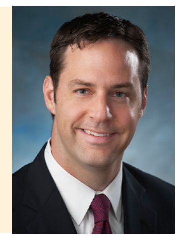
CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q2, 2016

Independence Day… in Great Britain

by James Walden, CFA®
Director of Portfolio Management



As we write this quarter's newsletter, Americans are set to celebrate the founding of our nation with its independence from England 240 years ago. The irony isn't lost on us how the turbulent end of the quarter for financial markets was dominated over a vote on the United Kingdom's own independence of sorts.

Citizens of the U.K. narrowly voted on June 23 to leave the European Union trading bloc, catching financial markets flat-footed. In the two trading days following the results of the referendum, the S&P 500 swiftly fell 5.3%. But as the initial panic subsided, U.S. stocks clawed back 5.0% in the final few days of the quarter. As a result, the S&P 500 finished the second quarter up 2.5%, including dividends.

Importantly, we expect Brexit will have much less impact on the United States and will not be a Lehman-type event that was the tipping point for the Great Recession.

Markets have since stabilized, but much uncertainty remains. The U.K.'s future remains unknown (please see "Brexit" on page 2), and for the rest of Europe and the world, for that matter. Britain's exit will likely tip it into recession, and global economic growth will probably be a bit slower. Due to heightened concerns, investors have pushed yields down further to multi-year lows (and in negative territory in some significant instances).

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- The U.S. was already in a recession (which began in December 2007) when Lehman Brothers filed for bankruptcy in September 2008, making it much more difficult for the economy and financial system to absorb the blow. In contrast, today we believe we are still some ways off from a recession. In fact first-quarter GDP growth was just revised up slightly, and early indications suggested that economic growth accelerated in the second quarter.
- During the Great Recession, many banks and companies teetered because they couldn't access normal funding for meeting day-to-day operations as the financial system froze with fear, and the Federal Reserve's response was late. Today, central banks across the world have pledged to provide any aid necessary, and funding markets are functioning normally.

continued on page 2…

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
J.D. Kaad, Portfolio Analyst

Dates & Times:
Tues, August 16, 2016
Noon – Light lunch provided
5:30pm – Wine & cheese

Weds, August 17, 2016
Noon – Light lunch provided

Thurs, August 18, 2016
Noon – Light lunch provided
5:30pm – Wine & cheese

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

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NAPFA THE POWER OF TRUST

Inside this issue…

Independence Day... *from page 1*

- Sales to Great Britain for all of the companies in the S&P 500 combined amount to only about 3% of their total revenues in aggregate.

Market volatility is an investing theme we've been discussing for much of the past year after several years of relative market calm. Add Brexit to the expanding list of sources of volatility. We expect more bouts of volatility for the foreseeable future, due in part to lingering uncertainty over Brexit, the forthcoming U.S. presidential election, and other reasons previously discussed. We remain diligent looking for anything other than garden-variety market declines and will make changes to portfolios as necessary.

Brexit: The Uncertain Path of the United Kingdom

J.D. Kaad
Portfolio Analyst

On June 23, the citizens of the United Kingdom braved inclement weather to have their voices heard as to whether or not Great Britain will remain within the European Union. Despite the heavy rains, 72% of the population cast their vote to "Leave", believing the U.K. would see better immigration policy and less EU bureaucracy, or to "Remain", thinking Britain would be safer and stronger by staying. By the next morning the results had been tallied, with a 52% majority favoring "Leave".

The result triggered an initial drop of over 9% in value for both the London Financial Times FTSE 100 and the Euro STOXX 50 indices. Panic also seized investors in the United States as well, triggering a 3.9% dip in the S&P 500. This was not due to any rational beliefs of a systemic worldwide economic recession brought on by a potential unraveling of the European Union, it was due to the unexpected results of the vote.

Markets don't like surprises or uncertainty, and the results of the recent vote certainly came as a surprise.

Markets don't like surprises or uncertainty, and the results of the recent vote certainly came as a surprise. Prior to the referendum, various press polls and gambling bookmakers gave the "Remain" vote a greater likelihood of winning. This confidence in Britain's future within the European Union was also expressed by investors—the week leading up to the referendum saw a 6.9% rally in the FTSE 100 and 2.3% in the S&P 500. When the "Leave" supporters eked out a narrow victory in the referendum, it served to yank the rug out from under previously confident traders, and the recent market volatility is the product of that. But while the initial shock of surprise begins to fade, uncertainty will linger on.

The United Kingdom's future is nearly impossible to forecast with any accuracy. The only fact we have is that the citizens have expressed a desire to leave the EU. To make matters even murkier Prime Minister David Cameron announced his intent to resign without having invoked Article 50 of the Lisbon Treaty, by which nations may leave the European Union. This means that Britain first needs to elect a new Prime Minister before Article 50 could possibly be enacted, starting the two-year process during which negotiations can begin between the U.K. and the EU. Further uncertainty for the U.K. can be found in the recent overtures by Scotland, Northern Ireland and Gibraltar to the European Union expressing their desire to stay; whether or not this will require them to leave the United Kingdom further clouds any attempt of prognostication. This abundance of uncertainty will be expressed by investors through ongoing market volatility.

Downtown is Getting a Facelift

Just as anyone is happy to welcome family and friends to see the results of a remodeling project, Downtown Topeka is excited for the community to see the improvements that are happening downtown. Over $3.8 million was raised from the private sector to create pocket parks, and to add statues and medallions along the sidewalks. We're proud of Topeka's heritage and there are statutes of Cyrus Holliday, Arthur Capper, Charles Curtis and Ichabod Washburn. There are fountains and structures designed to appeal to children and families and many benches for people to sit and enjoy downtown. Some areas are waiting for artists to finish their work, but the landscaping is being completed and incorporates many native Kansas plants.

Clayton Financial has a chess park which ties into our logo of a knight and is covered by a blue canopy to provide shade for those playing with the two-foot tall chess pieces. We welcome you to come downtown and enjoy the sights.

Photo credit: Stephen Smith Images

CFSI Honored as Capital City Business of Distinction

CLAYTON FINANCIAL SERVICES was named the Capital City Business of Distinction at the May 10 Small Business Awards luncheon sponsored by GO Topeka and the Greater Topeka Chamber of Commerce. Other categories included Emerging Entrepreneur of Distinction, Nonprofit Award of Distinction and Minority & Women Business of Distinction.

We were very pleased and honored to receive the award, not only because the other finalist is a firm we respect a great deal, but also because the long list of former honorees includes companies that are well regarded in the community.

Clint Patty Joins CFSI

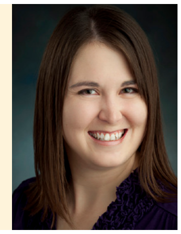
We're very pleased to welcome Clint Patty to the firm. As Executive Vice President and General Counsel he serves on the management team providing leadership, supporting business development efforts and providing consultation to clients.

Clint has spent the last 17 years as an attorney in private practice in Topeka. He's represented a variety of corporate and individual clients in the areas of corporate and business law, employment law, governmental relations and administrative law.

Clint has a Juris Doctorate from Washburn University and a BA from the University of Kansas. He's lived in Topeka since 1995. He and his wife Amy have two children.

Maximizing the Tax Benefits of Charitable Giving

Barbara Heller
Senior Financial Planner



Charitable giving is important for many reasons, but one benefit we receive for being charitably minded is possible tax savings. While the tax benefits may not always be on our minds when making gifts, it is important to make sure we are maximizing strategies to minimize taxes whenever possible.

Often it is most convenient to give with cash or check, but there can be some strategies that are even more tax advantageous.

- **Donations of appreciated assets (stocks, mutual funds, property, art, etc.):** When you have an appreciated asset, such as shares of a mutual fund, you will owe taxes on the gain when that asset is sold. However, if you have held the asset for longer than one year and donate it to a qualified charity, you not only get the full tax deduction for the donation but you avoid paying income taxes on the capital gain.

- **Qualified Charitable Distribution (QCD) from an IRA:** If you are over age 70 ½ you are allowed to donate up to $100,000 per year from your IRA directly to a qualified charity. This money comes out of your IRA but does not appear as taxable income on your tax return. Because the distribution is not taxable income, you do not get a tax deduction. While this may seem like a wash, for some people it can be advantageous if they do not itemize deductions, have phase outs on their deductions, or other reasons.

Some charitable giving is in the form of items (food, clothing, household items, etc.). You are able to deduct the fair market value of the items you donate. For most clothing and household items this would be consignment or thrift shop value. Often we simply give a low value to a bag or box of donations because we don't have the time or inclination to find out what those values are. However, itemizing your donation with values can lead to a much larger deduction. Some good resources that will save you time are:

- **www.itsdeductible.com:** You can enter your donations and the website will give you current fair market values for items in high or medium condition (you cannot deduct items of low condition without an appraisal valued over $500). The website will also save these entries for download to Turbo Tax if you use that software at tax time.

- **https://www.goodwill.org/wp-content/uploads/-2010/12/Donation_Valuation_Guide.pdf**

- **https://satruck.org/Home/DonationValueGuide**

One final note is that small amounts can add up. It may seem like those $50 donations a few times a year aren't worth keeping track of, but go ahead and throw the receipts or acknowledgement emails in a folder for tax time. If you donate a total of $250 in small donations and are in the 25% Federal tax bracket, it could save you $75 in Federal and State taxes — that's worth a few extra minutes.

If you have any questions or would like to discuss strategies for your personal situation, please call our office and we will be happy to work with you to maximize your tax savings.