The Compass™

Appleton Group Wealth Management, LLC
100 W. Lawrence Street, Third Floor
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Appleton Group Wealth Management LLC is an independent, Registered Investment Advisor (RIA) located in Downtown Appleton, Wisconsin. We solely provide wealth management services for investors, 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 $113.841 million, serving advisors, individuals, families, trusts, corporations, institutions, endowments, foundations, and company sponsored retirement plans.

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

Inside this issue:

What's the Big Idea? How About Three…

From the desk of Mark C. Scheffler

What a difference a year makes. When I sat down to write the main article for our newsletter a year ago, the world looked a lot different than it does today. The markets we're nearly at an all-time high (Dow 14,000 or so), Fannie Mae and Freddie Mac and Lehman Brothers and Bear Stearns and Citigroup and General Motors and Ford and AIG were all flying high. You don't need me to tell you that fortunes have changed mightily for these companies, for the economy, and for so many individual households and families.

But for almost ALL individuals, families, and institutions one issue remains as clear today as it did last year: does the minimum amount of investment return needed by any investor require investment risk, and if so what is the most efficient and reasonable way to tackle this need. What are the rewards likely to be over time, and what are the risks along the way? This question remains as important today as it did last year, just as it has for generations.

Mark C. Scheffler
Senior Portfolio Manager,
Founder

In today's information-based global society, news on the current state of the economy is everywhere, available 24-7, with the contraction of modern economies highlighted constantly. "What happened to the economy?" is well-documented, and will certainly be discussed and debated by academics and historians for many years to come. But with so much information flying around today, filtering out the important data from the trivial is critical. What happened to the global economy and to banking

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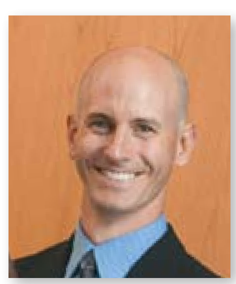
Peter Mutschler Named Co-Portfolio Manager

Peter Mutschler has been named co-portfolio manager for Appleton Group Wealth Management LLC, effective April, 2009. Peter has been a valuable member of the portfolio management team since joining the firm in 2005, sharing responsibilities in trading, trade allocation, daily research, and security selection with Mark Scheffler, Senior Portfolio Manager for the firm.

"Peter has become an increasingly valuable member of the portfolio management team," said Scheffler. "His work ethic and dedication to the principals and beliefs of our portfolio management discipline all qualify him to be named co-portfolio manager."

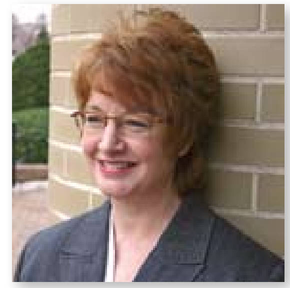
Naming Peter as co-portfolio manager also reinforces the firm's commitment to expand the portfolio management team, ensuring continued delivery of all of our firm's offerings for many years to come. "As our firm continues to grow, it is increasingly important to have dedicated and knowledgeable staff who are able to perform a variety of critical roles," said Scheffler.



Both Mr. Mutschler and Mr. Scheffler will jointly share in all portfolio management activities. In addition, Peter will take on a more active role in communicating with third-party advisors and consultants. Mr. Scheffler will continue to exclusively serve our firm's private client group.

Retirement Plan Corner...

2009: A Time for Action



Wendy Hoeft
Director -
Retirement Plan Relations

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and to the markets is interesting and meaningful and important to consider, but it is significantly less important than answering the question "What happens next?" In considering what to write about right now, I've decided to highlight three critically important ideas that I think will not only be helpful in the short run, but which could make all the difference in the world over our lifetimes. So here goes…

Big Idea Number 1: We're in a multi-generational trading range full of opportunities but one that could take many years to break out of, and as a result "buy and hold" investing strategies are the wrong approach to dealing with this trading range. But it's not too late to change!

The range on the Dow Jones Industrial Average is fairly well defined. In 1995 (the start of the information technology revolution), the Dow started the year at 3,800. In late 2007, it topped out at approximately 14,000. As has been the case with other world economies throughout history (most recently Japan), economies and markets can expand for a time (periods of boom) but they almost always contract or remain stagnant (periods of bust) because of a lack of net economic growth. For the Dow or the S&P 500 to break out to new highs, the U.S. (and/or) the global economy will have to continue to consume goods and services ad infinitum – more housing, more strip malls, more food choices, more energy, more automobile purchases, and so on. Inevitably, society's needs are adequately met (for a time) and there simply isn't a need for more of all of these things right now. Quantity of life takes a back seat to quality of life, which presents a significant problem to a global economy that only works in the presence of "more."

In 1929, the Dow Jones Industrial Average peaked at its generational high of 380, and didn't break out above that mark until 1954, twenty-five years and a complete generation later. Obviously, buy and hold investing does work over the long haul. But is it reasonable for an investor to have to wait twenty-five years just to get back to break even? The answer is an undeniable "no."

There's an old saying in the investment business that rings true today: "Markets can remain irrational longer than an investor can remain solvent." One fundamental aspect of buy-and hold strategies is inescapable: unless there is a method for harvesting portfolio gains when they occur, the market can take back much of those gains (and more). This idea reinforces for me the fact that all of the core strategies we manage (PLUS, Tax Managed Growth and Appleton Group Portfolio) are among a small handful of solutions to this dilemma. Similarly, the asset allocation composites we offer are by far a better solution than less flexible portfolios, but have experienced more volatility and portfolio drawdowns than the use of our core offerings alone.

Given the increasing likelihood that the actions of the Fed and the current administration may inflate our way out of this recession (with the possibility of significant price appreciation along the way), we may work our way back to the top of this range over the next few years. At that point, it will be wise and prudent and timely for all investors (and advisors) to do a better job of recognizing that "buy and hold" is an ineffective word missing and can be an unsuccessful investment strategy for long periods of time.

Big Idea Number 2: The overwhelming majority of data that passes through our ears and our eyes on a daily basis is not important. There is only one critical issue that investors need to be concerned with: get on the right side of the market, and make adjustments along the way that will keep you on the right side of the market. For investors (and advisors) that courageously and boldly embrace this singular task (and nothing else), the opportunities for future prosperity are astounding.

If Big Idea Number 2 is true (and I believe it is), it will render 99% of the mutual funds and investment managers that exist today obsolete. It will also make ALL investment advisors and consultants who embrace Big Idea #2 the most sought-

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Thoughts on Creation, Growth, Development and Renewal...

What's the Big Idea? How About Three... concluded

"Is it reasonable for an investor to have to wait twenty-five years just to get back to break even? The answer is an undeniable 'no'."

-Mark Scheffler

after and important individuals in the financial services industry, perhaps in modern society itself.

Mutual funds and investment managers that have endlessly repeated the mantra "stay-the-course" without making any meaningful shifts in risk exposure along the way have experienced the worst of the market's declines. In 2008 alone, titanic buy-and-hold shops like Vanguard and Fidelity and American Funds and T-Rowe Price and Janus and so many others have witnessed the value of their firm's assets (and those of their investors) decline by as much as 45%[1]. The flagship of Fidelity's fleet, Magellan, declined by more than 48% last year, while Vanguard's 500 Index Fund had given back more than a decade's worth of gains at one point during the recent bear market. They each have experienced the worst possible outcome for their respective strategies: the market could fall and there isn't a thing that they would do (or realistically could do) to get out of the way. It's hard enough when you have a strategy, but many firms do not.

I'm not one to throw stones, because we've taken our share of nicks and scrapes along the way and we too can get caught on the wrong side of the market for a time, but the difference is clear: good things happen when you're on the right side of the market, and bad things can happen when you're not. There are so many institutions that have NO PLAN for uncooperative markets save one: grin and bear it. Fortunately, there are a whole host of investment managers that put in writing the actual results of their investment processes, and it is clear from year-to-year which disciplines are better at navigating both good and bad markets.

While I believe there is never a time for an investment professional to stop managing risk, it's only one side of the coin: being on the right side of a sustained market advance is imperative. And opportunities abound right now from financial services to basic materials to technology to real estate and others, but all need to be treated with objectivity and prudence and a healthy dose of practicality. All advances do end and the time to harvest those gains will once again present itself. Buy and hold strategies will likely get the entire advance, but they will once again fail to convert those gains in anything that is lasting.

There was a commercial for a large brokerage firm many years ago that said, "We make money the old fashioned way: we earn it." Working at managing both risk and reward never goes out of style, and I believe that now is the time to throw away the idea that you can just park your assets in the market and good things will simply happen. It's just not that easy.

Big Idea Number 3: Investors and advisors cannot ignore the tremendous emotional costs that result from being on the wrong side of the market for too long. The sleepless nights and countless hours watching CNBC and awaking at 4:00 in the morning to check market futures is not a good use our time here on this earth. It damages our relationships with those we care about, it is an endless source of stress, and the key to a better life simply involves embracing Big Idea #2. I think you'll love it!

Simply put, life is too short. Some people may find it interesting (or even necessary) to know how many IPods were sold at Best Buy last month, or what Kimberly Clark's profit margin on Huggies was last quarter. But it really isn't the most important piece to investing. Capital gains occur from only one thing: taking a position in an investment vehicle at a certain price, and selling it in the future for more. Warren Buffet has said "Investing is simple. It just isn't easy." In reality, the asset you invest in really doesn't matter, so long as it goes up in value after you buy it. It is this inescapable fact that has been the basis for capitalism since its inception, with all of its benefits and its flaws along the way. The system is what it is, and it is the "clay" with which we "sculpt."

Maybe I'm too close to it, but I find myself becoming more and more obsessed with the minutia of this venture, and you may too. The big issue is this: all investments that incur risk do go down from time to time. They have to – its how the system works – and the system is doing what it is supposed to. But because we have access to our asset totals on a daily or even a minute by minute basis, it is becoming increasingly addictive to "check in." "Where are we now? Where are we now? Where are we now?" as if we were all living our life on a graph.

I believe strongly that the markets should serve us, and that we should be able to break away to live our lives. But this system is so focused on the "now" that it is costing all of us dearly. Oh, for a good night's sleep.

Big Idea Number 2 (working daily to be on the right side of the market) is the key, and in-large part it means not being as well diversified as I have advocated in the past. Being diversified means that you have several parts of a portfolio performing differently at the same time. In normal markets (even during normal market corrections), diversifying by wealth management styles is immensely helpful. It is the basis for all of our asset allocation composites, and to a lesser degree our Tax Managed Growth Portfolio. But it is becoming increasingly clear that we are not in a normal market correction, that this is something more. For my part, I'd rather be more *right* than more *diversified*, and I believe that fully embracing Big Idea #2 is the key.

In the past, I've advocated using market neutral strategies like our core offerings exclusively – no "buy and hold" at all. Despite this firm belief, I too have been swayed a bit by the crowd, but in the end our core offerings have remained the mainstay of all of our portfolios. And for many (me included) it has been enormously helpful, but not perfect.

We're still working on the perfection part!

-MCS

[1] *Investment News,* February 23, 2009
[2] *Yahoo Finance*