The Compass™

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

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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 $107.835 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:

**On Wall Street magazine, Oct. 2005*

You Ain't Seen Nothing Yet!

From the desk of Mark C. Scheffler

Those who know me know that I don't see a lot of value in predictions. It's not that they're not a lot of fun, mind you. It just seems that whenever a prediction of any kind is made it's so easy to naturally buy into it. I mean, the people who so often make predictions are likeable because they give us a glimpse of what the future might hold. They get us to see possibilities, and we like that. Who wouldn't want to know what's going to happen next? It's an age-old wish and, because it's so easy to feel helpless against forces that are larger than ourselves, we naturally want to know how it all ends.

Because the markets have been so dynamic this year (isn't that a good way to put it?), I'd like to go out on a limb. Two limbs actually, because I firmly believe that the story of investing is really quite simple: time and time again, markets experience periods of boom followed by periods of bust followed again by periods of boom. For many investors (large and small), successfully navigating both can be a significant challenge, and along the way the stress of either participating in too much bust or not enough boom can be maddening.

Mark C. Scheffler
Senior Portfolio Manager, Founder

This point cannot be made any more forcefully, confidently, and clearly: the reason that so many investors, advisors, and institutions have such a difficult time with successfully navigating booms and busts is that they only prepare for one, most often for the boom. We're all optimistic creatures, we all believe in the adage that tomorrow will be

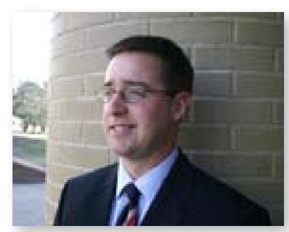
continued on page 3...

Appleton Group Wealth Management Expands Institutional Sales Staff

Appleton Group Wealth Management LLC is pleased to announce that David J. Wild has joined the firm as an Institutional Sales Representative. David will be responsible for marketing the firm's suite of professionally managed investment portfolios to foundations, pensions, state investment boards, insurance companies, corporations and other institutional investors.

> *"To say that we're excited to have David join our staff is an understatement. David brings a wealth of experience and insight in working with large institutions, which will be extremely valuable as we further expand our offerings to foundations, governments, pension plans, college endowments and to other institutional clients." -MCS*

"Our story just keeps getting better and better," said Mark C. Scheffler, Founder. "As one of 2008's top performing investment managers, we are increasingly in demand not only by private investors but increasingly by institutional investors as well. Our firm's success in building and managing efficient, all-weather investment portfolios continues to gain national attention."



David J. Wild
Institutional Sales Representative

100 W. Lawrence St., Third Floor Appleton, WI 54911 Phone: 920.993.7727 Toll Free: 866.993.7727 www.appletongrouponline.com

Retirement Plan Corner

Suze Orman Endorses Appleton Group Wealth Management LLC***

***Well, not really. In fact, not even close. But based on what the famed investment guru has been saying lately (and giving her stamp of approval to the way we've been managing money for years) you might think that she were sitting in our office right now.

For years, Suze Orman has been a diehard advocate of index funds, of buy and hold investment strategies, of target-date funds. Problem is, for the last eight-and-a-half years, the traditional buy and hold strategy has been such an unmitigated disappointment that even Orman herself is starting to see the value of a more active approach.

Orman recently sat down with Eric Schurenberg of *Money Magazine** to talk about her change of heart…

"I've been an incredible lover of index funds for all these years, but lately I've been coming away from index funds because I don't think index funds are giving us the management that we need." Orman said. "We now have things known as exchange traded funds that we didn't have back then."

And she's right. We recognized the value of exchange traded funds a long time ago, and they've been at the heart of The Appleton Group Wealth Management Discipline™ since day one. Eight years later, people like Orman are beginning to catch on to what we've known all along.

"I think Exchange Traded Funds now can diversify you so across the board in indexes that make sense versus the S&P 500 Index fund, the total stock market index funds. I don't think that's where I'd be going right now."

There's actually a very good (and very timely reason) for Orman to voice this concern. You see, from January 1, 2000 through the end of June 2008, the S&P 500 index has lost money. Eight-and-a-half years of nothing, no gains, even when you factor in all of the dividends paid along the way. From a practical standpoint, Orman now saying that the S&P 500 is a bad idea is really courageous, actually, because eight-and-a-half years of no gains really is a non starter. Wouldn't you agree?

Not only have investment tools gotten better, but the market has changed as well since the beginning of the decade. And Suze Orman understands that as well.

"Today's market isn't like the market that was ten years ago," she says. "Now I have to say I'm not sure that you can buy and hold that way and just forget about everything as if everything will be ok. So if you are investing you have to be an active investor."

WOW! What a sea-change! Good for her for finally saying so, because it's what we've been saying for over eight years.

"I know, I know. I'm switching for the first time in my life," she said. "All the stats say that index funds outperform 80% of managed funds out there. And a few years ago I'd have said 'just buy Vanguard's S&P 500 index fund or its Total Stock Market index fund.'"

But there's more to the story, because practically every 401(k) plan in America (except for the ones we run) are loaded with "Target Date Funds" which are nothing more than buy and hold investments that are packaged together into a single fund.

Here she's even more forceful. "Target funds automatically take money out of your stock funds and add it to bond funds just because you're getting older. Give me a break! You should invest in bonds only when interest rates are going down. But target funds base all their decisions on one factor: your age."

Fact is, many company sponsored retirement plans (including 401(k)s, 403(b)s, 457(b)s, profit-sharing plans, pension plans) are starting to see the world from our vantage point. Appleton Group Wealth Management's suite of asset allocation portfolios is a significant improvement over traditional lifestyle funds, lifecycle funds, and especially target date funds, a majority of which have been inefficient and woefully lacking in risk management, and consequently have performed poorly over the full market cycle since the turn of the decade.

Our way of managing investment portfolios is really exactly what Orman is endorsing: using exchange traded fund extensively, being well diversified, and actively managing the whole portfolio. It's an idea whose time has come.

Finally, the investment world is catching up to us, and now is the perfect time to add our firm's suite of asset allocation composites to your company's retirement plan. We're available on a wide variety of retirement plan platforms nationwide, and we're probably available to your employees today. Call us…

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-Suze Orman

Wendy Hoeft
Director - Retirement Plan Relations

*Sources: Schurenberg, E. (2008) *If you knew Suze Orman...* Retrieved from http://money.cnn.com/2008/06/19/pf/Suze_Orman.moneymag/index.htm and http://money.cnn.com/video/#/Video/moneymag/2008/05/23/mom.orman.index.moneymag.

You Ain't Seen Nothing Yet!... continued from page 1

better than today and, as such, we often tend to be overly optimistic when it comes to investing. I firmly believe that it makes more sense to be realistic, to be open to the possibility that markets don't always go up, and to recognize the tremendous opportunity that exists (and the tremendous advantages that you have) from preparing for both.

Make no mistake, there are sizable risks in not preparing ahead of time for the busts, and it comes in the forms of large portfolio losses, a significant erosion of purchasing power, cash-flow problems, unemployment, contraction of lifestyle, and worry. All in all, not a good situation, but one that I think can be largely managed.

Going out on a limb or two…

From this point forward, I believe there are two probable paths the markets will take: 1) they rise significantly from here; or 2) they will continue to fall significantly from here. So, here's my two-fold case for how the current market and economic drama will play out over the next two years and why investors need to prepare ahead of time for both.

Case #1: Bust. I start here, not because I believe that this is the more likely scenario, but it happens to be the one on a lot of people's minds right now. And with good reason. Credit is the grease that makes our global financial engine run smoothly. Because of the flood of bad debt, and the escalation of defaults and delinquencies, it appears less and less likely that most banks will be in a position to lend as freely as they have in the past. A lot of credit was extended by the ultra-low interest rates and easing initiated by the Federal Reserve, with Fed Funds rates hitting a low of 1.00% in 2002. You remember all of the zero-percent financing that the auto manufacturers offered, right? The ultra-low mortgage rates? Getting pre-approved credit cards in the mail every day? Easy money did exactly as planned, with trucks flying off the lots, a housing boom, ballooning credit card debt, and all sorts of commercial building and expansion. Boom, right? But remember that boom is so often followed by bust.

The biggest challenge I think that we're facing is really a condition of overcapacity. Too many houses with too few buyers. Too many expensive trucks with consumers concerned about fuel costs. Too much unfilled commercial real estate because of the natural slowing of the economy. It happens time and time again.

This time, though, it could get much worse. If banks aren't willing or are unable to lend at the same pace that they were just last year, it will be impossible for the economy to grow as fast, corporations won't be as profitable as they were, consumers won't feel comfortable spending as much, and the spiral could continue for some time.

And that's the key: time. The Federal Reserve and the U.S. Treasury have played a game of "chicken" with the U.S. Economy, deliberately failing to support the falling dollar in an effort to help our domestic exporters. And it's worked, to a degree. But the falling dollar has gotten way out of control, and now we're backed into a corner. The inflation "genie" is now out of the bottle (largely because of the falling dollar), and it will probably take a series of rate hikes over the coming 18 months to get it back in the bottle. This is bad because the last thing we need right now is higher interest rates to constrict lending even further.

But consider the cost of not acting: inflation spirals out of control, nations hoard resources for themselves, the dollar's decline continues unabated making it even harder for inflation to be reined in. Housing prices fall dramatically (because no one is buying the glut of homes that are already on the market), new projects cease and the construction industry experiences double-digit unemployment.

What about the markets? Under this type of a scenario, not much works well. Buy and hold strategies are crushed, most notably 401(k) accounts which continue to hold only traditional funds that are designed to participate in everything the market offers (both good and bad). Balanced buy and hold strategies like Fidelity's Freedom Funds, M&I's MAAP Funds, Vanguard's Target Date Fund Series and hundreds of other inflexible asset allocation funds experience significant losses in both their stock AND bond holdings. State investment boards, college endowments and other institutions experience significant portfolio losses due to their inability to break their cycle of market correlation. Perhaps most meaningful, local and state governments experience escalating budget shortfalls as their ballooning infrastructure costs outpace the revenue they generate from property taxes.

Hold it right there! Doesn't all of this seem plausible? It sure does to me. I could see how ALL of these things could really happen given the mess we're in right now. If this scenario does come true (even if half of it does), are you ready?

Case #2: Boom. And I'm talking the kind of boom that legends are made of, the kind of boom that will set up your children and their children for a lifetime of comfort and security. The kind of boom that only comes around once a decade. One that you wouldn't want to miss out on.

Here's how it unfolds: The human heart and spirit are resilient, and our minds have a penchant for problem solving. Right now, our greatest minds are working overtime to fix our energy problems, our economic mistakes, and our endless thirst for consumption. The ultimate benefit of economic hardships like we're facing right now is innovation. You know the famous saying: "Necessity is the mother of invention." It's how the system works, and although it's painful to go through, it's necessary for us to advance. It always has been (just ask your elders), and it always will be (just ask your neighbor).

One key benefit of having oil priced at $140 a barrel is that it makes previously unnecessary energy innovation economical. Imagine a world in which we were able to grow our own energy right here in America. Ethanol you ask? Better. Celulosic ethanol. This is a 2nd generation bio-energy source made from agricultural waste, like corn stalks. It can also be made from paper sludge (anybody know of a place that might have some, perhaps near Appleton?) and it can also be made from switch

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>
> *-MCS*

continued on page 4...

You Can Put it in the Books…

It's official: the major market averages have all recently completed a full market cycle.

Why is this important? Because it represents a complete combination of both favorable and unfavorable market environments that must be used to measure the effectiveness of any wealth management discipline (including our own).

The recently completed market cycle began in year 2000 when the NASDAQ 100 Index, S&P 500 Index and Dow Jones Industrial Average (among many other indexes) each reached their respective peaks following the "go-go" years of the late '90s. Each of these market indexes subsequently fell to bear market lows (a minimum of a 20% correction from any market peak), bottoming out in year 2002.

Following their "bottoming out" in 2002, each of these indexes rose over the following five years to new highs, peaking late in year 2007. The cycle is completed in year 2007 because each of these indexes have once again fallen by 20% or more (which occurred only recently on July 7, 2008).

By definition, then, the complete market cycle ran eight full years, from 2000 all the way through 2007. As they say during White Sox games, "You can put it in the books!"

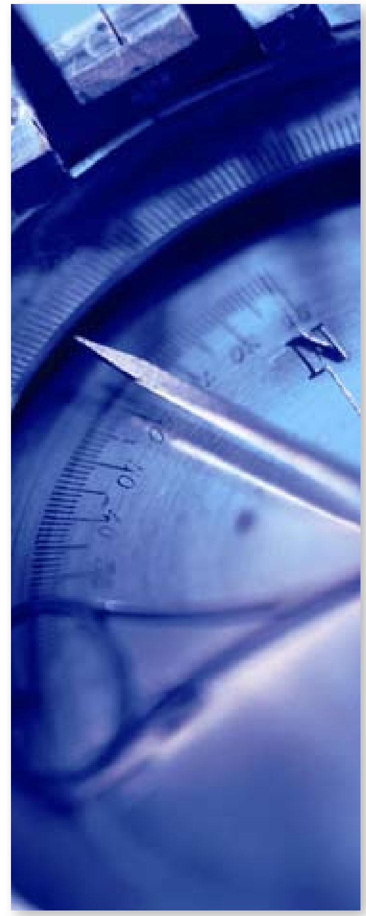
Here's why it's important: for any wealth management discipline to be evaluated effectively, you have to measure it against its peers over a full combination of good and bad years. Failing to do so means that you either ignore the consequences of risk (a really bad idea) or you ignore the potential rewards of investing in assets that are at risk (which is the whole point). For individuals, institutions, retirement plan sponsors and others who invest over long periods of time, it is critical to objectively measure the efficiency and effectiveness of any investment discipline, and it includes the use of full market cycles as a suitable time period.

The timing of the end of this full market cycle will be used to produce performance statistics that compare Appleton Group Wealth Management LLC's full suite of portfolio offerings (all of which can be measured and reported back to year 2000) to that of any of our competitors whose portfolios also include the full market cycle period. This would include all of the asset allocation portfolios that we have included in The Appleton Group Efficiency Index™ (published in 2006), as well as comparisons to the indexes listed above.

In addition, it offers any current or prospective investor the ability to compare the effectiveness of mid-sized firms like ours to those firms that are many multiples of our size. It truly gives the user an objective and easy way to determine if the size of a wealth management firm is really as important as the actual returns and risk that the firm exposes you to. From our standpoint, size really doesn't matter as much as performance over a full market cycle.

So stay tuned. Over the next month or so, we will publish complete supplemental performance information that will include the full market cycle, and will give us the opportunity to update The Appleton Group Efficiency Index™ to extend the past portfolio performance over the full eight-year period.

-MCS



You Ain't Seen Nothing Yet!... concluded

grass. It's not ready in the U.S. yet, but it is in Canada, so we should prepare now to invade Ontario. Anyway, can you imagine how liberating it would be if we could grow our own energy, year after year after year? It would change the world politic as well as the world economic.

I'm also reminded that the demographics of the United States are very favorable, as it appears more likely that we will continue to experience a growing population, perhaps adding up to 100 million more citizens over the next 25 years. Just as Japan and Russia and parts of Western Europe are experiencing population declines, the United States would be able to continue to grow our economy, adding smart infrastructure, smart housing projects and smart commerce.

We're talking efficiency in transportation, efficiency in energy usage, and a quality of life that is every bit as rich as what we experience today.

After the carnage of this credit crunch is over, our banking system will be more resilient, more aware of risk, and hungrier than ever to meet the needs of a growing population. Financial institutions will go back to doing what they do best, be it insurance, be it lending, be it investment banking, be it brokerage. The strong survive, and thrive.

Hold it again. Doesn't this seem equally plausible as our case for bust? Sure does. Again, I can see how all of these positive scenarios play out. And who wouldn't want to be around for them?

Truth is, the future is most likely to hold a bit of each scenario in it, and progress often unfolds just as a pendulum swings from side to side. Balance in the middle, followed by boom, followed by balance, followed by bust, and all the way back again.

Thriving through both environments will take just the kind of flexibility that The Appleton Group Wealth Management Discipline™ alone can offer. Through both good and bad market environments, our discipline has enough flexibility to address periods of boom (like 2003), periods of bust (like 2001) as well as periods of transition (just like now). Keeping losses in any year to single digits (and probably not eliminating them, mind you) is extremely useful because it keeps you in a position to participate nicely when the bust inevitably changes back to boom.

-MCS