THE BUSINESS NEWS

Serving Brown, Calumet, Door, Kewaunee, Manitowoc, Marinette, Oconto, Outagamie, Shawano & Winnebago counties

June 23, 2008 www.thebusinessnewsonline.com Vol. 6, No. 4 $1.00

Money manager wrangles both the bulls and bears

Appleton financial firm's managed assets up 27% in first quarter

Mark Scheffler started Appleton Group Wealth Management in 2002. Since then, his company has been recognized by On Wall Street magazine for its large-cap portfolio and in the top 75 of 5,000 money managers considered by the magazine. The Business News photo by Lisa Strandberg

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We hear a lot about efficiency these days. We buy energy-efficient appliances and drive fuel-efficient cars. In the name of protecting the planet, we try to get the most output from the least input.

As founder of and senior portfolio manager at Appleton Group Wealth Management, Mark Scheffler devotes himself to efficiency of another kind — creating "efficient portfolios," or those that generate positive returns with limited risk. It's a mission he and his five colleagues pursue on behalf of individuals, institutions, corporate-sponsored retirement plans and endowments.

"An inefficient portfolio simply accepts risk and can be a disaster if you experience that risk at the worst possible time," Scheffler said. "I don't think there's a more disingenuous thing for an advisor to say than, 'Relax, it'll come back.' If you're uncomfortable, there's a reason, and taking action sooner rather than later is smart."

Diligent and continuous action on behalf of clients forms the basis of the company he started in 2002 — and has produced notable results of late. The firm's assets under management recently surpassed $111 million dollars, increasing 27 percent in the first quarter of 2008, a tumultuous period in which Scheffler said banks "just got pummeled."

He attributed Appleton Group's gains to two factors. First, Scheffler said, "A large portion of our assets appreciated in the first quarter. In fact, in our clients' portfolios, between 50 and 75 percent of assets made money in the first quarter." (The S&P 500 index dropped 9.4 percent during the same period.)

Second, investors have responded to such results. "Existing clients have given us more dollars to manage, and new clients are flocking to managers like us who have demonstrated the ability to manage money in both good and bad markets," Scheffler said.

That, in Scheffler's mind, is the cornerstone of productive investing. "Risky investing is really easy. Risk-free investing is really easy. What we do is really difficult," he said.

They call their approach The Appleton Group Wealth Management Discipline, and its fundamentals can inform any investor facing today's wildly fluctuating markets. One of its keys involves pairing passive and active portfolio management.

"The passive side only addresses, 'What should I own?'" Scheffler said. "The active side addresses, 'When should I own?' and that's really special."

In other words, Appleton Group's investment vehicles combine a relatively static set of investments diversified by asset class with a dynamic set of investments shaped and reshaped based on the firm's research into the current market climate and, more importantly, the direction in which the market is headed.

"You can understand what we do simply by taking a walk and going three blocks in any downtown area," said Scheffler, gesturing toward a window overlooking College Avenue. "When you come to an intersection, you have a choice to make. You can either keep following through that intersection no matter what, or you can be aware of your surroundings and look around and make a decision of whether it's safe to cross. That's exactly the way that we manage money."

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>
> **— Mark Scheffler,** founder of Appleton Group Wealth Management

Results for Appleton Group's six separately managed accounts suggest the firm makes such decisions well. In October 2005, On Wall Street magazine ranked the company's tax-managed growth portfolio the top large-cap blend portfolio in the country. Additionally, of the more than 5,000 money managers considered, the magazine placed Appleton Group in the top 75 — the only Wisconsin-based company to earn that distinction.

The firm excels at beating the market — and beating it decisively — when the market is down. While that's unseemly in fisticuffs, it's impressive in investing.

"Being successful doesn't necessarily mean being in the hottest investment or having all five-star funds inside your portfolio," Scheffler said. That approach, which Scheffler said many advisors favor, can lead to buying high with little room for appreciation. "When an investment manager outperforms and gets a five-star rating, there's a good body of evidence that that's not necessarily the manager you should be selecting," said Scheffler.

His unconventional approach to investing may arise in part from his unconventional background; he earned bachelor's degrees in music composition and music education from Lawrence University in 1992. In his mind, coming at the industry from a different angle has served him well.

"One of the biggest weaknesses of our industry is that everyone has to take exactly the same test, learn exactly the same material and basically adopt the same way of thinking. And that's a problem, I think," Scheffler said.

To the organizations and high-net worth private clients his company serves, his background matters little. What does matter is the fruit of their relationship with Appleton Group.

"We're in the business of creating dollars," Scheffler said. And he and his colleagues have a personal interest in doing so for their clients, given their structure as a fee-based advisory service. "With our clients, we charge a percent of the assets that we manage. In order for us to get a raise, the portfolio has to grow," Scheffler said.

Making portfolios grow, in Scheffler's perspective, is a matter of looking at where the market is going rather than where it's been. He likens this notion to driving a car: "The windshield is so much larger than the rear view mirror," he said.