APPLETON GROUP
WEALTH MANAGEMENT, LLC

SMALL BUSINESS of the YEAR
Fox Cities Chamber of Commerce & Industry 2010

The Compass™

October 2012

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 $141 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 Appleton Group Wealth Management which is solely responsible for its content.

Just the Facts, Please…

From the desk of Mark C. Scheffler

So much is being made of "fact checkers" this election cycle that you'd think Pinocchio himself were running for higher office. Whether it's a blatant lie or a stretching of the truth or a lie of omission, every word that politicians say is sliced and diced for any hint of deception. Maybe that's how it always was, but with so much media coverage in place today, you can't get away with anything.

As Mr. Banks said to Mrs. Banks when their children were missing in Mary Poppins, "Kindly do not attempt to cloud the issue with facts!" Never to be one who will pass on an opportunity for enlightenment, I found a few facts (with very brief commentary thrown in for good measure) that I thought would be interesting as they pertain to today's economy:

The U.S. Debt:

According to the U.S. Treasury, as of September 30, 2011 (the end of the previous fiscal year) the federal debt stood at $14.79 trillion (through the end of last month that amount is believed to have grown to over $16 trillion). If you add up all of the U.S. individuals and institutions on this chart, you come up with approximately 66.8%, which represents almost exactly two-thirds of the outstanding U.S. debt. When paid off, all of this debt (and the interest owed on that debt) will stay in the U.S. The remaining one-third will presumably never come back to the U.S.

Mark C. Scheffler
Senior Portfolio Manager,
Founder

COMMENT: An effective policy, therefore, would be to minimize the foreign holders of our nation's debt in deference to domestic holders of our debt where possible.

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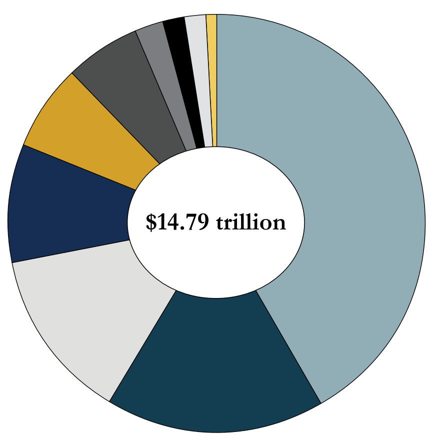
To Whom Does the U.S. Government Really Owe Money?



- **U.S. Individuals & Institutions (41.7%)**
- **Social Security Trust Fund (17.1%)**
- **All Other Foreign Nations (13.2%)**
- **China (and Hong Kong) (9.3%)**
- **Japan (6.7%)**
- **U.S. Civil Service Retirement Fund (5.8%)**
- **U.S. Military Retirement Fund (2.2%)**
- **"Oil Exporters" (1.7%)**
- **Brazil (1.5%)**
- **United Kingdom (0.8%)**

Source: U.S. Treasury Department,
Revised March 2012

Inside this issue:

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Just the Facts, Please … concluded

Interest on the U.S. Debt:

Despite the increasing amount of U.S. debt, the interest rate we pay on that debt is lower today than it was at almost any other point in history. According to the U.S. Treasury, the average interest rate we paid on our total debt during the first half of the last fiscal year was only 2.187%. This compares to an average rate of 6.477% in fiscal year 2000.

The actual dollar amount of interest paid of the U.S. debt for the first six months of the previous fiscal year was $104 billion which in actual dollars IS a record. However, when adjusted for inflation it is actually 14% LESS than we paid in interest during the same period of time in fiscal year 2000.

COMMENT: The Federal Reserve is right to do whatever they can to keep interest rates as low as possible, as long as possible (along with a concerted effort on the part of Congress and our President to reduce our Federal debt over time).

Social Security:

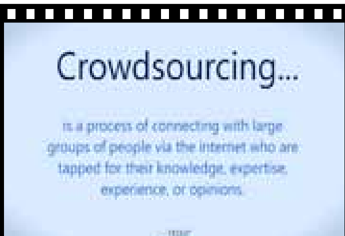
The amount of income that any individual earns which is taxed by Social Security is capped, and for 2012 stands at $110,100 (Source: www.ssa.gov). It is referred to as the Social Security Taxable Wage Base. Any amount of income earned above this amount is NOT taxed by Social Security, and is therefore not paid into the Social Security Trust Fund. For example, in 2012 Aaron Rodgers of the Green Bay Packers will earn $8 million in salary (Source: www.rotoworld.com). Of that total, $7,889,900 will be ignored by the Social Security administration. Assuming that 100 fans earning $80,000 each would donate their entire paychecks to Rodgers in the form of ticket sales, beer and brat purchases, jerseys, etc., 100% of their income would be taxed by social security while only 1.37% of Aaron's salary would be taxed.

As income (and wealth) has become more concentrated into fewer households, the percentage of income taxed by Social Security will have dropped from 90% when the program was first established to approximately 83% by 2014. To bring the percentage of income back to intended levels would require increasing the cap to approximately $150,000 (Source: www.pbs.org). This would still give Aaron Rodgers a tiny 1.88% Social Security tax rate but would increase the viability of the program through approximately 2039.

COMMENT: With apologies to tax hawks, this course of action makes fiscal sense. (Note: Raising the Taxable Wage Base would continue to exempt all dividends, interest, capital gains and carried interest as they are not considered wages).

-MCS

The Wisdom of the Crowd



Crowdsourcing is a process of connecting with large groups of people via the internet who are tapped for their knowledge, expertise, experience, or opinions.

This idea of reaching out to the crowd isn't new, but the internet allows us to tap into the knowledge of millions of market participants in a kind of real-time poll and put that information to use in your portfolio.

Every investor acts based on their own information - sometimes rationally, sometimes emotionally.

Every investor, acting on their own, affects the price of whatever it is they happen to be buying or selling. Small investors, acting alone, have a very minimal effect. But large investors, those who might buy thousands or millions of shares, can move the stock price a great deal.

When large numbers of large investors buy or sell, they create price trends that can be measured, analyzed and acted upon.

Whenever there exists a sustained imbalance of <u>buyers</u>, this creates an upward price trend. And when there exists a sustained imbalance of <u>sellers</u>, it creates a downward price trend.

By being aware of the actions of large numbers of market participants, you can identify emerging price trends, you can measure how long they typically last, how likely they are to continue, and their potential impact on your investment portfolio over time.

By crowdsourcing market and economic research, clearTREND™ represents the most robust, most advanced and most impactful analysis for portfolio management available today.