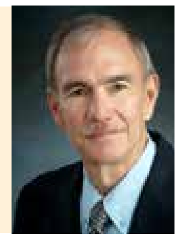
CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q2, 2013

Stock Market Loses Momentum



by Terry Milberger, CFA®
Director of Portfolio Management

Following on the heels of the strong first quarter for stocks, the market continued to post gains as the second quarter unfolded. Investors were heartened by the continuing good growth in the U.S. economy coupled with the prospect of better growth in many foreign economies. Inflation was remaining subdued and interest rates were showing no signs of rising from their low historic level. At its peak in mid-May, the broad-based S & P 500 was up almost 7% just for the second quarter. That resulted in the S & P having increased approximately 17% on a year-to-date basis at that point.

Unfortunately for stock investors, the party ended somewhat abruptly in mid-June. Federal Reserve Chairman Ben Bernanke provided an update on the economy and possible Fed actions going forward. The Federal Reserve has employed programs of so-called quantitative easing since the last recession began about 5 years ago. One aspect of those programs was to purchase existing Federal government debt to help keep interest rates at historically low levels. Bernanke intimated in his comments that the Fed could begin winding down this bond-buying program later this year if the economic growth accelerates as they expect.

Although unintended, Bernanke's comments spooked fixed income investors as they apparently took it to mean that rates would surely have a significant run up if the Fed was to wind down its bond-buying program. Ignored was the fact that the Fed said it would only scale back its program if economic growth picked up, inflation remained low, and unemployment fell. That would actually be a very good scenario for the economy.

However, the fear of a spike in rates coupled with a growing concern that China's growth might be slowing resulted in a meaningful increase in volatility in the financial markets in the latter half of the quarter. When the dust had finally settled, the S & P 500 was still positive for the quarter while the Barclays bond index was down just over 3%.

As we look forward, there are numerous positives in the outlook. The U.S. economy should continue on its moderate growth path. The housing sector has been the biggest engine so far, and seems likely to continue in that role as long as rates stay at relatively low levels. Inflationary forces remain subdued and will augment consumer purchasing power. If the Fed does wind down its quantitative-easing program, it likely would be only because the economy was growing faster than anticipated. Certainly there are some dark clouds on the horizon. The most ominous are the potential slowing in China's growth and the ripple effect it would have on many emerging markets. The investment team stands ready to deal with changes in the investment landscape should they arise.

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 long-term care insurance.

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

Presenter: Randy Clayton, CFP®

Times: **Wed. Aug 7, 2013**
2:00 pm only
Thur. Aug 8, 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.

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Inside this issue…

How Much is Too Much?

We all hear the myriad of opinions on debt and the numerous questions that arise from those discussions: Should you have any debt? What is an appropriate level? Unfortunately the answer is — there is no easy answer. Every person's situation is unique based on their age, lifestyle, income, and risk tolerance.

It is usually assumed that younger individuals will have more debt from school loans, buying a new house, upgrading their 'college' car, etc. However, as we've seen from the reports over the last few years, debt is not age specific. Many other life factors affect a family's financial situation. Those same college costs may in fact impact the parents more than the student. Older individuals are also not necessarily any better at paying cash for a new car than a younger person.

Because each person's situation is different, it should be evaluated individually for their specific situation and goals. However, there are some guidelines that can help a person determine if, in general, their debt is at a manageable level. The levels given below are what lenders typically look at when doing conventional mortgage financing.

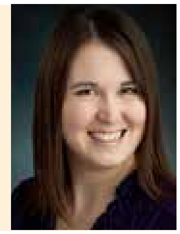
Mortgage payment (including taxes and insurance) should not exceed 28% of your gross monthly income.

The above mortgage payment PLUS all other consumer debt (credit cards, auto loans, student loans, etc) should not exceed 36% of your gross monthly income.

Both of these numbers are important because you may have more consumer debt and thus need to find a lower priced house with a lower payment. For example, if you had gross monthly income of $5,000, this would indicate you could afford a mortgage payment of $1,400 per month. However, this would only leave you $400 per month for all other consumer debt. If you already had a $400 car payment and owed $300 per month on student loans or credit cards, you should look for a mortgage payment of only $1,100 per month.

The bottom line is to be aware of your debt level and how the payments compare to your overall income and other expenses. When considering a new purchase or perhaps an upgrade in your house or vehicle, make sure you take an in-depth look at whether you can afford it or if maybe you need to wait until some of your other obligations are gone.

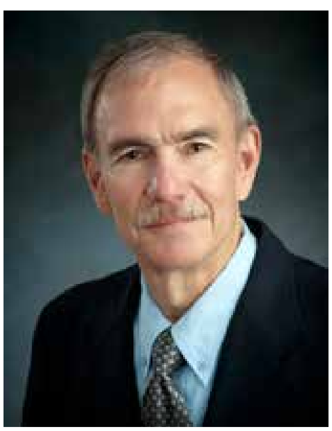
Barbara Heller
Senior Financial Planner



Maternity Leave

Next month, Senior Financial Planner Barbara Heller will be going on maternity leave. She is expecting a little boy August 24. Barbara plans to work until her due date and will then be out of the office for approximately six weeks. Planners Elizabeth Young, Luanne Underwood, and Kathleen Heit will be handling questions from clients Barbara ordinarily works with until she returns.

Milberger Retiring



After six years as Director of Portfolio Management, Terry Milberger has decided the lure of retirement is too hard to resist. Terry joined Clayton Financial in 2007 just as the stock market was making new highs, suffered with us through the bear market of the Great Recession, and has now seen the stock market again make new highs. With a completed bear to bull cycle, Terry is ready to ride into the sunset—almost literally. Terry is an avid bicyclist and will be spending more time on the trails. In addition, he and his wife Alice are planning some trips that will definitely include time in Colorado, a favorite spot for them.

Terry brought the calm voice of experience and reason with him, often tapping into his 25 years as a mutual fund manager. As strategist he distilled information from numerous sources into a comprehensive view that became the foundation for an investment thesis. Terry actively participated in asset allocation decisions and developed processes and templates for the analysts to use when evaluating and recommending funds. Perhaps the only thing we regret is that he didn't have a crystal ball! We wish Terry well in retirement and feel fortunate he plans on coming back to check on us occasionally.

To Insure or Not to Insure?

We wouldn't dream of driving around uninsured, so why are some hesitant to insure their most valuable asset — themselves! There are the obvious reasons a person should be insured especially if they have a family and dependent children. Single people are often told they do not need life insurance, or that the small policy that may be provided through their employer will suffice. Although that can be correct, there are certain instances when a single person may need life insurance, such as having a mortgage or wanting to leave money to provide for parents or relatives, a significant other, a friend or charity. Another consideration is that blended families with children from a previous marriage tend to have a need for life insurance.

How do you estimate your insurance needs?

The rule of thumb for the amount of insurance coverage is sometimes said to be 6-10 times annual income. That may be a starting place, but there are more detailed approaches to determine life insurance needs.

One approach is the human life value approach. This approach to determining how much insurance is needed is based simply on how much income the proposed insured earns today. More specifically, this approach first determines the present value of the breadwinner's future earnings and then takes into consideration personal family expenditure needs, taxes and other withholdings, inflation and a reasonable discount rate. This approach does not consider other income such as Social Security Benefits and personal wealth. There is no capital retention assumed and the life insurance is liquidated at the end of the family's needs.

A more comprehensive approach determines life insurance needs by a financial needs analysis. The needs analysis determines cash needs, income needs and special needs of the survivors. The immediate cash needs necessary at death include burial and administrative expenses, estate taxes, credit card debt and other obligations. Income needs for the surviving spouse and dependents will include a readjustment period, dependency period and retirement income. Special needs could include mortgage redemption, education expenses and an emergency fund. Once the costs of all needs are identified, one would then subtract current personal wealth to determine the amount of life insurance needed.

There are two key questions that should be taken into account: (1) How much income would the family need for its various purposes if the main breadwinner should die today? (2) When would the income be needed?

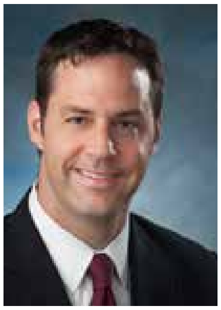
Kathleen Heit
Associate Financial Planner

Typical considerations are:

- An estate settlement fund–necessary to pay federal estate taxes, burial expenses, debts of the estate left unpaid (including home mortgage), and uncovered last medical expenses. Most of these expenses need to be paid immediately. Federal estate taxes are due 9 months after date of death.
- The readjustment period–the time needed by the surviving family to get accustomed to the radical change in their life, their lifestyle and perhaps a reduced standard of living. Adequate time should be given to make these adjustments without undue financial pressure. This income should be made available right away.
- Continual income for child-rearing. This depends on the number of children, ages and educational goals. This need begins at the end of the readjustment period.
- Life income for the surviving spouse. This need occurs at the end of the dependency period but prior to being eligible for Social Security Survivors benefits at age 60.
- Mortgage redemption as needed.
- Education funding as needed.
- Special needs including liquidating a business, establishing a trust for children with disabilities or special needs, charitable donations, etc.
- Emergency funding available immediately.

There are many considerations when determining the amount of life insurance needed. Life insurance is intended to be used to replace future income where persons depend on the insured for support or other needs. Of course down the road, needs may change and evolve. It is always important to reevaluate and monitor your needs and coverage to make sure it meets your expectations.

Walden Leaves North Carolina for Kansas



We're very pleased to announce James Walden has joined Clayton Financial Services as Director of Portfolio Management. Jim was most recently an equity analyst and director for Sterling Capital Management in Raleigh, North Carolina. As a member of the team managing the $43 billion firm's Large Capitalization Core Strategies and Equity Income strategies he covered the information technology, telecommunications and consumer discretionary sectors while previously serving as a generalist.

Prior to joining Sterling he was an equity analyst for Morningstar in Chicago and a fixed income analyst for Cigna Investment Management in Hartford, Connecticut.

Jim's Bachelor of Science degree from Indiana University is in business with an emphasis in accounting. Upon graduation he earned the CPA designation and began working for Deloitte & Touche in Indianapolis. His Master of Business Administration (Finance) degree is from Cornell University. Jim is a Chartered Financial Analyst (CFA) and a member of the CFA Institute.

Even though Jim has spent several years living and working on the East Coast, he's at heart a Midwesterner. He's from Peoria, Illinois — still home to much of his family. His wife Becky graduated from KU and has family in the Topeka area. Jim and Becky were married in Lawrence and are the very proud parents of a three-year-old daughter, Chelsea.

Online Budget

A Gallup poll released in early June says only a third of Americans (32 percent) prepare a "detailed written or computerized household budget" each month. Gallup's annual Economy and Personal Finance survey polled 1,012 adults in all 50 states and the District of Columbia about their budgeting habits.

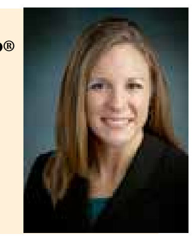
There were a number of interesting tidbits of information in this survey but I found one to be particularly noteworthy. I was not overly surprised by the fact that the majority of Americans do not make a budget. One item that did stand out to me is the fact that Gallup found that of those making a budget, many are using their computers to manage their finances rather than a financial planner. This finding in and of itself makes perfect sense to me. The surprising piece is that I often find many people are unaware of the online resources (free!) that are available to them. Here are a few noteworthy websites to check out when looking to create and manage a budget.

At the head of the pack, Mint.com continues to be one of the best overall money management sites. Mint has adjusted and adapted over the years and continues to improve original features and periodically add new ones. Their budgeting tool allows people to track spending and income, set up goals and adjusting spending habits.

Another budgeting web site, which is recommended by Consumer Reports, is Buxfer.com. It is similar to Mint in that it provides income and account information as well as budgeting tools. They have a free live demo so potential users can take a closer look before signing up.

For those concerned with security, BudgetPulse.com does not ask users to supply private data. There is no linking to financial accounts. While experts widely agree that the risks associated with using an online budgeting tool are very small due to bank-level security, BudgetPulse realizes some people just aren't comfortable with supplying their data.

Elizabeth Young, CFP®
Senior Financial Planner



As financial planners at Clayton Financial Services, we help clients lay out a plan for retirement, evaluate insurance policies, review estate documents and beneficiary designations, analyze tax returns, and more. However, we do not normally get into the nitty-gritty of developing an actual budget. That's not to say it isn't important and that we won't help someone find a budgeting process that works for them. If you are in need of a budget overhaul, there's no better time than the present to get started!

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