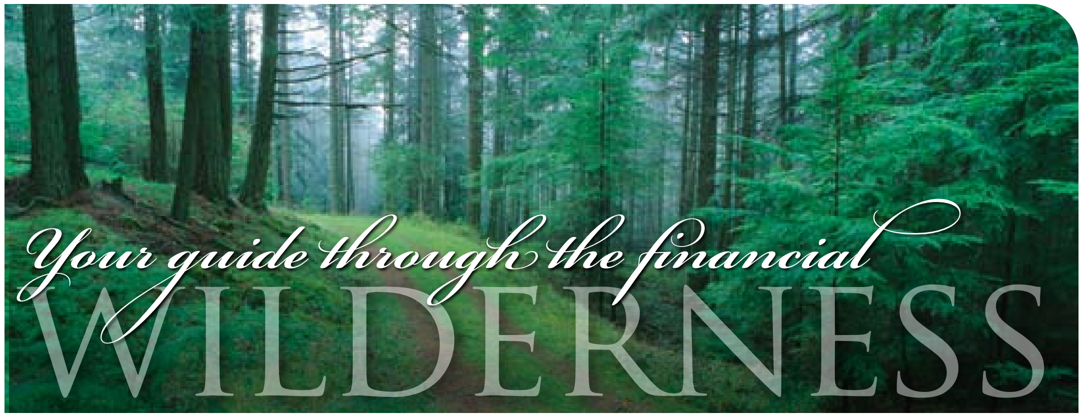
CLAYTON FINANCIAL SERVICES, INC.

Registered Investment Advisor



Q4, 2007

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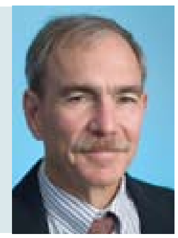
Tax Prep Reminders

- Long Term Care insurance premiums may possibly be deducted on your federal and state income tax returns.
- Contributions to 529 education plans such as Kansas' Learning Quest may be deducted on your state income tax return

Investors Made Money in 2007 Despite Turmoil

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



The financial markets posted gains in 2007 in spite of turbulence created by several factors. The most significant event last year was the crisis in the sub-prime mortgage market that fueled a significant housing slowdown. But the price of oil also surged, ending the year near $100 per barrel, as did many other commodities. Through all of this the S&P 500 still provided a total return of 5.49 % for the year.

Bonds, as represented by the Lehman Aggregate Bond Index, did somewhat better with a return of 6.96 %, mainly because many investors flocked to Treasuries as a safe haven. International investments as measured by the EAFE gained 11.63% while small stocks moved into negative territory.

> *History suggests 2008 will be a positive year for the stock market.*

As we look at investment themes in 2008 some forecasters are now expecting an economic recession. They believe the weakness in housing is spreading to other consumer areas, such as retail sales. Also, they believe business capital spending will be impacted and will slow as well. An offsetting factor, though, is the likelihood of continued good export growth due to strong foreign economies coupled with the weak U.S. dollar. We are monitoring these issues closely.

The U.S. economy, although slowing, does not appear to be in a recession now. In fact, recessions are fairly rare. The U.S. has had only two in the last 25 years and they lasted a total of 16 months.

The turmoil in the sub-prime mortgage market and the tightened conditions in the overall credit market have been well recognized by the Federal Reserve. They have lowered interest rates aggressively in the last several months. Furthermore, they, along with the European Central Bank, have added substantial reserves to their respective banking systems to increase liquidity. Although these actions will take time to work through the financial systems, they should speed up the healing process.

The financial markets certainly will face some choppy water as we enter 2008. Many of these issues, however, are already front-page news and are increasingly being discounted. Good markets often spring from periods of concern. Nonetheless, we are being very diligent and will make portfolio changes if we feel they are necessary.

History suggests 2008 will be a positive year for the stock market. It is a Presidential election year, and the stock market, as measured by the S&P 500, has posted gains in all but one election year since 1940. Furthermore, the market has not dropped in a

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Investors Made Money... *continued from page 1*

year ending in 8 since 1828. However, the ride could be bumpy—as we've already seen in 2008—and we anticipate most of the turbulence will be in the first half of the year. If this causes a level of anxiety that disrupts your sleep, please call!

"... we discovered that, although they had a very elaborate set of documents, the couple had almost completely bypassed the documents."

Have You Sabotaged Your Estate Plan?

by Barbara Heller
Associate Planner
Clayton Financial Services, Inc.

One of the financial planning topics we regularly review with clients is estate planning, the area that clients have usually neglected the most. Frequently they haven't done any planning. Other times they have documents but didn't make the necessary changes to the insurance policies or retirement plans to correspond with their documents. And they are unaware that beneficiary designations on insurance policies and retirement plans will be followed irregardless of what the will or trust document says. This has presented some interesting scenarios, including a beneficiary designation naming an ex-spouse even though the client planned on leaving assets to his current wife.

Recently, during the initial estate review for a new client we discovered that, although they had a very elaborate set of documents, the couple had almost completely bypassed the documents. First, there was an Irrevocable Life Insurance Trust that owned several of their life insurance policies but was not the beneficiary. This could have caused all of the death benefit to be pulled back into their estate and been taxed when the trust was designed to avoid estate tax.

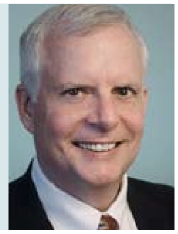
Second, they should have had their Revocable Living Trusts as the beneficiary on their other life insurance policies and as the contingent beneficiary on their qualified plans. Instead they had their children listed. Finally, they had assets that were owned jointly, instead of by one of their Revocable Living Trusts. Upon the second death these assets would have gone through probate, which could have been avoided if they had been owned in one of their Living Trusts. By not making sure asset ownership and beneficiary designations were aligned with their documents they negated the benefits of the estate plan they had paid hundreds of dollars for—and their estate would have paid thousands in taxes if something had happened to them.

Not all of our clients have complex estate documents; they simply have wills, but potential problems still exist. Frequently parents, for a variety of reasons, want to spread the distribution of their assets over several years or decades. And so in their wills they create a trust for their children so that the kids cannot have access to all of the money immediately. However, upon review of their life insurance and qualified plans we see they have named their children as the contingent beneficiaries of their life insurance and qualified plans. Consequently, by using the beneficiary designations (and bypassing their wills), their children will have the money immediately upon the second death—not the parents' intent.

We're not attorneys, but we work closely with attorneys to facilitate the estate planning process and will contact the attorney who drafted your documents if there is a question about the proper beneficiary designation. And—every few years—we'll review your documents again. Estate laws change, your personal situation may change, and sometimes clients acquire assets but don't use the most beneficial form of ownership. People may not necessarily enjoy discussing what will happen upon their death, but they generally have an idea what they want to have happen. We're here to ensure assets transfer as they wish.

To Index or Not to Index? That is the Question.

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



John Bogle, the founder of Vanguard has long advocated that buying index funds is the best way to grow your assets. Various studies report that 60 to 80% of all mutual funds do not beat their comparable index (benchmark). And if 60 to 80% fail to beat the index, why not simply buy the index?

Taxes further complicate the question. Last year many of the managed funds we use declared capital gain distributions. These distributions are not a problem inside a qualified plan such as an IRA, SEP, 401(k), 403(b), etc. But in "after-tax" accounts these declarations fall directly upon an individual's personal tax return (ouch!). Fortunately, these re-invested distributions are typically taxed at reduced capital gains rates of 10-15%, but still reduce the overall after-tax rate of return. So, does the overall after-tax performance of managed mutual funds overcome the tax penalty?

We ran an "after-tax" performance study using Morningstar data to answer that question. First we assumed the maximum capital gain and dividend tax rate. Then we took the firm's largest equity holdings that have at least a five-year track record. These ten funds represent more than 30% of CFSI's managed assets. The results are as follows:

As you can see, in 96.5% of the various time frames our selected managed funds beat the comparable index. How could this be?

Probably the easy answer is that we don't look for funds that fall into the 60-80% group that failed to beat the index. Through a fairly sophisticated process we search the data base of funds eliminating those with 1) high expenses, 2) sales charges or loads, 3) short-term management, 4) poor corporate culture, 5) an excessive risk-taking attitude, 6) poor past risk-adjusted performance, to mention a few. This selection criterion keeps out the "dogs".

This is not to downplay index funds. We use them, and will continue to use them in the future. I suspect that you will see the firm using more ETF's (exchanged traded funds that track specific indexes) in the future. The bottom line is, you pay us to constantly search and review markets and funds. When we have the option of using a well-managed fund that outperforms on an after-tax basis, we will most likely use that fund. In other situations, an index fund may be more appropriate.

"Various studies report that 60 to 80% of all mutual funds do not beat their comparable index (benchmark)."

Mutual Funds Tax-Adjusted Returns

		Tax-Adjusted Return		
		3 Yr Avg **	5 YR Avg**	10 Yr Avg**
S&P 500 TR	**Index**	**8.08%**	**10.95%**	**5.91%**
Fidelity Contra Fund	FCNTX	14.62%	17.25%	9.44%
Dodge & Cox Stock	DODGX	7.93%	14.32%	9.72%
Selected American Shares	SLASX	9.63%	14.02%	7.59%
Icap Select Equity	ICSLX	10.09%	17.00%	9.69%
Excelsior Value & Restructuring	UMBIX	11.27%	19.29%	11.28%
Rainier Large Cap Growth Equity	RGROX	13.01%	16.61%	--
Third Avenue Value	TAVFX	10.43%	18.32%	10.43%
		Tax-Adjusted Return		
		3 Yr Avg **	5 YR Avg**	10 Yr Avg**
MSCI EAFE	**Index**	**16.76%**	**20.39%**	**8.66%**
Harbor International	HAINX	23.53%	25.37%	11.74%
Dodge & Cox International	DODFX	17.92%	26.42%	--
Julius Baer Intl Equity	BJBIX	19.73%	23.16%	15.99%

1. Benchmarks and indices are commonly used to judge the relative performance of an investment and do not constitute or imply a guarantee of performance
2. Data presented represents past performance and is no guarantee of future results.
3. Tax Adjusted return data by Morningstar Inc., using the highest available tax bracket.
4. Funds selected are the most widely held large cap funds held at Clayton Financial Services which have a return period for over 5 years for the fund noted.
5. Index returns are computed from Morningstar data and are NOT tax-Adjusted.

* as of 12/31/2007
** Annualized

Clients' Gifts Benefit Others

One of the more pleasurable aspects of our planning process is helping clients donate to their favorite causes. During 2007 our planners facilitated $500,000 worth of gifts that benefited a range of qualified organizations including churches, alma maters, public radio, an after school reading program, the public library, Rescue Mission, Humane Society and many more.

Nearly all of the charitable gifts were made to the client's donor advised fund set up through the Fidelity Charitable Gift Fund or Topeka Community Foundation. Some clients took advantage of the IRS ruling allowing those over 70 1/2 to donate the required minimum distribution from their IRA directly to a charity.

If you have a charity you're interested in supporting and have appreciated non-qualified stocks or mutual funds, we would be glad to help you make the gift.

Morningstar's Fund Managers of the Year Mirror CFSI's Choices for Client Assets

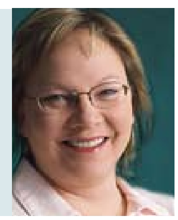
Earlier this month Morningstar announced the winners of its annual Fund Manager of the Year awards for three categories, 1) domestic stock 2) international stock and 3) fixed-income funds. The investment team at Clayton Financial was pleased to see the award- winning managers represent some of the firm's largest investment positions. The managers are as follows:

Mutual Fund Type	Manager	Fund(s)
Domestic Stock	Will Danoff	Fid Contrafund and Fid Adv New Insights
International Stock	Hakan Castegren	Harbor International
Fixed-Income	Bill Gross	Harbor Bond, PIMCO Total Return

Christine Benz, director of mutual fund analysis for Morningstar says, "When choosing the winners, we look for managers who have delivered strong performance both over the long and short term. We also recognize managers who adhere to a distinctive strategy, and who consistently put the shareholders' interests first." These are some of the criteria we use. Nearly 20% of client assets are invested with these managers.

Identity Theft Spotted Through Review of Credit Report

by Debbie Bausch
Assistant Planner



Clients were shocked recently to discover that their identity had been stolen. While conducting a routine review of their credit reports, they learned that an unknown credit card had been opened through an out-of-state bank. Further inquiries confirmed that the bank had tied both the husband's name and social security number to this account. Worse, the cardholder had reached his five-figure credit limit and defaulted on the card—all in less than nine months.

Unlike many instances of identity theft, it appears this cardholder, who coincidently bears the same name as our client, may never have realized the card was being reported on someone else's credit report. Instead, it may have been the bank that erroneously connected the account to our client's identity. Despite this, they have spent months attempting to remove this error and others from the husband's credit report, and ultimately sought legal counsel.

More companies are selling "identity theft protection plans" and while we don't necessarily recommend you enroll in one of these, we do recommend you check your credit report annually so you are aware of any strange activity.

To get a free credit report you may call one of the three credit bureaus and request one or you can go on-line through a link on our website www.claytonfsi.com to get one. It would be worthwhile to check even if you don't anticipate applying for credit in the near future. Otherwise your estate may end up paying someone else's debt.

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