



THE APPLETON GROUP, LLC

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



The Compass™

July 2013

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 \$147 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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Inside this issue:

FAQs from You...	1
Mid-Year Market Update	2
clearTREND® Update	3
TAG Portfolio Offerings	4

FAQs from You...

From the desk of Mark C. Scheffler

I can honestly say that I really like each and every one of my private clients, largely because they are so thoughtful. Every one of 'em! During our quarterly reviews, I get a chance to visit with a large number of the investors we serve, and during that time the conversations are often rich with questions and hopefully some answers too!

I've noticed that there are some common themes that run through our conversations, and some common questions that pop up again and again. Here are a few of those questions along with my common answers...

Q: I know the Dow and the S&P have gotten back to record highs, but how are they really doing?

A: You're right: the U.S. markets (some of them at least) have gotten back to the top of the range they've been in for the past 15 years or so. At the top of the market in 2000, 2007, and now 2013, the S&P 500 has topped out at around 1500. At the bottom of the markets in 2002 and again in 2007, they bottomed out at around 700 or so, about a 50% decline. The rebounds have each been driven primarily by trillions of dollars of stimulus, either from the Fed or from acts of Congress. They've also been driven by inflation that has intentionally been created by the Fed. Without these two factors, it's really impossible to say how the markets would be doing right now, but if the end of the recent quarter is any indication then most of the market rebound

in the past five years has been artificial. Take away the stimulus, you take away the last four years of market gains.

Q: Are you optimistic or pessimistic about the prospect for future growth?

A: There will certainly be economic growth somewhere, probably continuing from overseas markets such as China or India, as well as continued development in the United States and Europe. We're actually quite optimistic about emerging markets in the long run, even though we don't have any exposure to them right now. We're also optimistic about bear market securities (investments engineered to go up when the rest of the market goes down) because they continue to be ridiculously mispriced – many are down by 90% or more since the era of stimulus began back in 2009. With any sustained market decline from here, they may actually do quite well.

Q: Where can I go for a safe 7-9% annual return?

A: Unfortunately, nowhere – there exists NO risk-free rate ANYWHERE that will give you that kind of return anymore. I say anymore because there was a period of time (20-30 years ago) during which an investor could get that return by investing in U.S. treasuries. Those days are gone, although we all wish they weren't. Risk-free investing today – CDs, T-bills, money markets – means that returns are near zero. Sad to say, there's no way around this. What could actually help, though, is if consumer prices



Mark C. Scheffler
Senior Portfolio Manager,
Founder

actually declined, which could happen if the Fed stops their stimulus program. Think about it: if consumer prices dropped 10%, then a return of zero would still be a huge win in terms of real purchasing power.

Q: Where would we be without the Fed's stimulus packages?

A: The Fed has injected more than \$2 trillion of liquidity into the financial system in just the past four years. And it achieved its primary objective: reinflating the markets and stabilizing the global financial system. Without it, I'm confident that the Dow would be somewhere around 7,000 and unemployment would be back around 10% or so (both levels are from late 2008 – early 2009). They (which is really all of us) bought growth on the hope that we'll pay it back someday out of future growth. That's just not happening.

Q: What about annuities?

A: When most people say "annuities" they mean monthly income payments from an

concluded on page 4.

Mid-Year Market Update

Through the first six months of 2013, the global investment markets have demonstrated a wide range of outcomes:

- **Boom: the overall U.S. markets** finally advanced above their 2000 and 2007 previous highs after spending much of the past 13 years underwater;
- **Bust: foreign markets** continue to struggle to post positive year-to-date performance with large economies such as Germany and France stuck in recession and emerging markets such as China and India solidly underwater;
- **Cracking: global bond markets** have turned south as the end of the era of stimulus pushes interest rates sharply higher;
- **Mixed bag: commodity markets** have experienced extreme volatility both up and down in response to increased uncertainty.

We see three possible scenarios unfolding between now and the end of the year, continuing into 2014:



Bullish Case (Positive): The Fed is certainly not stupid by any stretch of the imagination, and they know that in order for the U.S. economy to grow they will have to continue with some kind of stimulus. Bad economic news can be good news for the markets as it implies a continuation of the easy money policies of the Fed. On the positive side, if the U.S. economy can demonstrate resilience in the face of Fed tapering there could be significant upside. After all, there hasn't been any meaningful market appreciation since the turn of the millennium and at some point market growth is inevitable. The U.S. economy is growing modestly and so long as interest rates don't spike sharply higher equities continue to be a bargain (especially after the recent pullback).

Appleton Group Portfolios to consider for this Bullish Case:

Traditional – Aggressive or Moderate*,
U.S. Sectors, or
Wisconsin Select.

Base Case (Neutral): With inflation coming in at around 2.5%, a stable interest rate environment, and corporations continuing to post solid earnings growth (primarily through cost cutting), many markets can continue to chalk up reasonably good returns. Unemployment is still high but coming down, tax revenues at both the state and federal levels are higher-than-expected (which is healthy), and there are still opportunities overseas for growth. Not too hot, not too cold and the markets could be just right.

Appleton Group Portfolios to consider for this Base Case:

Appleton Group Portfolio, any of the moderate versions of our core portfolios, Asia, Europe, Americas (ex-U.S.), Commodities from Heaven™, Commodities from Hell™, or Traditional – Conservative.

Bearish Case (Negative): If the Fed really is done with its stimulus effort, we're going to quickly find out how much of the market re-inflation of the past four years was due to easy money policies and how much was due to real economic growth. Frighteningly, it may be much more the latter and almost none of the former. If the re-inflation was mostly (or solely) a result of the \$2 trillion expansion of the Fed's balance sheet and the \$4 trillion of additional government spending (\$6 trillion ought to buy us something, right?), the markets are in big trouble.

Appleton Group Portfolios to consider for this Bearish Case:

PLUS, Tax Managed Growth, Managed Income, or any of the conservative versions of our core portfolios.

* New portfolios effective July 1, 2013.

Financial planning is a bit like dishes and laundry...

... never finished. It is based on assumptions that are moving targets like inflation, rate of return, tax brackets, date of retirement, how long will I live? Have you had your WealthMonitor checkup lately?

clearTREND® Update...

Numbers, Numbers, Numbers

With clearTREND's research library growing daily and with the dramatic expansion of our firm's portfolio offerings, we'd like to share with you several key nuggets we've uncovered that you might find interesting (Data as of June 26, 2013)...

1,345

Number of securities covered in the clearTREND research library. We continue to add new securities every month, as do subscribers outside of northeast Wisconsin.

72

Number of securities Appleton Group currently uses in its managed portfolio offerings. This is up dramatically with the launch of our suite of focus portfolios earlier this year.

1.4 Trillion

Number of successful trend combinations clearTREND has found in-total for the securities in our research library. With an average of 1.08 billion measurements for each security, we believe that clearTREND represents the best read possible on the health of the overall global markets.

54.6%

Percentage of securities whose primary trends are rising.

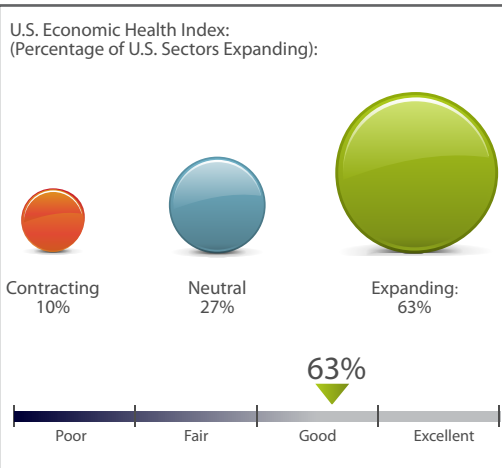
28.3%

Percentage of securities whose primary trends are stable.

17.1%

Percentage of securities whose primary trends are falling.

clearTREND Research Announces Insight Magazine Content Partnership



The Appleton Group is excited to announce a partnership with Insight Magazine that will deliver clearTREND content to the business community of northeast Wisconsin.

On a monthly basis, clearTREND content will be developed that follows Insight Magazine's editorial calendar, which focuses on specific sectors of the economy, and specific communities here in Northeast Wisconsin.

For example, August's issue of Insight Magazine will feature the energy sector, the engineering and architecture sector, as well as a focus on the Green Bay economy. The Appleton Group will create clearTREND

content highlighting trends in energy stocks, various energy sectors (such as oil & gas drillers or renewable energy), engineering stocks, as well as the top employment sectors in the Green Bay community. clearTREND's U.S. Economic Health Index (see image above) will also be featured.

"We're really excited to begin distributing clearTREND content in this partnership with Insight Magazine," said Cherie Wirth, Director of Marketing and Communications. "Producing and publishing cutting-edge research developed right here in the New North is a win for both organizations and for the Northeast Wisconsin business community."

clearTREND U.S. Economic Health Index:

This index measures more than 130 unique U.S. market sectors to determine how many are expanding, stable, or contracting. More than 50% of expanding sectors is healthy, while less than 50% is not.

clearTREND Sector Focus:

clearTREND offers analysis of select market sectors experiencing recent changes in trend direction. The Confidence Index is clearTREND's historic success rate in generating capital gains based on accurate trend identification and the As of Date is when the current trend was identified.

	Sector	As of Date	Confidence Index
▲	US Pipelines Sector	6/21/2013	91.89%
▲	US Platinum & Precious Metals Sector	6/20/2013	78.95%
▲	US Oil Equipment & Services Sector	6/18/2013	81.13%
▲	US Real Estate Services Sector	6/17/2013	95.24%
▼	US Software Sector	6/26/2013	86.36%
▼	US Hotel & Lodging REITs Sector	6/25/2013	88.89%
▼	US Nondurable Household Products Sector	6/24/2013	84.62%
▼	US Industrial Suppliers Sector	6/20/2013	77.50%

▲ uptrend ▼ downtrend

The Appleton Group Portfolio Offerings

INCOME	ASSET ALLOCATION	FOCUS	TRADITIONAL
Money Market Managed Income	Appleton Group Portfolio		
	AGP - Moderate		
	AGP - Conservative	Americas - Excluding U.S.	
	Appleton Group Tax Managed Growth	Asia	
	TMG - Moderate	Europe	Aggressive
	TMG - Conservative	Commodities from Heaven™	Moderate
	Appleton Group PLUS	Commodities from Hell™	Conservative
	PLUS - Moderate	U.S. Sectors	
	PLUS - Conservative	Wisconsin Select	
	Low Risk 1 - 3 Year Time Horizon Most Predictable	Risk Managed 3 - 5 Year Time Horizon	

Not FDIC Insured • May Lose Value • No Financial Institution Guarantee

FAQs from You...concluded

insurance company, kind of like a pension. These come with one big caveat: when your life ends (or in some cases you and your spouse), the insurance company gets it all. So for investors who are OK with being married to an insurance company, literally for the rest of their lives, and naming the insurance company as their sole beneficiary of these assets (and not their kids), an annuity might be suitable. I know from experience that they're full of hurdles and hoops to jump through and surrender penalties and tax surprises to navigate (not to mention the fact that insurance companies can fail). Other than these issues, I'd say they're occasionally ok.

Q: With this much uncertainty, why would anybody invest?

A: Simple question, simple answer: almost no one in the

U.S. has enough money today to have the independence, security, and lifestyle they've become accustomed to. Despite popular opinion to the contrary, Fed officials are really bright. They all know that without future growth our collective lifestyle is unsustainable. The irony is that the further we go without recognizing this fact and without making dramatic changes to the basic structure of our economy, the bigger the problems get and the more stimulus is required to keep the scheme going.

Q: Which is a bigger risk, inflation or deflation?

A: The Fed has been fighting deflation since 1930, and they've been largely successful. The long-term inflation rate stands at around 2.54% (Source: Ibbotson), and all of that has been generated intentionally by the Fed and

its policies. The system works great when you have a modest amount of inflation, but bubbles create excess inflation and the bursting of those bubbles creates deflation. If the Fed were to vanish today, I believe you'd see massive deflation and that's what keeps Ben Bernanke up at night.

Personally, I believe that massive deflation is inevitable, and for most, wholly unwelcome. The present-day economy simply isn't ready because we've never had the guts to start the conversation. And that's why long-term risk management is so important.

Q: How much time do you spend thinking about the markets?

A: Quite literally, every free moment seems to come back to the work we do. I'm not entirely sure this is healthy in the long run,

but it's a fact. I believe that the dynamics of capitalism and the markets represent the greatest puzzle of our time, a puzzle with multiple moving parts, changing rules and possibly a stacked deck (the Fed's massive stimulative effort of the past four years).

Even more of a challenge is the fact that what was once considered "safe" is now highly risky. This is especially true in the bond markets. If the Fed really is going to follow through on its pledge to reduce or eliminate their massive stimulus effort, bonds have just become as volatile and risky as everything else. I would never try to sugar-coat this fact, and I hope everyone understands that our clients pay us to tell the truth no matter how difficult that might be.

-MCS