3rd Quarter, 2004

The Compass™

The Appleton Group
100 W. Lawrence Street, Suite 211
Appleton, WI 54911

The Appleton Group, LLC 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, LLC currently serves 48 clients, and manages $32.3 million of investable assets. We serve individuals, families, corporations, institutions, endowments, trusts and company sponsored retirement plans.

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Neither a Borrower nor a Lender Be

Famous words penned by the great playwright, William Shakespeare as advice to the young Laertes, about to sail the seas back to France. "Neither a borrower nor a lender be, For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry." In other words, Shakespeare believes both borrowing money and lending money isn't a good idea (especially with interest rates at 40 year lows)!

Here's another option with which I'm certain Shakespeare would agree: If we are to be neither borrowers nor lenders, practically all that is left is to be owners! And what great advice that is, as ownership represents the role our clients hold most often. At this stage of unfolding history, ownership has never been more important, more valued and has never been easier to obtain. Consequently, the outcomes of not owning a share of the great America have never been more dire.

Owners vs. Non-Owners

The distinction is easy to define: owners are those individuals who hold equity positions in privately held corporations, or those who hold positions in publicly traded corporations. An example of being an owner of a private company is as easy as thinking of the people we meet each day. The family that owns the local meat market, the entrepreneur who owns her own design studio, or the dentist who owns his own practice. Small businesses in most cases, or a handful of moguls who have made it big. Owning a publicly traded company is as simple as buying shares of stock in GE, Microsoft, Plexus and countless others. Ownership is also gained indirectly through owning pools of stock through a mutual fund or exchange traded fund (ETF). Both paths lead to the same role, as owner, voting member, and part of the capitalist experience.

And ownership has its advantages. Owners participate in the profits of their company through dividends, capital gains and other distributions. For many,

Mark C. Scheffler

Senior Portfolio Manager,
Founder

these benefits can lead to a life of security, comfort and self reliance. Perhaps that's why ownership shares are sometimes referred to as "securities"! In America today, approximately 49.6% of households own shares of publicly traded companies through mutual funds, according to The Investment Company Institute. If half of Americans are

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Inside this issue:

NASDAQ vs. NASCAR

I've never been much of a fan of auto racing. Unless you're in the driver's seat or maybe in the pits, it just doesn't seem like it'd be a good use of time. I mean, all you have to do to be successful is never turn the steering wheel to the right, go faster than your competition, and (this is the key) avoid the crashes. But millions of fans can't be wrong, can they? I mean, there must be something more to it, right?

Turns out this isn't the sport that it used to be. Today you practically have to be a rocket scientist to compete. The cars have gotten a whole lot more sophisticated, with onboard computers, global positioning systems, and more telecommunications equipment than was in use during all of World War II. And the marketing! It's the modern day equivalent of Barnum & Bailey's traveling circus,

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Neither a Borrower Nor a Lender Be (continued from page 1)

considered owners, it stands to reason that half of Americans are non-owners.

Proportional Representation

Look at almost any poll on almost any important topic lately: "was the war in Iraq justified? who will you vote for in the Presidential election? are you better off today than you were four years ago?" and you'll probably see close to a 50/50 split. Personally, I don't think it's a coincidence. The country is equally split on so many topics; there must be a fundamental reason. I believe that the interests of owners (low taxes, strong defense, free trade) largely oppose the interest of non-owners (fair wages, affordable housing, strong union protection). These diametrically opposed interests have created a great rift in our society as the stratification between rich and poor becomes ever larger.

Partisan politics is the name of game in Washington, as it largely has been for the past few presidential cycles. Congressional votes go largely along party lines, with the majority in both the House and Senate holding narrow advantage. President Bush (as did President Clinton during his terms in office) represents his constituency first: the wealthy, the empowered, the owners. Presidential hopeful John Kerry, if elected, is sure to cater to his base including unions, minority groups, and the poor, largely the non-owners of society. If you thought the last election was close, my guess is the upcoming presidential race will come down to the wire, with one candidate winning the poplar vote and the other winning the electoral college, again.

Equality of Opportunity

For better or worse, American style capitalism (with its variations around the globe) is a system of opportunity. All citizens in democratic societies have the freedom (if not the ability) to participate in many aspects of society. We have the freedom to vote or to not vote, the freedom to travel or to stay at home, the freedom to pursue opportunity or the freedom to be at rest. Arguably, citizens also have the freedom to be owners as well. While barriers to ownership are many, opportunities exist today for individuals to participate in 401(k) plans, corporate pensions, employee stock ownership programs, Roth IRAs, and direct stock ownership.

Equality of opportunity is an increasing reality for many, yet equality of outcome is not. From 1984 through 2000, the average equity mutual fund rose 13% per year. During the same period of time, the average mutual fund investor saw an annual return of only 5% (Source: Wall Street Week with Fortune). Ownership isn't easy, as the bear market of the early 2000s has taught all investors. But the consequences of non-ownership (decreasing standards of living, uncontrolled debt, lack of job security) far outweigh the risks and challenges of being an owner.

Making Ownership Easier

There's an old saying in the investment business: "A bear market returns a stock to its intended owner." Being an owner isn't easy. Watching 30% of your net worth dissolve from time to time is not pleasant, and often results in owners turning in their "capitalist club" membership cards, playing it safe, and lending money to the bank at unproductive rates (i.e. CD ladders or fixed annuities). Clearly, an investment management firm that can offer a disciplined, balanced and productive wealth management strategy will help owners to remain owners. At The Appleton Group, helping our client remain comfortable through all markets is our primary goal. Minimizing participation during periods of sustained market weakness tempers the tempest. Offering meaningful participation during sustained market advances rewards the risk-taker. A fine balancing act that eases the stress between the extremes of fear and greed.

"A bear market returns a stock to its intended owner."

A final role neither borrower nor lender can play is that of philanthropist. Such great works come from so many of our clients, a benefit to all of society, owners and non-owners alike. Placing clients in a position of grantor is the end-game of our discipline, a final result from a lifetime of being an owner.

-MCS

Tidbits...

In a sure sign of the times, **TIME Magazine** (with the help of CNNfn) lists five of the best places around the globe to hide if you're an executive on the run! Seek shelter from the law in Cuba, China, Cyprus, Cambodia or Russia. Readers beware: the landscape is getting a bit crowded.

A cynic is a person who knows the price of everything and the value of nothing.

-Oscar Wilde

Oil revenues in Iraq have now totaled more than **$11 billion**, helping in part to fund the rebuilding of infrastructure, hospitals, schools and oil production facilities (Source: Iraqi Governing Council Press Release 6/24/04).

The Key to a Good Marriage

A wise man once told me that the key to a good marriage was simple: low expectation. In the case of investing, knowing ahead of time what to expect is highly practical. Having an advanced reading of best and worst case outcomes over a period of time helps an investor to be comfortable. For us, comfort is certainly as important as performance itself.

Best and worst case scenarios are fairly easy to define. Pick a fixed period of time, say one year, and measure both the best and worst performance for a wealth management discipline over that period. It doesn't matter when the period begins, as we really want to know only two things: at its best, what can I expect my returns to be, and at its worst, how much am I likely to lose.

The past five years or so have been a great environment for measuring both of these conditions. We've certainly had the worst environment for the markets as a whole: 2000, '01 and '02 S&P 500 down over 40%). Conversely, 2003 was truly an outstanding year, with the S&P 500 up over 25%. Let's take a look…

Morningstar, an independent provider of financial data compiles these statistics for us and for the universe of other money managers. They choose to report this data using three distinct time periods: 3 months, 1 year and 3 years. As with most data, the longer the period of time, the more reliable the experience is likely to be. However, since most investors seem to prefer shorter periods of time to develop a level of comfort, let's look at results for a one-year period.

Using the graph below, you will see The Appleton Group's four most common portfolios. The blue area above each portfolio represents the best performance for each portfolio over any 1 year period. Likewise, the yellow area

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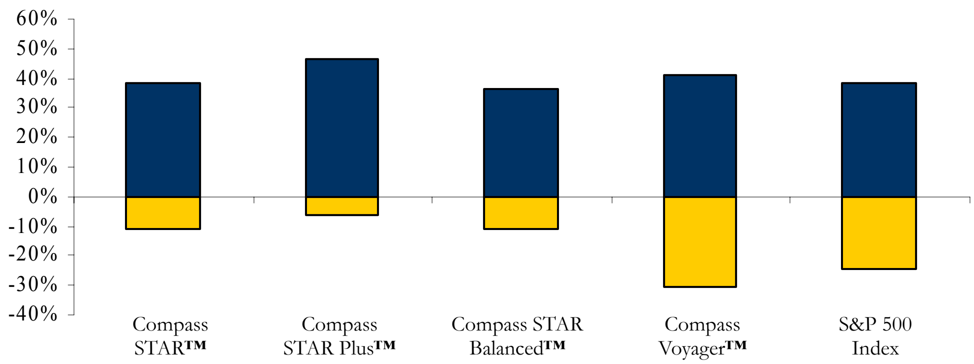

NASCAR vs. NASDAQ (continued from page 1)

coming to a town near you! Glitz, showmanship, rivalries, and occasionally an extra special story to keep the viewer glued to the set.

I grew up just down the road from a former NASCAR driver: Dave Marcis. This guy was to auto racing what Cal Ripken was to baseball. He raced for years and years, and then he raced some more. 34 years worth. Never heard of him? Probably because he didn't win too much along the way.

Dave Marcis played a different game: his way of competing was to rack up the highest Winston Cup points as he could in order to get some name recognition and to get enough money to come back time and time again. He did it by playing it safe, avoiding the big mistakes, and living to tell about it. Not flashy, but effective. His official motto: "We have done so much, with so little, for so long, that now we can do almost anything with nothing". Huh?

Anyway, the reason I bring him up is because he was a model of efficiency. He started 32 consecutive Daytona 500s, he earned 145 pole positions, 221 top ten finishes, and he raced more miles than any other driver in Winston Cup events. All this from going around in a circle.

The market seems to be doing exactly the same thing this year: a lot of action, but in the end we really haven't gotten anywhere. And there have been some significant crashes along the way just to make things interesting. Commercial real estate has been a real disappointment, some high-flying speculative stocks have come down to earth, and even bonds are struggling to break even for the year.

As with any race, you have to figure out what your goals are. Are you in it to finish in first place? If so, you'll have to take a chance that nobody else is willing to take. That means more risk, and if it works out you've won the right to park in the "winners circle." If it doesn't work out, you'll be picking up the pieces and trying again next time.

Dave Marcis discovered that there were risks in auto racing that weren't likely to pay off, and he traded big wins for consistency. As a result he was only the 9th

driver in NASCAR history to earn over $2 million in career winnings. He also finished in Winston Cup's top 10 a total of six times. A pretty great accomplishment for a guy who started in a junkyard in Wausau.

While the racing world has changed quite a bit, so too have the markets. Yet one truism still remains: slow and steady wins the race. Oh yeah, and don't turn your steering wheel to the right.

-MCS

The Compass Portfolios: Historic Performance Summary*

Compass Portfolio Component	*Morningstar Category*	*Q2 2004 Total Return*	*2003 Total Return*	*2002 Total Return*	*2001 Total Return*	*2000 Total Return*
Compass Classic PLUS—NASDAQ 100	Lg. Cap Growth	+0.70%	+41.29%	-2.85%	+49.89%	+18.11%
Compass Classic—NASDAQ 100	Lg. Cap Growth	+4.45%	+42.07%	-12.47%	+8.27%	-7.41%
Vs. NASDAQ 100 Index		**+5.44%**	**+49.12%**	**-37.58%**	**-32.65%**	**-36.84%**
Compass Classic PLUS—S&P 500	Lg. Cap Blend	-0.65%	+19.73%	-12.86%	+25.77%	-8.12%
Compass Classic—S&P 500 Index	Lg. Cap Blend	+1.58%	+23.62%	-14.31%	+4.02%	-8.88%
Vs. S&P 500 Index		**+1.30%**	**+26.38%**	**-23.37%**	**-13.04%**	**-10.42%**
Compass Classic—Dow Jones Ind. Avg.	Lg. Cap Value	+1.53%	+24.93%	-12.26%	+2.24%	-6.01%
Vs. Dow Jones Industrial Average		**+0.75%**	**+25.32%**	**-16.76%**	**-7.10%**	**-6.17%**
Compass Classic—Russell 2000 Sm. Cap Gr.	Sm. Cap Growth	-5.83%	+44.52%	-14.97%	NA	NA
Vs. Russell 2000 Sm. Cap. Gr. Index		**-0.02%**	**+47.56%**	**-30.70%**	**NA**	**NA**
Compass Classic—Russell 2000 Sm. Cap Value	Sm. Cap Value	-7.65%	+46.00%	+2.07%	NA	NA
Vs. Russell 2000 Sm. Cap Value Index		**+0.43%**	**+43.27%**	**-13.21%**	**NA**	**NA**
Compass Classic—Managed Income Portfolio	Domestic Hybrid	-4.41%	+16.76%	+14.96%	NA	NA
Vs. Balanced Benchmark		**-0.71%**	**+17.42%**	**-10.72%**	**NA**	**NA**

*Important information: The Compass Portfolio performance information provided indicates what effect the buy and sell signals generated by the Compass Wealth Management Discipline have had on a model portfolio comprised of the index shares (iShares) indicated if such buy and sell signals were implemented. Although the buy and sell signals are actual recommendations which have been generated by the Compass 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 Compass Portfolio Management Discipline. Performance statistics have been calculated net of a 1.00% management fee, net of applicable mutual fund 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. 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 serving 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. A complete history of all portfolio recommendations is available upon request. The unmanaged index for the Compass Classic—Managed Income Portfolio is a composite of the S&P 500 Index (60%) and the Vanguard Total Bond Market Index Fund (40%). Deviation from the models will produce substantially different results. The Appleton Group LLC is regulated by the U.S. Securities and Exchange Commission and by the State of Wisconsin, Department of Financial Institutions.

The Key to a Good Marriage (concluded from page 3)

shows the worst performance for any 1 year period. Used together (and compared to the S&P 500), it becomes easier to view the value of each distinct portfolio. In each case, (with the exception of Compass Voyager, our tax-efficient buy & hold model), the value of the Compass Wealth Management Discipline becomes more evident: significant participation during periods of sustained market advance, significantly reduced risk during periods of market weakness.

Another way in which this data is useful is in determining whether a specific portfolio is performing "normally," that is, whether recent performance is within expected ranges. Given the relatively flat market of the current year, all portfolios have demonstrated performance within the expected ranges. It would be normal and warranted to be concerned if a portfolio were to break out of the historical range, especially to the downside. Knowing when to be concerned is especially useful, as it allows us to be comfortable in the meantime, and to avoid unnecessary stress and anxiety. Yet another benefit of our discipline!

Please contact us if you'd like a copy of Morningstar's report sent to you… **-MCS**

Performance data provided by Morningstar™, an independent provider of financial data. Data as of March 31, 2004.