

the Quarterly

Q1, 2017

SAVE THE DATE!

Quarterly Seminar

Plan to attend our next quarterly seminar. Jim & J.D. will be giving an economic and investment overview while Barbara Heller will be discussing identity theft and the key features Fidelity has in place to help keep your accounts secure. **Please RSVP if you plan to attend one of the seminar dates below.**

Presenters:

James Walden, CFA
J.D. Kaad, CIMA,[®]
Portfolio Analyst
Barbara Heller, CFP[®]

Dates & Times:

Tues, May 2, 2017

Noon – Light lunch provided
5:30pm – Wine & cheese

Weds, May 3, 2017

Noon – Light lunch provided

Thurs, May 4, 2017

Noon – Light lunch provided
5:30pm – Wine & cheese

Place:

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

CFSI 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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A Few Early Surprises

With Donald Trump having officially been sworn in as the 45th president of the United States, much of the news commentary during the first quarter focused on the nation's politics. Perhaps the biggest story was the new government's inability to pass a bill to replace the Affordable Care Act (i.e., "Obamacare"). At the last minute, Republican leaders in the House of Representatives abandoned the bill because they didn't have the votes for it.

To call this a surprise would be an understatement. President Trump and many Republicans in Congress campaigned, in part, on the promise to repeal and replace Obamacare. What makes the legislative defeat so surprising was that with a Republican president and Republican control of both chambers of Congress, the bill ostensibly had the numbers to pass. However, the bill failed, partially due to defections by some Republican lawmakers.

We'll leave it to others to debate the Republican healthcare bill's merits and the how's, what's and why's of its defeat. But we were pleasantly surprised with how muted the reaction was from financial markets around the globe. Markets typically dislike surprises, often selling in a "shoot first, ask questions later" manner. However, on the heels of the bill's defeat, selling pressure was minimal, contained and orderly. As of March 31st, the S&P 500 was down less than 2% from the all-time high it reached on March 1st.

This suggests to us that market participants are looking past the healthcare issue to the state of the economy and the President's future legislative agenda. On the former, we believe the economy remains on firm footing. Our take seems to be supported by the Fed's decision in March to raise its benchmark interest rate for the third time since the end of

by **James Walden, CFA[®]**
*Director of Portfolio
Management*



the Great Recession. On the latter, forthcoming policy initiatives involving tax cuts and infrastructure should have a more direct impact on the economy.

We've also been a bit surprised by the market's volatility so far this year—or its lack thereof. In fact, the quarter just completed had only two trading days where the S&P 500 moved in a daily range greater than 1%. The next-lowest total in any first quarter of the past 25 years was 11 days, and the average was 33 days. Needless to say, this current environment is unusually calm.

Volatility is neither good nor bad in and of itself. But people can forget what volatility *feels* like when it hasn't been around for a while, and we certainly expect it to return. When it does, remember it's coming off of an abnormally low level and likely to approach historical norms.

OFFICE CLOSED

TAKE NOTE!

Our office will be closed on Friday, April 14th in observance of Good Friday and Monday, May 29th for Memorial Day.

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, 2016**. This ADV Part 2 dated **March 1, 2017**, represents the required routine annual update. There have been no material changes since our last update. However, we have added information regarding IRA Rollover considerations. 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

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Is There a Place for Bitcoin in Your Portfolio?

One of the most unique innovations in currency to come about in the last decade would be the introduction of the electronic cryptocurrency Bitcoin. Unlike traditional paper currency, cryptocurrencies are fully digital medians of exchange that utilize cryptography algorithms over a computer network to ensure security. Bitcoin takes cryptocurrency security a step further by utilizing a publicly distributed ledger called a blockchain to ensure full transaction transparency and open auditing. These two features of Bitcoin's design make counterfeiting far more difficult than traditional paper currency.

While the technological aspects of the Bitcoin are impressive it doesn't address the question, does Bitcoin have a place in your investment portfolio? To answer that question, we need to look at some specific aspects of Bitcoin as an investment: Return vs. Risk, Liquidity, Fundamental valuation and Investment Security.

One cannot help but be impressed by Bitcoin's 188% average annual return over the last five years, especially if you compare it to other investment options such as the S&P 500 which returned 15.44% over the same period. Although this outstanding return in cryptocurrency is not without risk. The standard deviation (average volatility) of these returns is an alarmingly high 90.69%, whereas the S&P 500's standard deviation was only 10.27%. Although there are investors willing to accept 6 times the risk for 12 times the return.

With the unusual nature of Bitcoin you might think that its liquidity or the ability to sell your investment for cash to be difficult. Surprisingly, nothing could be farther from the truth. There are countless websites that facilitate the exchange of Bitcoins to nearly any currency, and an ever-increasing number of merchants that accept the digital currency. Perhaps the most surprising of all is the 857 Bitcoin ATM machines in North America alone that facilitate currency exchange to and from Bitcoins.

Fundamental valuation of the Bitcoin is both brief and concerning from an investor viewpoint. A Bitcoin itself has NO fundamental value. Bitcoins are a pure fiat currency with no physical assets backing their value. However, this is not unusual as most world curren-

J.D. Kaad
Portfolio Analyst



cies have gone to a fiat system. The major difference between Bitcoin and other currencies is that world currencies can act as a representation of economic strength, whereas Bitcoin's valuation is driven by supply and demand. Supply growth is firmly controlled with 12.5 new Bitcoins being issued out approximately every 10 minutes. Demand is in the hands of the buyers and sellers of Bitcoin, with no central authority to control trade.

While Bitcoin's design goes a long way to eliminate the risk of counterfeiters, the investment isn't without other security issues. There have been multiple accounts of Bitcoin theft where hackers have stolen from individual holders, vendors and even Bitcoin exchanges. Further security concern stems from the various technical glitches the system has experienced resulting in delays and devaluation.

Perhaps the most concerning matter is the use of Bitcoins for illegal activities. While the currency uses an open ledger for all transactions it is very simple to maintain transaction anonymity. This feature has led to its widespread use in illegal online transactions for narcotics, prostitution, illegal arms and worse. It is this darker aspect of Bitcoin that has drawn the attention of Federal Regulators, which could affect the digital currency's future value.

Returning to the original question as to whether or not Bitcoin deserves a place in your portfolio, I would advise against current investment into the cryptocurrency. Between the risks caused by technological issues, future regulatory changes and price volatility the investment presents too many risks to merit investment at this time.

Dissecting Medicare

As I was contemplating the topic to write about for this quarterly newsletter, I found myself struggling to come up with something educational but also enjoyable to read. After much debate, I decided Medicare would be the subject matter since I have had multiple Medicare-related questions from clients recently. Unfortunately, I may have failed on the part of making this enjoyable, but hope you will find it in your heart to forgive me and appreciate the educational material. So, without further ado, let's talk Medicare!

Let's start by going over the different parts of Medicare, which help to cover specific services:

Medicare Part A (Hospital Insurance)

Part A covers inpatient hospital stays, care in a skilled nursing facility, hospice care and some home health care.

Medicare Part B (Medical Insurance) (Medicare Part A and B are referred to as "Original Medicare")

Part B covers certain doctors' services, outpatient care, medical supplies and preventive services.

Medicare Part C (Medicare Advantage Plans)

A type of Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. If you're enrolled in a Medicare Advantage Plan, most Medicare services are covered through the plan and aren't paid for under Original Medicare. Most Medicare Advantage Plans offer prescription drug coverage.

Medicare Part D (Prescription Drug Coverage)

Part D adds prescription drug coverage to Original Medicare. These plans are offered by insurance companies and other private companies approved by Medicare. Medicare Advantage Plans may also offer prescription drug coverage that follows the same rules as Medicare Prescription Drug Plans.

Elizabeth Young, CFP®

Vice President and Senior Financial Planner



The initial enrollment period for Medicare is at age 65. This time frame runs for seven months, starting three months before the month in which you turn 65 and ending three months after that month. During this time, you will enroll in Part A even if you do not intend to enroll in Part B. As always, there are exceptions to this rule – you may consider delaying enrollment in Part A if you are still working and have employer health coverage which consists of a high-deductible plan and health savings account. The rules here are complex so we won't go there for purposes of this article. In addition to Part A, you will use the initial enrollment period to also enroll in Part B if:

- You have no other health insurance.
- You still have health benefits from a former employer but you have retired or stopped working or plan to stop shortly.
- You still have health benefits from the former employer of your spouse who has retired or stopped working or plans to do so shortly.
- You are covered by COBRA insurance that extended employer health benefits after you (or your spouse) stopped working.
- You have group health insurance from an employer with fewer than 20 workers, or your health plan (such as the TriCare program for active or retired military personnel) requires you to enroll in Part B on turning 65.
- You have individual health insurance you have purchased yourself.
- You do not qualify for Part A and have no other health insurance.
- You are living (but not working) outside the United States.

continued on page 4...

Employee Highlight: Meet Jacquie Muñoz!

Full Name: Jacqueline Rose (Cobos) Muñoz

Position: Registered ParaplannerSM

Nickname: Jacquie

Favorite food: A good cup of coffee with a side of – coffee.

Favorite vacation spot: I prefer a good *Staycation*. My backyard lends all of the peace and entertainment I could ever want or need in a vacation.

Favorite movie: *Titanic* would probably be my favorite movie, touching on many of my favorites in the movie: A determined artist, romance, elegant attire of the early 1900s, the grandeur of the *Titanic* itself, historical facts, a quest of freedom of every kind and of course the reality of the brevity of life. And then there's my other favorite, *Jurassic World*, which needs no explanation – *it's dinosaurs!*

Hidden talent: Restraining myself from splashing into puddles on a rainy day.

Words to live by: *Don't count the days. Make the days count.* – The sign in the lobby of the hotel where I stayed during my summer trip across two states, along Hwy 75 and Route 66, with my teenage son to visit a well-known burger stand.



If you fall in any of the above situations and do not sign up for Part B during your initial enrollment period, you may face a late penalty when you eventually sign up. In other situations, if you continue to work beyond age 65 and have group health insurance from an employer (yours or your spouse's), you may be able to delay signing up for Part B without penalty.

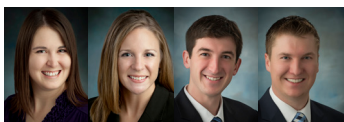
If you are already receiving Social Security benefits when you turn 65, then you will be automatically enrolled in Medicare Parts A and B. You have the right to decline Part B within a certain length of time if you or your spouse is still working for an employer that provides your health insurance.

To further complicate things, you will need to decide how you want to get your Medicare coverage – through Original Medicare (Part A & B) or a Medicare Advantage Plan (Part C). When you enroll in Medicare for the first time, you will be automatically placed in the Original Medicare program. If you prefer to join a Medicare Advantage plan, you can do so immediately or during open enrollment (October 15 to December 7) in any year. It is important to note, even though you will not be stuck with any Medicare Advantage or Part D plan permanently, there are a laundry list of rules related to switching between an MA plan and Original Medicare, so be aware! Here is some side-by-side detail regarding Original Medicare and Medicare Advantage:

	Original Medicare	Medicare Advantage
Coverage	Provided by Medicare	Provided by private insurance companies approved by Medicare
Premiums	In 2017, the standard Part B premium amount is \$134 (or higher depending on your income). Most people don't pay a monthly premium for Part A.	Monthly premium will vary by plan. This is in addition to the 2017 standard Part B premium of \$134.
Prescription Drugs	You must choose to join a Medicare Prescription Drug Plan (Part D) for which you will pay a monthly premium.	In most cases, if the MA plan offers prescription drug coverage, you must get it through them.
Supplemental Coverage	You may want to get additional coverage to help pay some of the health care costs that are not covered by Original Medicare, like copayments, coinsurance and deductibles. You can choose to buy a Medigap policy from a private company.	You cannot use a supplemental policy to pay for plan costs.
Providers	You have your choice of doctors, hospitals and other providers that accept Medicare.	In most MA plans, you will need to use plan doctors, hospitals and other providers or you will pay more or all of the costs.

Most of this information has been taken directly from the Medicare website, which is www.medicare.gov. It is a great resource and is also where you can compare MA plans objectively, if you are considering going that route. This is a relatively brief overview – as you can see,

the rules and options are quite complex (congrats to those of you that have made it this far!). As always, please contact our Financial Planners if you have questions about your specific situation. That's what we're here for.



Barbara Heller

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Eric Purcell

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Assistant Financial Planner

**The strength of tradition;
the power of innovation.**

**Individualized financial planning
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