The Compass™

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

AMONG THE NATION'S TOP 75 SEPARATE ACCOUNT MANAGERS

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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 currently manages $89.415 million, serving advisors, private individuals, families, corporations, institutions, endowments, foundations, trusts 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:

Since You Asked...

Never one to shy away from a good question, Mark Scheffler sits down to offer his insights into the markets, investing, and on life.

What does Appleton Group Wealth Management do?

Appleton Group Wealth Management is in the business of creating wealth using time-tested money management techniques and strategies and simultaneously preserving that wealth for future use. Our goal is to produce a positive return for our clients over a reasonable period of time, and to achieve returns that are needed for a particular investor to live a life of comfort, ease and fulfillment. We intentionally incur some risks in order to achieve our goals, as we believe that a modicum of risk, properly managed, can help to produce returns that are useful and meaningfully higher than those produced by taking no risk at all.

That's a great concept: working to get returns over time that are higher than CDs, money markets, and treasury bonds. But risk is, well, risky. Tell me what I need to know.

Will do. Risk is essentially inviting uncertainty into your portfolio with the expectation that you'll be rewarded for that uncertainty with higher returns. Typically, with risk comes reward, although the two aren't always connected, since risk is also inviting the possibility of a bad outcome. In investing, the most obvious bad outcome is a significant loss occurring at any point in time. But another real risk is simply not making enough from an investment to sustain a person's particular lifestyle.

Mark C. Scheffler
Senior Portfolio Manager, Founder

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Appleton Group Wealth Management Named to Elite List

Mark Scheffler was named to the list of the 20 Rising Stars of Retirement Plan Advisors in the September issue of *Institutional Investor* magazine. The stars were nominated by industry peers. They were selected based on an age criteria of 40 years or under, and having credentials and experience and a career consistency that indicates they will be the ones to watch as leaders and trend setters in the industry going forward.

The list is comprised of retirement plan advisors from across the nation who work directly with 401(k) and defined contribution plans. Mark Scheffler is the only Wisconsin-based advisor to land in the magazine's top 20 Rising Stars.

> *"We are very proud of the work we do with retirement plans."*

According to Scheffler, it is an honor to be included in such a prestigious list. "We are very proud of the work we do with retirement plans," Scheffler said. "Since people are living longer, and the extra years of life have to be financed somehow, we must provide better risk management tools to help protect against market downturns, yet allow participation in favorable markets. Appleton Group composites are perfectly suited lifestyle allocation models that do just that," he said.

-CW

Retirement Plan Corner - Begin With the End in Mind

It's a saying first coined by Steven R. Covey. You know, the guy who wrote the perennial best seller *The Seven Habits of Highly Effective People*. "Begin with the end in mind" invites you to first identify what you want a particular outcome to be, and then work backwards to figure out what you need to make it a reality.

For investors in company sponsored retirement plans, the tendency has been to choose the best performing investments, which in theory should give you the best possible return. On its face it should make sense, after all the best return for an investment should lead to the best return for the investor. But there is a growing body of evidence that points to a significant gap between investment returns and investor returns (see Dalbar's 20-year Quantitative Analysis of Investor Behavior). In some studies, the gap between investment returns and investor returns has been as much as 8 full percentage points per year (11.9% for the markets vs. 3.9% for investors) over a 20-year period of time.

We believe that instead of picking investments first, a far better approach would be for an investor to start with the end in mind, that is to say, by targeting a specific return and then selecting the most efficient portfolio to generate that return. For example, after completing a detailed and accurate financial plan (preferably with an advisor) the investor might discover that they have to get an 8.5% average annual return in order to make their financial plan work. Great news, because that's less than the 11.9% average annual return for the market, and it means that the investor doesn't have to take on all of the risk of the market in order to meet the goals outlined in their financial plan. Can you see where this is going?

Once the investor has identified their minimum required rate of return, the investment selection process becomes a whole lot easier. The informed investor simply picks the investment (or combination of investments) that has efficiently produced that minimum required return through both good and bad markets. An efficient portfolio is one that has produced a specific return while exposing the investor to minimal risk. An inefficient portfolio is one that has produced lower-than-needed returns while exposing the investor to substantial risks. In fact, the period of 2000 – 2005 (three up years and three down years) is the perfect environment for separating efficient wealth management strategies from those that are inefficient. Efficient portfolios are desirable, inefficient portfolios are not.

The same process can be used by trustees and advisors to pension plans, profit-sharing plans, foundations, endowments and other specialized accounts. Simply identify the account's minimum required rate of return, and then identify the portfolio that can best achieve that return over a reasonable amount of time. All in all, a smart approach to take!

So, when is the best time to convert a piece of a portfolio from an inefficient and less predictable approach to a more efficient investment discipline (such as offered by Appleton Group Wealth Management)? While there's never a bad time, it is far better to do so at the top of the market (when the inefficient strategy has probably rewarded you) than to do so at the bottom of the market (when you've been penalized for inefficiency by incurring large losses).

In other words, now is the time for Appleton Group Wealth Management!

-WH

Wendy Hoeft
Director - Retirement Plan Relations

Performance Gap

S&P 500
+11.9%

Average Stock Mutual Fund Investor
+3.9%

Source: Dalbar
Returns for the period: 1985-2005

"Begin With the End in Mind"

- Stephen Covey

Since You Asked... continued from page 1

How much do I need to make to sustain my current standard of living for the rest of my life?

That's a complicated question, but for many investors it's more than you can make without taking on some risk. CDs, treasuries and money markets are all paying less than 5% a year right now, and it's been my experience that many investors really need to earn between 6% and 9% on average per year to make a go of it. We call this your "minimum required return." Now, the average return for the market (as measured by the S&P 500) over the last twenty years has been 11.9%. So, many investors don't need to get all of the returns of the markets, but they do need to make their minimum required return or better.

So, why not just buy the S&P 500 index and be done with it?

Because between April 2000 and March 2003, the S&P 500 index fell by over 44%. Would you be comfortable watching nearly half of your retirement funds simply melt away? Normal or not, that's not what anyone signs up for.

Yeah, that's a whole lot more risk than I'm comfortable with, but I like the idea of getting closer to 11.9% than getting closer to 5% or worse. What about the risk of missing out on opportunities that the market might present?

That's a great question. The market always presents opportunities, some of which exist for many years, while some may exist only until such time as they are discovered. This is really important, and it's the difference between the forest and the trees. The big picture is that stocks and bonds and real estate and money markets and other sorts of investment vehicles all have their day in the sun, but it is rare when all of these might be working at the same time. In fact, they often do not.

With all of these choices, what can an investor do to take advantage of these opportunities?

Well, one of the most common techniques is to simply own all of them, all the time, using a preset mix that really isn't altered. In other words, no flexibility. The problem with this approach as I see it is that it's really not very efficient, because it can mean that a significant piece of your portfolio might be positioned improperly for months or even years. My experience is that when markets go up, it encourages the investor to sell the weak investment and overload on what has been working. More risk, at the worst possible time. When markets go down, it can also lead the investor to suffer such deep losses that it can become unbearable to continue. We call these "I can't stand it anymore" moments. Not good in anyone's book.

> *Q: "So what should I do when your discipline does underperform?"*
> *A: "You should invest more."*

So, how is Appleton Group Wealth Management different?

I can tell you what we do, and I think it really is one of the best approaches to take: We use all of the traditional investment vehicles in our portfolios (stocks, bonds, real estate, cash, etc.), but not always at the same time, and with enough flexibility to overweight strong investment vehicles and underweight weak investment vehicles. Our approach to investment selection does take into consideration what mix of these vehicles gives our investors the most efficient reward potential with the least amount of real risk. In other words, we constantly seek and respond to strength in the market, and we constantly seek and respond to weakness in the market.

This sounds like your discipline would be a whole lot more efficient.

In reality, it has been. Over the past seven and a half years or so, The Appleton Group Wealth Management Discipline has been put through its paces during both good and bad markets, with measurable improvement over virtually every other portfolio management technique. In fact, the past seven years really has been the perfect environment to separate the winners from the losers, and to identify those disciplines that can successfully navigate both cooperative and uncooperative markets. It has also been the perfect environment to really expose the shortcomings and significant risks of other less-flexible portfolios.

Being that efficient must mean that you're right all the time, right?

Wow, I wish that were true! It might surprise you to know that for every trade we make in the actively managed pieces of our portfolios, we're typically right about 40% of the time. In other words, 60% of the time, we sell that position for either no gain or we sell it for less than we invested. But the thing is, when we do lose money on a particular position, the loss is usually very manageable, somewhere around 4% or so on average. On the other hand, when we sell a position and take a gain, the average profit is somewhere north of 17%. A big difference, and in fact it makes all the difference in the world.

So when do your portfolios work best, and when do they underperform?

Well, we really try to have something working in a portfolio all the time. That's one of the main goals of a properly diversified portfolio. Ours tend to work best in any kind of a sustained market move, either up or down. The history of The Appleton Group Wealth Management Discipline is well documented, and it really points to periods of significant outperformance during periods of sustained market declines, largely market-like performance during periods of sustained advances, but a tendency to underperform during flat and choppy directionless markets. By far, the first two environments I mentioned are the ones in which you want your portfolio to be positioned properly. In a choppy flat market, missing out on a relatively small gain is far better than taking on too much risk and taking a beating.

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Supporting the Arts - Calendar of Events

APPLETON ART CENTER

ArtSCIENCE

September 21 - November 12, 2007

Inspired by the blurred boundary between visual arts and science, this exhibition will provide a fascinating and beautiful cross section of the arts and sciences.

From nanotechnology to astronomy, and nature to industry, beauty can be perceived and inspire our lives in the smallest to the biggest ways. This exhibition will feature pioneering art works from scientists and artists in Wisconsin and around the world.

Angels We Have Seen:

An Appleton Art Center Holiday Exhibition

November 20 - December 24, 2007

Join us as we welcome the holiday season with the lighting of Appleton Art Center's Christmas tree and an exhibition of works of art featuring angels by regional, national, and international artists.

Fox Valley Symphony

RUSSIAN ROMANCE

Saturday, November 3, 2007 (7:30 P.M.)

DEBUSSY: Prelude to the Afternoon of a Faun
SIBELIUS: Suite No. 1 from the Tempest
RACHMANINOFF: Piano Concerto No. 3 in D Minor

Call the PAC for tickets @ 920-730-3760

HOLIDAY POPS

Home for the Holidays Family Concert
Thursday, November 29, 2007 (7:00 P.M.)

Pickard Auditorium, Neenah

Contact the FVS for tickets @ 920-968-0300

WHITE HERON CHORALE

Our Finest Gifts We Bring

Saturday, December 15, 2007 (7:30 P.M.)
Lawrence Memorial Chapel
Sunday, December 16, 2007 (3:30 P.M.)
Matinee Performance
First Presbyterian Church of Neenah

This concert will also feature the world premier of *Sons and Daughters of Harmony* by Mark Scheffler.

A Grand Night for Singing - Anniversary Concert

Saturday, March 15, 2008 (7:30 P.M.)
Lawrence Memorial Chapel
Sunday, March 16, 2008 (3:30 P.M.)
Matinee Performance
Kaukauna High School

Since You Asked... concluded

I can live with that. So what should I do when your discipline does underperform?

You should invest more.

Huh?

You should invest more with us. I know it sounds counterintuitive, but you asked the question, and it's a great one. "Buy low, sell high" is the mother-of-all investment strategies, and it works beautifully – but it's hard. I say it's difficult because the tendency is to buy more of what has been working best, but time and time again I've seen investors throw more and more money into high-risk investments that peak and collapse shortly thereafter. This is such an important concept!

What about investors that don't already use you?

There are really two points in time that an investor can come to the realization that their current investment strategy is inefficient: it can happen at the top of the market, but more often it happens at the bottom of the market. By far, it is better to convert a less efficient (and probably higher risk) strategy with one that is more efficient and less risky after the inefficiency of your investment has happened to have worked out. In other words, take the money and run (to us)!

It sounds like you really have a good thing going.

It's been a lot of fun, but I really think that we've just scratched the surface. We're out to change the world for the better, and we've got a lot of work to do!

-MCS