THE APPLETON GROUP, LLC
INVESTMENT MANAGEMENT · RETIREMENT PLANNING
CORPORATE 401(k) PLANS · MARKET RESEARCH

The Compass™

July 2015

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 $173.9 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:

Real Progress

From the desk of Mark C. Scheffler

Mark C. Scheffler
Senior Portfolio Manager,
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Just like you, I've been enjoying the wonderful early summer weather, especially time in the gardens surrounding our old house. For those who might not know, my family and I live in an 1893 Queen Anne Victorian that we've been rehabbing for more than a decade now.

Gone is the rickety old fence (courtesy of Jack, our neighbor-boy who went for an unexpected ride on a rotting old section). Gone is the mistreated battleship-grey cypress siding (now clad in warm-yellow fiber-cement clapboard). Gone is the dishcloth that hid a leaky pipe in our first-floor bathroom. And gone is the disintegrated tin turret cap in favor of an exact replica fashioned from scrap stainless steel (thank you Chad, our neighbor).

And gone (but not forgotten) is the ghost of Mae Webster, spinster and caretaker of the original family who first inhabited this old house. Coincidently, she disappeared as soon as the house was insulated.

But most of the house remains, a testament to craftsmen of the late 19th century who knew how to build a lasting monument to a bygone era. We didn't throw the baby out with the bathwater – there are still tree trunks in the basement holding up the house. The stone foundation keeps out all of the water. Our windows still have that "runny glass" look so famous in old homes. And the lathe & plaster walls are rock-solid. Literally.

Knowing what to keep, and knowing what to improve. Isn't that really what progress is all about? I think so, and it's a big part of the sabbatical project I've been working on this summer.

"The Nature of Growth" is the title of a documentary film we're producing about what nature can teach us about building a sustainable economy. So far we've interviewed horticulturists, master gardeners, farmers, clergy, sustainability professionals, elected government officials, oncologists, economists, and everyday ordinary people like

you and me. And it's been eye-opening.

When we ask people on the street "Why does the global economy need to grow?", the answers are insightful: "So more people will have more opportunity," "So more businesses can start up," "So more profits can be used to generate more taxes."

And occasionally we get a very different answer: "It doesn't," or "We've already got it all – why grow anymore?"

Truth is, the current economic model is perfect for growing an economy. Just look at all of the good things it has produced: clean water, roads, free K-12 education, ample housing, and a bounty of agricultural goods. Really, more than enough to produce a rich life for the more than 300 million of us who reside in the U.S.

But consider that our economic "house" might just be the perfect size. There's a real possibility that making it bigger might not actually make us better, and for real human progress to continue, isn't it possible that getting bigger might actually be unhealthy?

Our 1893 Victorian is actually too big for our family of three, and there's no reason whatsoever to add on. Now that I'm mature (even though my wife might not always agree), I exercise to maintain a healthy weight or get a bit smaller. And in healthcare we fight infections and cancer, both examples of out-of-control growth.

So for our home, we continue to improve my family's quality of life not by getting bigger. Only by getting better.

Sounds like a good idea for our economy too!

-MCS

How Many Indexes Are Enough?

If you have ever researched investing, stocks, or even the US economy, you have probably come across market indexes. Indexes (also known as benchmarks) play a very important part in the investment world by allowing us to track the performance of certain sectors of the economy. For those who are familiar with market indexes, they are most commonly acquainted with the Dow Jones Industrial Average, the NASDAQ, and/or the S&P 500. However, there are literally thousands of other market indexes that exist.

All of these indexes have the same purpose; to track the performance of a particular "basket" of securities which are considered to represent a certain sector of the economy so as to track changes in the economy or specific markets. Numerous financial services companies and brokerage firms have created their own benchmarks. Many of the indexes developed by such institutions are used to construct index mutual funds and exchange-traded funds (ETFs) whose portfolios coincide with the created indexes. With the vast number of benchmarks out there, and an array of market segments to choose from, how do you know if you are getting "the right kind" of exposure to the economy and markets?

Well, here's the thing: even if you want to invest in a variety of markets, sectors, or economies, the answer to "how many indexes are enough?" only changes a little. The answer is that you really only need to track and make investments that align with only a few benchmarks to capture large sections of the U.S. and international economies in a diversified manner.

If you wanted to, it is indeed possible to track a variety of indexes ranging from Germany's entire economy to Pennsylvania's municipal bond market, and to invest in a basket of potentially thousands of individual securities that matches the sectors that you want to invest in. However, this can be incredibly inefficient and brokerage fees can get expensive. It is also just as possible for you to buy into the entire German economy by purchasing one fund. This ability to own all segments in an economy in such an efficient manner is one of the reasons the Appleton Group uses an ETF-based strategy. Our strategy does not require us to use thousands of indexes and the funds that are tied to them, but rather has us invest in ETFs, which give us exposure to numerous individual securities associated with an index, allowing us to capture large economic sections efficiently. Owning all parts of an economy has never been easier.

With the thousands of indexes that exist, it can be hard for individuals to know which index funds to choose. By researching indexes and funds that provide broad exposure, we are able to build a portfolio that allows our clients to be fully invested in the economy with only a handful of actual holdings and only really tracking a few indexes.

Our ETF-based strategy also allows us to keep fees much lower by only having to trade one ETF when there is a change in a certain sector – rather than the hundreds of securities in that sector. Further, by using ETFs we are able to make adjustments to our portfolios in a much quicker fashion when we recognize turning points in the markets – including those seen in indexes.

So while there is some room for leeway in answering, "how many indexes are enough?" less can certainly be more. Our strategy and our Appleton Group Portfolio allows us to provide investors with access to all parts of an economy in a simple, straight-forward manner. We want everyone to have a seat at the big table, just in the most efficient and risk-averse way possible.

-KSS

Worrying? What Worrying?

How often do you worry about interest rates? Other than seeing the occasional snippets in the evening news, I'm going to guess that you probably don't spend any time at all thinking about rates. I mean, I usually don't lie in bed worrying about genetic splicing or the amount of dark matter in the universe. Although interesting, I will leave that to the geneticists and physicists. So why should you care about interest rates?

Well, for a couple of reasons. Especially since low rates and high debt are increasingly affecting everyone. Savers are currently earning next to nothing in their bank accounts because of the current low-rate environment. Although this isn't anything new, most investors aren't aware how this affects the potential growth of their investments.

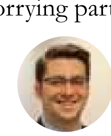
Let's say you want to invest $20,000 in an asset that pays interest but carries no risk. You decide to buy a U.S. Treasury bond that pays 3.1% and matures in 30 years. Upon maturity, your money will have grown to $49,979. However, if the same investment yields 5.1%, your balance would increase to $88,942. That's an 80% increase! Knowing that higher rates can significantly help savers, why then does the Federal Reserve keep rates so low?

There are multiple answers to this question and only so much space in this newsletter, so I will address a few of the big ones. One of the reasons for the Fed's Zero Interest Rate Policy (low rates) is to help increase prices of other assets. This means that low rates are meant to force savers out of assets that carry low risk and little return into assets that carry more return for more risk. Why does this matter? Well, along with creating a bubble, it also tends to create a climate where investors take more risk than they should in the hopes of getting a higher return on their investments. So when the bubble pops, unsuspecting investors are left holding the bag.

Another answer to our interest rate question points us to the $18 trillion dollars of national debt. As the Federal Reserve has been saying for a while now, rates need to rise. Let's say the Fed raises rates to 5%, meaning all future money the government wants to borrow must be paid back at the higher 5% interest rate. It would then cost the government billions of dollars more per year to borrow, which they then add to the $18 trillion national debt balance. That's billions of dollars more that each American citizen must eventually pay back. So the very same increase in interest rates that savers so badly need could simultaneously send the national debt spiraling upwards out of control. Ultimately, this relationship between rates and debt creates an unsettling conflict of interest for the government.

The great thing about The Appleton Group is that we actively monitor all of these economic forces and have an investment strategy that helps us navigate them. And the best part about it? Our clients don't have to worry about the day-to-day details.

So the next time you hear about something like interest rates on the news, you know that you can leave the worrying part to us.



-AJH

Tidbits…

4 million

The hypothetical population of Green Bay, Wisconsin needed to equal the amount of waste produced by the current population of cows surrounding the Bay of Green Bay. The current GB population is approximately 105,000. (Source: Milwaukee Journal Sentinel)

$72 billion

The current total debt owed by the commonwealth of Puerto Rico. Per capita, it is easily the highest of any U.S. state or territory. (Source: L.A. Times)

$34,315

Greece's total debt per person. (Source: usdebtclock.org)

$56,952

U.S.A.'s total debt per person. (Source: usdebtclock.org)

$18.05

The true cost of a pack of cigarettes. While you can buy a pack for around $5.50, the healthcare cost shared by society is more than triple that figure. (Source: American Lung Association)

94%

The percentage of free cash flow being used by companies in the S&P 500 to buy back stock and pay dividends. Only 6% is being used for research, new hiring, expansions, new product launches, etc., which explains why the market is near record highs even though the economy is shrinking. (Source: Deutschebank)

A Strategy for the Modern Day

Charles Darwin once stated, "It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change." More mothers and wives have become full-time employees while the number of men who have become stay-at-home fathers has also increased. The United States Department of Labor stated, "Only 17% of U.S. households are considered 'traditional' with a husband in the workforce and a wife who is not." With family work dynamics changing, many successful businesses are trying their best to adapt. Flexible work arrangements concerning when to work, how much to work and where to work were created for that reason.

Georgetown University Law Center defines flexible work arrangements as any kind of work structure that changes when and/or where work is typically done. One of the aspects within a flexible work schedule is the flexibility in your work schedule, **when** you work. A compressed work schedule is a great example. It is when a person works for the same amount of hours per week but completes it in three or four days instead of five. Another example is called an alternative work schedule. Again, the amount of hours put in per week stay the same, but the time of day one works differs from day to day.

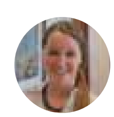
If the first aspect does not sound like it is for you, there is also a second part to this strategy. It is the flexibility in the amount of hours worked, **how much** you work. It includes part-time jobs, job sharing as well as something called banking of hours. Job sharing is when two employees both work part-time to share the responsibility of one full-time job. The amount worked can also go on the other end of the spectrum, where one could work a mass amount of hours. This sort of arrangement is called banking of hours or it also known as credit hours. This allows the employee to clock-in over the average amount of hours and then later use these credit hours to take off when they please. Pilots and those who drill for oil are great examples. The benefits are having a week or maybe two weeks off at a time to see family. But, would it be worth it to not see them for a week at a time? That is why there are many different aspects to choose from because not everyone has the same obligations.

The final aspect has become the most common over the years. It is the flexibility of place, **where** you work. This could include working at your home or at another location. Forbes.com states that the top industries that are offering remote work are healthcare, information technology, education and sales and marketing. A few of the widely known companies that use this tactic include ThedaCare, University of Phoenix, Google, Colgate, and Coldwell Banker. This gives the employees the opportunity to cut back on commuting, which reduces the amount of gas and time needed. It also boosts work productivity because the employee has the chance to work where they are most comfortable.

These three aspects of flexible work arrangements were created for the best possible outcomes.

How does this relate to The Appleton Group? Our business uses the idea of flexibility in our wealth management strategy to manage investment risk during periods of market uncertainty. By measuring market turning points, we can adjust our clients' exposure to the markets in an effort to only own assets that are currently rising in price. Buy and hold strategies do the opposite. In nature buy and hold strategies are like trees that do not like to bend or adjust when the winds get rough. They are like a boat that tries to cut through the waves instead of going along with them. History teaches us that this strategy often ends poorly for both the tree and the boat. The tree ends up getting ripped out of the ground and the boat ends up sinking. At The Appleton Group our intention is that neither of these things happens. Like nature we bend and flex with the wind, we use flexibility every day to survive and prosper. When the storms hit we adjust what we own to stay afloat.

So flexibility is a great idea! With change constantly occurring, both flexible work arrangements and flexible investment strategies are increasingly necessary in the modern world. Adapting to change is what allows us to thrive.



-JML

Portfolio Workshop

The Appleton Group's family of investment portfolios has grown considerably over the last year. 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 U.S. Sectors
- ▲ Appleton Group Wisconsin Select
- ▲ Appleton Group Commodities - Heaven
- ▼ Appleton Group PLUS Portfolio
- ▼ Appleton Group Portfolio
- ▼ AG - Tax Managed Growth Cons Portfolio
- ▼ AG - Moderate Portfolio
- ▼ AG - Conservative Portfolio
- ▼ AG - Tax Managed Growth Portfolio
- ▼ AG Traditional - Aggressive Growth Portfolio
- ▼ AG PLUS - Moderate Portfolio
- ▼ AG Traditional - Income Focus Portfolio
- ▼ AG Traditional - Growth & Income Portfolio
- ▼ Appleton Group Managed Income
- ▼ Appleton Group Europe
- ▼ Appleton Group Asia
- ▼ Appleton Group Commodities from Hell
- ▼ Appleton Group Americas

▲ Positive Quarterly Performance
▼ Negative Quarterly Performance

Flagship: 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.

Featured: Appleton Group Portfolio - Moderate

The Appleton Group Portfolio - Moderate combines the Appleton Group Portfolio's flexible, core investment strategy with a specific allocation to fixed income and/or money-market assets.

This portfolio is suitable for investors with a medium-term investment horizon (i.e. individuals who plan to retire after 2020). It is most frequently used in tax-advantaged accounts such as 401(k)s and other company sponsored retirement plans, IRAs, foundations, endowments, as well as in certain taxable accounts.

The portfolio currently consists of the following ETFs:

IWD Large Value	QQQ Large Growth	ACWI World Stock	IYR Real Estate
SPY Large Blend	VWO Emerging Markets	IJH Mid-Cap Blend	IWM Small Blend
XLB Basic Materials	JNK High Yield Bond	CWB Capital Convertibles	PFF Preferred Stock

*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.