APPLETON GROUP

WEALTH MANAGEMENT, LLC

The Compass™

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Appleton Group Wealth Management 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.

Appleton Group Wealth Management, LLC currently manages $148.4 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 Appleton Group Wealth Management which is solely responsible for its content.

Inside this issue:

Going on the Offensive

From the desk of Mark C. Scheffler

With the Green Bay Packer's Super Bowl 45 win now in the books, I think it's time to look back at what made the game so enjoyable and successful for the green and gold faithful. I promise we'll get to investing in just a moment!

First, the old adage proved true yet again: defense wins championships. Despite a host of injuries during the season and during the Super Bowl itself, the Packer's defense proved more than capable of slowing down Ben Roethlisberger and the Steelers offense. After losing reigning 2009 defensive MVP Charles Woodson just before halftime to a broken collarbone, the rest of the defensive secondary stepped it up by continuing to pressure their quarterback and preventing their opponent from taking the lead. Despite the many attempts by the Steelers to get ahead, in the end every Super Bowl outcome is the same: the team that allows fewer points than it scores wins every time. Every time!

But in order for that fact to be true, of course, the Packers would have to score. And did they ever! Super Bowl MVP Aaron Rodgers connected on three touchdown passes over the course of the game, with the Packer's defense chipping in with an interception returned all the way for an additional score. As they had done for much of the season, the Green Bay offense gave their defense a bit of help,

Mark C. Scheffler

Senior Portfolio Manager,
Founder

outscoring their opponents by more than nine points per game. With leads like that, most teams will come out on top.

continued on page 3...

A 401(k) Revolution

One of our firm's great passions has been our continued service to the corporate 401(k) market. From the moment I began my career, I saw firsthand how much individual participants need objective guidance in managing what, for many, is their single largest financial asset.

More than a decade ago, most 401(k) plan assets went from being professionally managed by an experienced investment professional to being "self-directed." This meant that each individual participant was responsible for managing his or her own retirement pool, and forced many employees into the role of professional investment managers. Since then, market volatility has increased dramatically, the shear number of investment choices has exploded, and numerous asset classes (such as tech stocks, real estate, emerging markets, and more) have experienced massive bubbles that have burst. Not in any way what most retirement plan participants had in mind.

All the while, the investment industry itself has failed to address the conflicts of interest that make it even harder for individual participants to get ahead. Retirement plans are often sold with massive fees that are hidden from view, many brokers are paid higher commissions to sell one product over another, banks who have ventured into the retirement plan business will often threaten to pull a company's credit lines away from them if they move their 401(k) plan somewhere else, and insurance companies who barely survived the financial meltdown of 2008 are still entrusted with large pools of money on behalf of everyday employees.

But perhaps worst of all, many 401(k)s and other company-sponsored retirement plans offer investments that are still highly risky, that have failed to keep up with annual rates of inflation, and that require participants to experience devastating annual losses in the hope of achieving even modest rewards over time.

continued on page 2...

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A Daredevil in Disguise?

When I was a boy growing up in Wausau, Wisconsin, my grandmother had a photograph on her TV that was, well, AMAZING. There's no other way to describe seeing a man doing a handstand on a chair, which is on top of four Coke bottles, which is in turn on another chair, stacked four levels high on the wing of a World War II B-29 Bomber. What a sight!

Can you imagine seeing this feat of death-defying acrobatics unfold before your eyes? This guy would get up on the wing of the plane, set one table on another, and another and another, finally ending up some twenty-five feet above the concrete tarmac, standing on one foot (as in the picture) and then do a handstand to boot! Yikes. That's exactly what our good men and women in uniform were treated to as part of the World War II USO Show in the south Pacific theater. And to think that the man on the plane actually signed the photograph for my grandmother living all the way back in Wausau. That was a big deal in 1945!

Not only were the photo and the autograph amazing, but so too was the story of the man himself. The acrobat's name was Al Dault, a first-generation American who was my grandmother's older brother. Uncle Al grew up in the Wausau area and taught himself to do acrobatics in his parents' back yard. As a member of the U.S. armed forces, he used the stage name "Dare Devil Dault" in the USO Show and in later years working in the entertainment business. Along the way he became good friends with the famous Roy Rogers and toured the country together with Dale Evans, Trigger and their dog Bullet doing circus acts. Obviously, show business

was in his blood.

Three generations later I'm finding out things about my family tree that have enriched me tremendously. A few years ago, we reconnected with my great-grandfather's family living in the same German village he left over a century ago. Now, Dare Devil Dault has come back to life as an echo from my past. I believe that all of our family's histories and the experiences of our ancestors in part make us who we are today. At the very least, they help make us aware that we can choose many paths that might just help to make our own lives and the lives of those we care about just a bit more enjoyable.

A friend of mine recently told me that you can't change who you are. He's right. I am not a daredevil – frankly, I have no interest in being one. There are plenty of "all or nothing" investment managers in our business, many of whom have performed "handstands" of their own with other people's money. According to Google, there are approximately 3.16 million web pages that have the words "investment" and "daredevil" on them – that should be more than enough. I'm content to keep both feet on the ground, thank you very much.

But kudos go out to Al Dault and to all of those performers who entertained our many soldiers over the years. For our men and women in uniform, these acts provide a necessary diversion, even today.

But I for one am more than happy to leave handstands, backflips, and other acts of acrobatic glory to the entertainers.

-MCS

A 401(k) Revolution… concluded

But a revolution is coming in the retirement plan arena, and Appleton Group Wealth Management LLC is leading the charge. For years, our firm has been a leader in the corporate retirement plan market, offering low-cost, transparent, flexible retirement plan solutions that take steps to address both the rewards of investing but the inherent risks as well. With the Department of Labor enacting real 401(k) reforms that should help, our firm is taking on an even greater leadership role. We are one of the first investment advisor in northeast Wisconsin to roll out an ETF-based 401(k) plan that can dramatically cut investment expenses, significantly increase transparency, will largely eliminate "style drift," and will give retirement plan participants investment options that can dramatically reduce investment risk. We have further refined our offerings to make it easier than ever to offer companies measurable savings, better investment efficiency, all with the goal of giving both participants and sponsors a much better retirement plan experience.

To help address the upcoming 401(k) plan regulatory changes and to introduce existing plan sponsors to the solutions our firm offers, we are sponsoring a half-day workshop called "A 401(k) Revolution" on Tuesday, April 26, 2011 at North Shore Golf Club on the edge of beautiful Lake Winnebago. In addition to Appleton Group Wealth Management, speakers will include Pension Inc., Morningstar, and Simandl & Prentice, S.C..

There is no charge to attend the seminar, but reservations are required, as space is limited. This workshop is designed for retirement plan sponsors; continuing education credits have been applied for.

Contact Cherie Wirth at 993-7727 (toll-free 866-993-7727) to reserve your seat today.

Going on the Offensive… concluded

This Super Bowl victory was just as sweet as any, but it wasn't really the low scoring game many experts had predicted. Most TV and newspaper analysts I encountered had predicted a defensive stalemate, with both teams struggling to get to 20 points apiece. As it turned out, the game was pretty normal from a scoring standpoint, with Green Bay putting up 31 points and Pittsburgh getting 25. In the end, the Packer's defensive touchdown did make the difference in the outcome of the game, but it was really the balanced attack that did the job.

An Offensive Market

As many of you know, playing defense in the markets for much of the last decade has been the right call. As of March 31, 2011, the total return for the S&P 500 since the turn of the millennium (with all dividends included) has been a very modest +0.77%* per year. That's it.

And as everyone knows, these small market returns were due mainly to two dramatic bear markets: the first occurring from March 2000 – March 2003, and the second occurring from October 2007 – March 2009. These are in the books; they're history.

And while being defensive for much of this time was the right call, there have been reasonable opportunities for growth along the way. These periods occurred primarily during the five-year bull market of 2003 – 2007 (sandwiched in-between the two bear markets) and the economic recovery of 2009 & 2010. The five year bull market was a great example of a slow and steady "old economy" kind of recovery (energy, real estate, growth stocks, dividends, even bond funds did well). The recent market recovery of the past two years has been strong too, but in a much more choppy and volatile fashion. Undeniably, these two periods presented opportunities for portfolio growth that can and do normally present themselves from time to time.

Over the years, I've written extensively about the success our core portfolios have had in limiting losses to just single digits during the worst years of each of the past two bear markets. I'm really proud of this fact because we've accomplished exactly what we set out to do: to invest in all of the major growth segments of the markets while giving more than just lip service to minimizing the potential destructive nature of our economic and market system. Defense wins football championships and defense wins in investing as well.

But I have not been satisfied with the amount of market advance that we've been able capture over the last two years. The market destruction presented an opportunity for significant portfolio gains, which when coupled with the avoidance of the overwhelming majority of the market decay would have turned into a major windfall for our clients. Both 2009 and 2010 have ended up as double-digit advances for the overall markets and have brought them back to nearly the levels that they were at when the bear market began. Not quite whole, but close.

And as it turned out the market advance of the past two years has been sometimes so unpredictable and choppy that we just haven't been able to make a whole lot of hay without exposing all of our clients to potentially catastrophic risks. It is our job to anticipate these risks and to prudently manage them as professionals and not as journeymen. But it is our job to make money for our clients and to let as few opportunities for portfolio growth pass us by. That much has always been clear to me.

Over the complete history of our managed portfolios, each has produced gains that have been solidly ahead of the S&P 500 index over the past 11 – plus years. That bogey hasn't really been all that difficult to top from start to finish, frankly. But we've had tremendous new client growth over the past several years due to the recognition by many that our more prudent and measured investment style may be a better fit than the high-flying styles of many of our competitors.

And I've written again and again that the time to change from an inefficient, high risk strategy to one that is more efficient (like ours are) is at the top of the market (when you've been rewarded for taking on risks) and not at the bottom (when you've seen half or more of your portfolio melt away). For everything there is a time.

And the time for portfolio advance presented itself again back in September of 2010. After the "flash crash" and Greek debt crisis and riots in France over European austerity measures sent the market into a real tailspin last summer, they found their footing just as autumn was setting in and have continued to advance nicely since then. We adjusted with them back in September, and because of that shift we've been capturing a whole lot of that advance. As of the end of March, 2011, we continue to be exposed to a lot of growth assets (equities, real estate, and commodity-sensitive assets mainly) that are rewarding our clients for the risks of owning them. This is exactly as it should be.

And we continue to be mindful of ways in which we can perhaps further "fine tune" our trend-following strategy to better balance rewards with our risk management success. We always want to get better. In the summer of 2009, we introduced our second-generation trend-following applet that addressed some of the realities that are now a part of the markets which simply weren't present before. Our applet adjusts faster in declining markets than it does in rising markets, it is optimized to factor in the most optimal trends to give our clients the best likelihood of a favorable outcome, and it gives us the unique opportunity to see a bit further into the future to prepare for adjustments that are likely to occur in the coming days. These are all good things, and I believe offer a better likelihood of success than any other investment management strategy available today.

So even though the upcoming NFL season is in limbo right now, our offense is still on the field, still working our way to the end zone, still taking what the market gives us. At some point the market will have run its course and our defense will take over, but right now it's getting a much needed breather after having been playing hard for much of the past 11 years!

-MCS

**Source: Morningstar*

A Virtuous Economy

In January, my family and I started a year-long project together that I've fallen in love with. We bought a book called the *Family Virtues Guide* that identifies 52 unique positive qualities that any individual can work toward strengthening in their own personal life. We pick one each week as a family (drawing the virtue out of a hat) and then work during the week to see if we really live that virtue in our own lives.

With so much negativity in today's world, I've found that spending just a few minutes every week focusing on a positive quality is rejuvenating and, honestly, refreshing. As I go through my week, I've found that many of these qualities are not only valuable in my personal life but also in my professional life. They are often qualities that not only define my relationships with clients and colleagues but I've also found that they are ideals that are (or should be) present in our larger economy and in our investment industry.

Here are the 52 virtues, along with a brief tie-in to our firm, our industry, and to the greater economy:

Assertiveness: being ready and eager to take advantage of reasonable opportunities as they are presented.

Caring: understanding that markets and economies are intended to serve the greater good.

Cleanliness: having a well thought out investment strategy that is simple, efficient, and productive.

Compassion: working to ensure that economic opportunities are present for all members of society.

Confidence: being sure that opportunities for growth will present themselves regularly and that a virtuous approach to commerce serves all parties involved.

Consideration: being aware of an individual's feelings about their own security and tolerance for uncertainty.

Courage: the ability to withstand the inevitability of being wrong from time to time.

Courtesy: the ability to express gratitude for the sometimes wonderful benefits that come from our occasionally flawed economic model.

Creativity: seeing many possibilities where others only see stagnation.

Detachment: being able to invest without the crippling emotions of fear and greed.

Determination: identifying and documenting our financial goals so that we may gauge our own progress in meeting them.

Enthusiasm: approaching every day with an expectation of learning something new and being productive and helpful.

Excellence: seeking new ways to improve results, increase human achievement, and expand economic opportunity.

Faithfulness: exuding an optimism that the future will unfold in a way that advances human achievement.

Flexibility: the ability to adjust one's opinion (and investment posture) when change is warranted.

Forgiveness: the ability to see human imperfection as a truly abundant resource.

Friendliness: the act of treating every client, co-worker, vendor and competitor as valuable.

Generosity: being able to share many of the economic bounties we receive from time to time.

Gentleness: taking an oath to first do no harm.

Helpfulness: taking the time to transform complicated ideas into simple ones.

Honesty: 1) being able to convey truths that are sometimes difficult to accept, and 2) the ability to selflessly give up the opportunity for personal advancement at the expense of others.

Honor: living with a sense of respect for what you believe is right.

Humility: being able to set aside personal pride and to recognize that no success comes without a lot of help.

Idealism: striving for perfection while understanding that as a social science, economics is as flawed as humanity itself.

Joyfulness: feeling a sense of accomplishment that comes from a job well done.

Justice: seeking fairness in compensation, reward, competition, and access to opportunity.

Kindness: knowing that for all of humanity, life can be a struggle.

Love: a heartfelt passion for what you do and for whom you serve.

Loyalty: being able to stand by what you believe with unwavering faith and courage.

Mercy: giving people more than they might deserve on their own.

Moderation: knowing when your cup is full and avoiding the temptation to ask for a bigger one.

Modesty: the ability to accept wealth without being boastful.

Obedience: rigidly following an investment discipline even if the market itself may disagree once in a while.

Objectivity: setting aside one's biases in search of economic truth.

Orderliness: having an investment portfolio that is manageable, and which does not become so complex as to be a burden.

Patience: accepting that some results may take time.

Peacefulness: the ability to accept that some days are just not good ones.

Prayerfulness: the act of asking for help in being a virtuous human being.

Purposefulness: the ability to come back the next day and try it all over again.

Reliability: being unwavering in doing what we say we are going to do.

Respect: knowing that the economy is sometimes unkind.

Responsibility: knowing that clients expect our best efforts and intentions at all times.

Reverence: seeing the contributions and successes of others as something to be emulated.

Self-discipline: having the ability to avoid the temptation of short-term thinking.

Service: putting the successes of others ahead of your own.

Steadfastness: seeing a commitment through to its completion.

Tact: helping others understand that their mistakes have been made by many others first.

Thankfulness: expressing daily gratitude for the many blessings we share.

Tolerance: accepting and learning from others' points of view.

Trust: believing that the right outcome will occur in due time.

Trustworthiness: working to create an economic system that can be counted on to benefit all of society.

Unity: knowing that we're all in this system together.

-MCS