



# The Compass™

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The Appleton Group, LLC exists to fulfill our clients' desire to invest 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 31 clients, and manages \$16.4 million of investable assets. We serve individuals, families, corporations, institutions, endowments, trusts and company sponsored retirement plans.

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## Second Nature: What our gardens can teach us about investing

Spring! I can just feel there's a difference in the air, and this Spring seems so much more necessary and timely than in the past. Tired of news from Iraq? Want to get away from the spiraling budget deficits and from mystery illnesses being spread across the globe? Head outside to your garden, take a long look around, and absorb all that the new season has to offer.

My back porch is now filled with seedlings for our garden, the precursor to a sanctuary where we can sit back, relax after a hard day's work, and enjoy a bit of solitude (ironically, where everyone is welcome). You know, its interesting, that as I'm going through the process of coaxing life from inanimate seeds, there are significant similarities between growth in the garden and growth in an investment portfolio. As Frank Lloyd Wright once wrote, "Nature is the greatest teacher. Man can only receive and respond to her teaching."

### Growth and Decay

Growth is a naturally occurring phenomenon. Look around, and

you see it in the trees, in the flowers of the Spring, in the Summer crops that sustain and nourish us. It is also what sustains us economically, not only in metaphor but in the capitalist model. Expanding sales, acquisition of other companies, new product lines, new markets, expanding facilities, and increased efficiency are necessary to sustaining stock prices. Businesses (even whole economies) are dependent on never-ending and accelerating growth, and when that growth wanes, the result is occasionally sharp and severe decay, as we've seen in the markets during the past three years. As the fortunes of companies are dependent on meeting society's needs, decay is inevitable and natural, but certainly not enjoyable.

Is this not the case in nature? Looking out of my office window I witness the small changes that occur everyday: the grass getting greener, the crab apple trees blossoming, the hatching of ducks and geese on the banks of the mighty Fox River. Nature herself has implemented checks and balances to ensure no element of



**Mark C. Scheffler**

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the grand system becomes too strong. Untended lawns give way to prairies and forests, the unpicked fruit of a season's growth falls and is wasted, overpopulation of waterfowl gives rise to predators, disease and starvation. Economies (and societies) rise and fall as well, and it is the wise participant who harvests growth, who prudently replenishes the stores for Winter,

*Continued on page 2*

### Inside this issue:

Second Nature	1
War Planning	1
Thoughts on Creation, Growth, Development and Renewal	2
The Inside Story -by Gloria Catter	3
The Compass Portfolio Performance Summary	4

## War Planning: A Glimpse of the "New World"

With much of the war against Iraq now left to historians, the U.S. markets have bounded over a seemingly insurmountable hurdle. Consumers and business leaders alike have for months cited the possibility of war as a good reason not to increase spending, either on personal goods or on capital improvements and expansions. The markets now have the

opportunity of looking ahead to the "new world" the American preemptive strikes have fashioned. Will the markets respond by factoring in a new-era peace dividend like the one we saw after the first gulf war?

To answer this complex questions we must first recognize what was accomplished in Iraq.

First, a people who trace their ancestry to the dawn of civilization itself were liberated from a fellow Iraqi, recognized throughout the world as a tyrant. To be sure, any description of Saddam Hussein would not be complete without

*Continued on page 3*

## Second Nature... (continued from page 1)



*“Nature is the greatest teacher. Man can only receive and respond to her teaching.”*

*-Frank Lloyd Wright*

and who, with hope in his/her heart, replants to begin the cycle again.

### Diversify, diversify, diversify

Nature also teaches an important lesson about diversification. I love butternut squash. To me, there's something great about this standard autumn staple that brings back memories of the Thanksgiving meals with my family when I was a kid. What a great memory! But last year, for whatever reason, we only managed to get two or three instead of the twenty or so I had been looking forward to.

“Bumper crops” represent a true phenomenon in nature, when the conditions are just right for a specific crop to produce an abnormally high yield. A real bounty exists for the farmer that plants just the right crop, and a disaster if the chosen crop turns out to have a difficult year.

Can you live without bumper crops? That's the cost of true diversification, but it's not easy when you reap a mediocre harvest (but still enough to meet your needs) while the investor next door makes a “killing.” Diversifying a harvest means that you have a variety of fruits, vegetables and grains planted in

the same land, so that if one or two crops fail, you still have a dozen or so others to live off of. Great advice, and it's why we use index funds to diversify our clients' portfolios.

### A Healthy Environment

Just as the seasons of the year are suitable for either growth or harvest, so it seems are the seasons of the U.S. Economy. The expansion phases of the economy are more suited to capital growth, and recessionary periods are more suited to a prudent and timely harvest. Isn't that what we just went through in the late 90s and the early 00s?

Unfortunately, the economic seasons don't have the telltale markers of colder temperatures and snow that the seasons of harvest do. While the concept is similar, the execution is far more difficult, especially when the “almanac” you trust may be inherently unreliable (see Elliott Spitzer, Attorney General of the State of New York for more information).

### Sow Many Seeds

The Compass Wealth Management System is a process that evolved from the volatile and often dangerous world of “buy

and hold” investing. The process evolves, but it seems a return to basics continues to be a prudent course.

Nature itself is constantly evolving, either by master plan or by chance, as if testing new ways to ensure survival. The basic human form itself has evolved to sustain the species, often by developing redundant systems: two eyes, two hands, two ears. If one is lost, the other serves as a “backup.” Likewise, flowers often produce more seeds than really necessary, assuming that many will not make it to the next season.

To produce a sustainable portfolio, investors must think along the same lines. Many of our portfolios invest in index funds, which themselves have dozens, perhaps even thousands of underlying companies that we invest in. This ensures that enough “seeds” are sown to produce favorable results over time.

The true benefit to the process comes at the end of the cycle when the harvest is at its peak. Then, our patience will be rewarded, and how sweet that will be once again!

*-Mark C. Scheffler*

## 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 and CEO, Global Futures*

## War Planning (continued from page 1)

recognizing the great suffering he has inflicted on his neighbors and to his own citizenry. The glory of the Kuwaiti invasion was quickly supplanted with defeat by an army of global proportions, the Iran/Iraq war of the 1980s resulted in the deaths of tens of thousands of civilians on both sides, and we are all keenly aware of the recent result of years of violating numerous United Nations resolutions seeking full disarmament.

Second, a new representative democracy is now being formed that, if successful, will change the face of the middle-east forever. The kingdoms of Saudi Arabia, Qatar, the United Arab Emirates, Bahrain, Brunei and Jordan, the

military rule of Pakistan and the remaining oligarchies of Iran, Syria, Lebanon, and Egypt have witnessed the seeds of democracy in their own backyard.

Third, the United States has reaffirmed the might of her military, which will undoubtedly allow the goals of the United States' leadership to more easily be implemented, especially in countries who sponsor and otherwise support terrorism.

Fourth, and perhaps most meaningful to the markets, the geopolitical clouds that have hung over the U.S. economy may be beginning to disperse, and if all continues to go smoothly, the future may not look as bleak as many had feared.

That being said, it is also critically important to address what the United States has lost as a result of the recent Iraqi invasion.

Most visibly, nearly 100 U.S. military personnel have lost their lives either as a direct result of clashes with Iraqi defenders, through training accidents or in support of other military operations. To the families of these fallen soldiers, the price will be the lifelong loss of a loved-one, sacrificed to help restore American security.

The safety we all cherish and the freedoms we have come to take for granted over the previous years of plenty is not yet fully restored, and may not be for some

time. With one third of the "axis of evil" now neutralized, the remaining axis countries (Iran and North Korea) have taken visible steps to acquire firepower much more lethal and immediate than the Scuds and duds of the Iraqi military. North Korea has reactivated its nuclear weapons program. It is thought to already be in possession of a small number of devices with the launch vehicles capable of striking our very shores. Iran has also taken steps to bring a 600 megawatt nuclear facility online, thought to be capable of not only generating electricity (a benign activity) but

*Concluded on page 4*

## The Inside Story...

### Drowning in paper? eConfirms to the rescue...

Do you receive more paper in the mail than you care to deal with? Well, here's a solutions that will help alleviate a portion of the problem – eConfirms through Schwab Signature Services Alliance™

eConfirms reduces the paper mail you receive by delivering trade confirmations to your private email box. This is a free service that provides you trade

confirmations within 24 hours of execution. You can elect to receive one confirmation per email, or up to 20 confirmations per account can be bundled in a single email. And to protect your privacy, your account number does not appear on the eConfirms.

If you're not certain you'd like to subscribe to eConfirms, you can ask for a 90-day trial period in which you will receive both paper

and electronic confirmations. And you can cancel your subscription and resume paper confirmations at any time.

If you're interested in eConfirms, you can contact Gloria at 920.993.7727, for more information. Or, if you prefer, you can contact the Schwab Alliance Service Team at 800.515.2157 to establish your subscription directly.



**Gloria Catter**  
Executive Assistant

## MoneyLink from Schwab Institutional

Schwab MoneyLink is an electronic funds transfer service that allows you to move funds between your Schwab account(s) and account(s) at other financial institutions. You can schedule regular recurring transfers between your accounts. And you can also make on-request transfers as the need arises. This service is particularly convenient for:

- making systematic contributions to a brokerage account
- scheduling regular deposits into an IRA
- automating IRA distributions
- funding a discretionary spending account at a bank

It is available for most brokerage

and IRA account types. Requests generally take one business day to process if received before 5:30 PM ET. And there is no fee for the service.

On-request transfers are easily initiated by contacting the Signature Services Alliance™ team at 800.515.2157, or via their website at [www.schwaballiance.com](http://www.schwaballiance.com). In

addition, you can authorize The Appleton Group to complete transfers for you between accounts with identical registration.

If you're interested in establishing MoneyLink, or have any questions about the service, please contact Gloria at 920.993.7727.

# The Compass Portfolios: Historic Performance Summary\*

Compass Portfolio Name	Morningstar Category	2003 YTD		2002		2001	
		Total Return	Un-managed	Total Return	Un-managed	Total Return	Un-managed
Compass Classic PLUS—NASDAQ 100	Lg. Cap Growth	-2.20%	+3.61%	-2.82%	-37.37%	51.40%	-33.34%
Compass Classic PLUS—S&P 500	Lg. Cap Blend	-7.70%	-3.96%	-13.57%	-22.81%	26.10%	-13.07
Compass Classic—Dow Jones Ind. Avg.	Lg. Cap Value	-6.00%	-4.42%	-14.68%	-16.32%	0.80%	-6.54
Compass Classic—S&P 500 Index	Lg. Cap Blend	-4.80%	-3.96%	-15.81%	-22.81%	2.00%	-13.07
Compass Classic—NASDAQ 100	Lg. Cap Growth	-1.80%	+3.61%	-13.17%	-37.37%	6.90%	-33.34%
Compass Classic—Russell 2000 Sm. Cap Gr.	Sm. Cap Growth	-5.20%	-4.02%	-12.52%	-30.30%	NA	NA
Compass Classic—Russell 2000 Sm. Cap Value	Sm. Cap Value	-3.30%	-4.93%	+0.72%	-11.37%	NA	NA
Compass Classic—Managed Income Portfolio	Domestic Hybrid	-4.40%	-4.40%	+14.66%	NA	NA	NA

\*Important Information: The Compass Portfolio information provided indicates what effect the buy and sell signals would have had on an investment portfolio comprised of the index shares (iShares) indicated if such buy and sell signals were implemented. Although the buy and sell signals are actual signals which have been generated by the Compass Portfolio Management System since December 30, 1999, THE PERFORMANCE RESULTS ARE FOR A MODEL PORTFOLIO and do not represent the actual performance of accounts managed using the Compass Portfolio Management System. Actual client accounts are typically invested in equity mutual funds which may hold all, some or none of the stocks which comprise the iShare used as the model. In addition, although performance is compared to a benchmark indicated, client accounts are typically either fully invested, partially invested in cash equivalents, fully invested in cash equivalents, or in inverse ("bear market") funds, depending on the portfolio selected. The actual amount of time invested in the market will vary with economic conditions. Furthermore, unlike an actual performance record, these performance results (1) do not reflect the money market interest a client may have earned during defensive postures, and (2) 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 actually 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. The principal value and return of common stocks and equity 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 Compass Portfolios on April 5, 2002, with Mark C. Scheffler continuing to serve as the sole portfolio manager. Prior to that date, Mr. Scheffler managed The Compass Portfolios on a non-discretionary basis while employed as a broker with Robert W. Baird & Company, Inc. Clients in the Compass Program are invested in mutual funds, and the performance does not reflect the deduction of mutual fund expenses. Share prices have been adjusted for all dividends, splits and distributions for the period indicated. Deviation from the models will produce substantially different results. The Appleton Group LLC is a Wisconsin Registered Investment Advisor.

## War Planning (continued from page 3)

also capable of enriching plutonium for nuclear weapons.

To be sure, the market doesn't take kindly to uncertainty, and the wild-card yet to be played out is how the world will now deal with not only North Korea and Iran, but a handful of other nations who seek to build arsenals needed to stave off the might of the U.S. military. Should it become necessary to eliminate other nations' weapons-of-mass-destruction programs, it will be a costly, dangerous and challenging economic jolt. Deficits would continue to spiral as the cost of waging war on many fronts would be great, and fewer present-day allies would feel obliged or even able to assist in combating terror launched from within.

On a less threatening scale, the anti-war (and arguably anti U.S.) sentiment growing around the world, one simple fact remains:

individuals, corporation, and even whole nations vote with their wallets, and any sustained boycott of U.S. products could derail an already shaky economic recovery. For an economy that is built on growth and expansion, great political and public relations capital must be spent in the very near future to ensure unfettered access to foreign markets, a

newfound appetite for U.S. goods, and the continued export of all things American.

The bold new direction of U.S. foreign policy is a risky endeavor on many fronts, but if successful will radically reshape the world and will foster a new sense of freedom and liberty on many shores.

The need to manage investment risk continues to be great on the cusp of the "new world," and The Appleton Group realizes and embraces this significant responsibility.

-Mark C. Scheffler

