THE APPLETON GROUP, LLC

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

The Compass™

October 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.

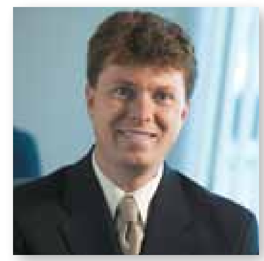
The Appleton Group, LLC currently manages approximately $153 million, serving individuals, families, corporations, endowments, foundations, trusts, company sponsored retirement plans and third-party investment advisors.

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

Inside this issue:

How to Hit a Moving Target

From the desk of Mark C. Scheffler



Mark C. Scheffler
Senior Portfolio Manager, Founder

With the recent rollout of the Appleton Group - Traditional Portfolio Series last quarter and the earlier rollout of the Appleton Group – Managed Income Portfolio in 2012, it is now possible to build more complete portfolios that can be based on a client's targeted retirement year.

Introducing the Appleton Group – Target Date Series. This series can act as a framework for building a complete diversified portfolio comprised of 1) **Fixed Income Flex** (our Managed Income Portfolio, which includes bonds, preferred stocks, convertibles, etc.), 2) **Diversified Equity/Traditional Portfolio Series** (buy & hold assets comprised of large & small companies, value/growth, domestic/international, etc.), as well as our firm's **Core Flex** offerings (Appleton Group Portfolio, PLUS, or Tax Managed Growth, as well as any of our focus portfolios).

This is really exciting, and offers our clients and retirement plan participants unprecedented flexibility. Plus it makes building a complete portfolio really simple and easy to understand: You simply identify your targeted retirement year (say, 2020). Using the chart below, a typical portfolio for this targeted year would consist of 30% Fixed Income Flex, 55% Core Flex, and 15% Diversified Equity.

Target date strategies aren't new – they were introduced back in the mid-2000s by Fidelity and Vanguard, among others. But many were hit hard in the economic and market downturn of 2008-09 as their focus on being fully invested at all times left them with no flexibility, nowhere to hide. In contrast, the Appleton Group Target Date Series is comprised primarily using our firm's time-tested, flexible risk-managed strategies, and as such is built for both cooperative and uncooperative market environments.

For private clients, this series can simply act as a handy guide. The asset mix can be used to determine whether one particular strategy is missing from your overall portfolio, or if the size of one strategy needs to be adjusted.

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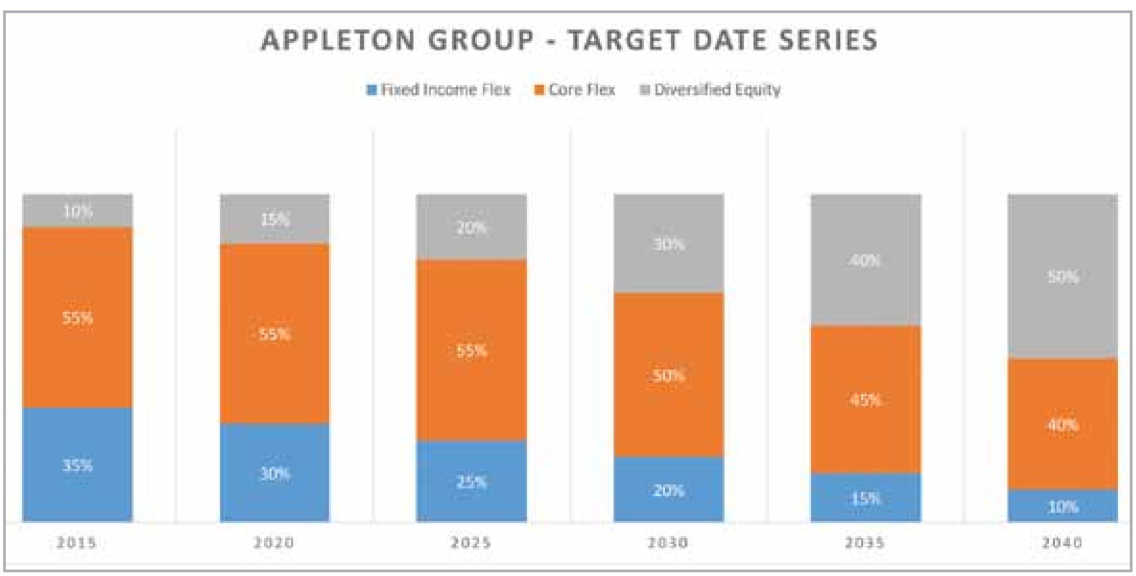


100 W. Lawrence St., Suite 306, Appleton, WI 54911 Phone: 920.993.7727 Toll Free: 866.993.7727 www.appletongrouponline.com

RIA Stands for You

As an independent Registered Investment Advisor (RIA), The Appleton Group takes pride in how we can add value to clients. An RIA is an investment firm that is registered either with the Securities and Exchange Commission or a state's securities agency. Unlike brokers, who are paid solely to effect transactions, RIAs can legally offer investment advice and must adhere to a fiduciary standard of care. This ensures that advisors serve a client's best interests and also work to eliminate potential conflicts of interest. This basic structure has always been a key component of The Appleton Group, and gives our clients several benefits when compared to investing through a broker:

Clients receive tailored advice based on their investment goals.

An IAR (Investment Advisor Representative), working for the RIA, will create an investment strategy that best suits you, taking into account your entire financial situation and investment goals. This means we look at the broader picture when making investment decisions, which can give you a higher probability of meeting your financial goals on-schedule. A broker, on the other hand, exists solely to execute transactions and therefore is more inclined to have a narrower focus.

Our compensation structure is easy to understand and properly aligns the advisor's incentives with your investment goals.

RIAs typically charge a fee as a percentage of assets under management. This structure is simple, transparent, and gives the advisor not only an incentive to grow your assets, but also to protect your assets along the way. A broker-dealer is paid by commission only.

RIAs enjoy building close relationships with clients.

Since RIAs have a long-term focus, we value strong, personal, long-term relationships with our clients. For example, The Appleton Group offers quarterly reviews with each of our clients to make sure the investment strategy we have in place continues to be aligned with the client's objectives. While brokers also like to build long-lasting relationships, they are incentivized by their broker-dealer platform structure to do so only because of the commissions they will earn when executing trades in your accounts.

Clients know where their money is held.

RIAs often use independent, institutional custodians to safeguard clients' assets and to ensure administrative functions are completed successfully. This allows an RIA to focus on offering clients the best advice possible. Broker-dealers often act as a custodian as well, offering fewer checks and balances.

RIAs can offer advice for complex financial needs.

Since there are many independent RIAs, each are specialized for various types of financial needs. Some advisors specialize in certain investment strategies. Others provide more specialized services, such as estate planning or investment partnerships. For example, The Appleton Group specializes in retirement planning, investing for high net worth individuals, and risk management.

There are plenty of reasons why investing with an RIA is a great idea. As a new employee, the fact that The Appleton Group is an independent RIA is a key reason I chose to join the firm. I enjoy working with intelligent, engaged individuals who also strive to improve ethical standards in the finance industry.

-AH

How to Hit a Moving Target…concluded

For companies that use the Appleton Group as their 401(k) plan advisor, plan participants can immediately use the series as a guide; but we expect to be able to roll the series out as an integrated retirement plan choice later in this current quarter.

Over time, clients will be able to easily rebalance their overall portfolio when one particular strategy outperforms any of the others. And as always, our advisory fee remains exactly the same no matter which strategy you use. As your trusted advisor, we wouldn't want it any other way.

So ask your personal Appleton Group advisor about the Target Date Series during your next quarterly review – you'll be glad you did.

-MCS

Introducing Alex Haas

It is our great pleasure to announce that Alex Haas has joined the Appleton Group as a Research Associate.

Alex is a 2013 graduate of the University of Wisconsin-Madison where he received his Bachelor of Business Administration degree with a focus on finance, investment, and banking. He also received a certificate in Spanish for business majors. During his career at UW, Alex consistently made the dean's list and compiled an impressive list of academic achievements.

As a portfolio manager of UW's Capital Management Club, Alex shared responsibility for managing its long-short fund, which had over $200,000 in assets under management. He also facilitated educational sessions on their equity research process, valuation, options, portfolio theory, risk management, equity selection, and value investing.

Alex is a lifelong Appleton resident, and is a 2009 graduate of Appleton West High School. He joins our firm as a Research Associate and will sit for his Series 65 examination in June of 2014.

"We're thrilled to have Alex join our staff," said Mark Scheffler, Sr. Portfolio Manager and Founder of The Appleton Group. "He's bright, thoughtful, outgoing, and has already begun contributing to the success of our clients and our firm. And his background in finance is, of course, a natural fit for us."

During the first year of his apprenticeship period, Alex's responsibilities will be extensive, including managing our clearTREND research distribution efforts via social and traditional media, content development, ETF and equity research for our internal portfolio management team, client service, and data entry for our financial planning team.

Upon successfully completing his Series 65 examination, Alex will officially join either our advisor team or our portfolio management team and will begin building his own practice within The Appleton Group.

-MCS

Tidbits…

$23.1 Billion

total inflows to U.S. equity mutual funds during the week of September 16, 2013, showing strong interest in buying stocks at the current all-time highs. One would think that this would be considered good news, but is widely considered a counter indicator (bad news) as previous inflows of this size were recorded in both late 2007 and early 2000 – previous market tops. (Source: BofA-Merrill Lynch)

69%

Percentage of all Americans who say large banks and financial institutions have benefited the most from post-recession government policies. Despite a surging stock market, exploding home prices, and low interest rates, there has been little change in these perceptions since July 2010. (Source: Pew Research)

23.117 Million

Number of American households currently receiving food stamps (Source: USDA – SNAP Program). This equates to 47.76 million people, which is greater than the current population of Spain (Source: ZeroHedge).

2.15%

The Federal Reserve's current estimate for 2013 U.S. GDP growth. Two years ago, the Fed's estimate for 2013 growth stood at 4.2%, a revision (some might say a "miss") of nearly 50% (Source: Guggenheim).

0

The number of women who have served as Chair of the Federal Reserve's Open Market Committee.

$137 vs $1,823

The market price of a dry metric ton of iron ore vs. the market price of a metric ton of drinking water sold in half-liter bottles.

Economic Update: It's All About the Fed

During last quarter's client reviews, we put together a brief presentation on the history of recent stimulus, both by the Fed and by Congress. Since year 2000, both institutions have combined for more than $9 trillion of stimulus. The Fed's stimulus doesn't have to be paid back like Congress' does (stimulus enacted by Congress is paid for by issuing debt while the Fed's stimulus consists of dollars created out of thin air via a keystroke). But if you leave the Fed's stimulus in place too long it can lead to massive inflation when the economy does start to ignite.

But a very interesting – and potentially serious – situation is arising: growth is far weaker than the Fed had projected. By now, the stimulus should be producing somewhere in the neighborhood of 3.5% growth (generating approximately $3.5 trillion in growth, and probably something like $700 billion in tax revenue to pay interest on the extra debt). But GDP growth is estimated by the Fed to be only generating $2.1 trillion in additional growth, and probably only around $420 billion in additional tax revenue.

So for $85 billion of monthly new stimulus, the United States is actually seeing a negative return on its investment as tax revenues are significantly lagging. So for growth to pick up, stimulus will have to increase further because the effect is wearing off.

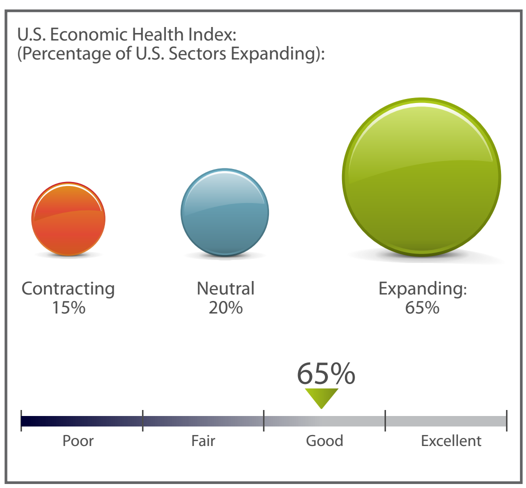
Consider that in 2003, it only took $3.60 in stimulus to generate $1.00 in new growth. Looking at it another way, for that "investment" to break even it would take only 3 ½ years. All growth after that would be a positive return on the initial stimulus.

But since 2008, it now takes $18.00 of stimulus to create $1.00 in new growth. At that rate, any new stimulus enacted now will have generated positive growth by the time today's newborns reach college age (source: DeutscheBank/Bloomberg/ZeroHedge).

The current stimulus regime clearly isn't working very well. So the question isn't "Will they taper?" but "When?"

And the answer is pretty clear: "No one knows."

clearTREND U.S. Economic Health Index:



The clearTREND U.S. Economic Health Index measures more than 130 unique U.S. market sectors to determine how many are expanding, stable or contracting. This information can be helpful in determining the overall state of the U.S. economy. A healthy economy would have more than 50% of sectors expanding – readings below 50% indicate an unhealthy economy.

For the quarter ending September 30, 2013 the clearTREND Economic Health Index showed a reading of 65% of sectors expanding, putting it in the "Good" category. This reading is slightly better than the previous quarter's reading when 63% of U.S. sectors were expanding. But it does reflect measured deterioration from earlier in the year when the reading stood as high as 83%.

"The market has certainly responded positively this year to even the little bit of economic growth that is occurring in the U.S.," said Mark Scheffler, Sr. Portfolio Manager and Founder of The Appleton Group. "While it's impossible to know how much of this effect is due to the ongoing stimulus and how much of it is real, it is impossible to ignore the reality that the U.S. economy is still growing, albeit quite slowly.

The clearTREND U.S. Economic Health Index was launched in early 2013, and is widely distributed through various media outlets, including Insight Magazine, SeekingAlpha, Yahoo!finance, CBS Marketwatch, StockTwits, and others.

Data as of September 30, 2013.

Portfolio Workshop

The Appleton Group's family of investment portfolios has grown considerably in 2013. 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 Wisconsin Select

▲ Appleton Group Europe

▲ Appleton Group U.S. Sectors

▲ AG Traditional - Aggressive Portfolio

▲ Appleton Group Portfolio

▲ Appleton Group PLUS Portfolio

▲ AG - Tax Managed Growth Portfolio

▲ AG - Moderate Portfolio

▲ AG Traditional - Moderate Portfolio

▲ AGTMG - Moderate Portfolio

▲ AG Traditional - Conservative Portfolio

▲ AG - Conservative Portfolio

▲ AG PLUS - Moderate Portfolio

▲ AG PLUS - Conservative Portfolio

▲ Appleton Group Commodities - Heaven

▲ Appleton Group Commodities - Hell

▲ Appleton Group Americas

▼ Appleton Group Managed Income

▼ Appleton Group Asia

▲ Positive Quarterly Performance

▼ Negative Quarterly Performance

Featured: Wisconsin Select Portfolio

The Wisconsin Select Portfolio invests in 10 individual stocks, using publicly traded companies headquartered in our home state of Wisconsin. Individual companies must pass a rigorous screening process to be included in the portfolio based on clearTREND®'s historical performance for the stock, drawdown, and average percentage gain per trade. The portfolio buys a stock when clearTREND indicates a sustainable rising primary trend, and sells when clearTREND indicates a downward trend.

The portfolio currently consists of the following companies:

Badger Meter
Manitowoc
Actuant
MGIC
Plexus
Harley-Davidson Motor Cycles
Rockwell Automation
Oshkosh
Johnson Controls
AO Smith — Innovation has a name.

Featured: 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.

*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.