THE APPLETON GROUP, LLC

INVESTMENT MANAGEMENT · RETIREMENT PLANNING
CORPORATE 401(k) PLANS · MARKET RESEARCH

The Compass™

January 2014

The Appleton Group, 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.

The Appleton Group, LLC currently manages approximately $160.7 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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

Inside this issue:

As Simple as 1-2-3

From the desk of Mark C. Scheffler

There's an old saying in the investment business: "Investing is simple, but not easy!" Who coined it? None other than Warren Buffett himself.

And he's right. Investing is actually as simple as 1-2-3:

1 – Decide what to own. With a choice of over 28,000 mutual funds, 17,000 U.S. stocks, 96,000 foreign stocks, 13,000 exchange-traded funds and notes, and more than 1.8 million different bonds, deciding what to own can be a real challenge. But it all starts here, and it really comes down to selecting investments that have the potential to produce the returns you need to make your own financial plan work. If your plan works by taking no risks whatsoever, cash and money markets will do. But if you're like most Americans, you'll need to at least keep up with inflation (around 3.00% or so), and this fact eliminates all no-risk assets and makes investing in bonds really unattractive right now.

The Appleton Group offers a wide variety of portfolios, each expertly managed for you by first determining what to own. Whether it's a portfolio of broadly diversified stock indexes, individual stocks of companies from here in Wisconsin, U.S. economic sectors, commodities, and high-yielding fixed income securities, our firm does it all.

2 – Decide how much to own. This is the magic "recipe" for your entire portfolio, which the pros call "asset allocation." This

Mark C. Scheffler
Senior Portfolio Manager, Founder

sets a limit on how much you'll have in any one investment, with the goal of making your overall mix as efficient as possible. Too much in any one investment can lead to problems (the risk of one investment blowing up). But having too little can be a problem

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Perception vs. Reality

If we told you that our cracker jack research team has developed a new index with the following characteristics, would you use it in your own portfolio? Take a peek:

- Since the turn of the last century (January 1, 2000), this investment averaged a paltry 1.78% annualized return (that's with all dividends reinvested).
- Along the way, it declined by more than -45%, made it all back, lost another -55%, and made it all back again.
- To ensure that this investment eventually went up in value, U.S. taxpayers subsidized it to the tune of more than $7 trillion, all of which will eventually have to be paid back with interest.

So would you use it? Its returns have underperformed inflation, it has experienced two massive losses in 13 years, its returns are highly unpredictable and it has become very expensive to U.S. taxpayers. Almost nobody would choose this investment, right? Yet it's one that you've certainly heard of: it's the S&P 500!

With the media making such a big deal out of the Dow and the S&P reaching new all-time highs last year, it's important to understand that these common benchmarks really have been the "black eye" of the investment industry. Yet they still show up in nearly every 401(k) plan in America, they attract tens of billions of dollars in new investment every year, and the media references them nearly every day.

But it gets worse because if you adjust for inflation, the S&P 500 STILL hasn't gotten back to where it was in March of 2000. It finished 2013 at 1,848, and for it to break above its March 2000 high it will have to cross 2,122, which is an additional +14.82% higher that where it finished the year.

In this case, public perception is a whole lot better than reality!

-MCS

From the Desk of Mark C. Scheffler

With a successful 2013 now in the books, it will certainly qualify as a solid year for our clients' portfolios. For calendar year 2013, our clients earned more than $18.381 million of total portfolio gains, which included more than $1.744 million in total dividends.

And it was a year of widely varied market returns, with the U.S. stock markets appreciating solidly but nearly everything else flat or declining. For the U.S. markets, it really didn't matter whether an investor held large companies or small, growth companies or dividend-payers, tech or energy – every equity market finally broke out of its 13-year slump (Or did it? See Perception vs. Reality on page 1).

The international markets were an entirely different story, with the four fastest growing economies on the planet actually all seeing their stock markets decline as much as -21.56%. These include markets in Brazil, Russia, India, China, and South Africa which cover nearly 3 billion people and a combined GDP of more than $16 trillion.

Bonds fell for the first time since 1999, with the 20-yr U.S. Treasury losing -14.80%. Interestingly, the last time bonds declined and the U.S. stock market appreciated was in 1999, which marked the end of the '90s bull market and ushered in a 13-year bear market in equities.

Precious metals were hit hard with gold falling by -26.67%, silver lost -37.70%, and copper declined by -8.33%. And commercial real estate swung wildly, ending down for the year by -1.56%.

What will 2014 hold? We'll get into more detail during our quarterly reviews but we think that it's still all about the promise of future stimulus coming out of the Federal Reserve. Over the past five years, the Fed's balance sheet has ballooned by more than 3 trillion and stood at just over $4.074 trillion on Christmas Day, 2013. Take away this stimulus and it's really impossible to say where we'd be right now. With new leadership, Chairwoman Janet Yellen isn't likely to rock the boat too much, especially not in the early going of her tenure, so we look for these policies to continue as long as possible.

But there are three significant wildcards:

1) if inflation starts to heat up, the Fed will be forced to remove stimulus faster than they'd probably like;

2) as much as we'd like to believe that everybody around the globe has as much respect for the dollar as we do, foreign central banks are very likely to fight the Fed and devalue their own currency if it can help them at home (Translation: beware of currency wars!); and

3) eventually, the world dialogue will shift away from policies designed to grow the economy to policies that encourage sustainability. Starting at the top with Pope Francis and all the way down the line to the poor in Bangladesh, if the world recognizes global climate change and economic inequality as valid personal issues, growth may very well take a back seat. In our mind, this conversation is inevitable and is perhaps the most important reason to have a valid risk management plan.

-MCS

Sources: Morningstar, Wikipedia, Google Finance.

As Simple As 1-2-3…concluded

as well. This mix should be set as a target to have when markets are normal, rising, and reasonably predictable. With a bit of care and occasional rebalancing, asset allocation can be a real help.

The Appleton Group tackles this step with some of the best resources available: Morningstar and Ibbotson Associates. Their work in modeling efficient asset mixes is really the best place to start (and is based on Nobel Prize winning theories). We apply these asset mixes in all of our core portfolios. But while asset allocation is often cited as being responsible for 90% of investment results, it has an Achilles heel: it fails in the context of a falling market. In other words, when markets go down, asset allocation alone doesn't help at all.

And it's not just a small failure. A really big fail, a "How could I have been so dumb?" fail, a "Please give us back our Nobel Prize!" fail, a "What on earth am I paying you for?" fail. Really big, because deciding how much to own is merely a starting place, and not the end of the line.

A vast majority of advisors and investment managers will address these first two steps alone – it's a standard practice. But highly respected firms like The Appleton Group really stand out by taking the investment process one step further:

3 – Decide when to own. Everything has its time, and it's no different when it comes to investing. When markets begin to decline, it's more important than ever to be aware of how much risk you have in your portfolio and how you're going to mitigate that risk. It doesn't matter whether you own mutual funds or individual stocks or bonds or real estate or gold or anything else; we're in a market environment where risks are being masked by stimulus, where bad news is good and good news is bad, and where you just have to be aware of meaningful shifts in market direction.

And our firm has a tool like no other: clearTREND®, a cutting-edge calculator for measuring investment trends and adjusting our client's exposure to the markets when they change direction. We do this not only to produce good gains over time but to work every day to preserve as much of those gains as possible for future use.

And with the markets back to the top of this range we've been stuck in for more than 13 years (see Perception vs. Reality on page 1), it's really important not to forget about risk. After all, the first time we were at the top of this range the U.S. markets fell by 45%, and the next time the markets fell by more than 55%.

Address each of these steps successfully and it becomes a whole lot easier to achieve the return you need to make your financial plan work. And this is exactly what The Appleton Group does day-in and day-out.

It really is as simple as 1-2-3!

-MCS

Tidbits…

6,891

In 1985, there were more than 18,000 banks in the United States. Today, there are only 6,891 left.

11.5%

If you assumed that the labor force participation rate in the U.S. is at the long-term average, the unemployment rate in the United States would actually be 11.5 percent instead of 7 percent.

53%

53 percent of all Americans do not have a 3 day supply of nonperishable food and water in their homes.

6 million

At this moment, there are 6 million Americans in the 16 to 24-year-old age group that are neither in school nor working.

40%

After accounting for inflation, 40 percent of all U.S. workers are making less than what a full-time minimum wage worker made back in 1968.

1.2 million

Tragically, there are 1.2 million students that attend public schools in the United States that are homeless. That number has risen by 72 percent since the start of the last recession.

45

If the U.S. national debt was reduced to a stack of one dollar bills it would circle the earth at the equator 45 times.

Source: *83 Numbers From 2013 That Are Almost Too Crazy To Believe* by Michael Synder

It's Not Too Late…

Did you maximize your 2013 Traditional IRA/Roth IRA contributions? If not, it is not too late. The calendar may indicate that it is January 2014, but you do have the opportunity to make contributions to your 2013 IRA(s) until Tuesday, April 15th, 2014 or your tax filing date. The maximum total contribution for 2013 is $5,500 ($6,500 if you are over 50).

If you don't have a Traditional IRA or Roth IRA, you may be able to fund one if you meet the following criteria:

1. You have earned income,
2. You and your spouse file a joint return and you or your spouse have earned income, and
3. Your modified adjusted gross income (MAGI) must be less than the MAGI IRS limits, depending on tax filing status. Please see the links below to the IRS website for contribution limits or consult your tax advisor.

   a. If you are covered by a retirement plan at work, view Traditional contribution limits at http://tinyurl.com/bpf5ngw

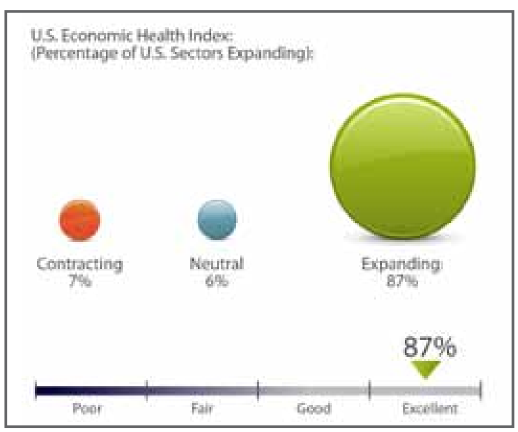
   b. If you are NOT covered by a retirement plan at work, view Traditional contribution limits at http://tinyurl.com/cxtu4b9

   c. View Roth IRA contribution limits at http://tinyurl.com/bnxngf7
4. You are under 70½. You can't make regular contributions to a traditional IRA in the year you reach 70½ and older. However, you can still contribute to a Roth IRA and make rollover contributions to a Roth or traditional IRA regardless of your age.

Don't wait until the last minute! Mail your contributions today to The Appleton Group or contact your Appleton Group advisor about opening an account.

This information is intended to inform the individual and is general in nature. It does not constitute tax advice. You should always check with a qualified tax advisor to determine how your specific situation is affected.

clearTREND U.S. Economic Health Index:



With the overall economy showing moderate growth (+2.1% or so for the year) and the markets putting a strong showing in the fourth quarter, it's no surprise that most economic sectors are also expanding. The clearTREND® U.S. Economic Health Index – produced exclusively by The Appleton Group – is remarkably strong, with 87% of economic sectors showing expansion. That's the highest reading for 2013, and puts the nation's economy solidly in the "Excellent" category. And it shows significant improvement from the end of September when only 65% of U.S. economic sectors were expanding.

The first half of the year showed modest economic growth at best. But the second half saw good economic progress in the forms of a sharp drop in the unemployment rate, increased auto sales, better-than-expected housing starts, and reasonably good holiday spending. The increase in the number of expanding U.S. sectors reflects a strengthening economy, despite significant concerns about future growth.

The clearTREND U.S. Economic Health Index measures overall market trends for approximately 130 distinct economic sectors. The number of expanding, stable and contracting sectors is measured on a periodic basis, and is reported by The Appleton Group through various media outlets, including Insight Magazine, Seeking Alpha, StockTwits, as well as through our firm's *Three Minute Trend Talks.*

Data as of January 2, 2014.

Portfolio Workshop

The Appleton Group's family of investment portfolios has grown considerably over the last year. We've compiled a simple roll-call below, indicating absolute performance for the quarter (shown by up or down arrows), as well as ranking our offerings with top performers listed first:*

- ▲ Appleton Group Wisconsin Select
- ▲ Appleton Group U.S. Sectors
- ▲ Appleton Group Europe
- ▲ Appleton Group PLUS Portfolio
- ▲ Appleton Group Portfolio
- ▲ AG - Moderate Portfolio
- ▲ AG PLUS - Moderate Portfolio
- ▲ AG - Tax Managed Growth Portfolio
- ▲ AG Traditional - Aggressive Portfolio
- ▲ AG - Conservative Portfolio
- ▲ AG PLUS - Conservative Portfolio
- ▲ AG Traditional - Moderate Portfolio
- ▲ Appleton Group Asia
- ▲ AG Traditional - Conservative Portfolio
- ▲ Appleton Group Commodities - Heaven
- ▲ Appleton Group Commodities - Hell
- ▲ Appleton Group Managed Income
- ▼ Appleton Group Americas

▲ Positive Quarterly Performance
▼ Negative Quarterly Performance

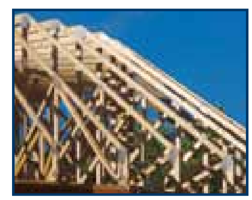
Featured: Appleton Group - U.S. Sectors

The clearTREND® U.S. Sectors portfolio focuses on expanding sectors here at home. Candidates include energy, technology, home builders, retail, healthcare, financial services and more. Individual ETFs must pass a rigorous screening process to be included in the portfolio based on clearTREND®'s historical performance for the ETF, drawdown, and average percentage gain per trade. The portfolio buys an ETF when clearTREND indicates a sustainable rising primary trend, and sells when clearTREND indicates a downward trend.

Below are some of the sectors currently held in the portfolio:





Flagship: Appleton Group Portfolio

One of our three core offerings, The Appleton Group Portfolio represents perhaps our most straightforward, consistent and most profitable portfolio over the past decade. While still holding true to our passion for proactive investment risk management, this portfolio has also offered investors healthy, positive returns since the market's valley in March of 2009.

The Appleton Group Portfolio invests in a wide variety of exchange-traded funds (ETFs) that each target a specific part of the global markets. These include U.S. equities of all sizes and types, developed international markets, foreign emerging markets, real estate, and basic materials companies. During sustained market advances, this portfolio can invest as much as 95% of its assets in these growth areas; however, during sustained market declines it can reduce or eliminate exposure to the markets and invest in money-market securities for safety.

While not our most defensive portfolio, this offering gives our clients perhaps the best balance between growth and risk management. As such, it is suitable as a core holding for investors of all ages who seek the potential to grow their portfolios over time while managing risk along the way.

*Important information: Contains forward looking statements. **Not FDIC insured, may lose value, no bank or government guarantee.** Visit www.appletongrouoponline.com for a complete history of these and all Appleton Group portfolios, including past performance, targeted and quarter-end holdings, strategy summary and suitability.