CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q3, 2012

SAVE THE DATE!

Client Holiday Open House

Thursday, December 6

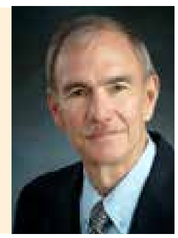
Clayton Financial Services is a Corporate Member of the National Association of Personal Financial Advisors ("NAPFA"). If you'd like more information about NAPFA visit their website at napfa.org.

NAPFA THE POWER OF TRUST

Inside this issue…

A Nice Third Quarter Stock Market Rebound

by Terry Milberger, CFA®
Director of Portfolio Management



The stock market had a solid gain in the recently completed third quarter. The broad-based S & P 500 provided a total return of around 6%. This compares to the volatile second quarter of this year when the market had a decline of about 3%. This quarter's strong performance brought the gain for the S & P to almost 15% on a year-to-date basis. Fixed income investments also provided solid returns with the benchmark Barclays U.S. Aggregate Bond Index showing a 1.6% total return. Year-to-date through the end of September, the Barclays returned 4%.

These returns from the financial markets were quite satisfactory given all of the cross-currents that exist in global economies. The growth of the U.S. economy has moderated some from its pace earlier in the year. The mild winter across much of the nation seemed to pull some growth forward from later time periods. Although our exports to the rest of the world have stayed reasonably strong, they clearly have slowed down to the Euro zone as many countries in the area are experiencing slowdowns and in some cases, recessions. The world's biggest engine of incremental growth, China, is also feeling reduced demands for its exports as well as a cooling off of its property related domestic growth.

Monetary authorities, both in the U.S. and abroad, are continuing to try to enhance economic growth. The European Central Bank, the ECB, has announced programs to provide more liquidity to financial institutions in the Euro zone. This action should lower the level of interest rates that many sovereign nations will have to pay when borrowing. Also, potential investors should feel more confident about purchasing the bonds of these nations. In the U.S., the Federal Reserve recently announced what is referred to as QE3. This is a program of quantitative easing that involves the Federal Reserve buying various existing government securities. This form of monetary stimulus could result in some lowering of long-term interest rates. The Fed also indicated that they intend to keep short-term interest rates at their current exceptionally low level for the next three years.

Looking forward, there are many things that need to be monitored. Will this QE3 program stimulate economic growth? Will it be at the cost of future inflation? The monetary stimulus provided the Euro zone will surely be helpful, but many countries there are showing no meaningful signs of

continued on page 2…

improvement. Will China's growth just moderate some, or will they experience a hard landing? Lastly, the U.S. is facing a "fiscal cliff" at year-end that will result in sharply higher taxes next year unless new legislation is enacted.

In spite of these challenges, the outlook for the financial markets appears quite sanguine. Housing activity, which has not provided a meaningful boost to domestic growth, has now become an important contributor. The recent quantitative easing by the Fed can only help sustain this. Although exports have slowed, the improved position of the U.S. as a global manufacturer should keep this area relatively strong. Many companies are now looking to increase their manufacturing presence here.

Uncertainties can create good investment opportunities. We feel our risk-adverse investment discipline will allow us to take advantage of these opportunities when they arise.

Clayton Financial Receives Five Star Manager Award

Clayton Financial Services has been selected as a 2013 Five Star manager by *KC Magazine* and *KC Business Magazine*. CFSI was nominated through research conducted with peers and firms within the Kansas City area. This is a select group that represents less than 3% of those wealth managers. The article will appear in the January editions of those Kansas City magazines.

Clayton Financial Services Sponsors KTWU

Clayton Financial Services continues to be a proud sponsor of KTWU. CFSI has sponsored past series specials by Ken Burns including "The National Parks: America's Best Idea." Ken Burns' next special is entitled "Dust Bowl," and begins airing November 18th at 7:00 pm on KTWU. Mark your calendars and plan to watch this television special on one of the pivotal eras in Kansas history.

Roth 401(k) Rollover Rules

Elizabeth Young
Senior Financial Planner

While the rollover rules for traditional 401(k) plans are fairly widely known, this is typically not the case for a Roth 401(k), since this type of account is still relatively new to the world of employer retirement plans. A number of employers are now offering a Roth 401(k) alternative to their employees. As this option grows in popularity, it is going to become increasingly important to understand the rules of the game when looking at rolling over Roth 401(k) dollars. Here are some of the basics.

The rollover options for a Roth 401(k) are essentially the same as those of a traditional 401(k). That is, you can rollover the funds to an IRA or potentially transfer the old 401(k) into a new employer's 401(k). Rolling over a Roth 401(k) into a Roth IRA is usually the optimal thing to do particularly because the options within an IRA are typically significantly greater and better than within a 401(k) plan. Because of this, let's focus on the rules for rolling over a Roth 401(k) into a Roth IRA.

The contributions made to a Roth IRA can be withdrawn at any time tax-free and penalty-free regardless of age. However, the rules for distributions of earnings vary. A qualified distribution from a Roth IRA is one that is made after a five-year rule is met and after age 59.5, after death, as a result of disability or for a first home purchase. These qualified distributions are both tax- and penalty-free. Nonqualified distributions subject to both income taxes and penalties are distributions of earnings in which the five-year rule is not met and the individual is not at least 59.5, disabled, deceased or experiencing a "life event."

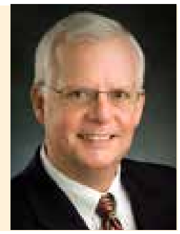
This may sound relatively easy, but the five-year rule can be tricky. First, let's touch on the basics of the five-year rule. For determining whether or not a withdrawal from a Roth IRA is qualified, the withdrawal must be made after the five-tax-year period, beginning on the first day of the first year for which a Roth IRA contribution is made. Can you tell this is tax language? In other words, there is a five-year "clock" that begins on the first day of the first year to which a contribution relates, regardless of when it is actually made. For example, if an individual opened a Roth IRA on March 15, 2006 in order to make a contribution for the 2005 tax year, the "clock" for purposes of the five-year rule would start January 1, 2005.

Now some information on how the five-year rule works in relation to rolling over Roth 401(k) funds. If a rollover is made from a Roth 401(k) to a Roth IRA, the holding period within the Roth 401(k) does not carry over to the Roth IRA. That is, if an individual has an

continued on page 4...

The Index Funds Report Card

Randy Clayton
Founder and Principal of Clayton Financial Services, Inc.



I recently met with a 93-year-old widow in a small Kansas community who made the comment, "I raised my children to work hard and make every effort for A's; accepting B's and C's is not good enough." Most of our clients understand the "work hard and strive for the best" mentality. But every once in a while I am surprised when a client believes they should have only index funds because the expenses are lower. What they fail to realize is an index fund will rarely get an "A" grade. If expenses were the primary determining factor in our investment selection, our client portfolios would be comprised entirely of index funds (or ETF's). Instead, our clients have index funds (or ETF's), as well as individually managed mutual funds.

Below you will see a chart showing the current funds in our client portfolios. Many of you will recognize the names. In addition to the names, the chart also lists the past 1-, 3-, and 5-year rates of return as well as the returns of the respective benchmark (aka index funds without any expenses). I should point out that these are gross rates of return; as clients, your actual rate of return will be lower than shown because of our fee.

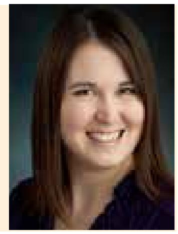
If you study the average rates of return of the funds in each category you will see they consistently beat the benchmarks (indexes). The difference in performance is great—much greater than the expense difference. This current list of funds has an expense ratio of .62% compared to a comparable index fund selection of .2%. Some people would ask, "But don't most mutual funds and ETF's underperform compared to the index?" The answer is "yes," but that's why you hire Clayton Financial Services. With experience, education, and technology we can focus on the "A's".

	As of September 30, 2012			
	1 Year	**3 Year**	**5 Year**	
Group/Investment	Return (Annualized)	Return (Annualized)	Return (Annualized)	Prospectus Gross Expense Ratio
Equities				
Wilshire 5000 Total Market Full PR USD	**24.80**	**10.99**	**-0.42**	
iShares Russell 1000 Index	27.49	12.93	1.14	0.15
iShares Russell 1000 Growth Index	25.63	14.45	3.07	0.20
iShares S&P MidCap 400 Growth Index	22.16	15.76	5.04	0.25
FMI Large Cap	24.04	11.30	3.61	0.97
Fidelity Advisor New Insights I	23.91	13.52	2.38	0.81
Wells Fargo Advantage Growth I	27.58	22.15	8.10	0.81
Brown Advisory Growth Equity Instl	24.75	16.03	5.61	0.94
Royce Premier Service	16.44	10.87	4.19	1.34
Eaton Vance Atlanta Capital SMID-Cap A	27.47	14.39	8.05	1.38
BBH Core Select Retail	26.87	14.12	6.42	1.59
PIMCO Fundamental IndexPLUS TR Admin	39.98	21.44	7.99	1.04
Average	**26.03**	**15.18**	**5.05**	**0.86**
Fixed Income				
Barclays US Agg Bond TR USD	**5.46**	**6.17**	**6.53**	
Harbor Bond Adm	9.91	6.63	7.89	0.82
TCW Core Fixed-Income N	7.09	7.84	8.87	0.85
DoubleLine Total Return Bond N	8.66			0.76
Fidelity GNMA Fund	4.71	6.25	7.09	0.45
Templeton Global Bond A	12.36	8.20	9.46	0.90
Metropolitan West Total Return Bond M	10.90	9.91	8.66	0.62
Fidelity Focused High Income	14.12	10.74	6.95	0.82
Fidelity High Income	17.31	11.79	8.58	0.76
Average	**10.63**	**8.77**	**8.22**	**0.75**
International				
MSCI EAFE NR USD	**12.01**	**2.19**	**-5.24**	
Wasatch International Growth	29.42	17.39	1.29	1.57
Lazard Emerging Markets Equity Open	18.18	7.32	1.09	1.42
Average	**23.80**	**12.35**	**1.19**	**1.50**
Commodities				
SPDR Gold Shares	7.65	20.95	18.56	0.40
			Average Expense Ratio	**0.88**

Year-End and Other Deadlines

It is the time of year for deadlines. The hard part is keeping track of when all those deadlines are…December 31? April 15? Below are some of the more common deadlines to help you stay on track in the coming months.

Barbara Heller
Senior Financial Planner



Retirement Accounts

- Traditional and Roth IRA contributions: April 15
- SEP-IRA contributions: April 15 (or October 15 if you file an extension)
- Roth conversions: December 31

Medical

- Health-Savings Account (HSA) contributions: April 15
- Flexible Spending Accounts (FSA): expenses must be incurred and submitted by December 31 or March 15 depending on your plan rules. Check with your employer!!!

Education

- 529 Education plan contributions: December 31
- FAFSA Deadlines: Vary by school but usually are earlier than you might assume. For example, in 2012 the deadlines were March 1 for KU and K-State and February 15 for Washburn University.

Itemized deductions

- Medical expenses: only those incurred by December 31
- Charitable gifts: only those given by December 31. Make sure any receipts you receive from the charity indicate the date of the gift so there is no ambiguity.

SAVE THE DATE!

Economic and Investment Seminar

The market results from the third quarter 2012 were better than expected. Plan to attend our Market Update Seminar to hear Clayton Financial Service's outlook for the future. In addition, we will be discussing all the "free" dinner invitations you receive in the mail and why "free" can cost you your life savings.

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

Presenter: Randy Clayton, CFP®

Times: **Tue. Nov. 6, 2012**
2:00 pm only
Wed. Nov. 7, 2012
2:00 pm only
Thur. Nov 8, 2012
2:00 pm & 6:00 pm

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

Roth 401(k)… *continued from page 2*

existing Roth IRA, once the Roth 401(k) distribution is in the account, it has the same holding period as the Roth IRA funds. On the other hand, if the person did not have an existing Roth IRA and had to establish one for purposes of the rollover, the five-year period would begin the year the Roth IRA is opened, regardless of how long they have been contributing to the Roth 401(k).

Although it is usually unadvisable to tap retirement funds prior to retirement, we all know life sometimes gets in the way, making it unavoidable. Withdrawal rules can be problematic, so before making a decision, be sure to give us a call to discuss what might be the best option for your situation.