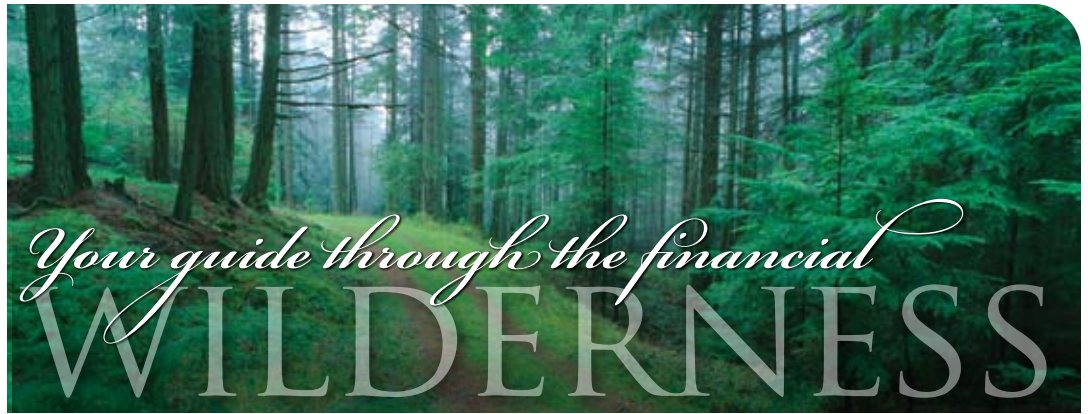




CLAYTON FINANCIAL SERVICES, INC.

Registered Investment Advisor



Q2, 2008

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Mid Year Recap

In March of this year, we—like many others—felt the market had hit the lows of this cycle. Bad news from the housing sector pummeled the market while financial institutions were facing a liquidity crisis that ultimately caused the demise of Bear Sterns, a major Wall Street investment company. We felt all of the bad news had been factored into stock prices. Apparently that wasn't the case. Faced with a housing sector that continued to falter, the failure of IndyMac Bank, and a host of other negative news associated with a slow economy the market broke through the March low this month. So at the mid-point of the year, let's recap where we are.

Economy

It's possible we'll sidestep a recession in 2008. The official definition of a recession is two consecutive quarters of declining growth in GDP (gross domestic product is a measure of the goods and services a country produces). In the first quarter GDP grew 1% on an annualized basis and Ned Davis Research (NDR) estimates growth between 1.5% and 2% for the second quarter with the economy getting a boost from the multiple cuts in interest rates and the government rebate checks. As the benefits from the rebate checks diminish NDR anticipates weaker—but positive—growth numbers for the third and fourth

by Debra Clayton
President
Clayton Financial Services, Inc.



quarters. However, even if we skirt an official recession, we're in a period of very slow economic growth confirmed by the fact non-farm payrolls have fallen every month so far this year.

Inflation

Core inflation—which excludes food and energy—eased to 2.3 by the end of 2007 and NDR thinks it may slip to 2.1% by the end of this year. The headline number, however, is another story. This number includes the volatile food and energy sectors and there we could see a summer spike above 5%. NDR strategists think it could end the year at 4.1%, which is where it began the year.

... even if we skirt an official recession, we're in a period of very slow economic growth ...

At this point investors can begin to understand the dilemma of government officials. The main remedy for a slowing economy is lowering interest rates while the usual remedy for inflationary pressures is to raise interest rates. The Federal Reserve is walking a tightrope and has indicated they place concern for the economy over inflationary pressures. Con-



OPEN HOUSE

716 S. Kansas Ave
August 21, 2008
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Mid Year Recap... *continued from page 1*

Anna Kiser Joins CFSI



Anna Kiser joined CFSI as an Assistant Planner the first of June—just in time to help us pack and move. Anna is a graduate of Kansas State University with a Bachelor of Science in Personal Financial Planning and a minor in Business Administration. She lives in Manhattan with her husband, T.J., who is a senior in the Chemical Engineering degree program at K-State and their 3 year old son, Brendan. The Kisers are expecting their second child in early August.

sequently investors don't anticipate an immediate rise in interest rates—but they are aware such moves will probably happen and worry about the timing and magnitude.

Politics

Among our clients we have die-hard Republicans and equally passionate Democrats and each bemoans the state of the country when the other party is in power. A bi-partisan look at the political picture, however, is warranted. Historically the stock market can make gains under either party. But when there is a *change* in the incumbent, stocks historically grow less. Many current polls indicate we'll see a change in 2008 and that introduces concern over fiscal policy changes. In addition, state and local governments are seeing falling revenues. Investors thus can add concern over the possibility of higher federal, state, and local taxes in 2009.

Politicians face difficult decisions. Lower taxes are stimulative for a slow economy, while raising taxes can help reduce inflation.

Housing

The chief long-range problem is housing which includes housing starts, sales of new homes and existing residences and pricing. The decline in this sector seems to be slowing but the recovery could still be a year or more down the road. The stock market, however, is anticipatory and investors are mainly searching for signs of the turn around and stocks will likely rebound before the actual recovery begins.

Investor angst

The combination of record-high oil and gasoline prices, sagging home values, a likely rise in interest rates, the possibility of higher taxes, credit issues, and falling stock prices have led to (no surprise here) low consumer confidence. If you have felt despondent over the daily litany of problems the economy faces,

do not think you are alone. The problems are real, we're aware of them when we're managing your portfolio and making financial planning projections, but...another interesting statistic from the folks at Ned Davis... is that the public is more worried than the pros. The problems are not insurmountable, time will be a very helpful antidote for the housing problems, and the Federal Reserve has been creative and aggressive addressing the credit issues. If ever the thought that this could turn into a depression enters your mind, banish the thought.

Investment Themes

Unfortunately stock prices tend to decline in the face of all of these issues. Certain sectors, however, have been holding up better than others—i.e. commodities—and several of the mutual funds in your portfolio have held a healthy dose of those stocks. Some are down only marginally year to date. In addition, most portfolios have an allocation to bonds and cash which have provided a cushion for the falling stock market—and unfortunately will act as anchors when the market turns directions. It is helpful to multiply the stock market numbers you hear on the evening news by 80% or 60% or 40% or 20% depending whether you have a Growth, Growth & Income, Income & Growth or Income portfolio. That's the amount of exposure you have to those numbers. Remember also, when you're hearing those stocks prices or pumping gasoline, your portfolio has benefited from those outrageous oil prices.

Even though we're facing headwinds as investors, there will continue to be areas that benefit from the current market—whatever that may be. Two areas that we'll be watching carefully (not that we haven't been already) are oil and financials. Many of the commodities have already started correcting including oil just recently. In the short run the exuberance in oil has gone to an extreme

even though long-term oil is going to benefit from demand from developing countries. A correction in oil it could be the catalyst for a recovery in global equity markets and could signify a change in leadership to—of all sectors—financials. Normally technology, energy and financials are about 16% of the S&P 500. At this point financials have dropped to 14.3%. Energy is overbought and financials are oversold. We're firm believers in a reversion to the mean and would anticipate those two sectors would move back to more normal numbers.

We will also be looking at the relative strength between large and small stocks. A falling dollar has been helpful for large cap exporting companies but a flat to increasing dollar won't benefit the large caps as much. If the correction in oil prices leads to a global recovery, small caps will probably outperform and we would make changes in your portfolio to incorporate small growth funds or ETF's.

The first half of this year has been trying for all of us, but as Abraham Lincoln said, "this too shall pass." There will be a recovery. Unfortunately many analysts feel the strongest recoveries are preceded by a 'capitulation phase' with a series of down days on high volume that washes out all of the sellers. We would prefer you grit your teeth and hang on when—and if—that happens because it is typically followed by a significant rally. At that point, if your anxiety has reached an unbearable level, call us for a review of your investment policy statement. We want you to be able to sleep at night—and to enjoy the summer.

— DEBRA CLAYTON



Let's Celebrate

The dust has nearly settled, our stationery and business cards bear a new address, and we can once again find everything we need at our desks. The move is done! We're looking forward to finishing the punch list and inviting all of you to tour our new building and share some refreshments with us.

We are holding a Client Open House August 21 from 4–7 p.m. Invitations will be mailed in the coming weeks. If this date isn't convenient, consider joining us at the official ribbon cutting on August 14 at 11 a.m. Local dignitaries will be here with scissors in hand and we are inviting members of the Downtown Topeka Association to tour the building that afternoon.



Save the date!

You are invited to
Clayton Financial Services

OPEN HOUSE

716 S. Kansas Ave.

August 21, 2008

4–7 p.m.

RSVP 232-3266

RIBBON CUTTING

716 S. Kansas Ave.

August 14, 2008

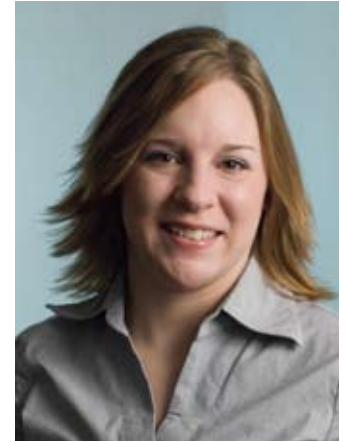
11 a.m.–4 p.m.

Planners Recognized by CFP® Board



Barbara Heller

Barbara Heller and Elizabeth Young have been notified by the Certified Financial Planner Board of Standards that they are authorized to use the CFP® certification marks. Both Barbara and Elizabeth have been with CFSI since May 2005. During that time they have met the rigorous experience and ethical requirements of the CFP Board and have passed the CFP® Certification Examination. As Associate Planners both have met with dozens of clients, researched innumerable topics, prepared hundreds of financial plans, run numerous 'what if' scenarios, and answered all the questions that came their way. As one of the largest advisory firms in NE Kansas, Clayton Financial is pleased to now have four Certified Financial Planners and a Chartered Financial Analyst on staff.



Elizabeth Young



**The strength of tradition;
the power of innovation.**

Individualized asset management
and financial planning.



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