CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q1, 2013

SAVE THE DATE!

Economic and Investment Seminar

Plan to attend our Market Update Seminar to hear Clayton Financial Service's outlook for the future. In addition, we will be discussing reverse mortgages.

Space will be limited so let us know if you plan to attend!

Presenter: Randy Clayton, CFP®

Times: **Tue. May 7, 2013** 2:00 pm only
Wed. May 8, 2013 2:00 pm only
Thur. May 9, 2013 2:00 pm & 6:00 pm

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

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.

NAPFA
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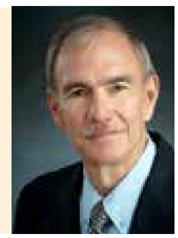
Inside this issue…

A Strong Start to the Stock Market in 2013

by Terry Milberger, CFA®
Director of Portfolio Management



Following on the heels of good returns in 2012, the stock market has chalked up strong gains to start the year off. The broad-based S & P 500 provided a total return of almost 10% for the first three months of this year. Investor psychology was buoyed by a number of factors. The U.S. economy continued on its consistent growth path. It continues to be led by the strong rebound in the housing market. Also, auto sales have developed into another pillar of strength. The Federal Reserve is maintaining its policy of low interest rates, which continues to benefit many sectors of the economy.

Returns from the fixed income sector were almost non-existent. The total return from the benchmark Barclay's U.S. Aggregate was around zero. The lack of any return from bonds is due to the historic low level of interest rates that prevail. Interest rates increased slightly in the first three months of the year. This caused the market price of a bond to decrease, which wiped out the interest earned on the bond.

There were other factors at work that influenced the financial markets. Foremost of those was the government spending cuts known as the "sequester." After much debate, Congress and the President were unable reach agreement on a plan to reduce the government budget deficit. This lack of agreement results in forced spending cuts of $85 billion in the current fiscal year that ends on September 30. The market exhibited periods of volatility as these budget debates took place. In spite of dire warnings about what may occur because of this sequestration, the government seems to be functioning near normal and investor fears have clearly lessened.

Unfortunately, other government fiscal issues may dominate the headlines for the next few months. Congress had funded the federal government only through March 27. In typical congressional fashion, at the last minute they did extend government funding for an additional six months. On May 18, the United States will hit its borrowing limit. The discussion over this issue will likely be quite spirited and create volatility in the financial markets. Lastly, Congress has not passed a budget to run the government in over four years. Three budgets have now surfaced: one each for the House, Senate, and the President. The process of negotiating a budget compromise should be quite interesting to watch.

The prospect of better economic growth outside the U.S. has increased. The Chinese economy is once again accelerating due to a

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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 2013 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

CFSI's most current ADV Part 2 before this one was dated March 20, 2012.

This ADV Part 2 dated March 15, 2013, represents the required routine annual update. There have been no material changes since our last update.

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.

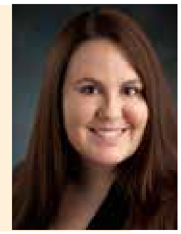
A copy of the complete Firm Brochure may be requested, at any time, by contacting CFSI at messages@claytonfsi.com or at (785) 232-3266 or sending a request to Clayton Financial Services, Inc., 716 South Kansas Avenue, Topeka, KS 66603-3808.

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 2013 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.

New Benchmarks

Alyse Jackson
Portfolio Analyst



In the past, Clayton Financial Services has used a simple benchmark when comparing and analyzing returns. It is important to us to provide impeccable service and make wise decisions to realize excellent risk-adjusted returns for our clients. To make sure we are adding value to our client portfolios, we are always comparing our performance to a benchmark. The benchmarks we currently use include a split of the Barclays US Aggregate Bond Index and the Wilshire 5000 Total Market Index. The exact split of equity versus fixed income is dependent upon the client's particular Investment Policy Statement. As we continue to strive to provide the best service possible to our clients, we have determined our benchmarks could use an update and wanted to provide some insight as to why you'll see the change on your statements.

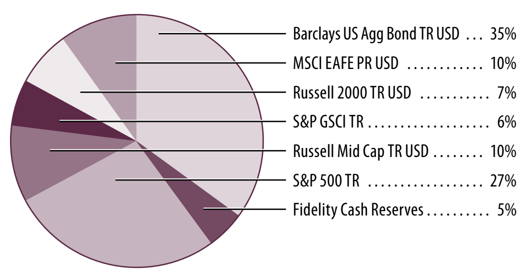
First, as we mentioned, the Barclays is the Fixed Income benchmark we currently use. It consists of government bonds (mostly treasuries), corporate bonds, securitized bonds (mostly agency mortgage-backed securities), and a small amount of municipal bonds. We feel this is a quality benchmark for a fixed income portfolio which mimics these kinds of investments. Therefore, the fixed income portion of the benchmark will remain the same.

In the past, the Wilshire 5000 has represented the equity portion of the benchmark. The Wilshire 5000 consists *only* of U.S. Stocks. The index is weighted by market capitalization of publicly traded companies in the United States. To give you an idea, the largest holdings are Apple, Exxon Mobil, General Electric, and IBM. The United States represents approximately one- third of global market capitalization, so excluding international stocks from our benchmark by using the Wilshire 5000 does not portray an accurate depiction of our investment style and neglects the broader scope of the global economy. For this reason, we have chosen not to use the Wilshire 5000 going forward.

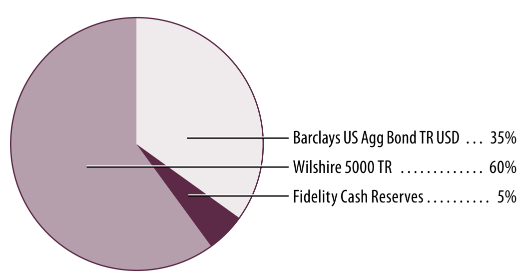
Current client portfolios consist of domestic large, mid, and small cap equities. To represent a more appropriately balanced benchmark, we have chosen to use the S&P 500 Total Return, Russell Mid Cap Total Return, and Russell 2000 Total Return, respectively. The weighting of each of these will depend on the risk tolerance of the client. To account for the international portion of the portfolio, the MSCI EAFE (Morgan Stanley Capital International Europe, Australasia, and Far East) has been chosen. Finally, the S&P GSCI (Goldman Sachs Commodity Index) has been included to incorporate the portion allocated to commodities in the portfolio.

Below, you will see the current Growth and Income benchmark, and the enhanced Growth and Income benchmark. We truly feel this is a more fair and accurate representation of our current portfolios. If you ever have a question about your portfolio allocation or your corresponding benchmark, please let us know.

ENHANCED GROWTH AND INCOME BENCHMARK

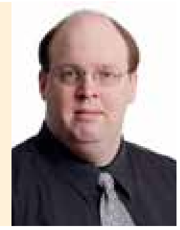


CURRENT GROWTH AND INCOME BENCHMARK



Yield is Where You Find It

J.D. Kaad
Portfolio Analyst



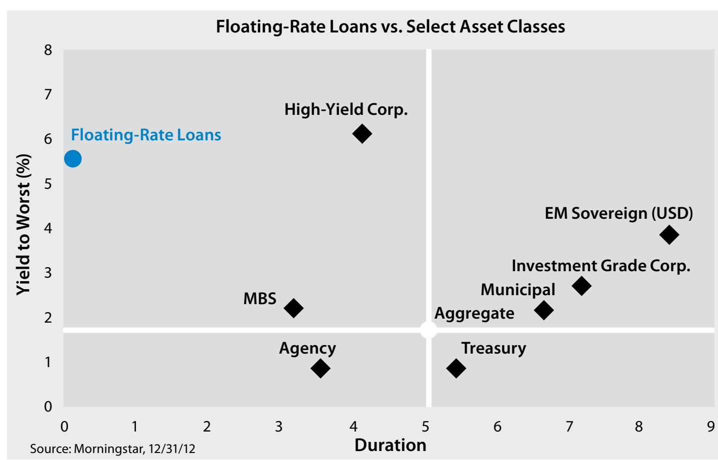
Good news abounds for the U.S. economic picture. Jobless claims are shrinking, non-farm payrolls are increasing, and the real estate markets are picking up. Unfortunately news that makes one person smile will give another person reason for concern. In this case, with the apparent growth of the US economy, more pressure will be placed upon the Federal Open Market Committee (FOMC) to stop injecting liquidity into the fixed income markets and allow short-term interest rates to increase. This increase in interest rates will reduce the relative return of existing bonds, thereby reducing the bonds market value. If the U.S.'s economic growth can be sustained it may lead to an extended period of rising interest rates and an end to nearly a decade of superior bond returns.

There are tools an investor can use to combat "Interest Rate Risk," first and foremost being diversification. While the increase in interest rates is damaging to the bond markets, this event will likely trigger an exodus by mutual fund investors from bond funds to equity funds. This shift in "fund flows" has a strong possibility to trigger a rally across the equity markets. So having assets diversified between bonds and equities, as most Clayton Financial clients already have, will do a great deal to provide protection from the effects of rising interest rates.

Another step Clayton Financial is employing to combat interest rate risk, is the addition of the Floating Rate Bank Loan asset class to our fixed income portfolio. A Floating Rate Loan is debt issued by below investment grade borrowers for the purposes of recapitalizations, acquisitions and refinancing. While issued by below investment grade borrowers, Floating Rate Loans are not considered to be as risky as High Yield bonds, because the loans are senior within the borrower's capital structure and also the loans are secured by specific collateral. Another useful aspect of a Floating Rate Loan is that the coupon rate the borrower must pay is set to a fixed spread over a variable base rate (generally LIBOR); this base rate is reset for the borrower every 40-60 days. This coupon reset feature of Floating Rate Bond translates to an increasing coupon payment as interest rates increase, and a vastly reduced exposure to interest rate risk (this metric is called Duration).

The chart at right displays the Yield to Worst (expected rate of return factoring in the possibility of early repayment) as compared to Duration. With this you can see that Floating Rate Loans have higher expected returns than almost any other form of fixed-income investment, while at the same time enjoying a duration that is barely above zero. It was for this reason Clayton Financial Service's Investment Team has began to add this asset class to most of our client's portfolios in the form of the Eaton Vance Floating-Rate Advantage Fund.

The actions Clayton Financial Services has taken to date concerning interest rate risk represent just the beginning for our strategy. As the likelihood of increasing interest rates becomes more pressing, we will be employing further tactics to protect your money from further "Good" news.



(Courtesy of Eaton Vance)

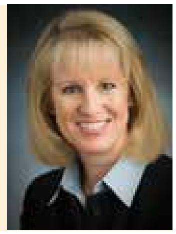
A Strong Start... *continued from page 1*

new stimulus program. Leading indicators of economic growth have improved in many other foreign countries. Notwithstanding the better economic environment that has developed, there surely will be speed bumps along the way. The most recent is Cyprus, which is suffering from concerns about the liquidity in its banking system. The European Central Bank has stepped in to provide assistance, which should increase confidence in the financial system.

We continue to be diligent in monitoring the factors we feel will impact the financial markets. We feel that our current asset allocations reflect the opportunities we see as well as the risks that could potentially develop.

Estate Taxes: After the Fiscal Cliff

Luanne Underwood
Associate Financial Planner



After several years of uncertainty, the estate tax rules now have some clarity. The fiscal cliff deal reached at the eleventh hour, known as the American Taxpayer Relief Act, made tax rules permanent, which had been in place temporarily for the last two years. The estate tax exclusion established for passing assets now becomes $5 million and adjusts for inflation each year. The 2013 amount is $5.25 million per person. This is known as the **basic exclusion amount**. Without the new law the exclusion was set to revert to $1 million. The new top federal tax rate on estates over the limit is 40% (up from 35%).

People often ask about gifting in order to reduce their estate and avoid estate taxes. The **annual** gifting limit that can be made tax-free for 2013 is $14,000 per person, per individual. This means one person may give $14,000 to each individual. The recipient of a gift is not responsible for any taxes. What if you want to gift more? This is still possible without incurring taxes, however there are certain rules.

A tax law change raises the amount you can give away tax-free under what is called the **unified credit**. The unified credit means you may give away assets during your lifetime (gift) or at death (estate) or in any combination that total the basic exclusion amount ($5.25 million per person). The gift amounts included here are any dollars **above** the annual gifting limit ($14,000). The IRS expects you to keep track of the gifts over the annual amount by filing Form 709 with your tax return, even though they are not taxable, and these reduce your estate exclusion.

A spouse may inherit an unlimited amount of assets and postpone taxes until the second spouse dies. The **portability** tax law states any unused exclusion of the spouse who dies can be added to their own exclusion (totaling up to $10.5 million). However, it is important to note this is not automatic. An estate tax return must be filed when the first spouse dies within nine months after death. If this is not done the portability is lost. Individual Trusts may be used as a strategy for separating assets for the purpose of retaining exclusion amounts as well.

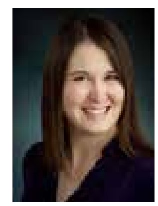
While there is some clarity, it becomes evident the laws can still be complicated. State laws and the exclusion limits may vary from federal limits. It is good to have your estate documents such as a Will or Trust in place, and a review is recommended about every five years—or more often if there is a change in the law, your finances, or personal circumstances. The assistance of your Financial Planner and a qualified Estate Attorney can be a valuable resource for answering your questions.

Social Security: Paper Checks No More

Elizabeth Young
Sr. Financial Planner

It has been nearly 2 years since the U.S. Treasury Department announced it would begin moving recipients of Social Security benefits to direct deposit rather than paper checks. At that time, nearly 11 million checks a month went out to recipients. That number has been reduced to 5 million, according to the director of the Treasury's "Go Direct" campaign. Eliminating paper checks is expected to save more than $1 billion over 10 years. The Treasury Department had a March 1st deadline to have everyone signed up for direct deposit online at www.godirect.org. Some waivers are being granted for certain people. Automatic waivers are granted to people born on or before May 1, 1921, and people living in a remote area that does not support electronic payments may ask for a waiver. If you or a loved one happen to be one of those remaining 5 million receiving the good old paper check for your Social Security or other federal benefits, please pay the website a visit or contact the U.S. Treasury Electronic Payment Solution Center at (800) 333-1795.

Email blasts – Fact or Fiction?



Barbara Heller
Sr. Financial Planner

It probably seems you are always getting emails from friends and family forwarding information on the latest credit card fraud scheme, identity theft, or political candidate. It can be difficult to know which of these are legitimate concerns and which are merely urban legends which can spread through the internet and emails like wildfire. A good way to verify the validity of an email or Facebook claim is to use www.snopes.com. This website was started by two professional researchers and writers. They dedicate their time to researching these 'urban legends' and uncovering the truth. The scope of their research covers many areas (fraud & scams, food, politics, history, etc.) and is a useful tool when you receive information and want to verify its validity. Some of the information you receive is true, but many of the stories that get forwarded around are not based on fact. The truth is, anyone can start an email blast and forward it on. Checking a story on this website will help you determine its legitimacy before YOU forward it on to your family and friends. It would be nice to reduce some of the junk that is circulating, and instead focus on the stories that are based in fact.