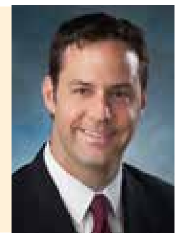
CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q1, 2014

The Return of Market Volatility

by James Walden, CFA®
Director of Portfolio Management



The first quarter of 2014 marked the return that we expected of market volatility after a relatively tranquil environment during the last quarter of 2013. The catalysts this time around included twin "Cold Wars" of sorts.

The first "Cold War" is a throwback to the 1980s. It stems from heightened tensions between the United States and Russia over the turmoil in Ukraine and Russia's recent maneuver to annex Ukraine's Crimea Peninsula. While the situation remains fluid, our base-case assumption is that it ultimately abates without any meaningful escalation; the U.S. administration has no desire to enter another global conflict, and penalizing economic sanctions placed on Russia by the international community have the potential to seriously impact Russia's economy, which of course Russia wants to avoid.

The second "Cold War" was waged by Mother Nature. Certain data and indicators related specifically to the U.S. economy softened earlier this year. While it seems every year at this time CEOs and market pundits are quick to play the "weather card" any time there is a hiccup, we think this time there is strong merit in the explanation. What certainly felt like a harsh winter to us was experienced across most of the country. (You know it's bad when weather experts start throwing around the term "polar vortex.") In fact, data we've analyzed confirms that not only was it exceptionally cold across the country, but snowfall for January and February was well above its 20-year average, which in turned generated a spike in the number of workers who couldn't make it into their jobs. Further, the cold weather hindered what consumers could pay for discretionary items, as more money was spent on higher heating bills.

All of this has had a great short-term influence on the markets. The uncertainty caused bond prices to rise, and, importantly, the action within domestic equities has also been noteworthy. For example, the Dow Jones Industrial Average fell 0.2% in total during the quarter. In contrast, the Dow Jones Utilities Average--a typically defensive group but one that has benefited from the recent weather--was up 9.5% in total. Such absolute returns from Utilities and the related divergence in relative performance are uncommon. Meanwhile Biotechnology stocks experienced a tremendous run-up only to give up most of the gains in short order, illustrating the volatility *within* groups.

Volatility, in all of its different forms, will likely remain higher in general than what we experienced in 2013, and there will be the accompanying short-term noise and stock-market wiggles. Overall, though, we think these specific catalysts are largely transitory and as a result, the U.S. economy will see improved growth ahead.

continued on page 2…

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NAPFA
THE POWER OF TRUST

Inside this issue…

SAVE THE DATE!

Economic and Investment Seminar

Plan to attend our Market Update Seminar to hear Clayton Financial Service's outlook for the future.

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

Presenter: Randy Clayton, CFP®
James Walden, CFA

Times: **Wed. Apr. 30, 2014**
2:00 pm only
Thur. May 1, 2014
2:00 pm & 6:00 pm

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

The Return of Market Volatility... *continued from page 1*

Our portfolios are positioned well for the continued economic growth we anticipate. Interest rates may not move in a straight line, but with an improving economy, we expect rates will have upside bias. Therefore, we continue to have a modest tilt toward equities over fixed income, since bond prices bonds fall when rates rise. We also continue to watch diligently for the next market correction. Our thinking at this time is that when it arrives, it will be relatively short and shallow. Of course, we will be monitoring our indicators and looking for signals that would indicate otherwise.

Withholding and Estimated Taxes

Elizabeth Young, CFP®
Senior Financial Planner

Let us all take a collective sigh of relief as we file away our 2013 tax returns; cheers to having another year on the books. With that said, if you experienced a large tax liability and maybe even a penalty for the underpayment of taxes in 2013, you may want to keep that tax return handy a bit longer; some tax planning for 2014 may need to be done. Here's some information from the IRS regarding the necessary evil of having enough taxes withheld during the year:

The United States income tax is a pay-as-you-go tax, which means that tax must be paid as you earn or receive your income during the year. You can do this either through withholding or by making estimated tax payments. If you do not pay your tax through withholding, or do not pay enough tax that way, you might also have to pay estimated taxes. If you did not pay enough tax throughout the year, either through withholding or by making estimated tax payments, you may have to pay a penalty for underpayment of estimated tax. Generally, most taxpayers will avoid this penalty if they owe less than $1,000 in tax after subtracting their withholdings and credits, or if they paid at least 90% of the tax for the current year, or 100% of the tax shown on the return for the prior year, whichever is smaller. There are special rules for farmers and fishermen, certain household employers and certain higher income taxpayers.

Generally, estimated tax payments should be made in four equal amounts to avoid a penalty. However, if your income is received unevenly during the year, you may be able to avoid or lower the penalty by annualizing your income and making unequal payments. Use Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, to see if you owe a penalty for underpaying your estimated tax.

The bottom line is if you didn't have enough taxes withheld last year, and especially if you owed a penalty, some adjustments may need to be made to ensure paying a penalty isn't something you incur in 2014. For an employed individual, increasing tax withholding from your paycheck might be in order. For those that are retired, increasing withholding on retirement account withdrawals, Social Security payments and/or pension benefits might be the way to go. Finally, if automatic withholding doesn't do the trick, quarterly estimated payments will be required.

As always, our financial planning team is happy to assist our clients with tax planning to help ensure IRS penalties aren't an issue at tax time. Let us know if the results of your 2013 tax return could use a review to make sure you're satisfying the IRS pay-as-you-go requirements.

Emily Shallock Joins Firm

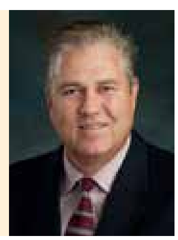
Emily Schallock

We feel very fortunate that, because Athene—which had acquired Aviva in the fall of 2013—announced in January 2014 that it would close its downtown office and move its operations to Iowa, Emily Schallock started looking for a new position. She had worked for Aviva for thirteen years as a Senior Compliance Analyst, Internal Auditor and New Business Specialist. We had an opening for a Client Services Administrator. While not an exact match in job descriptions we felt Emily was exactly the person we wanted on our team and were pleased when we found she thought the same thing. Emily works closely with the Financial Planners establishing and maintaining client investment accounts, handling asset transfers and monitoring all cash flow transactions. She also runs operational and investment reports.

Emily has a Bachelor of Science degree in Computer Information Systems from Friends University. She has two sons and a daughter and when she has some free time she enjoys reading, gardening and traveling.

The Head Coach of Your Investment Account

Jeff Dishman
Business Development Manager



Over the past year, a few of our newer clients have made comments such as, "My old broker called all the time", or "My previous financial advisor called me constantly about my account." Generally, our response goes something like this; "Yes, they operate under a different business model."

Let me explain. All managed accounts at CFSI are handled on a discretionary basis. We have full trading authorization on your account(s) within your prescribed investment policy statement (IPS). This is one of the key reasons you hired CFSI. We take the investment decisions and worry away from you. And, unlike many brokerage and financial advisor agencies, we are a fee-only advisory. Because of that, our clients are assured that our investment decisions and advice are not an attempt to "sell product," or "drive a commission."

To use a sports analogy, Bill Snyder was hired to oversee and make decisions regarding the KSU football program. Snyder has a set of rules and guidelines he must follow, handed down to him by the athletic director, the Big 12 Conference and the NCAA, very similar to your IPS. But, I think it is safe to say that Snyder will not be contacting any of those folks regarding personnel or play calling on game days. Bill Snyder has full discretion over the KSU football program.

Think of CFSI as the head coach of your investment portfolio. And like any head coach, we continually strive for success and positive results.

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 2014 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

CFSI's most current ADV Part 2 before this one was dated June 4, 2013.

This ADV Part 2 dated March 1, 2014, 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 2014 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.

The Debt Diet

Facebook trends and other “one-size fits all” advice…

As a casual Facebook fan, I usually see what my friends are up to and what’s going on in the community. The other day, a post from a friend caught my eye:

“Debt Diet Update: 1.5 years ago we cut all clothes/shoe shopping, our gym memberships, cut grocery bill in half, have no iPhones, chose to purchase two used cars with no car payment, have not had a fancy dinner or vacation, and we have made significant progress on paying back student loans. In fact, I’m happy to announce from our $135,000 loans, we have paid $100K over the past 12 years… I have to admit…I miss the mall…. A LOT…but this feels so much better!!”

You can’t help but be excited for my high school classmate; you can tell she is very proud of her family’s sacrifices and accomplishments. She should be! She received over 25 positive comments and congratulations, as well as 87 likes. People are taking notice that debt management and a “debt diet” are important aspects to getting one’s financial house in order.

When I scrolled down to read the comments and encouraging words from some of her 824 friends, I noticed a second post from my debt-dieting classmate, but this one made me nervous. In their strict budgeting, they haven’t participated in retirement funding *at all*. As a financial planner, this set off a few alarms for me.

The elements to building a retirement fund are not only good returns, but even more importantly the effects of compounding over time. To have money compound overtime, you must have a steady contribution stream.

Just as important as retirement planning and debt management, it is also important that people understand that getting one’s financial house in order isn’t the same for everyone. Sure there are a few “rules of thumb,” but there are no hard and fast rules that fit every situation.

Recently, my 12-year-old stepson announced that no matter what, he would never take out a student loan because “all student loans are bad.” Luckily my husband, who is very aware of my feelings regarding ”one-size fits all” financial rules, took the lead. He encouraged his son to never think in terms of absolutes. Never take one side of a story without considering other alternatives and opinions. He encouraged his son to make his own choices as to what would be the best course of action while evaluating the present as well as the future consequences. It could be that a student loan is what gets our young guy into the school of his choice versus a school he feels isn’t the best fit, but more affordable.

Kathleen Heit, CFP®
Associate Financial Planner

I’m very pleased that my debt-dieting classmate and my stepson are actively thinking about and working toward their financial goals. I do worry about the absolutes that they are learning. As Financial Planners at Clayton, we can be the first to tell you that not all situations are the same and our advice will never be the same for every client. As those of you who have received a retirement plan or other financial analysis from us, you know that we are very detail oriented and our recommendations are very specific to your situation. For those of you who have not had a financial plan, we will be more than happy to develop a plan with you and just for you.

Back to my stepson, rarely able to keep my two cents to myself, I invited my stepson to start contributing to the 529 plan we have for him. That was only followed by, “can I have some dessert, please?”

There is always room for dessert. That is a hard & fast rule I am happy to comply with!