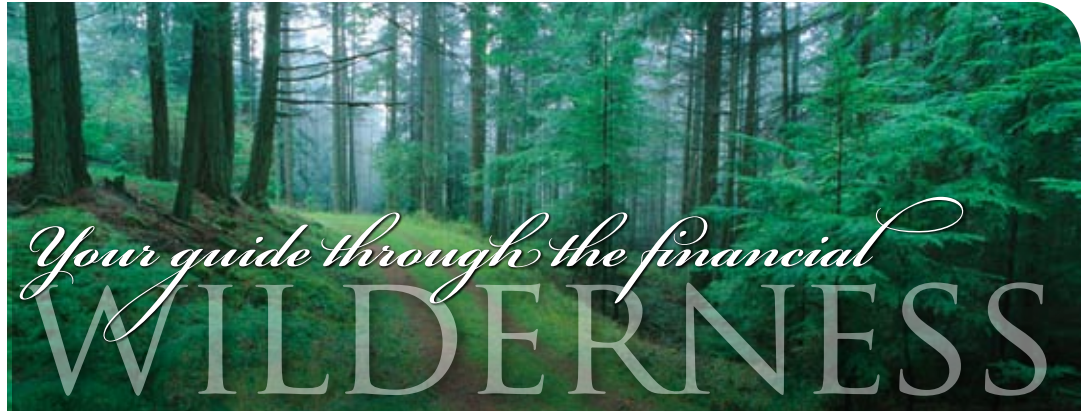




CLAYTON FINANCIAL
SERVICES, INC.
Registered Investment Advisor



Q1, 2008

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Contribution Limits for 2008

- IRA Accounts \$5,000
- IRA Catch-up Contribution..... \$1,000 (age 50 or older)
- 401(k) Maximum Contribution.....\$46,000
- 401(k) Catch-up Contribution.....\$ 5,000 (age 50 or older)
- Simple IRA Deferral \$10,500
- Simple IRA Catch-up Contribution.....\$ 2,500 (age 50 or older)

Drama on Wall Street

The first quarter of 2008 provided all of the drama most of us care to have in our portfolios this year. In terms of performance it was disappointing with the S&P 500 declining 9.4%. But this wasn't a quarter that saw stock prices just drift lower. This was a quarter of dramatic price swings. Fifty percent of the trading days had price moves in excess of 1% in the Dow Jones Industrials meaning the price of the 30 stocks included in that index moved 125 points or more. Nearly 60% of those moves were negative with the DJI ranging from a -128 to -370.

The number of positive days during the quarter were nearly equal to the number of negative days but there were fewer days of 1% or more gains. However, the largest moves—gains of 417 and 420 points or 3.5% each—were positive and they came just as U.S. stocks almost ventured into bear market territory—a drop of 20 percent from the October high.

The easy explanation for the heightened volatility is fear; and the easy answer for why Wall Street has been so fearful is leverage. The story of mortgages being issued to people with low credit ratings has been well told. We also know about the downturn in housing prices causing even those with good credit to consider abandoning their home because it is worth less than their mortgage.

But how a housing downturn in certain areas of the U.S. became a Wall Street crisis is due to the financial maneuvering of Wall Street investment bankers who took the higher yield-

by Debra Clayton
President and Principal of Clayton Financial Services, Inc.



ing mortgages issued to sub-prime borrowers and created new investment products.

Other investment companies then took a rather unprecedented move and insured some of these mortgage investments, creating AAA (top investment grade) bonds out of sub-prime mortgages. Then the buyers of these products borrowed against them, leveraging their investments several times over.

As the housing downturn spread, losses from sub-prime mortgages increased. And because the investments made from the mortgages were frequently held as collateral against other investments, the value of the collateral decreased. This in turn generated margin calls—payment demanded by bankers to cover the loan they'd made.

Wall Street had previously valued these sub-prime mortgage backed bonds at par or full value. As news of hedge fund losses on sub-prime mortgages spread, Wall Street became unsure how to value the bonds and then became unwilling to price—or more importantly—to accept these bonds as collateral. Banks didn't trust balance sheets, fearing they included worthless bonds, and began to restrict loans. Credit markets around the world began to freeze up.

continued on next page...



Progress On Our New Building Continues...

Changes are now occurring quite rapidly and on a daily basis. The elevator arrived and is being installed. Windows have been replaced on the second and third floors. Sheetrock is in place, and the various rooms and offices within the building have been defined. Cable has been run throughout the building for the phone, computer, security and other electronic systems; and orders have been placed for office furniture.

You can expect to see the existing “plywood” storefront come down in the very near future as work is completed on our office façade. We look forward to featuring our new home at 716 S Kansas Avenue in next quarter’s newsletter.

Drama on Wall Street... *continued from page 1*

The Federal Reserve under the guidance of Chairman Ben Bernanke had begun cutting interest rates last September from a high of 5.25% to a current federal funds rate of 2.25%. Cutting interest rates is beneficial when trying to stimulate the economy—which has been slowing largely, again, because of the decline in housing—but that did little to loosen capital markets.

Then Bernanke, a well-known scholar of the economic causes of financial crises, introduced a more innovative solution. In conjunction with other top bankers around the world the Federal Reserve introduced the Term Auction Facility which helped increase liquidity. However, in the second week of March came the call from investment bank Bear Stearns telling federal officials it was near bankruptcy. Its problem was that it did not have the cash to meet its obligations in the repo market. The implications were huge. For decades banks and securities firms have made short term (typically overnight) loans backed by securities to each other in the repo market. There has never been a default, but if other investors began questioning the safety of loans they made in the repo market they could start withholding funds from other investment banks and companies. The markets didn’t take the news that a major investment bank was on the brink of failure very well and stocks sank.

Over the weekend a deal was made for J.P. Morgan to buy Bear Stearns, but more importantly in solving the crisis, the Federal Reserve again asserted its leadership and made a number of unprecedented moves. Among other things it agreed to offer direct loans to Wall Street investment banks for the first time. Wall Street responded with enthusiasm to the moves made by the Federal Reserve.

And that brings us to the close of the quarter. Did the crisis at Bear Stearns mark the bottom of this market decline? Perhaps. As you know, it will take time to answer that question. Even if it is, we’re not expecting an immediate rebound; rather we anticipate a period of backing and filling. We feel financial stocks will give a clue as to the direction to the market. Financial stocks led the decline and when there’s stability in the investment banks there will probably be an improvement in the market. The federal reserve made clear its commitment to provide the necessary liquidity and later this year we should see the benefits of the economic stimulus package both of which are long term positives. And, in the “it’s not what it seems world of Wall Street,” market sentiment is very bearish—which is actually a very bullish indicator. Now for the second quarter...

Identity Theft Update

Good News! The story in our previous newsletter (Q4 2007) regarding a client’s identity theft has a promising ending! After many hours of research, completion of the necessary police reports, claims reports, phone calls to the credit bureaus—and ultimately obtaining legal counsel resulting in attorney letters and legal follow-up—it was discovered that the identity theft was indeed one of criminal intent. The fraudulent account has been removed from our client’s credit report, and the suspect’s arrest is pending. In case you haven’t recently, you might want to review your credit report. Visit our web site at www.claytonfsi.com and link to the “Free Credit Report” site in order to obtain yours.

Unfortunately, this client’s situation is not isolated. Another client has reported that in the weeks leading up to and following the death of a family member, they received notification of two attempts to obtain credit using that relative’s personal information. If you have suffered the loss of a loved one, you may want to obtain a free credit report to confirm any activity under their name. Additionally, you may consider contacting one of the three credit bureaus so the death can be noted on the credit file in case any attempts are made to obtain credit falsely.

Uncertain Times

I recently received a phone call from a reporter asking how our clients are dealing with these “uncertain times” in the market. Without trying to sound too much like a smart-alec I asked her, “Has there ever been a period of ‘certain times?’” Obviously, there are never times of economic certainty.

Her question, however, did simulate me to review the historical volatility of our most common portfolio allocation which has approximately 60% in equities and 40% in bonds and/or cash. Chart #1 shows the month-by-month rate of return starting in January of 1998 thru December of 2007, based upon a 60% allocation to the S & P 500 index, and a 40% allocation in the Lehman Aggregate Bond Index. This chart clearly shows that there was actually less volatility over the past five years as compared to the last ten years. How could this be?

First, month-by-month returns tend to smooth out the day-by-day volatility. Second, no one cares about volatility when the market goes up. Look at the wide swings during the late '90s on this chart. I can assure you we had no calls of concern because of volatility during that time period.

by Randy Clayton
CFP®, CLU®
Founder and Principal of Clayton Financial Services, Inc.



Chart # 2 shows the same data over rolling 5 year time periods, going back to 1976. Notice that the volatility has essentially gone away. On this same chart I plotted the rate of return for 180-day CDs. The average annual difference in rate of return is 5.32% over rolling 5 year time periods. In other words, you get rewarded on average 5.32% more each year to live with the month-by-month volatility that you see in Chart # 1.

Please don't think I'm saying “don't worry, be happy” like the song. We had four down months in a row (Nov 2007 thru Feb 2008) in the stock market. Everyone has experienced a decline (including Clayton Financial). But when you get really anxious, review the 5 and 10 year rolling period charts and ignore the day-by-day chatter of the news media.

A New Exemption

Starting in 2007, if your Federal Adjusted Gross Income is less than \$50,000, your Social Security benefits will be exempt from Kansas State income tax (to the extent the benefits are included in your federal adjusted gross income). The \$50,000 limit is the same regardless of your filing status. This adjustment will be made on Schedule S of your Kansas tax return.

Chart #1

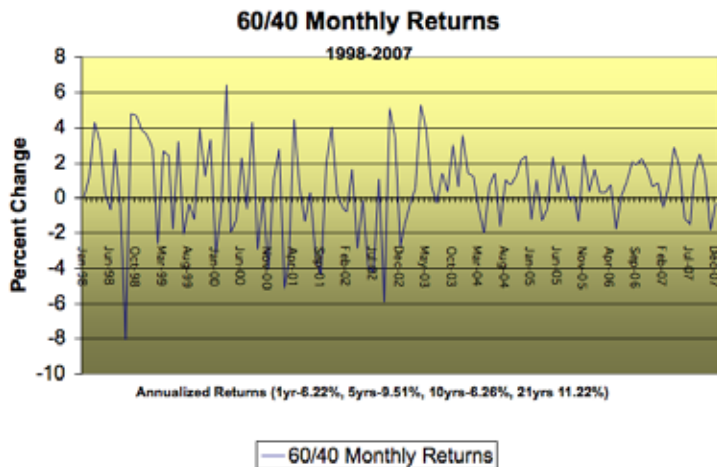
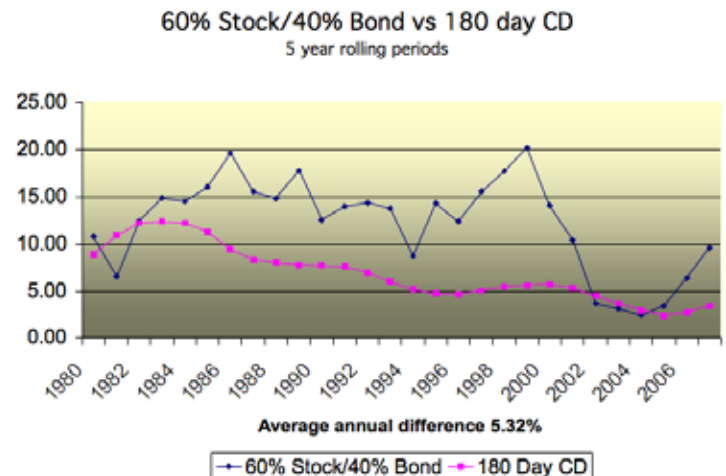


Chart #2



Fidelity BrokerageLink®

Do you have a Fidelity 401(k) or 403(b) account through your employer? If so, you likely have an option called BrokerageLink® available in your retirement plan that could change the way you invest your retirement savings.

BrokerageLink® is essentially a separate account within your workplace savings plan that opens the door to a much broader range of investment options. Before, participants were limited to a select group of funds within their 401(k) or 403(b) in which they could invest. Now, if you choose to move money into a BrokerageLink® account within your 401(k) or 403(b), you get rid of those restrictions and are able to invest a portion of your retirement money in a wide array of securities.

If you do not feel comfortable actively managing a portfolio of options beyond those offered through your plan's standard investment choices, the BrokerageLink® feature allows a registered investment advisor such as Clayton Financial Services, Inc. to do the investing for you. Or, if you think you're up to the task, we would be more than happy to help you get set up. Either way, if you have the BrokerageLink® option available to you and would like to learn more about it, feel free to give us a call.

Economic Stimulus Payments Are Coming

No doubt by now you have heard about the President's economic stimulus package and the corresponding checks being sent to taxpayers. These checks will be sent out beginning in May and finishing in mid-July. Timing of the payments will be made based on the last two digits of the main filer's Social Security number.

Almost all people who file a 2007 tax return will qualify for the stimulus, with an estimated 130 million households receiving checks. Eligible individuals will receive between \$300 and \$600. Those who are eligible and file a joint return will receive a total of between \$600 and \$1,200. Those with children will get an additional \$300 for each qualifying child. To qualify, a child must be eligible under the Child Tax Credit and have a valid Social Security number.

The stimulus amount you will receive depends on the information contained on your tax return: at least \$3,000 in qualifying income; \$3,000 in Social Security benefits; or \$3,000 in veteran's benefits. Phase-outs for these payments are around \$80,000 adjusted gross income for individuals and \$160,000 for married couples filing jointly. If you are close to these limits, a calculator (www.irs.gov/app/esp/) has been provided on the IRS website. A valid Social Security number is a requirement.



After your 2007 taxes have been submitted, you will not need to do anything else to receive your stimulus check. The Treasury Department will automatically send you a check if you paid taxes (or received a refund) by check. If you had your tax payments (or refund) come directly from your checking account it will be automatically deposited into the same account you have set up with the IRS.

If you have any questions about your eligibility or the process please give us a call.

PLEASE NOTE that many scam artists have been trying to find a way to swindle people out of their checks. The IRS will not be calling or e-mailing, asking for your Social Security number.

by Chris Corum
Portfolio Analyst



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