



APPLETON GROUP

WEALTH MANAGEMENT, LLC



*The Compass*TM

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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 approximately \$152.9 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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Reduce, Reuse, Recycle

From the desk of Mark C. Scheffler

It's the mantra of the environmental movement to get us all to think about being good stewards of our planet. Since our firm's inception more than nine years ago, we've taken some very concrete steps to limit our impact on the world: we started off as a "less-paper" office, scanning documents electronically instead of maintaining expensive and energy-consuming copying equipment. We recycle nearly all of the paper waste that we do produce as well as recycling the electronic equipment that has become outdated. And we've kept our firm's overall size small to reduce our global footprint even as we've dramatically grown

our offerings and our reach over these past years.

But what I'd like to talk about is the efficiency of our core investment offerings themselves. In an era during which everyone is being asked to do more with less, our investment portfolios really do come out on top in ways you might not have really thought much about.

First, we've always chosen to invest primarily in exchange traded funds, commonly known as ETFs. And we're proud to say that we were one of the first. ETFs are simply mutual funds that package together individual stocks that all have some common characteristic. They might be part of a specific



Mark C. Scheffler
Senior Portfolio Manager,
Founder

index (such as the Dow Jones Industrial Average or the S&P 500 Index), they might be part of a specific market sector (such as

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Life Is Like a Distance Race

My dad once told me that "Life is like a football game." This piece of fatherly wisdom was usually spoken to produce eye-rolls from his family although there is no doubt in my mind that he sincerely believes this. However, for his three sons, distance running, via cross country and track, would be the lesson-teaching adjunct to their academic endeavors as football was for his. Therefore, I combined my sport of personal preference with my dad's affinity for sagely-sayings to produce my own: "Life is like a distance race."

Through my own running experience and from watching others compete, I have concluded that the best runners have an astute sense of pace. They know their

competition well and themselves even better. They can tell when the pace of the pack is too fast and when it is too slow and how that plays to their individual strengths and weaknesses. Most importantly, they make adjustments to their own pace as the pace around them changes.

This is precisely what the best money managers do. Investing in the markets is very similar to running in a giant race. There are many competitors (market participants) all of whom want to win (make money). Of course the "finish line" will be different for everybody but for simplicity's sake let us assume that all market participants started simultaneously and will finish at a certain point in the future. As I stated earlier,

the pace varies in just about every distance race. Sometimes a runner, or group of runners, quickens the pace to try and break away and everyone else speeds up to follow. This is precisely what happens in a bull market. For a variety of reasons, the market begins to rise and investors take on more risk to capture more market returns. If the new pace is too fast, the runners will eventually tire and slow down in order to recover before the next surge. This is a bear market. An upward trend eventually runs its course, the trend shifts downwards, and investors shed risk as at-risk asset prices fall.

Sometimes, the pace change is radical. The mid-1990s and

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Retirement Plan Corner...

How Healthy is Your Plan? How Ready are Your Participants for Retirement?

Health Assessment

The art of physical diagnosis comprises the taking of a careful medical history and a physical examination of the patient. I had my annual physical recently with the usual diagnostics... blood pressure, stethoscope to check heart and lungs, bloodwork etc. When we seek medical care for an illness or post-operative recovery, a “Care Plan” is implemented which prescribes treatments and goals.

The good old stethoscope, invented in 1819 in France by Rene Laennec, still provides a wealth of information to the clinician in a fast and inexpensive manner. Symbolic of medicine, it is usually the first “instrument” to be used by medical students when they begin to learn physical diagnosis. It also requires a “hands on” touch. Laennec’s careful examinations of his patients during life, and then, on occasion performing an autopsy immediately after death, correlated the sounds heard by the stethoscope with the anatomical changes of the organs. Laennec realized that emphysema was a different disease from asthma and quite different from tuberculosis, which dominated medicine in Laennec’s era. His book, *Le Mediate Auscultation*, is a classic!

The art of retirement preparedness diagnosis comprises the taking of a careful history and material examination of not only the tangible assets and projected benefits (or lack thereof) but the very individual goals, hopes, wishes and dreams of our future retirement “patients.”

The Times They Are A-Changin’

According to the Employee Benefit Resource Institute (EBRI)¹, retirement plan trends have shifted dramatically in the last 20 years from an employer burden to an employee burden, moving from Defined Benefit

(Pension) Plans to Cash Balance Plans to Profit Sharing Plans to 401(k) with Match to Reduced/No Match Plan. In 1980, defined benefit (DB) plans represented 80% of all retirement plans. In 2010, that number drops to 33%, and many companies that still have DB plans have frozen them or no longer make them available to new employees.



An article in the June 16, 2011 *Business News Daily*² states, “The retirement views of the Nation’s small-business owners are radically shifting...working 20 years or longer past so-called retirement age—or never retiring at all, according to a new study by The Guardian Life Insurance Business Research Institute. Less than half of them (45 percent) feel very or even fairly prepared for retirement. And two-thirds of them fear they will eventually outlive their money.

Many expect to live well into their retirement years, the study showed, and one-third of owners expect to delay retirement until they are older than 70. Only 10 percent think they will have a traditional retirement and stop working in their mid-60s...”

Due to the dramatic changes in the way that retirement is funded, it is critical to evaluate retirement age, retirement income needed in today’s dollars (this must then get ramped up for inflation), the savings rate and how much

risk is suitable for this individual.

Are we on track, woefully behind the curve (a retirement gap), or way ahead of the game... i.e., how healthy is “The Plan?” Is there an adequate lump sum available at retirement to fund a retirement income stream that we won’t outlive?



Wendy Hoelt

Advisor to Private Clients
& Retirement Plans

employer plan. Once the projected outcomes are determined, this will drive the specific action plan, our “Care Plan,” which measures the probability of success.

For plan sponsors one key factor is providing a well diversified open architecture of high quality, low cost investment choices -- “WHAT TO OWN.” But for the majority of participants who desire professional guidance concerning “HOW MUCH OF WHAT TO OWN” and “WHEN TO OWN IT,” active, professionally managed models provide that guidance. These risk-based options also fill the need for Qualified Default Investment Accounts (QDIAs) for plans using helpful enrollment design features such as auto enroll and auto deferral increase.

Get Regular Check-Ups

Life happens. Unless we regularly take our financial pulse and temperature, the “Care Plan” can become less healthy. Remember, the Plan is based on assumptions which may or may not shake out according to our expectations. So the Plan is like dishes and laundry...never finished. But the good news is that when we take the time and make the effort to get the baseline in place, and then “check-up” on an annual basis, it is easy to make

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¹www.EBRI.org

²From “Small-Business Owners Fear Golden Years May Be Only Brass,” courtesy of www.businessnewsdaily.com

Reduce, Reuse, Recycle... concluded



real estate or basic materials), or they might represent a specific part of the global economy (such as emerging markets). No matter what they might invest in, ETFs simply provide a package that anyone can easily buy or sell as needed.

Instead of investing in hundreds or even thousands of companies individually, ETFs enable us to own a small handful of positions that give us exposure to a wide variety of industries, sectors and countries in a very economical and inexpensive way.

Before ETFs existed, a mutual fund manager would have to employ large teams of research analysts to determine what the fund should own. Once that team had done its work, a large group of traders would have to actually go into the marketplace and buy each stock individually. You can imagine the expense involved!

But in addition to the sheer cost involved in an operation of this size – you're talking teams of 30 or 40 per fund – the eco-footprint becomes massive. To gather and operate a team this size requires transportation on a daily basis, exponentially large electronic resources (which in turn requires large energy consumption), a large office space, and a whole lot of chocolate.

But for every individual stock that a portfolio or fund might own, the research analysts are often required to perform "due diligence" visits to these companies or to scour the planet for the next possible "hot" investment. It may involve shuttling an analyst on a cross-country trip, which will eat up large amounts of fuel for each visit. With more than 68,000 mutual funds in operation today

(both domestically and globally) and over 14,000 individual publicly traded companies in America and 14,000 more overseas, the entire industry consumes massive amounts of resources.

Is it worth it? Surprisingly not. To this day, the overwhelming number of mutual funds, variable annuity subaccounts, closed-end funds and other managed offerings have a very difficult time providing anything more than market-like returns over time (with a notable exception to flexible strategies such as trend-following, mind you). I wrote quite a bit about the issue of "market gravity" in my book *On the Right Side of the Market* a couple of years back, and the issue is just as true today. The thousands of offerings essentially perform the same over time, and in theory a small handful of indexes could truly eliminate much of the unnecessary overlap and waste that this inefficient industry produces.

With Appleton Group's suite of ETF-based portfolios and funds, we employ a strategy that is quite rare in the investment industry: we reuse each of our ETFs, buying and selling each

position again and again as market conditions change. To this day, we employ only a small handful of ETFs (typically a maximum of eight), trading the same collection again and again. One of the really beautiful aspects of an ETF is that their composition (the individual stocks they invest in) rarely changes. Because of this, we have become very comfortable with each position, we have developed a singular expertise in each ETF (including a knowledge of how they are typically used by other investors), and we can remain comfortable using them again and again. In fact, two of the three original ETFs used in our portfolios at the inception of our discipline are still in use today.

While we know that there's still a lot more we can do to further reduce our eco-footprint (such as electronic delivery of all statements, prospectuses, and other custodial data), we're doing our part to expand our reach while remaining as efficient as possible.

-MCS

Life Is Like a Distance Race... concluded



2003 to 2007 were the market equivalents of all out sprinting in the middle of a marathon. Some people were convinced that they would never tire or that sprinting the whole way was the "new normal." Eventually, people got tired, very tired. The market pace went from sprinting to virtually walking in a very short timeframe for the aforementioned periods. Some participants fell flat on their face causing others to trip over them (think Lehman Brothers). Others needed medical assistance from the race officials (think TARP).

However, the shrewdest market participants, much like shrewd runners, adjusted their own pace accordingly as the overall market pace began to shift.

As the trend began to turn from bullish to bearish, they adjusted their holdings to compensate for that shift. These participants may have been keeping pace in the years leading up to 2000 or 2008, but when they felt the pace slowing they began to slow down themselves before all their competitors and (possibly they themselves) were forced to stop altogether. This keen sense of pace allowed them to avoid the majority of the slowdown and thus to pass many of their fatigued competitors who stood on the side of the road with their hands on their knees gasping for air wondering what in God's name happened.

Sports analogies, such as these, often bring a smile to my

dad's face. Astute pace judgment helped his children win and set personal bests in races throughout high school and college. The best investment managers use these skills to help them and their clients profit in adverse market conditions. They have learned the important lesson that life is like a distance race.



Mark Spirtel
Private Client Advisor

Funny Phrases...



(St. Michael's in Wausau) but in investing marks the crossing of those same moving averages to signal the beginning of a possible bull market.

Excess Liquidity: What it is not: the condition that many residents of Mississippi River states have found themselves in after the significant floods of 2011. What it is: the condition many banks and other companies have chosen to take over the past few years as they've retained massive amounts of cash in the event of another significant downturn in the economy. Related to the term "keeping your powder dry."

TARP: What it is not: the ugly plastic sheeting used to haul away yard waste or to keep your mulch dry in the Spring. What it is: an acronym for the Troubled Asset Relief Program started by the U.S. Treasury and implemented with the assistance of the Federal Reserve in 2009. This program was created to shift junky investment assets from the balance sheets of the 13 largest American banks and

other financial services companies and onto the balance sheets of the U.S. taxpayers. Related to the proposed but not implemented TURD program, which stands for Taxpayers Unfairly Rescuing Dumba\$\$es.

Dead Cat Bounce: What it is not: I have no idea whatsoever what it is not. What it is: a term used to describe a day in the throes of a bear market in which the selling ends and the market soars for no rational reason. The term is intended to describe the reality that if you throw a dead cat off of a tall building, it will inevitably bounce just a bit when it hits the ground. Apologies to cat lovers and veterinarians.

Trading Range: What it is not: an eBay auction for a used stove. What it is: boundaries of long-term high and low prices for either an individual stock or an index. For example, the Dow Jones Industrial Average is currently stuck in an 11-year trading range of approximately 14,000 at the top and 7,000 at the

bottom. The market has tested both the top and bottom of the range twice since the turn of the millennium.

Top Heavy Plan: What it is not: your personal strategy for dealing with the diet of a typical Wisconsinite over the past 40 years (too much beer, brats and Friday Night Fish Fries). What it is: a specific type of 401(k) plan in which the owners of a company make considerably more than the average of the remaining employees.

Death Benefit: This is a particularly confusing financial term often associated with life insurance or some kind of variable annuity. To realize whatever the financial benefit is, one has to die first, negating the possibility that the individual might actually enjoy having just received a pile of cash. What kind of a benefit is that?

-MCS

Retirement Plan Corner...concluded

course corrections when needed. And it really doesn't take a lot of time and effort to maintain.

For plan participants and individual investors, this is simply a matter of dusting off the plan, reviewing assumptions, making corrections when needed and carrying on. For plan sponsors, all that we do... investment due diligence, fiduciary support, employee communications...is ultimately designed to improve plan fitness and participant retirement preparedness.

401(k) REVOLUTION:

Appleton Group Wealth Management has the tools to take your company's retirement plan from good to great!

- Actively managed, risk based models
- Open architecture, full fee disclosure
- High-touch participant education & support

Plus, our newest addition: ETFs. Discover their unique benefits including:

- low cost
- fee transparency
- active risk management

for more information
contact us at 920.993.7727



“While others stand still, our trend-following discipline adjusts your portfolio holdings in real time as market conditions change.”

-MCS