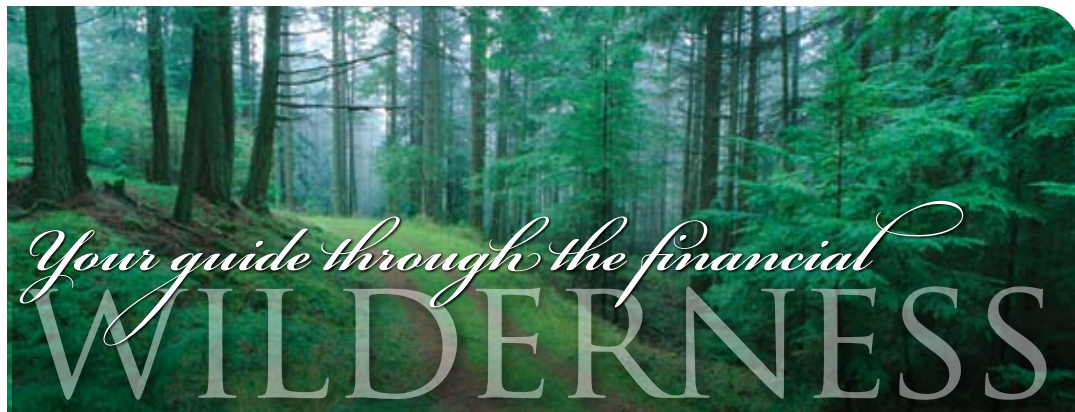




CLAYTON FINANCIAL SERVICES, INC.

Registered Investment Advisor



Q1, 2010

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Market Outlook Seminars

On Tuesday, May 4th, and Thursday, May 6th, we will be presenting a one-hour seminar outlining the current thinking of the Clayton Financial Investment Committee. The market and the economy have come a long way since the market low in March 2009, yet large challenges still lie ahead. How will these challenges impact your investments? The seminar will be presented at 2:00pm and at 6:00pm on each day, and held in our seminar room within the offices of Clayton Financial Services. Space is limited so make your reservation today. We encourage you to bring a guest. Light refreshments will be served.

Greek Drama Doesn't Spoil First Quarter Results

The stock market began 2010 with one of its best gains in the last ten years. The S&P 500 increased about 5% for the first three months marking the fourth consecutive quarter of positive returns. Performance from mid- and small-sized company stocks was even better while returns from foreign stocks in both developed and emerging economies lagged. This was due to deficit troubles in Greece, Spain and Ireland.

This return included a period from mid-January through early February when the S&P declined around 8%. Although the average year contains three corrections of at least 5%, it was a little unsettling when it occurred.

The correction seemed to be triggered by increased concerns that Greece's worsening budget deficit could create problems for other European economies. Also, concerns were building that China's economic growth would be less than expected. It appears a concerted effort by other European countries will help Greece work through their problems. Plus, investors began to accept that Greece was too small to have any serious impact on the euro-area aggregate. China indicated that, although their growth would moderate some, it would still be relatively strong. Once these concerns lessened, the growing evidence that

by Terry Milberger
 Director of Portfolio Management
 Clayton Financial Services, Inc.



economic recovery was continuing resulted in improved investor confidence and the market advance resumed.

Although the economy is clearly improving, it still faces many headwinds. The most immediate one could be coming from the housing industry. There, indeed, are signs that housing fundamentals are improving, but a new wave of homeowners could become delinquent on their mortgages as their interest rates are being reset upward resulting in larger mortgage payments. Fortunately, a

new government program was just announced that will focus on principal forgiveness. This has the potential to significantly reduce the number of homes that might be foreclosed on.

Probably the stiffest headwind that investors must confront over the next few years is the massive budget deficit of the federal government. The U.S. Treasury has announced it will issue \$1.5 to \$2.0 trillion in new U.S. Treasury bonds in 2010. The U.S. federal fis-

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Learn the Lingo

Fiduciary

A Financial Advisor held to a Fiduciary Standard occupies a position of special trust and confidence when working with a client. As a fiduciary, the Financial Advisor is required to act with undivided loyalty to the client. This includes disclosure of how the Financial Advisor is to be compensated and any corresponding conflicts of interest. A Fiduciary has a legal obligation to put an investor in the best products and/or investments they can.

Suitability

A Financial Advisor held to a Suitability Standard is required to recommend products that are suitable for the client's objectives, means and age. There is no legal obligation, under the Suitability Standard, for a Financial Advisor to put an investor in the best products and/or investments.

Fee-Based

This compensation model allows a financial advisor to have a financial stake in the course of action that he or she recommends to a client. Some or all of the advisor's income may be dependent upon their ability to steer their clients to a limited number of financial products.

Fee-Only

This compensation model indicates that an advisor never accepts commissions or compensation of any kind related to the products or investments that he or she recommends. This helps to ensure there are no conflicts of interest and the advisor can be considered objective and unbiased.

Greek Drama... *continued from page 1*

cal deficit is expected to exceed \$1 trillion in 2010 and 2011. Fortunately, this is currently being mitigated by the ongoing deleveraging by consumers and businesses. Also, continued growth in the economy would generate more tax revenues. Nonetheless, an unprecedented financial challenge will still exist that could drive interest rates significantly higher.

Over the past year, the Federal Reserve has provided substantial liquidity to the financial system by purchasing several hundred billion dollars of government-related securities. The recent expiration of this program of quantitative easing has caused some concern that the fragile economic recovery would be negatively impacted. To counter this concern, the Federal Reserve has indicated they will keep short-term interest rates exceptionally low for an extended period. This will allow banks to continue to improve their financial conditions and hopefully allow them to provide more credit to consumer and business borrowers.

What is the appropriate investment strategy given all of the crosscurrents in the global economy and the substantial stock market advance of the past year? Our investment team will likely become more defensive in their asset allocation. This is the result of several considerations:

- The stock market, as measured by the broad-based S&P 500, has increased

about 70% since its low in March 2009. History shows that market gains moderate considerably after the first year of a market recovery. The median returns for the second year are around 8%.

- Optimism about an economic recovery has caused valuations for stocks overall to become somewhat high. Corporate earnings are going to have to show good growth from here to justify these elevated expectations.
- The stimulus to the economy from several sources has been significant. The economy must move to the next stage for the stock market advance to be sustained. That will involve job creation, private income creation and self-sustaining demand growth. The strong possibility of higher interest rates due to the massive expected government borrowing could make that tougher to accomplish. Also, most states face severe budget issues and will likely face solutions that could retard growth.

Not all is doom and gloom though. Our truly global economy will provide good opportunities for both equity and fixed income investments and we continue to look for those investments that will benefit our portfolios—both on the upside and as protection on the downside.

Financial Incentive to go Paperless

Fidelity Investments, the custodian of most of our clients' assets, has announced a new lower transaction fee schedule for those who choose to have their monthly statements, confirmations, proxy and annual reports come via email, as opposed to regular US Postal Service delivery. In the past when a stock or an exchange traded fund (ETF) was purchased or sold, Fidelity charged a \$12.95 transaction fee. For those who elect to receive email reports, as opposed to regular mail, this charge would be reduced to \$7.95 per transaction. We estimate that our average client will save between \$60 and \$80 per year in charges, based upon 2009 transactions. If you would like to go paperless, save some trees and save some money in the process please call and let us know.

This change does not affect the \$30 charge on transaction fee mutual funds. About half of the no-load mutual funds we purchase and sell have a transaction charge.

Social Security Payouts Exceed Income

In 2010 and 2011 Social Security benefits will exceed deposits according to the Social Security Administration. This was not supposed to happen until 2016. Our office recently presented workshops

to our clients explaining that receipts (payroll taxes deducted from your paycheck) would continue to exceed withdrawals until 2016, and that the Trust Fund currently at 2.5 trillion dollars, made up of government IOU's would last until 2037. Now all bets are off (like my brackets for the NCAA Tournament). What went wrong?

To make predictions into the future, you have to make assumptions. These would include how many people file for retirement and disability benefits, how many people are working and making deposits into the fund, how long people will live, and what the COLA increases (Cost Of Living Adjustments) will be in the future. As you can guess, these assumptions are difficult to make, particularly under the current economic situation. But with high unemployment and under-employment the deposits are just not coming in as expected. On the benefits side, more people are applying for retirement benefits. If you were planning to work until 66, but you get laid off at 63, you might apply for retirement benefits to get you through the rough times. These same people could stop receiving benefits once they get a job, and claim a higher benefit when they "officially" retire, kind of like an enhanced unemployment check. These applications for benefits are up 23 percent over last year.

Disability claims are also up over 20 percent. Many disabled people work because they want to be productive, and they make more money working than collecting disability benefits. If you are unemployed, however, why not apply for disability benefits?

How do you fix it? There have been at least two independent commissions appointed in the past twenty years that have made recommendations to fix the long-term problem. Essentially the commission's recommendations were ignored—no political willpower. Here is the Randy Clayton bi-partisan plan:

- 1) Separate disability payments from retirement payments, and separate the deposits that are currently made through payroll taxes. Like all other disability insurance, as claims or payments rise, then deposits also have to rise through payroll taxes. Private companies that sell disability insurance set aside reserves and are subject to financial reporting and inspection in the states where they do business. If the government can't adequately run the disability program to prevent large deficits, they turn it over to a collection of private companies that can.
- 2) Continue to raise the retirement age. Currently if you were born after 1960 the retirement age is 67. Continue the trend. For example if you were born after 1970 the retirement age could be 68, after 1980 make it age 69, 1990 raise it to age 70. You get the picture.

Randy Clayton

Founder and Principal of Clayton Financial Services, Inc.

Originally posted on the ClaytonFSIblog.com



Kiser Bids Farewell

Clayton Financial Services Wishes Her and Her Family the Best

I would like to take this opportunity to let you all know that I will be leaving Clayton Financial Services, Inc. on Friday April 23rd.



As many of you know, I began as an assistant financial planner in June of 2008, after graduating from the Financial Planning Program at Kansas State University. I commuted to Topeka from Manhattan for a year while my husband, TJ, finished his degree in Chemical Engineering. In July of 2009 our family moved to Topeka in hopes of TJ finding a job in the Kansas City area. In March TJ was offered a position at JACAM Chemicals, LLC in Sterling Kansas, as their Chemical Plant Production Engineer. He will be starting there on April 12 and will be living with friends until we can all move to Hutchinson in May. I have truly enjoyed the opportunity that I have been given at Clayton Financial, including getting to know all of you. I sincerely hate leaving Clayton Financial, and would like to wish you all well in all areas of your life.

Don't forget to check out the Clayton Financial Services website, blog, and Facebook® page; new material is posted on a regular basis! Links to the blog and Facebook® page can be found under "Quick links" at www.claytonfsi.com.

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3) Continue to raise the wage base. Currently you pay social security taxes on your first \$109,000 of wages. Income in excess of \$ 109,000 is not subject to Social Security taxes. Medicare taxes yes, but not Social Security taxes. To be fair, someone making \$ 250,000 per year only pays into Social Security on \$ 109,000 of income, but also only receives a Social Security retirement benefit based on \$109,000 of income, not \$250,000. I would continue to raise the wage base, and continue to raise the benefits for higher income earners with one small exception (see # 4).

4) Continue to index Social Security benefits with inflation (COLA) but if your benefit is over a certain amount (for example \$ 2,500 per month), then you would receive a smaller increase, perhaps COLA minus ½ of 1 percent.

These four simple ideas would make the system solvent again. Last—and probably impossible to accomplish—truly set aside the money. Create a trust fund. My parents' generation took out much more than they put in. As it stands today, we baby boomers are going to do the same. We need to stop the madness. Our children will not be able to make enough money to maintain the status quo.

How Will the New Health Care Bill Affect Me?

On March 23rd, President Obama signed into law the Patient Protection and Affordable Care Act. This law is both complex and comprehensive with many "phase-in" provisions. It is impossible for me to cover all aspects of this approximately three thousand page bill, but I'll attempt to hit the highlights. In the coming months, we will also conduct some seminars that will analyze in greater detail some of the provisions of this new law. Like many other laws, I suspect that this bill will be amended and changed many, many times over the next several years. But I do not believe it will be repealed. There will be both positives and negatives when considering the "law of unintended consequences" and no one can truly predict all of the results. Here are some of the highlights:

Benefit Changes

- During the first 90 days a temporary, national high-risk pool will be created to serve those with pre-existing conditions.
- Adult children may be covered under their parent's health plan up to age 26.
- The Act prohibits both individual and group plans from imposing lifetime limits on coverage amounts.
- Individuals participating in Medicare Plan D will receive a rebate of \$ 250 in 2010. The amount of the rebate will increase in subsequent years until donut hole has been eliminated (filled).
- The law makes provisions that will allow childless adults to participate in Medicaid.
- This law will establish a national, voluntary insurance program for purchasing community living assistance (2011).
- Provides incentives, and eliminates some co-pays for proven preventative services (2011).
- Legal residents and U.S. citizens will be required to have qualifying health coverage (2014).

Tax Changes

- The deductibility of executive compensation in excess of \$ 500,000 per individuals for health insurance providers will be eliminated.
- An additional 10% tax on the amount paid for indoor tanning services will be created.
- Excludes over-the-counter drugs—not prescribed by a doctor—from being reimbursed through an H.S.A. or F.S.A. (2011)
- Increases the threshold for the itemized medical deductions from 7.5% to 10% of A.G.I. (2013)
- Increases Medicare Part A premiums in 2013, and will add an additional tax of 3.8% for high income earners on unearned income (i.e., interest, dividends, and capital gains).

The bill has many provisions that are designed to create, monitor, and award various wellness programs and preventative medicine procedures. It also attempts to reduce the costs by limiting some reimbursements to providers and shifts some expense to the states. Employers of more than 50 employees will be required to provide health insurance to employees and will be given financial incentives to do so. Failure to provide health coverage will result in penalties.

As the saying goes "the devil is in the details" and this law has page after page of details. For a political junkie like me it'll be a gold mine of entertainment since the next couple years will be chock-full of heated debate and analysis as this law is molded and refined.

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the power of innovation.**

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**CLAYTON
FINANCIAL
SERVICES, INC.**

716 S. Kansas Ave.
Topeka, KS 66603

785-232-3266

www.claytonfsi.com