



THE APPLETON GROUP, LLC

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

The Compass™

January 2015

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 \$163.8 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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Inside this issue:

On a Quest for 6%	1
Lifestage Investing Guide	2
In the Community	3
Portfolio Workshop	4

On a Quest for 6%

From the desk of Mark C. Scheffler

For many of our private clients, The Appleton Group's financial planning services are one of the most important things we do. After all, investing is about planning for the future, creating an income stream in retirement that you won't outlive, and putting the sometimes crazy market moves into the right perspective.

And a significant part of this process is in making basic assumptions about what kind of returns are necessary to make sure that your goals are met on-schedule. This is a significant challenge in today's market, but it's also pretty straightforward.

For nearly every investor that has saved consistently, building a sustainable income stream in retirement is all about getting a 6% return on average per year over the life of the plan. Why 6%? Because, in a nutshell, $4+2=6$.

For many investors, a 4% annual draw from their retirement savings is considered a sustainable amount. So an investor with a \$100,000 IRA could reasonably sustain an annual \$4,000 withdrawal. There's your "4."

But what about the "2?" Well 2% represents the average rate of inflation. Just to maintain your purchasing power and the principal of your account, an investor will have to get the 2% return PLUS whatever they take out.

So there you have it: 4% annual withdrawal + 2% inflation = 6% return target.

So is it possible today to get that 6% targeted rate of return

without risk? Unequivocally, the answer is "No."

Can't happen, because the most that you could get with no risk today is well below 1% (and probably closer to 0%). At best, an investor could buy the 10-year U.S. Treasury today, hold it for a decade and be guaranteed to get only a 1.94% (the rate as I write this article). Round it to 2%, and you're still 4% short.

Our research desk is staffed with really smart guys, and we put pen to paper to figure out how much risk it normally takes to get a 6% annual rate of return. In other words, how much does an investor have to potentially lose in any year in a non-risk-managed investment portfolio even to have the chance to earn the 6% rate?

For managed portfolios like ours, the risks are among the most reasonable around, as we actively work to make as much as we can while working to keep annual losses just to single digits.

But for "buy and hold" investors, the risks are pretty significant. Most people would say "unreasonable."

Buy & hold strategies are in for a tough haul: To try to get a 3% annual return means that in any calendar year you could give back -7.40%. To try to get a 4% annual return, you'll have to be prepared to experience a -14.50% loss in any calendar year.

But from there, the risk increases significantly: to try to get a 5% annual return, you're probably going to experience as much as a -35.45% annual loss (more than a third of your



Mark C. Scheffler
Senior Portfolio Manager,
Founder

entire nest egg), and to get that magical 6% return the annual loss skyrockets to -38.19%.

You might hear somebody say something like "No pain, no gain. And the market always comes back." But consider that the only reason the markets have come back since 2009 is because of \$12 trillion of stimulus that will never be repeated. Someday, the markets won't fully recover for an extended period of time, and buy & hold investors will be scratching their heads wondering what went wrong.

At the Appleton Group, we continue to believe that the best way to achieve the 6% return that most investor need is through selective, prudent exposure to the markets when conditions are favorable (rising trends) and to minimize exposure to the markets when conditions are unfavorable (falling trends).

Challenging times to be sure. But we're confident that our flexible approach to investing continues to be the most prudent and offers the best chance for long-term success.

Source: Morningstar Database

Lifestage Investing Guide

In your 20s and 30s...

You're contributing to your 401(k) plan, and you won't need access to these assets for 20-30 years or more. During this phase, let volatility work for you. Highly volatile investment strategies are ok when you're young and you have relatively small balances (less than \$50,000), and while you will almost certainly see the value of your account vary significantly from year to year, keep saving and buying shares of these funds especially when they're down.

Time is on your side, and during this period you should exclusively use investments that accept use "buy & hold" strategies.

Suitable Investments: those which have unpredictable returns from year-to-year, equal likelihood of making money or losing money, history of 40%+ gains and -40%+ losses in any year.



In your 50s...

You're starting to accumulate significant account balances. Retirement is less than 15 years away, and this phase is crucial. You should continue to contribute, of course, but contributing money to your account just isn't as meaningful as are the effects of the market. During this phase, limiting losses is just as important as making money – your 401(k) account has the potential to blossom in value but significant losses now could derail the last 30 years of careful savings. The more you have, the more you have to lose, and time is no longer on your side.

Suitable Investments: During this phase, you should minimize or even eliminate strategies that have historically lost more than -20% in any past calendar year. These are inefficient strategies that are just too unpredictable for you to use during this important time.

In your 40s...

You've been contributing regularly to your 401(k) plan, and you're starting to see some real progress. While you still won't need to access these assets for 10-20 years, highly volatile investments are no longer as welcome. Highly volatile investment strategies were ok when you were just starting out and didn't have much, but in this phase it's important to combine investments that use "buy & hold" strategies with those that actively manage risk.

Time is still on your side, but you're getting much closer to needing these assets so it makes sense to be more careful.

Suitable Investments: those which have more predictable returns, with a history of no more than -30% losses in any year.



In your 60s and up...

It's go time! You're ready to completely reverse the flow of money in your 401(k) plan and soon begin monthly withdrawals for an income stream you won't outlive. But you still can't just put everything into ultra-low-risk investments or you're likely to run out of money. This is a challenge!

So you need to balance income-producing assets (that today carry high risks) with assets that are designed for growth (that also carry high risks). Taking withdrawals at the same time that your investment account is experiencing significant losses is a double whammy that you have to avoid. Right now, you should only use risk-managed strategies – investments that use a "buy & hold" approach are highly volatile and are no longer an option.

Suitable Investments: During this phase, you should eliminate strategies that have historically lost more than -10% in any past calendar year. Instead, choose strategies that have the potential to produce returns above the rate of inflation while simultaneously limiting annual losses to just single digits.

In the Community...

You May Know a Featured Local Celebrity

Are you looking for the perfect place to take your Valentine this year? Look no further.

The newVoices (formerly the White Heron Chorale) presents *Northeast Wisconsin's got newTalent*.

Join us for a new twist to a popular fundraiser, featuring the region's top singers paired with local celebrities competing to benefit newVoices, the region's top vocal artists. You decide which celebrities bring the most to the stage! One act wins the "People's Choice" by raising the most donations that evening. One other act wins the "Critic's Choice" by raising the most donations prior to the event. Every act wins by performing live, on stage singing and dancing to your favorite songs from Broadway, swing, the 50s or jazz standards. Presented in an intimate nightclub setting each celebrity will be paired with a singer or group of singers from newVoices. You'll hear solos, small groups and the full newVoices choir in live performance.

To purchase tickets call 920.832.9700. Tickets must be purchased in advance: \$60 theater seating/\$75 table seating. Special seating available. Seating is limited. 50% of your ticket is a tax deductible donation to newVoices.

The event will be held at the Fox Cities Performing Arts Center, Kimberly-Clark Theater on Saturday, February 14, 2015 at 7:30 P.M.

Appleton Group Employee Gives Back

"I'm excited and honored to serve on the board of directors for NAMI Fox Valley in 2015," said Peter Mutschler, Co-Portfolio Manager. "For the past nine years, Team 2MUTSCH, our group of dedicated family and friends, has been raising funds to help support the programs of NAMI Fox Valley.

"My family has been directly touched by mental illness and we are so fortunate to have an organization like NAMI Fox Valley to turn to for much needed help and support. I encourage anyone who has dealt with the complexity of mental illness to reach out to the tremendous staff at NAMI Fox Valley."

For more information visit www.namifoxvalley.org.



Proud Supporter of the Lawrence Academy of Music



The Appleton Group is pleased to once again sponsor the Lawrence Academy of Music which provides instruction for 1,500 children and adults in piano, voice, harp and most band or orchestral instruments. Throughout the year, the Academy of Music presents recitals, concerts, festivals, master classes, and special events. Please join us in supporting their upcoming fundraiser.

Raffle tickets available from any Academy of Music student or teacher beginning February 2nd. The drawing is on March 28, 2015, in the Lawrence Memorial Chapel, at approximately 8:30 pm (end of the Academy Girl Choir concert). Winners need not be present to win. If someone would like to "tune in" to hear the drawing, it will be on the Lawrence webcast: <http://www.livestream.com/lawrenceuniversity>.

Tickets are \$5 each. Proceeds benefit the tutti fund, which provides tuition assistance for low-income families so that everyone can afford music instruction.

1st Prize: \$800 Academy of Music Tuition Voucher OR \$600 Cash

2nd Prize: \$400 of Express Gas Station Gift Cards

3rd Prize: Hand Painted Violin Replica

For more information about the Academy or to view their upcoming performances, please visit www.lawrence.edu/s/academy.

Attention Appleton Group Clients - Go Paperless!

Is one of your New Year's resolutions to be more organized this year? If so, The Appleton Group may be able to help. We are excited to announce that we have the ability to deliver your quarterly statements and other important documents electronically via The Appleton Group Client Web Portal. This is a secure website which you can access by using an email address and a custom password. Please note that this login is different from your Charles Schwab credentials.



If you are interested in taking advantage of this paperless option, please contact Karen Anderson at 866.993.7727, ext. 10 or email her at kanderson@appletongrouponline.com.



Speaking Up For A Modern Economy

The Appleton Group is proud to announce that it has become a member of the Wisconsin Business Alliance. The organization is a new statewide association of progressive business owners and professionals who are speaking up for a modern economy. By advocating for education funding, renewable energy and other business-friendly initiatives, they are working with elected officials and the general public to more accurately reflect the wants and needs of a broad range of Wisconsin businesses.

The Wisconsin Business Alliance is a statewide, nonpartisan, nonprofit 501(c)(6) membership organization. To learn more about their 2015-2016 initiatives or to join, visit www.WisconsinBusinessAlliance.com.

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

▲ Positive Quarterly Performance
▼ Negative Quarterly Performance

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.

Featured: Appleton Group PLUS Portfolio

The Appleton Group PLUS Portfolio was also established in year 2000. Like The Appleton Group Portfolio, it was one of the first investment offerings in the country to offer an active risk/return management style using exchange-traded funds (ETFs). This strategy seeks to invest exclusively in ETFs whose current price trend is rising, while eliminating exposure to ETFs whose current price trend is falling. But unlike The Appleton Group Portfolio, this portfolio also has the potential to profit from falling markets through the use of “bear market” or “inverse” ETFs.

The portfolio currently consists of the following ETFs:

IWD Large Value	QQQ Large Growth	ACWI World Stock
IYR Real Estate	VWO Emerging Markets	IJH Mid-Cap Blend
SPY Large Blend	IWM Small Blend	XLB Basic Materials

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