THE APPLETON GROUP, LLC

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

The Compass™

July 2014

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 $167.5 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

The Compass™ is published quarterly, and is produced by The Appleton Group which is solely responsible for its content.

Inside this issue:

Smooth Sailing

From the desk of Mark C. Scheffler

Mark C. Scheffler
Senior Portfolio Manager, Founder

"Hoist the mainsail," "Unfurl the jib," "Ready about," "Hard to lee," "Reef the main."

Until my mid 20s, these were all terms that I had never heard before, but they have recently become part of my summer lexicon once again.

I'm in heaven.

These are commands that the captain or helmsman of a sailing vessel might give to his/her crew to either increase sailing speed, prepare to turn, or to reduce power (and reduce risk to the ship). This summer, I've had a rare opportunity to regain my sea legs thanks to the availability of a 1991 Hunter 28 sailboat that, due to an unfortunate diagnosis of Parkinson's disease, can no longer be sailed by its owner.

I first was introduced to the ancient art of sailing as a crewman on a racing boat back in the late 1990s. My neighbor on Doty Island needed a hand on his family friend's Melges 24, a class of really fast boats occasionally raced on Lake Winnebago on Tuesday nights out of Neenah. I was hooked.

You might think that these terms have nothing to do with investing, but in a very real way our firm's portfolio management style is nearly identical to the art of sailing. Here's how:

Dependence on Wind: To sail, you obviously need for the breeze to blow. No wind, no movement. Too much wind or an unpredictable squall, and the conditions become ripe for disaster. For investing, we need the markets to move. And like sailing, it really doesn't matter what direction the wind is blowing – north or south, almost without exception, it doesn't matter.

And steady movement is best. A steadily rising or falling market are both perfectly fine for our flexible investment style. "Just pick a direction and stick to it," I always say.

> **The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.**
> **-William A. Ward**

Power when you need it, but always in control: To sail faster, you need more sail. Pretty simple, so most boats will use at least two (a mainsail and some kind of a jib). For real speed and power you might also deploy a spinnaker. And to reduce power you simply reduce the size of the sails by bringing them in a bit (called "reefing"). This is normally done when the wind begins to howl beyond what the captain might consider safe.

Our flexible management style does exactly the same thing, increasing exposure to the markets when conditions are favorable, and reducing (or eliminating) exposure to the market when conditions are no longer safe. "Better too little sail from land than too much sail at sea," the old saying goes.

Experience at the helm: My buddy Jeff grew up sailing on Lake Erie as a boy and has seen his share of "gnarly" weather. So when he suggested that we take the boat out in 20 mph winds and whitecap waves to see what she was made of, I trusted his experience to keep us safe. He reefed the mainsail from the start, set us on a course slightly into the wind, and away we went on a wild ride.

We were heeling pretty strongly (when the boat leans sharply to one side), but Jeff's experience knew that the boat was fine. He taught me how to read the upcoming wind conditions by looking at the surface of the water 100 yards ahead and to make slight and immediate course corrections if needed. And most importantly he taught me how to

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Facing the Fixed Income Challenge

Over the past several years, investors have seen interest rates plummet to lows not seen since the early 1800s. As you can imagine, there's been a lot of discussion about the best way to invest in fixed income securities in today's low interest rate environment. To understand the challenge fixed income investors are up against and how The Appleton Group approaches this challenge, it is important to understand the two possible ways investors can potentially make money from a fixed income security.

The first way is to earn interest income, which is stated as an annual percentage of the principal amount an investor pays for the security. For example, the current yield on the 10-year U.S. Treasury Note is around 2.6%, which is less than half its historical average yield of 6.6%[1]. An investor who puts $100,000 in this security will receive $2,600 per year (before taxes) for the next decade. This means that with the rate of inflation currently around 2.52%[2], investors will barely keep up with the pace of inflation. Since all types of interest rates generally move up and down at the same time, investors are also earning a historically low amount of interest on CDs, corporate bonds, mortgage-backed securities, and many other types of fixed income securities.

So if investors aren't earning much on interest, how else could they benefit from fixed-income securities? The second source of earnings potential is from price appreciation of the securities, which happens if interest rates go down after an investor buys a fixed income security and they sell that security for a profit. But with interest rates already very low and the U.S. Federal Reserve considering whether to raise rates in the coming years, our research team believes it unlikely that investors will benefit from further price appreciation of fixed income securities.

This puts investors who are seeking current income in a difficult position, which led our firm to create The Appleton Group Managed Income Portfolio back in 2012. This portfolio is built to achieve an above-average yield by investing in a combination of high yield bonds, preferred stock, convertible bonds, and emerging market bonds. While these securities pay a higher yield because they carry higher risk, we manage this risk by implementing our clearTREND® discipline. By using this strategy, our clients have the opportunity to earn an above-average yield should interest rates stay constant or go down. But we also have a strategy for reducing or eliminating our clients' exposure to these securities should rates begin to rise. As one of our top-performing portfolios so far this year[3], The Appleton Group Managed Income strategy may be a good fit for investors nearing or already in retirement or for investors who are seeking current income.

-AMH

Appleton Group Managed Income Holdings as of June 30, 2014

	Target Allocation	Actual Allocation	12 Month Yield
SPDR Barclays High Yield Bond (JNK)	20.0%	19.3%	5.75%
iShares S&P U.S. Preferred Stock Index (PFF)	20.0%	19.8%	6.56%
SPDR BRCLYS Capital Convertible Securities (CWB)	20.0%	20.4%	3.16%
Vanguard Short-Term Corp Bd Idx ETF (VCSH)	15.0%	14.2%	1.64%
iShares iBoxx Investment Corp Bond (LQD)	10.0%	10.0%	3.57%
iShares JPMorgan USD Emerging Markets (EMB)	10.0%	10.0%	4.48%
Cash	5.0%	6.3%	0.00%
Weighted Average Yield			4.09%

[1] Source: Bonds.about.com; historical rate on U.S. Treasury Note since 1962

[2] Source: usinflationcalculator.com

[3] Please visit www.appletongrouponline.com or ask your personal advisor for complete performance history and investment information.

Not FDIC Insured – No Bank Guarantee – May Lose Money.

Smooth Sailing…concluded

bring the boat back to safe harbor when we were done.

Nothing can replace experience, and having successfully navigated through two "gnarly" bear markets over the past 14 years, my team's experience in investing is irreplaceable. We know how to read the markets, when to forge ahead and when to make adjustments. And in an era when any website can give advice, nothing can replace a face-to-face meeting with an advisor you can trust, especially during an economic "storm."

If we had run into trouble in our rough seas adventure, there simply wouldn't have been time to boot up the iphone, open a browser, Google "how to rescue a sinking ship," and sort through pages of advice from some app that was programmed to help. In times of turmoil and in times of strength, a strong helmsman is your best resource.

In investing or on the water, nothing can replace the simple and attractive idea of "smooth sailing." After all, this newsletter is called *The Compass*.

-MCS

Tidbits…

138.4 million

The number of U.S. jobs that existed at "peak employment" in January 2008 and recently again in May of this year.

8.7 million

The number of jobs lost during the great recession. (late 2007 – early 2009)

6 years, 4 months

The amount of time it took to return to peak employment (by creating 8.7 million jobs during the recovery).

$11.7 trillion

The amount of stimulus it took to bring us back to peak employment. ($8.3T from additional Federal debt, $3.4T from Federal Reserve stimulus)

$1,344,827

The stimulus cost of producing ONE job.

Source: U.S. Department of Labor, U.S. Treasury

-0.1%

The interest rate on bank deposits in the Eurozone. The European Central Bank now charges depositors to hold their money (known as negative interest rate policy) in an attempt to incentivize investment in arenas other than bank vaults.

Source: Eurpean Central Bank

0.00% to 0.25%

Current interest rates on U.S. Bonds, which are at historic lows. The Federal Reserve continues its zero interest rate policy in hopes of stimulating investment.

Source: Board of Governors of the Federal Reserve System

Have You Seen the New Artwork at The Appleton Group?

If you haven't, it means that you probably haven't been to our office lately - hint, hint. I know it's a strange title for an article for the newsletter, but hopefully it caught your attention. The Appleton Group exists solely to provide wealth management services to our clients and we want to make sure that you are aware of all the services that we have to offer.

Private Client Services include:

- In-person quarterly reviews
- Complete financial planning services
- Social Security and pension elections
- Retirement income needs analysis
- Strategy coordination with CPAs, attorneys and other professionals
- Roth IRA conversion strategies
- Investment tax reporting
- Quarterly statements
- Market commentaries

In addition to serving private clients, The Appleton Group also offers complete corporate retirement plan services for 401(k), 457(b), and 403(b) plans, as well as profit-sharing plans, money-purchase plans and small employer SEPs.

So the next time you are at the office, make sure to check out the artwork! *-CW*

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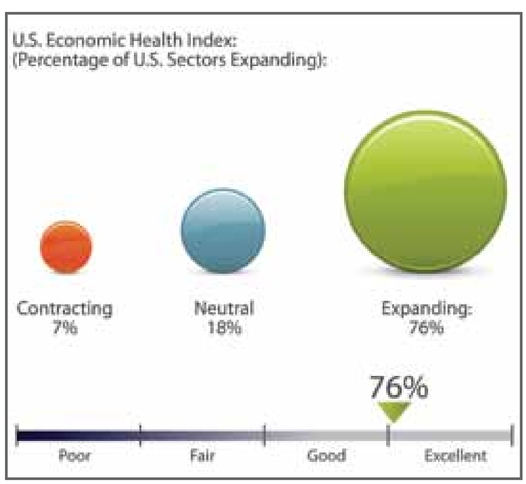
clearTREND U.S. Economic Health Index™:



The Bureau of Economic Analysis reports that the US economy shrank by -2.9% in the first quarter of the year, the first such result since the Great Recession of 2008-09. Updated employment numbers were also released by the Department of Labor, showing that the total number of jobs lost during the Great Recession have been recovered. It has taken 6 years and 4 months to recover back to 138.4 million jobs, costing the U.S. an unbelievable amount of $11.7 Trillion in stimulus spending along the way.

However, stimulus has had an overall positive effect on market levels, pushing them to record highs. The clearTREND U.S. Economic Health Index places the economy in the "excellent" category.

The index measures overall market trends for approximately 136 distinct economic sectors. The number of expanding, stable and contracting sectors is measured on a periodic basis, and is reported by The Appleton Group through various media outlets, including Insight Magazine, Seeking Alpha and StockTwits, as well as through our firm's Three Minute Trend Talks.

Data as of June 30 2014.

Portfolio Workshop

The Appleton Group's family of investment portfolios has grown considerably over the last year. We've compiled a simple roll-call below, indicating absolute performance for the quarter (shown by up or down arrows), as well as ranking our offerings with top performers listed first:*

- ▲ Appleton Group Americas
- ▲ AG Traditional - Aggressive Portfolio
- ▲ Appleton Group PLUS Portfolio
- ▲ Appleton Group Portfolio
- ▲ Appleton Group Asia
- ▲ AG Traditional - Moderate Portfolio
- ▲ AG - Tax Managed Growth Portfolio
- ▲ Appleton Group Commodities from Hell
- ▲ AG - Moderate Portfolio
- ▲ AG Traditional - Conservative Portfolio
- ▲ AG PLUS - Conservative Portfolio
- ▲ AG PLUS - Moderate Portfolio
- ▲ AG - Conservative Portfolio
- ▲ Appleton Group Managed Income
- ▲ Appleton Group U.S. Sectors
- ▼ Appleton Group Wisconsin Select
- ▼ Appleton Group Europe
- ▼ Appleton Group Commodities - Heaven

▲ Positive Quarterly Performance
▼ Negative Quarterly Performance

Flagship: Appleton Group Portfolio

One of our three core offerings, The Appleton Group Portfolio represents perhaps our most straightforward, consistent and most profitable portfolio over the past decade. While still holding true to our passion for proactive investment risk management, this portfolio has also offered investors healthy, positive returns since the market's valley in March of 2009.

The Appleton Group Portfolio invests in a wide variety of exchange-traded funds (ETFs) that each target a specific part of the global markets. These include U.S. equities of all sizes and types, developed international markets, foreign emerging markets, real estate, and basic materials companies. During sustained market advances, this portfolio can invest as much as 95% of its assets in these growth areas; however, during sustained market declines it can reduce or eliminate exposure to the markets and invest in money-market securities for safety.

While not our most defensive portfolio, this offering gives our clients perhaps the best balance between growth and risk management. As such, it is suitable as a core holding for investors of all ages who seek the potential to grow their portfolios over time while managing risk along the way.

Featured: Appleton Group Managed Income

The clearTREND® Managed Income Portfolio invests mainly in a variety of fixed income and dividend paying Exchange Traded Funds (ETFs). It employs an ETF trend-following discipline designed to systematically adjust the portfolio in real time as market conditions change. This strategy seeks to invest exclusively in our targeted ETFs whose optimal price trend is rising, while reducing and/or eliminating exposure to those ETFs whose optimal price trend is falling.

For more information on this portfolio, see the article titled *Facing the Fixed Income Challenge* on page 2.

The portfolio currently consists of the following ETFs:

JNK	PFF	CWB
VCSH	LQD	EMB

*Important information: Contains forward looking statements. **Not FDIC insured, may lose value, no bank or government guarantee.** Visit www.appletongrouoponline.com for a complete history of these and all Appleton Group portfolios, including past performance, targeted and quarter-end holdings, strategy summary and suitability.