



THE APPLETON GROUP, LLC

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

The Compass™

April 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 \$172.1 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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The Nature of Growth

From the desk of Mark C. Scheffler

With spring here I'm feeling particularly energized to get out into our backyard garden, out sailing on Lake Winnebago and hiking at High Cliff State Park. I know I'll see a lot of you out and about too!

A month ago our daffodils peeked their heads up just a bit, and I was reminded how resilient nature can be. Despite another solid winter, there are signs of growth everywhere: the greening of the grass, the sprouting of my wife's chives, and last fall's buds ready to burst out. And in the countryside local farmers celebrate the birth of chicks, piglets, kid goats, calves and lambs. All at the right time, each shepherded into the world as they have been for countless generations.

But in the wild, there are no farmers. No vets to help the process along. Nature has figured it out long ago, and despite our encroaching footprint into every corner of the world, nature gets it right every time. I'm amazed by how efficient she is, how lasting, how sustainable.

Greater writers and thinkers than I have marveled about nature's grandeur. From William Wordsworth: "Come forth into the light of things, let nature be your teacher." From Shakespeare: "One touch of nature makes the whole world kin."

And from a voice who may be new to you: "For the 99 percent of the time we've been on Earth, we were hunters and gatherers, our lives dependent on knowing the fine, small details of

our world. Deep inside, we still have a longing to be reconnected with the nature that shaped our imagination, our language, our song and dance, our sense of the divine." These are the words of one of the great minds of our modern age, Janine Benyus, an American biologist from Montana.

Benyus almost singlehandedly created a discipline we now know as "biomimicry," bio (from nature) and mimicry (to imitate). This is the study of mankind's age-old (and modern-day) attempts to use nature as a model for all kinds of human endeavors – flight (airplanes shaped like birds), plumbing (modeled after the human circulatory and waste systems), and solar panels (designed much like leaves). We've barely begun to scratch the surface.

But so far, there has been very little work done to model economic systems after nature, and I think there's a great opportunity to do so. After all, economics is essentially the study of the allocation of resources, a task that nature has spent eons perfecting.

Consider that nature has already perfected the intricate balance between predator and prey – neither population is allowed to naturally become so large or so small to upset the balance. Nature has perfected the trade off between energy consumption and waste production – trees absorb sunlight for energy to produce the fruit and seeds necessary to ensure eons of survival.



Mark C. Scheffler
Senior Portfolio Manager,
Founder

And nature has perfected models that control the scale of, everything. Organisms (yes, even us) grow to exactly the right size. The genetic code for everything is scaled to perfection, ranging from simple bacteria to humpback whales. When left to its own devices, nature grows abundantly but within predetermined limits. When those limits are violated, one of two outcomes is possible: nature adapts or the violation results in a "penalty."

So I'm fascinated by the idea that nature already has addressed the issue of what I would call "beneficial growth," the kind of growth that is helpful, that makes systems stronger, and that is sustainable. For the better part of a century, our economy has had plenty of room to grow because our human population has had plenty of room to grow. And over that same period of time, we've simultaneously created impressive innovations (like aviation, global communications, and Hi-def surround sound).

But in the last thirty years or so, we've begun to experience far

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Mark to Make Believe

One of the greatest aspects of The Appleton Group is that we get a front row seat on the inner workings of the most complex system ever devised in the history of humanity – our modern economy.

And from that front row seat I sometimes get to see both the positive and the negative aspects of this system. I'm pretty sure which camp this item falls into.

Back in the darkest days of the great recession, many of the mega-large banks in America (JP Morgan Chase, Citigroup, Wells Fargo, Goldman Sachs, Lehman Brothers, Bear Stearns, et. al.) complained about a standard accounting practice called “mark to market” accounting. It was simple: the value of any asset you owned had to be carried on your balance sheet according to what the market said it was worth.

It's what every investor does on their brokerage statement, and it makes sense because it directly impacts the bottom line of everyone who own anything. But when the markets are telling us that something is worth less

today than it was yesterday (or a LOT less in the case of the great recession), it can cause a lot of problems to a bank that has to keep a certain amount of assets in reserve. As assets like real estate and stocks and derivatives go down in value, big banks would have to reflect that on their balance sheet and if the losses get out of control they'd have to raise capital some other way. If unsuccessful at raising capital, they'd go under.

For generations, this is exactly how the system was supposed to work. When big banks (or others) take excess risks in the hopes of excess profits and things don't work out, they go out of business.

But the “too big to fail” banks (many of which continue to exist today) lobbied Congress in early 2009 to change accounting practices so that they could magically value these assets at whatever price they saw fit. The banks argued that since they weren't going to sell them anyway,

they should be able to value them not based on what the market thought they were worth but what the banks themselves thought they'd be able to sell them for at some time in the future.

The only catch was that they'd have to put them into a special bucket on their balance sheet, call them “Held to Maturity” assets, and magically they'd be valued at significantly higher prices than they were just moments ago.

This practice became known as “mark to make believe.” Catchy, right.

Well, they're at it again, but this time with the trillions of dollars of bonds they hold in their portfolios. As interest rates have been going down due to the Fed's \$3 trillion stimulus, bonds have gone up in value, which has benefitted the banks.

But remember that bonds lose value when interest rates rise,

so when the Fed begins to boost rates later this year these assets will come down in value. So according to the FDIC, many of these banks recently shifted nearly a quarter of a trillion dollars of bonds to the “Held to Maturity” line on their balance sheets, artificially shielding these assets from losses when rates rise. They get all the benefits with none of the risks.

As only one example in a long line of clever – some might say egregious – accounting gimmicks, it's important for all investors to understand that today's markets are more complicated than ever. And at some point, markets will have to accurately reflect reality whether the big banks like it or not. Over time, it's really the only way to ensure that our treasured financial system remains free from manipulation, accessible to everyone, and no longer subject to taxpayer subsidies who bear all of the risks of the economy while only receiving a fraction of the benefits.

-MCS



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 & CEO, Global Futures

Mark Scheffler Announces Semi-Sabbatical

As an increasingly common practice in the financial services industry, investment managers and advisors are often given the opportunity to explore a specific professional topic over a pre-determined period of time. Taken from the field of education and research, it is referred to as a “sabbatical” and typically affords the participant a complete break from his/her assigned duties for the duration of that time.

This period of professional development has been extended in the past to the administrative staff in recognition of ten years of service to Appleton Group’s clients; however, it has not yet been extended to senior staff of our firm.

Beginning in mid-April, I will be participating in a “semi-

sabbatical” which will allow me to simultaneously meet all of my ongoing professional obligations to my clients and to the firm while undertaking an in-depth study of the issues surrounding economic sustainability.

As outlined in the lead story for this newsletter, I will be working on “The Nature of Growth,” which will enable me to study what nature can teach us about beneficial growth, limits to growth, and the creation of a sustainable economy. This work is really an expansion of my sustainability series from 2014, as well as my work for The Foundation for a Sustainable Wisconsin (www.sustainwis.org).

But my sabbatical is structured differently than most. Instead of one extended block

of time for this project, I will be setting aside no more than two or three days at a time for the project. This will enable me to continue to oversee the investment management services of the firm, to meet all of my clients’ financial planning needs, and to oversee the day-to-day management of the firm. The only aspect of my practice that will change during this period is that I will not be accepting new private clients until the end of my sabbatical, which will be in late September.

At the end of the project, it is my intention to produce a one hour documentary entitled “The Nature of Growth” that will be made available to all clients of the firm through a special event showing in early 2016.

I wish to sincerely thank

my staff that has expressed their support for this project. But most of all I wish to convey my commitment to you, our clients, and to assure you that you should expect no change in my availability to you, nor should you expect any change in the services you have come to expect.

And this project is really about you – it’s about nature, growth and progress, innovation, and the choices that we need to make to create an economy not based on stimulus and the constant cycle of boom and bust but one based on prosperity, sustainability, and abundance.

Like to help? Let me know – I’d love to work together!

-MCS

The Nature of Growth...concluded

more examples of non-beneficial growth: serious environmental degradation, massive public debt, overcrowding, low-quality and expensive and dirty energy extraction methods, all to support an infinitely growing economy. (My sustainability series from 2014 talked a lot about this.) So I’m interested in the possibility that nature has already done a lot of the work that we can “adapt” to help accomplish our innate desire for progress with the very

real possibility that growth itself isn’t the answer.

You might not realize it, but our investment management style actually lifts one significant aspect from nature already. In a very real way, whenever we buy a position in our clients’ accounts we’re “planting” a seed that is expected to grow. When that growth has fully matured (when the trend changes direction), we sell the position with the intention

of harvesting a gain. “Planting” and “harvesting,” again and again. Sounds pretty natural, doesn’t it?

What does nature teach us about growth? Are there natural limits? Is there a difference between innovation and growth? How big should an economy get (or a company, or a financial planning practice like mine)? What are the consequences of too much growth? And does nature have a built-in system for

adjusting when out-of-control growth takes over?

These are all heady questions, but well worth asking. And to that end, I’ll be doing just that over the next few months as a special assignment (see Sabbatical above).

I believe the answers are there for the taking. All we have to do is ask the right questions.

-MCS

Statement of Welcome

Appleton Group LLC believes that a healthy economy exists when businesses serve all members of our society with inclusiveness, respect and equality. Since our firm’s inception in 2002, we have worked to serve all clients as partners in our economy regardless of age, gender, race, sexual orientation, religion, or socio-economic status. Our firm values the individual experiences of our clients, the sum of which helps create a tolerant and inclusive society.



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

▲ 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 Portfolio - Conservative

The Appleton Group Portfolio - Conservative combines the Appleton Group Portfolio’s flexible, core investment strategy with a specific allocation to fixed income and/or money-market assets.

This portfolio is suitable for investors with a shorter-term investment horizon (i.e. individuals who are already retired or are planning to retire in the near future). It is most frequently used in tax-advantaged accounts such as 401(k)s and other company sponsored retirement plans, IRAs, foundations, endowments, as well as in certain taxable accounts.

The portfolio currently consists of the following ETFs:

IWD Large Value	QQQ Large Growth	ACWI World Stock	IYR Real Estate
SPY Large Blend	VWO Emerging Markets	IJH Mid-Cap Blend	IWM Small Blend
XLB Basic Materials	VCSH Short-term Corp Bond	CWB Capital Convertibles	PFF Preferred Stock

*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.