



# The Compass™

The Appleton Group, LLC  
100 W. Lawrence Street, Third Floor  
Appleton, WI 54911

2nd Quarter, 2006



The Appleton Group, was founded to fulfill an investor's desire to participate 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, currently serves 58 clients, and manages \$51.1 million of investable assets. We serve individuals, families, corporations, institutions, endowments, trusts and company sponsored retirement plans.

The Appleton Group, is an independent Registered Investment Advisor.

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

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## An Idea Whose Time Has Come

I remember the trip as if it were yesterday. Mt. Kilimanjaro, the rooftop of Africa, towered above us as we made our way through coffee plantations, groves of banana trees and tiny villages on our way to the starting gate. My wife Karen and I were just starting off on an adventure of a lifetime, a six day climb to the top of a dormant volcano that has stood sentry over the plains of Africa for eons. For the better part of a week, our lives would be in the able care of our guides, Simon Tete and his brother Aaron. Our goal was to capture the summit, some 19,500 feet above sea level, while navigating two-hundred foot rock walls, desert-like conditions, a rain forest, frigid temperatures, glaciers, and even an occasional wayward lion! What had we gotten ourselves into?

Better question still: Who's going to help us on our journey? As we started our trek, our

faithful guides explained that they typically climb two or three times per month, and that in order to be certified by the local park officials to take foreigners up the mountain they were first required to pass a battery of tests. Simon also explained that a national law exists which imposes serious penalties upon guides for failing to make foreigners feel welcome. No foreigners, no tourist trade. It seemed the stakes were as high for them as they were for us.

Our guides were compensated in a way that made sense to us. They were paid a portion in advance to reserve their services for our party. Of equal importance was the payment given at the end of the journey. A good experience usually equated to a payment that was equal to or greater than the initial fee we paid to secure their services in advance. A bad experience (being eaten by a lion, falling into the



**Mark C. Scheffler**  
Senior Portfolio Manager,  
Founder

mouth of the volcano, being left behind, etc.) resulted in little or no payment. I liked this idea. We had an understanding that each of our lives would benefit from the other, and thus our journey began.

Had our relationship been different, I'm not sure how the trip would have turned out. I hesitate to consider how our journey would have changed if

*continued on page 3..*

## Introducing Karen Anderson, Executive Assistant



**Karen Anderson**  
Executive Assistant

The Appleton Group is pleased to announce that Karen Anderson has joined the firm as our new Executive Assistant. Karen will be replacing Gloria Catter, who relocated to North Carolina because of her husband's job transfer. Karen's role is to serve our private clients, manage our office and support The Advisors Guild™. Karen's experience and knowledge of the industry will be beneficial to The Appleton Group in

providing private clients with our tradition of superior customer service. Karen joins the firm with over 6 years experience in the financial securities industry, most recently with Members Financial Services. Karen has her Series 7 and 63 licenses.

*"I am very excited about beginning a journey with new opportunities and a great sense of direction."*

-Karen Anderson

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## Retirement Plan Corner - FAQ's



**Wendy Hoefl**

Director - Retirement Plan Relations

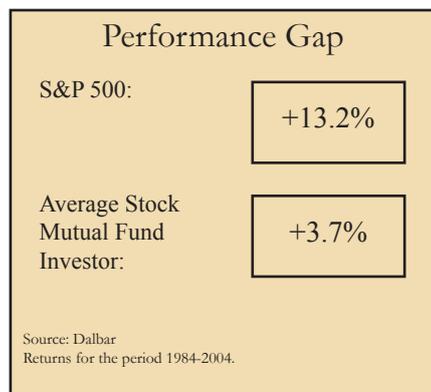
*The following is an excerpt from an interview Cherie Wirth conducted with Wendy Hoefl, Director - Retirement Plan Relations. If you have any specific questions that you would like to see addressed in this column, please feel free to contact Wendy at 920.993.7727 or whoefl@appletongrouponline.com.*

*Q: What is The Appleton Group 401(k) plan?*

A: Very simply put, The Appleton Group 401(k) plan is an innovative and cost-effective retirement plan platform. It is designed to help employees achieve more meaningful gains over time, protect those gains for future use and produce a more enjoyable plan experience for both participant and plan sponsor.

*Q: Everyone who sells securities has their own version of the 401(k) plan. What makes your plan so special?*

A: The traditional plan structure using asset allocation isn't working as evidenced by a recent Dalbar study.



This prominent national survey recently reported that while the Standard & Poor's 500 index has risen by an average of 13.2% from 1984 through 2004, average stock mutual fund investors have averaged a meager 3.7% over the same period of time.

We believe that while the U.S. equity, fixed income and real estate markets can reward investors handsomely over time, the volatile nature of the markets can make it difficult for many participants to get ahead. That's why we believe participants should have access to tools like The Appleton Group Composites that prepare for both cooperative and uncooperative markets. By combining our in-house wealth management style with that of various other managers, our Composites demonstrate exceptional balance. Our "open architecture" concept means that we can provide any number of the best-in-class funds chosen from the thousands that are out there. In addition to our in-house wealth management solutions, we also offer a personalized wealth management option using a self-directed brokerage account.

*Q: So, your firm isn't out to sell me a product? I like that.*

A: We're all about partnering with plan sponsors to offer objective guidance, making sure that participants meet their retirement goals. Also, we are committed to providing full disclosure of all fees and expenses.

*Q: Sounds expensive. Is it?*

A: As a Registered Investment Advisor, we eliminate the commissions often charged by the traditional broker-dealer platform and are significantly less costly than the typical insurance/annuity based platform. Eliminating commissions, back-end loads and high insurance wrap fees makes it possible.

*Q: One thing I can't figure out is what my current provider is actually charging me. Can you help?*

A: Yes. We know how frustrated plan sponsors have become trying to make sense of convoluted fee structures, not to mention all the hidden fees. It has become nearly impossible to compare proposals in an apples-to-apples format. We can help the plan sponsor identify all costs, both hidden and disclosed, and we then provide a comprehensive analysis which enables the sponsor to make a clear and informed evaluation.

*Q: I bet it's a real hassle to change to The Appleton Group 401(k)...*

A: Not at all! Although we do understand that there is a great deal involved for a company to make that change - what with paperwork, meetings, notices and so forth. But with the help of our Third Party Administrator (TPA) partners, we manage these details to make the process as efficient as possible. In fact, sometimes a company will be happy with their current TPA, but feel like they need to make a change on the Investment Advisor side. In this case, by using their existing TPA, the change becomes very simple - even eliminating the blackout period.

*Q: I like what I hear. How do we get started?*

A: Call me at 920.993.7727 or email whoefl@appletongrouponline.com. In the meantime, feel free to visit our website, www.appletongrouponline.com, under the 401(k) section. Click on my online presentation. It is quick and easy, and provides an array of pertinent information.

-CW



## An Idea Whose Time Has Come (continued from page 1)

we had been left stranded on the mountain without food or water, not knowing which way to go (there really aren't any road signs), or if our guides had simply gotten us started and said "We'll see you next time you want to climb." I'm sure that we could have just rented the equipment ourselves, secured provisions before we left, mapped out our course, and had a much different experience. But our mutual relationship was based on a structure that was fair for everyone, that ensured our guides would be with us along the way, and that tied our success and safety with theirs. It is now time to help other advisors guide their clients to the top of their own mountains: introducing "The Advisors Guild™." What a great idea!

### AN IDEA WHOSE TIME HAS COME

To say that The Appleton Group is thriving is an understatement.

Within the last year, we launched our own family of mutual funds and our own 401(k) platform. Our separately managed accounts have continued to receive national accolades, and our family of composite portfolios have proven to be just as popular. To put it bluntly we're having a lot of fun. I am humbled by the responsibility I feel every day, knowing that families and institutions rely on us to secure not only their investment portfolios and financial futures, but their emotional lives as well.

This responsibility is one we take seriously, and we've structured ourselves to not only give our clients the best care on our journey, but to give our employees the best possible work environment as well. The time has come to open our firm to outside advisors who see the world as we do, who see their role as so much more than selling securities and generating as much commission as possible, who recognize the severe limitations of the traditional brokerage model, and who want to be seen by their clients as more than salespeople.

The time has come to bring like-minded investment professionals together to serve our community with distinction, with the structure that I believe has served our clients so well.

The Advisors Guild™, a new division of The Appleton Group, establishes an alliance of like-minded investment professionals whose goals are to serve their own unique clientele without commissions of any kind, without conflicts of interest, and with portfolio disciplines that reflect the advisor's own investment philosophy. Advisors own their practices, and become employees of The Appleton Group. Our firm provides the framework that aligns advisor goals with client goals, bringing each together with a relationship that is directly tied to the client's investment success. Using our existing relationships with Charles Schwab

Institutional, Fiduciary Partners Inc., and others, advisors manage client assets that are held by third-party custodians. Advisors and clients agree ahead of time how the assets will be managed, and it is the advisor's responsibility to not only implement the agreed-upon discipline, but to provide portfolio management services on an ongoing basis.

### CLIENTS BENEFIT...

The benefits to the client are significant. First, every client receives the attention that is simply impossible to give under a traditional brokerage practice. Why? A successful practice consisting of hundreds of clients is largely unmanageable. Imagine the difficulty of not only overseeing hundreds of accounts but hundreds of portfolios that are each different! Now imagine what happens when markets are uncooperative. What a mess! But not any more...

Second, clients can now sit on the same side of the table as their advisor. Instead of being compensated by commissions, advisors are compensated by low annual advisory fees. These fees are typically expressed as a percentage of the total amount of assets under management, and can often even be tax deductible (see your tax advisor for details). If the investment portfolio goes up in value, the advisory fee goes up a bit as well (client wins, advisor wins). Better still, there is

a financial incentive to the advisor to ensure that the portfolio doesn't experience a sudden and dramatic turn for the worse (as the advisory fee would go down too). Under the typical brokerage model, there is simply no incentive for the advisor to manage risk since the advisor's financial interest is gone as soon as the commission is pocketed! (Our guides in Kilimanjaro thought this was a good idea too.) Since the financial well-being of the advisor is now tied directly to the investment success of the client, everyone sits on the same side of the table.

### ADVISORS BENEFIT TOO...

Imagine for a moment that you're an advisor that works for a big brokerage firm. For every dollar of revenue you generate through commissions, the typical payout to the advisor is approximately 40%, leaving the majority for the brokerage firm. To make a living, you have to do one of three things: 1) generate a whole lot of commissions; 2) sell products that have higher commissions than others (like loaded mutual funds or variable annuities); or 3) generate less commission but serve a whole lot of clients. For me, any of these three paths is laden with problems, not the least of which is recognizing that either investors pay more than they should or they get less attention than they deserve. This is a terrible structure, and knowing that advisors are good people stuck in a bad system, The Advisors Guild™ has a simple solution:

Pay advisors more, pay the firm less! At The Advisors Guild™, investment advisors are compensated as the professionals they are by reversing the typical payout. The advisor keeps 60% of the annual advisory fees, our firm uses the remainder to



**Dan Buechel**

Director - Advisor Relations

### Now accepting nominations....

*The Advisors Guild™ has a limited number of openings for 2006. We're seeking investment advisors who are trustworthy, have distinguished themselves in the community, and who have a spotless regulatory record.*

*To nominate an advisor, call Dan Buechel of The Appleton Group at 920.993-7727, ext. 18 or email at [dbuechel@appletongrouponline.com](mailto:dbuechel@appletongrouponline.com).*

**All nominations remain strictly confidential.**

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<i>Data as of March 31, 2006</i>				
The Appleton Group Portfolios	Morningstar Category	Q1 - 2006 Total Return	3 Year Total Return (Annualized)	5 Year Total Return (Annualized)
Appleton Group Portfolio	Large Cap Blend	+5.64%	+16.98%	+8.77%
Appleton Group Plus Portfolio	Large Cap Blend	+5.81%	+13.74%	+8.46%
Appleton Group - Balanced Income Portfolio	Moderate Allocation	+4.78%	+12.85%	+7.57%
Appleton Group - Tax Managed Growth Portfolio	Large Cap Blend	+5.80%	+15.86%	+9.30%
<i>S&amp;P 500 Index</i>		+4.21%	+17.16%	+3.94%

<i>Data as of March 31, 2006</i>				
The Appleton Group Composites	Investment Objective	Q1 - 2006 Total Return	3 Year Total Return (Annualized)	5 Year Total Return (Annualized)
Appleton Group Conservative Composite	Conservative Growth	+4.43%	+13.22%	+7.96%
Appleton Group Moderate Composite	Moderate Growth	+5.02%	+15.67%	+9.29%
Appleton Group Assertive Composite	Aggressive Growth	+6.16%	+17.94%	+10.24%
<i>S&amp;P 500 Index</i>		+4.21%	+17.16%	+3.94%

Performance quoted represents past performance and is no guarantee of future results.

\*The Appleton Group Portfolio performance information provided indicates what effect the portfolio adjustments generated by the Appleton Group Wealth Management Discipline, strictly implemented, have had on a model portfolio as such portfolio adjustments were implemented. Although the portfolio adjustments are actual recommendations which have been generated by the Appleton Group Portfolio Management Discipline since December 31, 1999, the performance results are for a model portfolio and do not represent the actual performance of accounts managed using the Appleton Group Portfolio Management Discipline.

\*\*The Appleton Group Composite performance information reflects weighted historic performance, uses the benefit of hindsight, and does not represent the actual performance of accounts managed by The Appleton Group LLC.

Performance statistics have been calculated net of management fees, net of applicable expenses and net of brokerage costs using the internal iterative rate of return (dollar weighted) calculation method. While performance is compared to the benchmark indicated, client accounts may be fully invested, partially invested in cash equivalents, or invested in inverse (“bear market”) funds, depending on the portfolio selected. The actual amount of time invested in the market will vary with economic conditions. Unlike an actual performance record, these performance results 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 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. A complete history of our performance analysis is available upon request.

The principal value and return of exchange traded mutual funds and other 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 Appleton Group Portfolios on April 5, 2002, with Mark C. Scheffler serving as the sole portfolio manager. Prior to that date, Mr. Scheffler managed The Appleton Group Portfolios on a non-discretionary basis while employed as a broker with Robert W. Baird & Company, Inc.

Deviation from the models will produce substantially different results.

## An Idea Whose Time Has Come (concluded from page 3)

properly fund the guild. The result? Smaller advisory practices, client relationships that are based on long-term cooperation, and no conflicts of interest. In short, the compensation structure is fair to clients (by keeping fees low), fair to advisors (by keeping payouts high), and fair to The Appleton Group (which has a real incentive to keep both advisors and clients happy).

We also take steps to ensure that advisors remain completely objective and independent. Annual management fees are the same regardless of the investment

product recommended. Also, by knowing that our existing clients are free to leave us at any point in time (and doing so will directly impact our financial well-being), our feet are held to the fire to ensure that all clients are satisfied. We also enable advisors to leave our firm at any time without interference from us. This puts clients in charge of their relationship with their advisor, and the advisor in charge of their relationship with our firm. That’s responsibility, and we’re up to the task!

### TYING IT ALL TOGETHER

Here’s the challenge: **CHANGE IS DIFFICULT.** Recognizing that advisors will face many obstacles in converting their practices to The Advisors Guild™ (including significant opposition from an advisor’s current employer), the amount of courage required cannot be understated. Recognizing the many benefits of the guild may simply not be enough to initiate change without the benefit of meaningful support from his/her existing clients. This is the difficult part, knowing that many

former employers may take drastic action (including legal action) to prevent an advisor from even discussing the many advantages of guild affiliation with their clients. Courage, objectivity, vision will all be required, and we look forward to working with the many advisors who not only know that there is a better way, but who are willing to take action on behalf of their clients.

We look forward to this journey. We’re out to change the world bit by bit, and we look forward to your involvement!