CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q1, 2012

SAVE THE DATE!

Economic and Investment Seminar

The markets had a very good first quarter for 2012. Come hear what Clayton Financial thinks about the future, and the impact on your portfolio.

Presenter: Randy Clayton, CFP

Times: **May 2, 2012**
2:00 pm only
May 3, 2012
2:00 pm & 6:00 pm
May 4, 2012
2:00 pm

Place: Clayton Financial Services Office,
716 S. Kansas Ave.

Clayton Financial Services is a Corporate Member of the National Association of Personal Financial Advisors ("NAPFA"). If you'd like more information about NAPFA visit their website at napfa.org.

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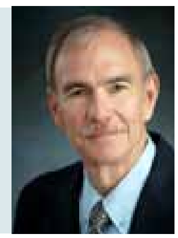
Inside this issue…

A Great First Quarter for the Stock Market

by Terry Milberger, CFA®
Director of Portfolio Management



The rally in the stock market that began last fall continued during the first three months of 2012. The S&P 500, a broad measure of the market, provided a total return of around 12% for the first quarter of this year. This represents one of the best starts for a year in quite some time. Returns on fixed income investments were modest. The Barclay's Aggregate index, which represents a cross-section of bonds, provided a total return of only about .3%.

Stocks were buoyed by a number of factors. The U.S. economy exhibited better growth across a range of sectors. Even the downtrodden housing industry showed signs of improvement. The growth in new jobs, which has been slow in this economic recovery, has started to accelerate. Export growth, in spite of near recessionary conditions in Europe, has continued at a healthy pace. Financial stress in the Eurozone still remains, but the European Central Bank has done much to address the severe liquidity crisis that developed.

What might derail the strong momentum the stock market has developed? The U.S. economy, backed by its current strength and ongoing help from low interest rates, should continue on its moderate growth path and remain a positive. A renewed spread in the Eurozone debt crisis, possibly igniting in Spain, would likely create new risk and lead to market volatility. China's economic growth is moderating due to actions by the government to control inflation. Growth is still expected to be around 7%, very healthy by most standards. Any slippage from this rate of growth could prompt concern that this growth expectation will not be met and result in slower economic growth elsewhere, as China is such an engine of world-wide growth. A further risk to the strong market trend would be an increased spike in oil prices. This is nearly impossible to predict, as it would most likely have resulted from an attack on Iran.

The market may well correct a bit and consolidate its gains simply due to seasonal considerations. There is an old Wall Street adage that you should "sell in May and go away." Since 1950, the average return from the market for the period from May 1 through October 31 has been less than 1%. This compares to the average return of over 7% for the November 1 through April 30 time period. This is also an election year. During the last 21 election years the stock market, between March 1 and Election Day, has suffered a median maximum correction of around 9%.

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A Great First Quarter... *continued from page 1*

So, it would not be surprising for the stock market to experience some turbulence over the next several months, particularly given the gains that have occurred. We continue to embrace a balanced investment strategy that does have some emphasis on more growth-oriented investments. Due to the uncertainties that have abounded, we have maintained some level of cash reserves. We would expect to invest these reserves on a pullback in the market if our expectations for continued moderate U.S. economic growth and gradual improvement in the Eurozone area are met.

The Cost of Dying

A couple months ago, my younger brother died at the age of 54. It was not totally unexpected because he had a long list of health and lifestyle issues that would shorten even Superman's life. Still, I figured he'd at least make it to age 60. As the only sibling within a 600-mile radius, a portion of the funeral arrangements fell on yours truly. In addition to the arrangements, there was the cost of cremation which was divided with my brother and sisters because my deceased brother was indigent.

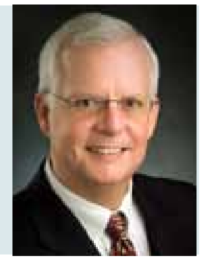
My father died in 1992. He was cremated and his ashes were put into a niche in a cremation wall at a local cemetery (near the duck pond). Cost of cremation in 1992 was approximately $750. Five years later my mother died, and her ashes were put into the same niche as my father. The cost of cremation in 1997 was approximately $1,200. Now let's fast forward to December 2011: The cremation costs for my brother were approximately $2,800. Total costs actually exceeded $2,800 because of the cost of the obituary, death certificates, and Celebration of Life party, which were all in addition to the cremation expenses. For a more apples-to-apples comparison, the same niche in the wall that I mentioned earlier has now risen to $1,900. Over the last 20 years, these expenses have risen faster than inflation for many reasons. However, that is not the issue I intend to discuss here.

Today, I want to tackle a question I often hear from clients: "Should I pre-pay for funeral arrangements to lock in the expense and prevent future cost increases?"

Before I write about pre-payment plans I do want to strongly recommend that if you are over age 50, and you care about what happens at your funeral, you should pre-arrange (please note that pre-paying and pre-arranging are two separate and different items). You can do this informally by keeping a file folder containing your instructions in your desk at home, or more formally with a completed questionnaire provided by your local funeral director. Your spouse and/or your family will benefit greatly from you writing down what music you'd like, where you'd like to be buried or cremated, and what your obituary should say. Other things you could list would be your favorite flowers, pallbearers, limo arrangements, etc. As you can imagine, it is very difficult for survivors to read your mind, and very stressful for them to guess, "What would (fill in the name) have wanted?"

Randy Clayton
Founder and Principal of
Clayton Financial Services, Inc.

Originally posted on the ClaytonFSIblog.com

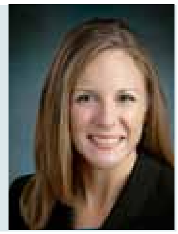


Prepayment is a little more complex. If you have lived in the same town, had the same spouse for the last 30 years, definitely know where you want to be buried (or your cremated remains placed), and are at least 70 years old, then I would recommend you strongly consider pre-arranging and pre-paying. Pre-paying can be a difficult decision because life expectancy is getting longer, residency is fluid, re-marriage common, acceptance of cremation greater and funeral home ownership changes plentiful. These are all factors that create too many variables and scenarios to adequately quantify. While good rules of thumb are hard to come by, if you meet my 30 years of stability and 70 years of age rule, then pre-payment often makes good sense. In addition, if you believe there is a chance that you may end up insolvent in a nursing home, it would likely be best for you to pre-pay. Also, if you have the cash and don't plan to be alive in the next three years then go ahead and pre-pay. For everyone else that falls outside of my parameters listed, it would be my recommendation for you to have a sinking fund (assets or life insurance proceeds) to cover the costs, versus signing a long-term contract with a funeral home.

Obviously, you don't want to burden your children or other family members with decisions and bills. Make it a priority to take care of the business of dying. Everyone, including your financial advisor, will be glad you did.

Resolutions: 1st Quarter in Review

Elizabeth Young
Associate Financial Planner



It's April! I feel like I need to pinch myself to see if I'm dreaming because I cannot believe the first quarter of 2012 has already come and gone! So, how are everyone's New Year's Resolutions coming along? You may recall (as reported in the newsletter last quarter) that I had resolved to increase savings this year. As promised, I'm reporting back with the results of my first steps toward achieving my goal!

The autopsy of my spending habits wasn't pretty but it was terribly overdue and needed to be addressed. I must say that I did not find much that I was truly surprised by. In going through the previous 60 days of bank statements and sorting everything, my issues happened to be in the categories of food and clothing. Both of these areas admittedly needed to be reigned in after a hectic season of eating out rather than cooking in, and beefing up the family's wardrobe for all of the holiday events.

My main goal here is to simply make responsible decisions when faced with whether or not I need something. Key word here: Need.

While the holiday season is a particularly difficult one when it comes to spending, I know these problem areas are a recurring issue for me personally. For others, the problems may be in other categories such as entertainment or expenses associated with a hobby of choice. I love to shop. Not only do I like to shop for myself, I love to shop for the children and even for my husband. In my defense, my husband and children would not be appropriately clothed if it weren't for me, but I do find enjoyment in shopping for everyone.

As for the food, we are a family that loves to cook. It's our thing. So, eating out is not typically much of an issue (except perhaps during the holidays). The larger on-going issue when it comes to budgeting for food with our family is in planning, or lack thereof. Since I love to cook, I tend to look for a recipe for dinner and make the decision that it's something I want to make that day. This then leads to me running by the grocery store to pick up any needed items before or after work. And let's be honest, when you run into Wal-Mart to grab a couple of necessary items, how often is it that you end up at the checkout with only those items on your list? Talk about a budget buster!

So, what am I going to do in order to get these problem areas under control? First is my little shopping issue. Did I mention that I love shoes and purses as well? My main goal here is to simply make responsible decisions when faced with whether or not I need something. Key word here: Need. I have set a dollar amount that I believe is appropriate for spending on clothing. This is really more of an annual amount since the larger clothing expenses tend to come with the changes in the seasons rather than equally each month.

As for the food, I am hoping to begin planning a menu for a couple weeks at a time and creating a corresponding grocery shopping list in order to keep my food budget in check. Being able to make one large grocery shopping trip every couple of weeks and attempting not to step foot in a grocery store during that two weeks will hopefully keep me from spending more. By doing this, I can still try out fun new recipes but I'll need to plan them ahead of time rather than searching for something to make a couple hours before

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ADV Part 2A Brochure

As SEC-Registered Investment Advisors we are required to annually deliver to each client, without charge, either a current Brochure (ADV Part 2A) that includes a Summary of Material Changes, or the Summary of Material Changes to the Brochure (i.e., Item 2) that includes an offer to provide our current Brochure without charge. Following is our delivery of the 2012 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

CFSI's most current ADV Part 2 before this one was dated September 23, 2011.

This ADV Part 2 dated March 20, 2012, represents the required routine annual update. There have been no material changes since our last filing.

From time to time, CFSI may amend this Firm Brochure to reflect changes in business practices, changes in regulations, and routine annual updates as required by the securities regulators. This complete Firm Brochure or a summary of Material Changes shall be provided to each client annually or if a material change is made.

A copy of the complete Firm Brochure may be requested, at any time, by contacting CFSI at messages@claytonfsi.com, calling us at (785) 232-3266 or sending a request to Clayton Financial Services, Inc, 716 South Kansas Avenue, Topeka, KS 66603-3808.

PRIVACY NOTICE

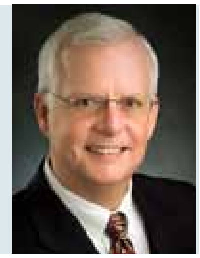
Clayton Financial Services, Inc. is required to provide its Privacy Notice to all clients at least annually. This notice provides you, as a client, the policies and procedures we have adopted regarding the use and protection of your confidential information. Maintaining the trust and confidence of our clients is a high priority. Our 2012 Privacy Policy Notice is enclosed with this newsletter. Please read it carefully. The current Privacy Policy is always available on our website or may be requested by contacting CFSI at messages@claytonfsi.com, calling us at (785) 232-3266 or sending a request to Clayton Financial Services, Inc, 716 South Kansas Avenue, Topeka, KS 66603-3808.

Why Do We Want a Copy of Your Tax Return?

Every year we ask our clients to bring in or send us (via email, fax or carrier pigeon) a copy of their most recent tax return. I thought I would take this opportunity to give you some insight as to why we ask for this very important document. The simple answer is that many of the investment decisions and/or financial planning recommendations we make are directly tied to taxes. Let me give you some common examples:

- If we sell an investment, what impact will potential capital gains or losses have?
- Does the client have any loss carry-forwards we can consider?
- Instead of selling an investment, is there an opportunity to donate it to a charity?
- Are 529 plan contributions (education savings) being properly deducted?
- Were adjustments for KPERS and/or long-term care insurance premiums made?
- Would it be appropriate to consider a Roth conversion this year?

Randy Clayton
Founder and Principal of
Clayton Financial Services, Inc.



The list can go on and on. Sometimes even more importantly, a second set of eyes reviewing the numbers can be helpful. Every tax return goes through a checklist and you'd be surprised at the number of mistakes and oversights we catch.

This year we plan to make a more concerted effort to gather tax returns from all clients, so be prepared for the request. Many clients find it easiest to simply ask their tax preparer to send us a copy of the tax return after it's filed. We view this evaluation process as part of the comprehensive financial planning services we provide. It's somewhat unique but we believe it is an important piece of every client's overall financial picture.

Resolutions... *continued from page 3*

dinner time! I have guesstimated a dollar amount that should align closely with what I can expect to spend on groceries every two weeks along with a little extra for holiday cooking, entertaining and eating out.

Now that I've identified the problem and set up a plan for dealing with it, next up will be monitoring to make sure my solutions are having the intended impact. To help me determine whether or not my budget is realistic, I have decided to set up automatic sweeps to have funds moved from my checking account to savings each month. The savings transfers will be for the amount that I have calculated should be surplus funds left over at the end of each month, assuming I am staying within my budget. A telltale sign that an adjustment may be warranted will be how much money remains in the checking account from month to month.

As promised, I will plan to keep you in the loop during my journey. Hopefully next quarter I'll get to report a thriving savings account balance. Once I'm confident in my budget and savings amounts, my next goal will be to put my savings to work!