downside risk due almost exclusively to my desire to offer a more diversified portfolio. Combining two different investment management styles in a single portfolio (a well-respected and accepted strategy in the financial services industry) proved to be a mistake. While these portfolios were successful in reducing downside risk by more than half (compared to other asset allocation portfolios from other advisors), the absolute declines were simply too much.

Beating a market benchmark is not a good measure of success if it means experiencing excess risk along the way.

The tree in our story above is a great example of a diversified portfolio – it has both predictable fruit and sometimes unpredictable fruit. Both have their advantages, but the unpredictable fruit (inflexible investment strategies) break down mightily during periods of economic stress. Predictable fruit (our firm’s core investment portfolios – Appleton Group Portfolio, Appleton Group PLUS Portfolio and Appleton Group Tax Managed Growth Portfolio) have weathered the storm so much better, even while underperforming in 2009 and 2010. Even with these two years of underperformance, each strategy is still well ahead of the overall U.S. markets since the end of 2007, and far ahead of the same benchmarks since the turn of the century eleven years ago.

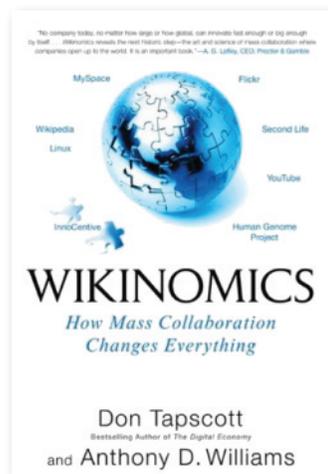
Best Foot Forward

Both I and my staff are committed to constantly improving our offerings and to retiring portfolios that simply don’t measure up to our high standards. On December 31, 2010, we have officially retired the Appleton Group Asset Allocation Portfolios in their two-discipline format. In their place will reside a set of

continued on page 4...

Suggested Reading:

Wikinomics: How Mass Collaboration Changes Everything



When I was just a bit younger than I am today – an eleven-year-old boy growing up in Wisconsin – I was introduced to my first experience in the field of mass collaboration. I didn’t know it at the time, but it was to be an undertaking that would change my life, my way of looking at the world, and it would set the stage for my current professional endeavors.

The experience was sixth grade band. I had been learning how to play the alto saxophone

for about a year, which consisted of weekly lessons with a teacher at St. Michael’s Catholic School. During these lessons I would typically either be alone with the teacher or I would be paired up with another student. This structure was fine for starting out – I had to learn how to control the instrument on my own before I would have the opportunity to play with others. But the best was yet to come.

At the start of sixth grade, I was invited to join a band that was made up of around 50 or so kids from the other Catholic elementary schools in town. I was surrounded by kids I had never really met before, each of whom was just as scared and excited and eager to make music together. I’m sure that the music itself wasn’t great at first – lots of wrong notes, sloppy rhythms and organizational train wrecks. But to me, it was a thing of beauty: trumpets, clarinets, flutes, drums, trombones, saxophones and more, all working together to produce something really great.

The more we practiced on our own, the better we got. But every week we’d get together on Monday night at Newman High School to play together and to prepare for the next concert. It was collaboration at its finest.

Turns out I already had known some of the kids from the other schools because we would compete against each other in basketball, flag football and track. But competing against them was far different than playing together in the band. Here, it wasn’t about winning and losing. It was about working together to contribute our talents and our training to produce something that would be impossible to do alone. The success of the ensemble was the goal, the making of great and beautiful music, and not the individual accomplishments of any one player.

And while our band was led by a really good director, the final product was ours to be either proud or ashamed of. Our names were in the program, and after each concert was over the

final judgment was left up to the audience. “How did we do?” was heard over and over. But not once did anyone ask “How did I do?”

Fast forward to today, and I see examples of mass collaboration all around us. Turns out I’m not the only one.

I recently finished a book entitled *Wikinomics: How Mass Collaboration Changes Everything*, which I highly recommend. It is a book that highlights the many examples of products and processes that rely exclusively on “the wisdom of crowds” to be created, developed and distributed into society. The origin of the term comes from the word “wiki” which is a server program that allows users to collaborate on a Web site and “economics” which is of course the study of the production, distribution, trade and consumption of goods and services.

The authors write, “In the past, collaboration was mostly small scale. It was something that

continued on page 4...

Return to Peak



The turbulent market of the past few years has left most major market indexes still well off of their all-time highs. Buy-and-hold strategies (such as those offered by many other investment managers) have experienced by far the worst of this bear market, and many major indexes continue to trade at prices that were first reached nearly a decade ago. While all have made significant advances since the bottom of the market in March of 2009, many indexes still have far to go to return to all-time-highs...

	Ticker	All-time High Price	Date Reached	Percent Needed to Regain All-time High
NASDAQ 100 Index	QQQQ	\$113.59	3/24/2000	108.57%
Dow Jones Real Estate Index	IYR	\$80.63	2/7/2007	44.09%
Russell 1000 Value Index	IWD	\$83.67	6/7/2007	28.98%
S&P 500 Index	SPY	\$146.30	10/9/2007	16.34%
Materials Select Sector Index	XLB	\$43.17	5/20/2008	12.39%
MSCI Emerging Markets Index	VWO	\$53.06	10/31/2007	10.20%

*Source: Yahoo Finance. Prices adjusted for all dividends paid since all-time high. Percentage return needed to regain all-time high calculated as of 12/31/2010.

At Appleton Group Wealth Management, we continue to believe in the importance of prudent risk taking, and as such we continue to emphasize the importance of flexible investment strategies that prepare for both sustained market advances and sustained market declines. Our firm’s complete portfolio performance history is available at any time simply by visiting www.appletongrouponline.com.

Starlight, star bright...

Overall Morningstar Rating™



**APPLETON GROUP
PORTFOLIO**



**APPLETON GROUP TAX
MANAGED GROWTH
PORTFOLIO**



**APPLETON GROUP
PLUS PORTFOLIO**

© 2010 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Data as of September 30, 2010.

The Morningstar Rating™ for separate accounts, commonly called the star rating, is a measure of a separate account's risk-adjusted return, relative to other separate accounts in the same Morningstar Category. Separate accounts are rated 1 to 5 stars, with the best performers receiving 5 stars and the worst performers receiving 1 star. Separate accounts are rated for up to three periods (three, five and 10 years), and ratings are recalculated each quarter. The Morningstar Rating for separate accounts uses an enhanced risk-adjusted return measure, which accounts for all variations in a separate account's monthly performance, with more emphasis on downward variation. Separate accounts are ranked against others in the same category and stars are assigned as follows: Top 10% 5 stars, Next 22.5% 4 stars, Middle 35% 3 stars, Next 22.5% 2 stars, Bottom 10% 1 star.

Suggested Reading:

Wikinomics: How Mass Collaboration Changes Everything ... concluded

took place among relatives, friends, and associates in households, communities, and workplaces” (and in elementary school bands). “In relatively rare instances, collaboration approached mass scale, but this was mainly in short bursts of political action ... Never before, however, have individuals had the power or opportunity to link up in loose networks of peers to produce goods and services in a very tangible and ongoing way.”

“Today the tables are turning. The growing accessibility of information technologies puts the tools required to collaborate, create value and compete at everybody’s fingertips. This liberates people to participate in innovation and wealth creation within every

sector of the economy. Millions of people already join forces in self-organized collaborations that produce dynamic new goods and services that rival those of the world’s largest and best-financed enterprises.”

“Some examples of peer production have already become household names... Facebook, YouTube, Linux, Wikipedia – today’s exemplars of mass collaboration – are just the beginning; a few familiar characters in the opening pages of the first chapter in a long-running saga that will change many aspects of how the economy operates.”

Both Tapscott and Williams present the concept of mass collaboration in a clear manner

and, most notably, its applications in the fields of technology, science, medicine, and communications. At Appleton Group, we have long believed in the power of mass collaboration in the markets, which has long been society’s largest and most efficient forum for allocating resources and valuing capital assets. Despite the often unpredictable nature of the markets, mass collaboration exists daily in the millions of votes both for and against any particular company, sector or even against whole economic systems.

With the emerging field of Wikinomics gaining traction, I believe that future economic, political, and societal shifts will be inevitable. Most notably,

eventual shifts away from systems controlled by a small handful of individuals or companies will give way to systems that work to benefit significantly larger groups of people, improving standards of living and further enhancing prosperity for future generations.

P.S. For those who have visited the new www.appletongrouponline.com it is noteworthy that the entire site has been created from “open source” software. This is software that has no specific owner and that is continually modified by the many users who contribute suggestions and computer code to make the software run efficiently, securely and dependably. We invite you to take a look today!

-MCS

First Fruits ... concluded

two asset allocation portfolios coupled with each of our firm’s core portfolios. For example, our Appleton Group Tax Managed Growth Portfolio will also have a Tax Managed - Moderate version and a Tax Managed – Conservative version. The same will be true for our Appleton Group Portfolio strategy and our Appleton Group PLUS strategy.

For all accounts that use the previous moderate composite, the

name of the strategy will simply change to the Appleton Group PLUS – Moderate Portfolio; the previous conservative composite will change to the Appleton Group PLUS – Conservative Portfolio.

All moderate and conservative portfolios will utilize a suitable exposure to bonds and/or money market assets, just as they currently do. However, all exposure to U.S. equities, emerging foreign markets, real estate, commodity-based

equities and any other growth assets (including high-yield bonds) will be accomplished through each of our core portfolio strategies above. Depending on each client’s needs and preferences, the portfolios will be built using either traditional no-load mutual funds or exchange traded funds (ETFs).

Complete historic performance (first as model portfolios) will be available on our website. In addition, each

portfolio will be subject to our annual third-party performance audit completed by an outside certified public accounting firm.

We believe that this improvement in our asset allocation offerings will further advance our commitment to excellent wealth management and advisory services, prudently exposing our clients to the most efficient investment strategies available in our industry.

-MCS