MODEL PORTFOLIO PERFORMANCE REPORTING

vs.

GIPS PERFORMANCE REPORTING

APRIL, 2007

APPLETON GROUP WEALTH MANAGEMENT, LLC

THE APPLETON GROUP WEALTH MANAGEMENT DISCIPLINE™

OVERVIEW

Simply stated, The Appleton Group Wealth Management Discipline™ offers investors a refreshing, proactive and ultra-efficient approach to investment management. While there are many ways to make money by investing, we believe that few disciplines offer investors our unique combination of predictability, risk management, and market responsiveness.

The performance history of portfolios which utilize The Appleton Group Wealth Management Discipline™ is well documented and utilizes two accepted practices for measuring performance: Model Portfolio Performance Reporting, and Global Investment Performance Standards (GIPS®) Compliant Performance Reporting. This brief document has been created to discuss why both have been used by our firm, the rigorous reporting requirements associated with each, and the valuable information that can be obtained from these two distinct methods.

MODEL PORTFOLIO PERFORMANCE REPORTING (FOR THE PERIOD 2000 – 2005)

Knowing in advance what to expect through both cooperative and uncooperative markets is immensely valuable to informed investors. Much in the way other new products are brought to market, The Appleton Group Wealth Management Discipline™ has been put through its paces through an equal number of positive and negative markets, ranging from December 31, 1999 through December 31, 2005. For this six year period of time, The Appleton Group LLC has compiled complete performance and risk statistics in a model portfolio format.

What is a model portfolio?

A model portfolio is a collection of securities that an investor can use as a basis for his/her own investment portfolio. Used as a guide, an investor (or an advisor) can choose to follow the model either rigidly or loosely, depending on the preference of the user. As changes are made to the model portfolio, investors either choose to make the prescribed changes to their portfolio or choose another course of action (including doing nothing). Changes to the model are documented and tracked as they are prescribed, in real time, and performance data is then calculated and reported for the model itself. As such, model portfolio performance reporting is an acceptable method of communicating the performance of an investment, but not the performance of the investor. This distinction is clear.

What are the requirements when reporting model portfolio performance?

Model portfolio performance reporting is stringently regulated by the Securities and Exchange Commission (SEC)* which in turn regulates Appleton Group Wealth Management LLC. An adviser may advertise

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investment performance as either the performance of actual portfolios it manages or of a model portfolio that has no assets, but is managed as though it does and may mimic an actual portfolio's investment strategy. Through a series of no-action letters—which the SEC Division of Investment Management usually issues when it determines an adviser's suggested course of conduct will result in the Division of Enforcement's taking "no action" against that adviser—guidance has evolved for complying with these calculation, disclosure and presentation requirements. The seminal no-action letter addressing the basic aspects of both actual and model performance is Clover Capital Management Inc. (Oct. 28, 1986) 1986 SEC No-Act LEXIS 2883. It interprets rule 206(4)-1(a)(5) as prohibiting performance advertising that:

- Fails to disclose the effects of material market or economic conditions on the results portrayed.
- Includes model or actual results that do not reflect the deduction of advisory fees, brokerage or other commissions and any other expenses a client would have paid or actually paid.
- Fails to disclose whether and to what extent the results portrayed reflect the reinvestment of dividends and other earnings.
- Suggests or makes claims about the potential for profit without also disclosing the possibility of loss.
- Compares model or actual results to an index without disclosing all material facts relevant to the comparison.
- Fails to disclose any material conditions, objectives or investment strategies used to obtain the results portrayed.
- Fails to disclose prominently the limitations inherent in model results, particularly the fact that such results do not represent actual

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trading and they may not reflect the impact material economic and market factors might have had on the adviser's decision making if the adviser was actually managing client money.

- Fails to disclose, if applicable, that the conditions, objectives or investment strategies of the model portfolio changed materially during the time period portrayed in the advertisement and, if so, the effect of any such change on the results portrayed.

- Fails to disclose, if applicable, that any of the securities contained in, or the investment strategies followed with respect to, the model portfolio do not relate or only partially relate to the type of advisory services the adviser currently offers.

- Fails to disclose, if applicable, that the adviser's clients had investment results materially different from those portrayed in the model.

- Fails to disclose prominently, if applicable, that the results portrayed relate only to a select group of the adviser's clients, the basis on which the selection was made and the effect of this practice on the results portrayed, if material.

Over the history of The Appleton Group Wealth Management Discipline™ (spanning two investment management firms), we have worked diligently to incorporate and address all of these requirements.

What is the value of reporting model portfolio performance?

When first enacted in late 1999, The Appleton Group Wealth Management Discipline™ introduced investment management techniques that were novel, proactive, and groundbreaking. The traditional process of picking from thousands of individual stocks and bonds was discarded in favor

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of utilizing a universe of between eight and twelve mutual funds (both index funds and traditional open ended mutual funds) and systematically adjusting a portfolio's exposure to these funds as overall market conditions changed. At the time, this method of portfolio management was unique in the marketplace and without demonstrating a clear history of performance and risk characteristics its use with investors was limited. Each adjustment prescribed by the discipline was documented in real time over a six-year period, as were the payment of all dividends, interest payments, and the deduction of appropriate portfolio management fees (calculated at our firm's highest annual rate).

Investor implementation of adjustments prescribed by the discipline was limited in early years to non-discretionary brokerage clients of Mr. Scheffler, and later introduced to discretionary clients of Appleton Group Wealth Management LLC beginning in April of 2002.

This format of performance reporting differs from GIPS® compliant performance statistics (described later) in that it does not represent actual client performance; rather, it represents performance for The Appleton Group Wealth Management Discipline™, strictly implemented during this six-year period of time.

Why did the model portfolio period last six years?

It took six years for the market environment to constitute a full market cycle. During this period of time the equity markets demonstrated three years of market declines (2000, 2001, 2002), followed by three years of market advances 2003, 2004, 2005).

What were the results of the discipline compared to a control group (i.e. appropriate benchmarks)?

The documentation of the discipline's performance and risk characteristics

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became more lengthy over time, eventually spanning a full market cycle. Over this full market cycle, the performance of the discipline, as reported using a model portfolio format, produced returns that when compared to both the S&P 500 and the appropriate Morningstar category included:

- higher average annual returns (IRR);
- significantly lower risk exposure (portfolio beta);
- successful limitation of portfolio losses to single digits during uncooperative market environments;
- positive alpha;
- demonstration of low market correlation during unfavorable equity environments;
- demonstration of relatively high market correlation during cooperative equity environments;

Why is it so important to have measurable performance and risk characteristics?

We believe strongly that any rigorous wealth management discipline must stand the test of time, and must demonstrate its value through both cooperative and uncooperative market environments. Much in the same way that pharmaceutical products introduced gradually to the marketplace through a series of controlled usages, so too has The Appleton Group Wealth Management Discipline™ followed a lengthy, rigorous and well-documented introductory process.

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Does model portfolio performance reporting mean that the returns aren't as valuable as GIPS® compliant reporting?

Not at all, since model portfolio performance reporting must pass the rigorous standards outlined by the series of SEC no-action letters, including those cited earlier. Appleton Group Wealth Management LLC is responsible for ensuring that investors recognize what model portfolio reporting is, and for investors to recognize that it does not reflect actual client performance. Over the complete history of The Appleton Group Wealth Management Discipline™ (spanning two investment firms), we have painstakingly cited these requirements and work to educate our current and future clients of these reporting requirements. Since our firm's model portfolio performance reporting represents the effects of The Appleton Group Wealth Management Discipline™ strictly implemented, it serves as the most useful basis for judging its value using its purest form.

GIPS PERFORMANCE REPORTING (FOR THE PERIOD 2006 – PRESENT)

We believe strongly that an informed investor is better able to make appropriate decisions regarding their investment portfolios. We also recognize that investment returns are not investor returns, and so we offer investor performance reporting that meets the highest industry standards. To this end, complete and separate GIPS performance statistics for all six of our firm's investment composites is also provided, for all periods beginning January 1, 2006. This period begins immediately following the completion of the full market cycle of model portfolio performance reporting (2000 – 2005).

What are GIPS standards?

In 1995, The Association for Investment Management and Research (AIMR) recognized the need for one globally accepted set of standards for the calculation and presentation of investment performance. AIMR sponsored and funded the Global Investment Performance Standards (GIPS®) Committee to develop and publish one global standard by which firms calculate and present performance to clients and prospective clients. On February 19, 1999, AIMR formally endorsed the Global Investment Performance Standards as the worldwide standard to calculate and present investment performance.

The GIPS® standards, based on the underlying principles of fair representation and full disclosure, have been crafted to meet the needs and capacity of a broad range of global markets. Such standards also facilitate competition in the global investment industry by allowing clients and potential clients to make an "apples to apples" comparison of investment advisory firms.

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What are the requirements when reporting GIPS® compliant performance reporting?

The GIPS® performance reporting requirements are many, and go beyond the scope of this document. Investors may refer to http://www.gipsstandards.org/standards/ for a complete listing of all GIPS® requirements and recommendations. In addition to performance reporting requirements, rigid standards exist for defining the investment management firm, inputting client data, investor performance calculation methodologies, composite construction and definition (identifying groups of clients that follow a specific portfolio discipline), and required disclosures.

What is the value of GIPS® performance reporting?

Used mainly by institutional investors and consultants, GIPS® performance reporting ensures a fair and accurate method of presenting and reporting the performance experience of individual investors. It offers a level playing field for all professional investment managers and it communicates to the institutional marketplace our firm's commitment to serve in this arena.

Why did The Appleton Group LLC choose to begin using the GIPS® performance reporting method in 2006?

2005 heralded the completion of a full market cycle of model portfolio performance reporting as described in the first part of this document. It also marked the effective maturation of Mr. Scheffler's private practice (65 clients) and a shift to institutional product distribution. Model portfolios were defined as GIPS® compliant composites to capture and report actual client performance versus performance of the models themselves. This also coincided with the firm surpassing $50 million in assets under management, generally considered the minimum threshold for serving the institutional marketplace.

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Have there been any ascertainable differences in performance characteristics between those reported as model portfolios and those reported using GIPS® standards?

No. During the first year of GIPS® reporting, the overall market environment was generally favorable, and resulted in double-digit positive returns for five out of six composites (see composite data at www.appletongrouponline.com). Performance was comparable to past periods of sustained market advances as documented under model portfolio reporting methods. When compared to each composite's corresponding asset allocation category, each demonstrated meaningfully higher returns versus their corresponding benchmark.

CLOSING

Our firm's commitment to fair and accurate presentation of both model portfolio and composite performance is reflected in the painstaking diligence undertaken to prepare this document. It also reflects the importance our firm places on investor and advisor education. Knowing what to expect ahead of time from The Appleton Group Wealth Management Discipline™ during various market environments is critical to investor comfort, and it helps the investor to make an informed decision regarding suitability and proper use.

We hope that this document will add to your understanding of the extensive work that has been done in presenting our firm's proprietary wealth management services to the institutional marketplace, and we hope that your enhanced understanding will better enable you to utilize our firm's wealth management offerings.

Please feel free to contact Mark Scheffler, Senior Portfolio Manager, for additional information.

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References:
Model Portfolio: Clover Capital Management, Inc., SEC no-action letter (pub. avail. Oct. 28, 1986).
AIMR/GIPS: http://www.cfainstitute.org/centre/ips/pps/aimrpps.html
Appleton Group LLC: www.appletongrouponline.com

*The SEC neither approves nor disapproves these securities and has not been involved in the preparation of this document.

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