The Compass™

Appleton Group Wealth Management, LLC
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July 2009

Appleton Group Wealth Management LLC is an independent, Registered Investment Advisor (RIA) located in Downtown Appleton, Wisconsin. We 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 $113.014 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.

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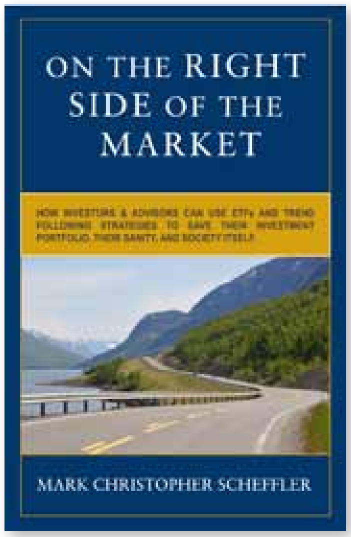
On the Right Side of the Market



This August will mark a watershed event in the history of Appleton Group Wealth Management LLC, the launch of Mark Scheffler's first book on investing theory entitled "On the Right Side of the Market." This book will be available for purchase through Amazon.com and is being offered free of charge to existing private clients (please return the postcard enclosed with your quarterly statement to reserve your free copy).

"On the Right Side of the Market" is written for both investors and investment advisors and is intended to address the most important issues facing the global marketplace today. The introduction is reprinted below…

This is a book that could only be written after the events of 2008. The market and economic experience of the past year have fundamentally changed the nature of investing and the art of advising, perhaps forever. What we thought we knew about the nature of the markets and of free capitalism and the economy have been called into question, and it is now a time to revisit every assumption with an open mind.

This is also a book that could only have been truly read by the heart after these same events. For investors, the prospect of a lost decade of portfolio growth had been unthinkable prior to 2008, and the mere idea of the depth of market loss in a single year was equally hard to imagine. For everything there is a time, and it is difficult (if not impossible) for investors and advisors to fully grasp the nature of risk when all is well in the world. Our collective memories are short, many of us live in a world of immediate satisfaction, and contemplating the changes necessary to sustain "the good life" are often ignored when times are good. In short, many of us have taken our good fortune for granted.

And it's understandable. Over the past seventy years or so, there have been many advances in our global standard of living that have been directly attributable to the success of the markets themselves. We are certainly better connected to each other through the miracle of wireless telephony and the internet, both products of investment. Medical diagnostics have improved early detection of disease. Improvements in transportation infrastructure on a global scale have made it easier than ever for us to get what we want, largely when we want it. The world is politically

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more stable today than it was during the 1920s, the 1940s and throughout the cold war. Taken alone, these advances (and the countless unnamed others) would be evidence enough to support the idea that free markets always work, and that risk along the way is something to merely accept.

But the events of 2008 have prompted both investor and advisor to question the basic assumptions that had been accepted as irrefutable truth as recently as a year or so ago. Now being debated are basic tenets such as "markets always move higher over time," and "the more risk you take, the more you'll make," and "stay the course is the only real long-term investment strategy you need." The gravity and the depth and the breadth of the market losses have been staggering to many. And the speed at which the declines have happened has

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Retirement Plan Corner

The Missing Ingredients…

This column is written specifically for those advisors who make retirement plans a part of their overall practice, as well as for retirement plan sponsors who are looking for a better way to build and manage their company's retirement plan offerings.

For many retirement plan sponsors and participants, the last eighteen months have been a challenge to say the least. Layoffs and furloughs have hit almost every corporation in America, and they couldn't have come at a worse time for retirement plan participants. The severity of the market losses has left many retirement plan balances down by more than 20% for conservative investors and by more than 40% for aggressive investors. The lost wages and sales commissions that have followed as a result of the slowing economy have been a double whammy that no one has enjoyed.

Retirement plan sponsors have worked diligently over the past decade to diversify plan offerings, giving employees a wider variety of investment options from which to choose. Yet the overwhelming majority of these options have been socked by the markets, and interest rates on no-risk investment options are quickly nearing zero.

Practically every investment option offered in retirement plans today is highly sensitive to the ebb and flow of the economy: when times are good, they perform fantastically. But when times are not so good and economic growth slows (or even contracts just a bit), the downside risks in many investment options are staggering. This is as true today (even after last year's market collapse) as it was a year-and-a-half ago. You see, the overwhelming majority of investment options that are made available to plan participants force investors to ACCEPT market risk, and only a very few offer investors a way to MANAGE market risk. The difference is everything!

Accepting market risk means that participants are being put in harm's way with the expectation that they will be rewarded for taking on these risks over time. This is true of all index funds, all Target-Date Retirement funds, and practically every other type of mutual fund in America. But for the last decade, returns on stock mutual funds have been at or near zero. And along the way, the overall market has dropped by more than 44% during the bear market of 2000-2002 and by more than 50% at one point during the current bear market. The same kind of volatility has been seen in real estate funds, commodity funds, and practically every international equity fund as well. Rough sledding! But it doesn't have to be that way.

The missing ingredients in practically every retirement plan in America are investment options that manage risk. And there are a growing number of these investment options that are available today, including investment options managed locally by Appleton Group Wealth Management LLC. Risk-managed options include mutual funds and other investment accounts that automatically adjust the participant's exposure to the markets (and to risk) as economic conditions change. What they really offer, though, is a way to help neutralize the negative effects of the markets over time while simultaneously working to take advantage of the many positive aspects of investing in the markets. As market conditions improve, the participant's assets are automatically adjusted toward growth investments. But when market conditions deteriorate, the participant's assets are automatically adjusted toward more secure investments. While they don't eliminate risk, they can offer your participants a number of key benefits: they have demonstrated significantly more resiliency, profitability and asset protection than the many offerings that simply accept all of the markets ups and downs.

We believe that over the next ten years, investment offerings that manage investment risk will become the new standard for retirement plan assets. And with good reason – 2008 happened. No longer will retirement plan sponsors be able to expose their participants to the known risks of the markets without a prudent and time-tested way of managing those risks. In today's litigious society, plan sponsors who knowingly expose participants to undue and unnecessary risks (while ignoring market-accepted investments that manage those risks) are liable to face increased scrutiny. Fiduciary standards are clear, and no longer can many passive strategies be considered prudent investment options. And plan advisors (as de-facto fiduciaries) who fail to include risk-managed options to participants expose themselves to the same liabilities.

Wendy Hoeft
Director -
Retirement Plan Relations

Adding risk-managed options to existing plans is perhaps one of the most simple and effective solutions. Deploying these additional strategies can be done in as little as a few months, which includes the time to educate plan participants on their proper use. For plan sponsors whose existing advisors are slow to adopt risk-managed options (they still only believe that markets go up!), we suggest that you change advisors promptly. Today's markets are filled with opportunities that can only be unlocked using strategies that address the realities of today's markets. And the advisors who can deliver these strategies are the ones you want to be working with.

To find out which of the investment options in your current plan force participants to merely accept market risk and which (if any) manage risk, contact us today. We'll help get you the information you need.

There's never been a better time to make your company's plan more efficient, more resilient, and friendlier for you and your participants.

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On the Right Side of the Market... continued from page 1

been largely unprecedented. Investors around the globe have experienced firsthand the kind of portfolio destruction that can occur by being "on the wrong side of the market" for too long.

And to be sure, the stakes have never been higher for investors and for modern society itself. Retiree pensions and 401(k) plans today carry significant exposure to what have become high-risk assets. The same holds true for many community foundations, college endowments, state investment boards, corporate investment portfolios, and for the investment portfolios of whole nations themselves. Company stock programs are common features of many employee benefit programs. Private trusts often hold equities and real estate. To this day, many of our financial services companies (most notably mutual fund managers, bank trust departments, retirement plan providers and third-party administrators) utilize revenue models that are highly dependent on the markets to be stable and/or grow. Even college savings plans such as 529 plans carry more market-related risk than at any other point in history.

In short, society's dependence on capital markets has never been greater.

As a result, there has never been a worse time for global markets to experience the kind of decay as they did in 2008. There has never been a worse time for the markets to experience a decade of lost growth. There has never been a worse time for capitalism itself to freeze up on the global scale that it has. But these are the times we live in. This is our time, our system, our markets, and the history that we are writing right now.

Yet through it all, there has been a collection of professional investors and advisors and thinkers that are weathering the storm quite well, more often than not because they have managed to stay "on the right side of the market" both during turbulent times and during the preceding periods of phenomenal market growth. As a consequence, they have been more successful in producing meaningful portfolio gains over the last decade due mainly to their success at insulating investors from the worst of the market's declines. They have largely succeeded in keeping investors' portfolios intact despite the global recession. And many of these advisors and investors have a common characteristic that has existed in their investment practices for years: market neutrality.

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>
> *-MCS*

The term "market neutrality" is perhaps new to many, as it may be to you. It doesn't describe any particular investment process or any specific investment product; rather, it describes a singular characteristic of a given investment process or product that can help to make the life of an investor or an advisor significantly better. Better how? In all the ways that matter: higher portfolio returns over time, significantly lower investment risk, more predictability of returns, smaller portfolio drawdowns, better relationships between advisors and their clients, more sustainable portfolio distributions, better fiduciary controls, more stable relationships between 401(k) plan sponsors and their participants, smaller tax burdens on constituents by government pension sponsors, better relationships between college presidents, trustees and alumni, better relationships between community foundations and donors, a more sustainable environmental model for societal growth, and the list goes on.

Market neutrality is simply a characteristic of an investment process that has little or no dependence on the markets to move endlessly higher in order to produce portfolio gains over time. Simply put, the markets could fail to produce the compounded growth that many investment models have assumed would occur, yet investment portfolios that use market neutral strategies could still achieve the compound growth needed by the investor to be successful.

Contrast this with the myriad choices of well known investment models that require the endless procession of "more": more consumption, more expansion, more development, more housing, more commercial property, more customers, more corporate profits, and so on. Investment strategies such as indexing, "target date retirement" investing, and other passive asset management strategies are all built on the premise that markets always trend higher over time. Since the end of World War II, the investment management industry has been built largely on this premise. This assumption has become so entrenched in the investment programs and policy statements and fiduciary standards of today's investment culture that practically every investor follows it without considering the possibility that it might not be entirely right. Professional investors know it as Modern Portfolio Theory.

But in fact, these passive styles of investing have a fatal flaw. A "hole," if you will, that one could drive a truck through: they only work as long as markets continue to move higher and as long as the global economy continues to expand. If markets remain flat over long periods of time (or worse, if they continue their charge lower), every investor will inevitably face the real prospect that they will soon become insolvent. Their investment portfolios will extinguish themselves, retirees will run out of money, foundations will fail to meet distribution goals, pensions will become insolvent, and so on.

This book is not intended to serve as a debate on the value of free market capitalism –free markets are absolute. Nor is it a book that is meant to offer solutions for every financial illness that we face today. However, it is intended to answer the fundamental question that ALL investors and advisors must address today:

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On the Right Side of the Market... concluded

Of the many investment strategies available today, which are best equipped to produce an investor's necessary returns in an environment in which markets have the potential to remain flat or decline over long periods of time?

The answer to this question is clear: The solution lies in fully adopting and implementing investment strategies that demonstrate market neutrality.

In this book, I will describe the modern investor's dilemma: how to increase the likelihood of producing a necessary positive return over time in an environment in which interest rates are at or near zero, and in which the prospects of investing in equities or real estate or commodities are sometimes frightening. I will lay out for you my beliefs about the nature of what the markets really are (and indeed are likely to be for the remainder of our lifetimes). I will describe for you the various investment management styles that exist in today's marketplace, as well as help you to identify which investment styles demonstrate market neutrality.

I will also introduce to you the singular tool that has the potential to make a market neutral investment strategy work efficiently. That tool is the Exchange Traded Fund, commonly known as an ETF. This innovative investment tool represents what I believe is the greatest advance in investment structure in the past century. ETFs have efficiently packaged the markets into singular securities that can be bought and sold as needed, they offer complete liquidity and transparency, and they offer the added advantage of low costs. But they have a dark side, which is that they have the potential to be dangerously misused.

Perhaps most importantly, I will lay out what is required of you to get the most out of market neutral strategies. For every choice in life, there is a cost. For today's investor, adopting strategies that demonstrate market neutrality will require both an open mind and a willingness to separate you more than just a bit from the crowd. It will require you to think of your investment portfolio not as a source of stress but as a source of financial nourishment. It will require you to break away from your dependence on the markets themselves and the huge emotional drain that they can cause. And it will require you to stand boldly against a tsunami of traditional investing theory and all of the media and marketing that the current investment management regime has at its disposal.

In exchange, you will get your life back (and your peace of mind).

For advisors, this book may just mark a sea-change in your relationships with clients. Adopting market-neutral strategies in your advisory practice can make you one the most important (and most sought after) members of your community. Embracing market neutral strategies with your clients demonstrates that you understand the true nature of the markets, the true nature of risk and reward, and more importantly that you are committed to improving the investment lives of your clients, especially during difficult times. It can add depth to your practice, longevity to your career and it can dramatically reduce the stress that you may personally feel during periods of economic uncertainty. This alone is worth the change.

For mid and upper level management of financial services firms, the deployment of market neutral strategies on a company-wide basis can significantly stabilize your company's revenues (especially those revenues that are tied to asset size); it can dramatically increase new sales, asset inflows and market share; and it can forever end the cycle of advisor turnover that eats into your firm's bottom line.

But on a grander scale, the significant adoption of market neutral strategies may just save modern society itself. The political and social instability created by economic decay has never been more dangerous and is not without historic precedent. History is replete with examples of conflict and social upheaval that can erupt as a result of economic uncertainty, and it is my belief that the time for adopting investment models that add stability and predictability to the economic realities of individuals, families, institutions and governments is now.

So this is really a book about hope, about the evolution of the markets and of investing, and of the prospects for a future filled with prosperity and economic security. It is about a future that is not yet written, and that can unfold in a most glorious and beneficial way. It is about making people's lives better, chief among them today's investors and their trusted advisors. And it is the unfolding of a sustainable modern society and our generation's challenge of transitioning to that society.

It is my hope that this book will serve as a ten-year roadmap for the systematic deployment of market neutral strategies across our global financial services landscape. Over time, it will be important for investors to demand the significant inclusion of these strategies in their overall investment plan. It will be important to develop relationships with advisors and with firms that share this commitment. Most importantly, it will be necessary to remember the discomfort and stress and pain felt by so many during the uncooperative markets of the past, and to resist the temptation to believe that the day for managing risk was yesterday.

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