CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q1, 2015

Volatility

Happy anniversary!

by James Walden, CFA®
Director of Portfolio Management

The first quarter of 2015 marked the six-year anniversary of the March 2009 low in the U.S. stock market during the Great Recession. Financial markets seemed to celebrate the event (albeit purely coincidentally) with gains across a number of important asset classes. The total returns for U.S. stocks and U.S. bonds (as measured by Barclays Aggregate Bond Index) were both positive in the quarter. International stocks joined the party, too, due in large part to early indications that the Eurozone will avoid its *third* recession in the past decade and the monetary union's central banker *finally* taking a page from our Fed with its own version of quantitative easing.

But just as the impressive recovery in the markets since March 2009 hasn't been without fits and starts, the positive investment results last quarter weren't linear. For example, while the S&P 500 returned a total of 0.95% in the three months, it was down in January, up in February, and down again in March. In a word, markets have been "volatile" for a number of reasons. And we think a couple of conditions are in place for potentially more volatility in the months and quarters ahead.

Volatility isn't necessarily a bad thing.

The first source of potential volatility comes from the words and actions of our Federal Reserve. After keeping its benchmark interest rate at 0% for years to help with the economic recovery, the Fed has taken concrete steps for its first rate increase, which could come as early as June. The debate rages on about *when* exactly the Fed will actually act (June? September? Next year?), but as frenetic, short-term traders on Wall Street react to every statement or piece of data economic data that comes along, the markets will move.

The other potential source comes from reactions to possible increases in the volatility of oil prices. Last quarter, we wrote about the decline in the price of oil, which remains down about 50% from the highs in June 2014. But with U.S. oil supplies around their highest level in some 80 years, producers continue to pump in excess. (U.S. producers have acted to reduce supply, but their response usually takes some time to go into effect.) The upshot is that the U.S. could run out of room to store oil in the next few months, and oil that would normally have

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NAPFA
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Inside this issue…

Baby Announcement

Jim Walden, Director of Portfolio Management, is happy to announce the birth of his twins, a boy and a girl. Avett Michael weighed 6 lbs 12 oz, and sister Eleanor Alice weighed 7 lbs 8 oz. Mother and babies are doing well.

Volatility... *continued from page 1*

been stored until sold at higher prices could enter the market and pressure prices further.

Volatility isn't necessarily a bad thing. It can actually be a good thing if created by "noise" without damaging long-term impact to the economy and results in attractive investment opportunities for those with the appropriate time horizons.

We don't expect that the first Fed rate hike, by itself, will send equity markets into a serious downturn. While it may create some short-term noise along the way, data provided by Fidelity Investments has shown that, since 1950, the stock market has been up mid-single digits, on average, three months after the first rate increase of a tightening cycle. Twelve months after the first hike, stocks have averaged double-digit returns.

And while another leg down in oil prices could result in short-term market volatility, much as it did in the latter part of 2014, we maintain that a decline in oil prices is actually a positive for the overall U.S. economy. Most bear markets in U.S. equities are associated with recessions, so we continue to monitor this relationship closely.

For now, we remain positive on stocks and think that interest rates will rise some during the year. Of course, much more goes into our overall analysis than our thoughts on the Fed and oil prices and will adjust our thinking as necessary.

Clayton Financial Welcomes Paraplanner Jacqueline Munoz

Jacqueline Munoz joined Clayton Financial in January as a Registered Financial Paraplanner. We feel very fortunate to have found Jacquie who is a Registered Paraplanner with over 20 years of professional experience, and we have enjoyed integrating her into the firm. Jacquie provides support to our planners by handling administrative tasks including data entry, research, and preparation of reports among other responsibilities.

Jacquie has a Bachelor of Business Administration degree from Washburn University and was accredited as a Registered Paraplannner through the College for Financial Planning. She and her husband Dave are lifelong Topekans and have a son Aaron Joseph (AJ).

Roxane Stueve Joins Clayton Financial

We're pleased to introduce Roxane Stueve as our new office administrator. Roxane joined us in January and provides administrative, operational and hospitality services and support to clients and staff.

Roxane was a marketing coordinator for a firm in Kansas City but welcomed the chance to return to Topeka to be closer to her family. She has a Bachelor of Arts in Communications from the University of Kansas and a Bachelor of Education in Elementary Education from Washburn University.

When she has free time she enjoys spending it with her family and friends.

Protecting Yourself from Identity Theft

Over 10 million people are victimized by identity theft each year, from hackers stealing credit card numbers to individuals opening up credit card or bank accounts in your name, which they can use to write bad checks or make expensive purchases. Criminal identity thieves may also take out a loan in your name for a car or even a house, and some have managed to receive Social Security benefits or tax refunds that rightfully belong to others.

In some cases, when arrested for some other crime, hackers have helpfully provided a victim's name to the arresting officers, showing the police a falsified driver's license with that person's number and their picture. They post bail and skip town. When their victim doesn't show up for a court date he was never informed of, he could be arrested.

According to the National Crime Prevention Council, the biggest threats are coming from places that might surprise you. A study by Javelin Strategy and Research found that most identity thefts were taking place offline, where someone managed to steal your credit cards, or found social security information or credit card information in a dumpster, of filed bogus change of address forms to divert a victim's mail to their address, where they can gather personal and financial data at their leisure. Even more surprising, 43% of all identity thefts were committed by someone the victim knows.

Here are a few common sense steps you can take to protect yourself:

- Never give out your Social Security number, and don't carry your Social Security card, birth certificate or passport around with you.
- Copy your credit cards and your driver's license, and put the information in a safe place to ensure you have the numbers if you need to report a lost or stolen card.
- When you use a credit card to buy something in a retail store, take the extra copy of the receipt with you and shred it.
- Create complicated passwords for your online bank and investment accounts, and don't write them down on a hard copy paper. Try not to use the same password for every website you access.
- Don't let anyone look over your shoulder when you're using an ATM machine.
- Be skeptical of websites that offer prizes or giveaways.
- Tell your children never to give out their address, telephone number, passwords, school name or any other personal information.
- Make sure you have a virus and spyware protection program on your computer and keep it updated.
- Check your account balances regularly to make sure no unexplained transactions have occurred.
- Shred documents that contain account or other sensitive information.
- Regularly review your credit report from the three credit bureaus. Consumers may receive a free copy of each report annually.

These simple precautions will keep you safe from many of the criminal efforts to hack into your life. Additional help is available from credit monitoring companies, and some insurance companies offer credit monitoring to their members at no- or reduced-cost.

In the near future, as more transactions take place using thumbprints or other biometric security data, we may look back on this period as the Wild West of data security, a strange unsettling time when people had to worry about their lives being hacked by strangers. Your goal is to arrive safely, unhacked, at that more secure period in our cultural evolution.

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 2015 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

CFSI's most current ADV Part 2 before this one was dated March 1, 2014. This ADV Part 2 dated March 1, 2015, represents the required routine annual update. There have been no material changes since our last update. We have changed the names only of the model portfolios, but the underlying portfolios remain the same. The category Capital Preservation was eliminated.

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 2015 Privacy Policy Notice is enclosed with this newsletter. Please read it carefully. The current Privacy Policy is always available via our website or may be requested by contacting CFSI at messages@claytonfsilcom, calling us at (785) 232-3266 or sending a request to Clayton Financial Services, Inc., 716 South Kansas Avenue, Topeka, KS 66603-3808.

Return on College

What are those diplomas really worth?

Let's say you're giving your niece or grandson some advice on which major to select in college. Do you tell them to get an art degree, or take courses in social sciences? Or should they focus on business and finance?

The decision should not ignore their natural abilities and interests, of course. But if they're looking for the best return on their tuition dollar, then they night consider spending their time in the computer sciences and math buildings.

This information comes from a report published by PayScale.com, which helps people manage their careers and figure out what they're worth on the job market. PayScale's research team tracked the median salary for people who completed its salary survey online. They then compared the 20-year earnings of people following different careers with what was earned, on average, by competing workers with a high school diploma but no college degree. Then they subtracted the cost of 4 years of college tuition, to arrive at a return on investment figure-the additional money the degree provided. Advanced degrees like law and medicine were excluded; the survey focused on bachelor's degrees.

The results were striking. Business and finance majors came away with a respectable $331,345 average ROI over 20 years, but they actually finished a distant third on the list, just ahead of sales, marketing and public relations ($318,212). The highest-ranking majors, by this metric, were computer and math, whose degree holders saw a net return on their tuition investment of $584,339 over the 20 years after graduation. These nerdy individuals nosed out the architecture and engineering graduates, whose average ROI came to $561,475.

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Life, physical and social sciences majors fared somewhat less well, earning almost exactly $250,000 more than their high school diploma competition. Graduates with an arts, design, entertainment and related degree came in last in the survey; they are expected to make a little over $125,000 as a result of their college training.

Interestingly, the PayScale website also tracks the average return on tuition investment for different colleges. Graduates of Harvey Mudd College in Claremont, CA can expect to earn nearly $1 million over the 20 years after graduation, with a typical starting salary north of $75,000 with a 4-year college investment of $237,700.

You can look up your own alma mater here:http://www.payscale.com/college-roi/

SAVE THE DATE!

The Good, Bad and Ugly of the 2015 Economy

Join us May 28 as Chris Kuehl, Managing Director of Armada Corporate Intelligence, presents the most current assessment of the U.S. and global economy with a forward-looking analysis of trends to watch.

Chris is the editor and publisher of *Business Intelligence Briefs* and *Executive Intelligence Briefs*, chief economist for several national and international organizations, and Red Team economist for the US Army, US Marines, US Air Force, and US Border Patrol. Corporations and organizations worldwide draw on his expertise in forecasting and developing strategic guidance.

Presenter: Chris Kuehl, Managing Director of Armada Corporate Intelligence

Time: **May 28, 2015**
5:30–6:30 pm, Cocktails and hors-d'oeuvres

An invitation will be sent by mail with more details and registration instructions.