



The Compass™

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



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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, LLC currently manages \$109.345 million, serving advisors, individuals, families, trusts, corporations, institutions, endowments, foundations, and company sponsored retirement plans.

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Inside this issue:

Moving a Mountain	1
Rising Star	1
Retirement Plan Corner	2
Pesky Math	4

Moving a Mountain

From the desk of Mark C. Scheffler

Almost nine years ago, I set out on a path that, if successful, would move mountains. You see, at that time the U.S. economy was mired in one of the most painful and broad reaching bear markets the country had experienced in nearly thirty years. Bear markets are generally a bad thing. You remember the bust of the dot-com sector, Enron's accounting problems, gross negligence and conflicts of interest in the brokerage community, right?

When I founded Appleton Group Wealth Management LLC, I had the luxury of picking and choosing the structure of our firm, whether our focus would be on selling stuff to our clients versus serving them (a big difference),

whether we would be all things to all people or to focus on one core thing that we would work to do better than anyone else, and whether we would work to be open and transparent or be opaque and clandestine. More importantly, if we chose to do things differently than our competitors, would we be accepted in the marketplace? After all, I was aware of the old business adage: "It is better to fail conventionally than to fail unconventionally."

Failure is not an option.

There was one overarching concern that I had from the first day I participated in a bear market (that was in 1998, nearly three years into my career): **the investment community as I**



Mark C. Scheffler
Senior Portfolio Manager,
Founder

knew it was woefully prepared to protect client assets if the market itself wasn't going up. Sure, everyone has their share of ups and downs, but I learned two things rather quickly: first,

continued on page 3...

Appleton Group Named Rising Star of Wealth Management

Mark Scheffler was named to the list of the 20 Rising Stars of Wealth Management by *Private Asset Management*. The stars were

\$1 million or more in investable assets and have demonstrated through their strong relationships and portfolio skills that they "have

and-coming professionals who are making an impact on the wealth management industry. Mark Scheffler is the only Wisconsin-based advisor make the list.

"Today's markets are full of opportunity for those investment managers who can both grow portfolio assets during favorable markets, but more importantly have demonstrated the ability to limit portfolio losses during unfavorable markets."

-MCS

nominated by industry peers. The selected individuals met the criteria of having an average client size of

the stuff" to lead the industry in the future.

The list is comprised of up-

"It is a privilege to be included in such an elite list," said Scheffler. "Today's markets are full of opportunity for those investment managers who can both grow portfolio assets during favorable markets, but more importantly have demonstrated the ability to limit portfolio losses during unfavorable markets. Appleton Group Wealth Management is that firm."

Retirement Plan Corner...

Breaking the Bundle

In this environment in which you hear so many stories about what's not working, I thought this would be a great opportunity to highlight what is. The greatest aspect of this bear market, and the recent breakdown of so many financial institutions, is that it gives all of us a first-hand opportunity to identify which structures hold up best under stress, and which do not.

If you've been happy with the administrative side of your company's retirement plan, but you believe like so many that the investment side of the relationship really isn't what you had in mind, now is the perfect time for us to show you a better way!

So, here's what's working. First, flexible investment disciplines like The Appleton Group Wealth Management Discipline™ are flat-out better under stress and are better able to insulate retirement plan participants from large losses. The point is not to eliminate risk, but to better manage the risk of the kinds of losses that, while normal, are certainly not helpful. No plan participant, no matter how aggressive they may claim to be, signs up for the kinds of

losses over the past year that the stock market has demonstrated. Target-date funds (like Fidelity's Freedom series and others) and static asset allocation funds (asset allocation funds that have the same investment mix no matter what is happening in the markets) just don't have the ability to successfully navigate these kinds of volatile markets.

Target date funds and static asset allocation funds should really be seen for what they are: great in theory, lousy in practicality. The worst part, though, is twofold: 1) they've become so ingrained in the culture of retirement plan providers that they're present in practically every bundled retirement plan, and 2) if they're wrong, retirement plan participants run the risk of sticking with a failing strategy for years before they realize that the returns simply haven't been high enough to be of any practical use. In other words, participants will simply run out of money in retirement.

So, what else is working? Unbundled retirement plan services. This is our model, and it works great. Appleton

Group serves as the advisor to the plan, choosing which investments are best suited to your participants, and also serving as the asset allocation provider. We then utilize the services of a completely different company to provide the recordkeeping, administration, trustee services and reporting. This structure works so great because these two areas are so very different and require completely different skills. It also offers the most flexibility, and large institutions are quickly moving to this model.

Many local plan sponsors might be surprised to learn that their current 401(k)/403(b) administrator already has the ability to use independent advisors while keeping the recordkeeping services intact. Providers such as Fidelity, Schwab, M&I Bank, Wells Fargo, and many others really do understand the importance of this structure. Our hats go off to them. Independent TPAs such as Pension Inc., Newport Group, Wipfli, Schenck Retirement Plan Services and others have long been in support of this model. Kudos to them as well!

Fact is, we all want the same



Wendy Hoelt

Director -
Retirement Plan Relations

thing: helping retirement plan participants best meet their goal of a safe and secure retirement while keeping investors comfortable through thick and thin. What else is there? The real silver lining of this period of economic pain is that better ways have unfolded to meet these goals.

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"Somewhere in between the human emotions of fear and greed lies gratitude. Gratitude for all we have, for all we take for granted during times of ease, gratitude for that which gives us comfort and security and happiness. During this period of economic transition, I am grateful for memory. I am grateful not only for the memory of periods of past uncertainty and the lessons that they have taught me, but for the memory of the inevitable resolution of past uncertainties. I am grateful for the gift of vision, for creativity, and for the ability to question the answers that so many take for granted. I look forward to the inevitable renewal of prudence and comfort and ease which seem like distant memories. I look forward to the future, to an even deeper sense of gratitude, to laughter, and to a promise to never forget this time together."

-MCS



Moving a Mountain... continued from page 1



markets don't always go up; and second, that sinking feeling I got when I saw large portions of my clients' portfolios melt away, even if temporarily, was nothing compared to the sinking feeling I got when my clients expressed their disappointment in my ability to protect them. My clients looked to me then as I believe they look to me now to keep them safe through thick and thin. I really doubt that I'm the only one in my industry who feels this way.

We've had our share of tough times, but through it all our portfolios have remained resilient. Through one of the worst market environments in the past seventy years (perhaps longer), each of our core growth portfolios has successfully limited losses to just low to mid single digits, and our suite of asset allocation portfolios has fared only marginally worse. All in all, our offerings remain among the most efficient in the marketplace, among the easiest to hold, and for now among the most underutilized.

Underutilized? Yes. You see, the mountain that I've been trying to move for the last eight years has been immovable for over forty years. It is the mountain known as "Modern Portfolio Theory" that won a Nobel Prize in economics back in the 1960s, and is accepted as unquestionable truth by practically every investment advisor in business today. Modern Portfolio Theory essentially says that there is a fixed and predictable relationship between risk and reward, and that if you buy and hold a diverse portfolio of assets, over time you will be rewarded

for the risks that you accept along the way. Generally, the higher the risk, the higher the return. It also says that the longer you stay invested, the more likely it is that you will achieve the returns that you expect.

I know what you're thinking: "If it won a Nobel Prize, it must be always correct, right?"

How I wish it were. You see, there is one immovable truth in this system that has to exist in order for it to work out: the market for whatever you own has to move in your favor. In all cases, the market has to go up. It doesn't matter if it's equities (the stock market), real estate, gold, a piece of artwork, or even an automobile. If the market for any of these assets goes down and you still hold it, the consequences can be dire. If the average return for any particular asset over long periods of time is say, 10%, you surely want to know how much risk is needed to get that return, right?

This mountain that has stood for over forty years says that risk doesn't matter, because A) markets always go up over time, and B) investors will always receive the average return for that kind of investment if you hold it long enough. In short, you'll be rewarded for the risks that you take, no matter what.

Modern Portfolio Theory is really nothing more than a theory that has become so widely accepted in the investment community that it is now unquestionably true. This mountain has become so immovable that any other way of looking at the world is nothing short of heresy. But all theories need a laboratory to be proven right or wrong, or at least to be closely examined to determine if they are always right, or only sometimes right. The perfect laboratory that has presented itself is this rather painful and pervasive bear market in equities, real estate,

commodities and some would argue a bear market in confidence itself. Won't you come in?

Modern Portfolio Theory vs. Modern Portfolio Reality

Let's look at the short term first. As of September 30th, the one-year loss for the U.S. stock market (as measured by the S&P 500) is down by an even -22.00%*. Coincidentally, Morningstar reports that over this same period of time the average large-cap U.S. equity mutual fund is down by -22.41%. Dead on. If the average return for stocks has been somewhere in the neighborhood of +11.00% per year since 1926 (which it has), I'd call this year a pretty big miss. Normal, real, but not even close to what history tells us to expect.

What about other parts of the market? Not much better: Small Caps are down -18.86%, large cap international stocks are down -30.29%, real estate is down -14.56%, natural resource funds (commodities) are down -17.35%, and the list goes on. What about bonds? Would it surprise you to find out that the most common type of fixed income products, intermediate term bonds, are down too? Over the past year this category is down by -2.53%. Not a lot compared to equities,

all the dividends that would have been paid along the way. Same for the Dow Jones Industrial Average, and (hold on to your hat) the NASDAQ has dropped by more than 60% from its peak. You can search high and low and find areas of the markets that have performed marginally better, but one thing is certain: the risks of always owning any particular asset have increased wildly beyond what history has instructed us to prepare for.

Imagine yourself driving a semi-truck, hauling your stash of wealth in the back, climbing up this mountain on a road that has been in place for forty years or so, but that has never been updated or repaired or adjusted. All of a sudden, just as you get to the top of the mountain, the road washes out from underneath you. What happens? In a manner of speaking, you are almost sure to drop your load.

Friends, the road needs updating, and the mountain needs moving. We'll keep working to help reasonable people in our industry see the value of a better way, The Appleton Group Wealth Management way, but it won't be easy.

For the better part of the last

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but not the kind of diversifier that Modern Portfolio Theory says it should be.

Let's look long-term, since that's what we're always told to do. Since the turn of the millennium, eight years and nine months to be exact, the S&P 500 has lost money even when you factor in

eight years, we've worked diligently to convince those individuals who are responsible for keeping the road safe for their clients and employees and constituents that there is a better way to invest. Flexible investment approaches like ours, while not eliminating risk, have demonstrated time and

Pesky Math - These are Fun!

Q: If the market takes away 50% of your portfolio one year, but you're up by 50% the following year, are you back to breakeven?

A: No. If you start with \$100,000 and you lose 50%, you're down to \$50,000. If the next year you make 50%, you've only made 50% of \$50,000, which is \$25,000 for a grand total of \$75,000. To get back to breakeven you would have to have earned 100% (doubling your money).

Q: Which will make you more money: a 6% return or an 8% return.

A: It depends on how much you start with. If you've got \$100,000 and you lost half of it this year (now you've got \$50,000) and you make 8% the following year you only made back \$4000. But if you didn't lose the \$50,000 to begin with and you make only 6% the following year, you've made \$6,000 with a lower percentage return. (Large losses are bad.)

Q: If you have an investment that goes up 95% as much as the market, how much would you expect to lose if the market were to go down?

A: You should expect to lose 95% as much as the market does. Why wouldn't you? The overwhelming majority of investments are significantly tied into the market for their returns. In fact, Morningstar reports that up to 94% of the performance of large cap funds are attributable to whether the market goes up. That leaves only 6% for everything else, including fees, expenses, taxes, timing, stock selection, and luck. Flexible portfolios, such as those offered by Appleton Group Wealth Management have little or no market correlation, and the returns don't necessarily require a cooperative market in order to make money over time

Q: If a mutual fund A charges you 2.00% per year and mutual fund B charges you 0.25%

per year, which is the better investment.

A: Who knows? Your returns before expenses don't matter, but your returns after expenses certainly do. Over the past eight years and nine months, the Vanguard 500 Index Fund has charged its investors less than 0.20% per year, and over that time has lost money while dropping by more than 44% from top to bottom! You should pay as little as possible for the inconvenience of negative returns and that kind of volatility over such a long period of time. (Incidentally, do you know of any 401(k) plan that doesn't offer the S&P 500 Index Fund?)

Q: Investment Company A has assets under management of \$100 billion, and investment Company B has assets of only \$100 million. Who is the better investment manager?

A: Again, who knows, but there is a great way to find out: look

objectively at the net published returns of their portfolios, most specifically the measured efficiency of their offerings, not their total assets under management. Large assets under management might indicate great management, but it probably indicates one thing: they've got some great sales people.

Q: How many fee only investment advisors does it take to change a lightbulb?

A: None. For them, the lightbulb is always on!

-MCS



Moving a Mountain... concluded

time again the value of staying on the right side of the market, of knowing when to drive ahead, and knowing when to stand still.

You wouldn't believe the resistance we've encountered along the way.

We've been asked to take over investment portfolios that have been down by 10%, 15%, 20% and often more, just over the past year. Many so called "conservative portfolios" that should only be down 3-5% are down 15% already. Pension plans managed by large bank trust departments are underfunded by many millions of dollars due to their large losses, requiring sizable infusions of profits by corporations, many of which are seeing profits fall due to the weak economy. Many 401(k) plans and other company-sponsored retirement plans as a whole are down by more than

15%, a sizable sum given that for many people retirement may be just a few years away. The State of Wisconsin Employee Trust Fund has lost 12.1%** through the end of August (and is sure to post a sizable loss for the month of September).

The list goes on and on, and they all have one thing in common: the unwavering assumption that markets only go up, and that if you try to make adjustments to your asset mix in response to what is happening in the markets at any time, you will suffer dire consequences.

Nothing could be further from the truth, and the consequence of not making portfolio adjustments along the way is the true peril.

During this terrible bear market, Appleton Group Wealth Management has stood

tall. Coincidentally, our core performance this year is nearly a carbon copy of the experience our portfolios had during the worst year of the last bear market (2002). The flexibility of our wealth management discipline has an advantage that so many of our peers lack: the ability to answer the question "when should I be invested?"

What to own is becoming much less important. More and more advisors are getting it, and it's showing up in our firm's total assets under management. Over the course of this year, our firm's assets have shot up by more than 30%, a real testament to the sea-change we're seeing in the investment community. Advisors that "get it" are seeing sizable inflows from the practices of advisors that just don't "get it."

If you're already using

The Appleton Group Wealth Management Discipline™ in your portfolio, you're well ahead of the game. If you're an advisor who just doesn't want to endure the same kinds of stresses you've been feeling, there is a better way. If you're responsible for a retirement plan at work, this is a great time to receive a proposal from us. If you're responsible for a pension that is underfunded, the time is now to get more efficient. If you're responsible for a state investment pool or a state 529 plan or a college endowment, we can be tremendously helpful.

But if you still cling to the belief that markets only go up, my heart goes out to you.

-MCS

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