CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q1, 2016

In Like a Lion, Out Like a Lamb

by James Walden, CFA®
Director of Portfolio Management

"In like a lion, out like a lamb" is an old proverb often used to describe the weather in March as the season transitions from winter to spring. We think it's also a very apt description for the markets during the first quarter of 2016.

U.S. stocks suffered their worst 10-day start to a calendar year in history and generated negative returns in January and February (as measured by the S&P 500 total return). Drivers of the poor returns included the market's concerns (legitimate or not) about a number of items we've discussed before:

- Slowing U.S. GDP growth leading to a recession
- The Fed's interest-rate policy
- China's slowing economic growth and stock-market dysfunctions
- Oil prices that have fallen too far, too fast

As the quarter progressed, the market's worries began to dissipate:

- Job growth in the U.S. continued nicely, and economic growth has reaccelerated.
- The Fed indicated it expects to raise its rate more slowly than previously thought, which allayed fears it would tighten too much, too quickly.
- Recent data from China has suggested a worst-case scenario remains unlikely.
- Oil prices have increased more than 40% from their 2016 lows, although they could yet decline from this level as part of the bottoming process we expect is underway.

As fears abated and positive data rolled in, the S&P 500 finished the quarter with a 1.4% total gain. Bonds—particularly international bonds—fared even better, as central banks around the world, other than the U.S. Fed, continued to increase stimulus.

Calm has returned to the markets…for now. We suspect that we'll experience bouts of heightened volatility again this year from one or all of this cast of characters. As we look ahead, we expect potential additions to the cast from the typical uncertainty surrounding presidential elections, along with Great Britain's vote in June on whether to remain a member of the European Union.

Our overall outlook, which favors equities over bonds and anticipates heightened volatility, remains largely intact. Should our thinking change, we will make adjustments to your portfolios accordingly.

Calm has returned to the markets… for now.

SAVE THE DATE!

Quarterly Seminar

Plan to attend one of our upcoming seminars to hear **Clayton Financial Services'** economic and investment update. **Please RSVP if you plan to attend!**

Presenters:
Randy Clayton, CFP®
James Walden, CFA

Dates & Times:
Tues, May 3, 2016
Noon – Light lunch provided
5:30pm – Wine & cheese

Weds, May 4, 2016
Noon – Light lunch provided

Thurs, May 5, 2016
Noon – Light lunch provided
5:30pm – Wine & cheese

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

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Inside this issue…

The Importance of Performing an Estate Review

Kathleen Heit, CFP®
Associate Financial Planner

The importance of estate reviews has really hit home for me recently. Unfortunately, my father passed away earlier this year. Thankfully, we did an estate review last year when his health began to decline. One of the best teachers is experience, and I certainly have received an education. My experience has taught me that it is never too early to start the conversations, and by all means write it down!

Some estate planning documents specify a specific dollar amount to the beneficiary(ies). But sometimes the account value, upon death is different than anticipated. If the value differs from the desired distribution then there may need to be some adjustments. Instead, it is a good practice to assign percentages as opposed to dollar amounts. Be sure to review all beneficiaries including charitable bequests. A few of the action items that came out of the review I did with my dad were to add a Transfer on Death designation to his vehicle title and to consolidate multiple bank accounts. You may also want to add Payable on Death designations to your checking and savings accounts.

One of the best teachers is experience, and I certainly have received an education. My experience has taught me that it is never too early to start the conversations, and by all means write it down!

If your loved one is still working when they pass, there are some time-sensitive issues. Check on the medical insurance. If you are dependent on your spouse's insurance, your coverage could end as quickly as the date of their death. Don't delay getting COBRA or a new medical plan in place. In my dad's case, another time sensitive issue was his Flexible Savings Plan. In order to claim his 2015 parking reimbursement, we needed to turn the form in by January 31st. All 2015 and 2016 health reimbursements were due by the end of March 2016. Be sure to follow up promptly with any medical bills.

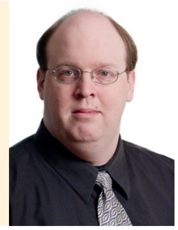
Another consideration is reward programs. Check with your reward programs about what happens if the owner passes. Can the rewards be transferred? Does it cost? A quick call to your reward program will prevent surprises.

And lastly, talk about the personal touches for the funeral service. The elements should reflect you. My dad never wanted to talk about this part of saying goodbye. I think we did a great job, but there were moments when it felt like too much to bear.

It may be an uncomfortable discussion but it can save some worry down the road. After going through a loss together, my husband and I are beginning the planning process ourselves. It is difficult to do, but we'll find a way to find some laughter in it all. Good luck & Happy Planning!

Negative Interest Rate Policy: The Kill or Cure Policy

J.D. Kaad
Portfolio Analyst



The primary task of any central bank is to help ensure that its nation's or region's economy is as stable as possible. To achieve this stability, in part, the central bank aims for mild inflation (or price *increases*) to avoid the destabilizing effects of uncontrolled deflation (or price *decreases*.) One of the principal tools for controlling inflation is short-term interest rates, which is the rate at which a bank can hold its money overnight with the central bank. Central banks use this short-term rate to encourage consumer banks to either issue more or less loans, which thereby encourages spending or saving in the economy. For example, in an effort to stimulate the U.S. economy after the Great Recession, the U.S. Federal Reserve lowered its rate to near zero at the end of 2008. The Fed increased its rate for the first time this past December on its belief that economic growth is taking hold and the risk of deflation has diminished.

This isn't the case for other economies. Despite using every conventional tool available the Bank of Japan (BoJ) and the European Central Bank (ECB) are both still struggling with deflation in their respective economies. In response, the BoJ and ECB have decided to use an unconventional tool—a negative interest-rate policy (NIRP). With NIRP, consumer banks have to pay the central banks to hold money overnight. (Typically, central banks pay interest to regular banks.) This means that any money banks keep above their requirements will reduce the consumer banks' profitability.

Use of a NIRP has raised a number of concerns. First and foremost, the decreased profit margins created by negative interest rates could discourage lending, stymying economic growth. This has been the case in EU where negative interest rates have caused banks to increase their mortgage rates to offset their losses from NIRP.

Another concern is that consumer banks would eventually have to pass along these negative rates to their savings holders. This is unlikely to happen because the banks are aware of the possible exodus of deposits that this could trigger. Therefore banks will likely keep their savings rates positive, although still near zero.

These concerns are worrisome for constituents in Europe and Japan, but should we in the United States be concerned? At present, no. We don't believe the Fed will utilize negative interest rates. The improving economic environment here will likely result in further increases to the short-term interest rates. That being said, it is possible that during some future recession the Fed might resort to negative rates. In fact, the Fed recently required banks to run hypothetical stress tests assuming negative interest rates to ensure that they would be adequately prepared.

In the end, the U.S. is not likely to require measures as extreme as NIRP due to the special circumstances that hampered economic growth for both Europe and Japan. The principal burden for the European Central Bank is that it manages the monetary policy for 19 diverse economies each with their own fiscal policies, trade environments, tax policies, and varying cultures. In the case of Japan, the BOJ has to contend with the Japanese peoples' cultural aversion to debt which has not entirely been overcome by lower interest rates. The United States' economy is not burdened with such difficulties, and should not require such unconventional economic stimulus.

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 2016 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

CFSI's most current ADV Part 2 before this one was dated March 1, 2015. This ADV Part 2 dated March 1, 2016, 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 2016 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@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.

Clayton Financial Welcomes Nate Stucky and Eric Purcell

DURING MARCH, Clayton Financial brought in a couple of new players, both assistant planners, and we're very pleased to add them to the roster. They will be assisting the senior and associate planners in numerous ways. They have experience in financial services but will be learning processes and procedures employed by Clayton Financial, and the specifics of financial planning and investment management.

Nate Stucky has spent the last four years as a Financial Advisor in Kansas City focusing on company retirement plans and personal wealth. He's originally from Newton, Kansas and holds a bachelor's degree in Economics with a minor in Business from the University of Kansas. He's currently preparing to put his Kansas City home on the market, but once he has more free time he could be found on the golf course, coaching youth sports or catching a ball game.

Eric Purcell has been at se2 the last nine years first as an Account Services Representative and then six years as a Financial Reporting Staff Accountant. Prior to accepting a position with se2, he interned with Clayton Financial. Eric graduated from Washburn University with a Bachelor of Business Administration and is working toward a Master of Business Administration from Washburn. Eric is an active soccer player and coach, enjoys snowboarding, working on his yard and playing outside with his Boston terrier Bailey. He attended Topeka schools and graduated from Washburn Rural High School.

Barbara Heller
Senior Financial Planner
Elizabeth Young
Senior Financial Planner
Kathleen Heit
Associate Financial Planner

The strength of tradition; the power of innovation.

Individualized financial planning and asset management.

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