CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q3, 2013

Important Notice:

The CFSI office will be closed November 29th, the day after Thanksgiving.

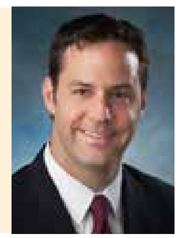
Clayton Financial Services is a Corporate Member of the National Association of Personal Financial Advisors ("NAPFA"). If you'd like more information about NAPFA visit their website at napfa.org.

NAPFA
THE POWER OF TRUST

Inside this issue...

Strong Quarter Ends with Heightened Policy Uncertainty

by James Walden, CFA®
Director of Portfolio Management



All things considered, financial markets performed well during the third quarter, in our opinion. The broad-based S&P 500 generated a total return of 5%. And, in stark contrast to the volatility brought on in the second quarter by the Fed hinting at an imminent "tapering" of its easy-money policies, fixed-income markets were relatively calm. In fact, the benchmark rates for both 10-year Treasuries and 30-year fixed mortgages finished within fractions of where they were at the beginning of the quarter.

Despite such attractive results, the quarter may be best defined by the markets' resiliency. There was no shortage of opportunities for equities to stumble. Instead, the stock market deftly sidestepped any potential adversity it faced, including a hit to housing activity from an earlier pop in mortgage rates, the uncertainty surrounding the Fed's September meeting, and the possibility of U.S. military action in Syria.

We don't think we're out of the woods quite yet. In fact, the quarter came to a close with a few potentially significant obstacles right in front of us, all dealing with U.S. fiscal and monetary policy.

At the time of this writing, the U.S. federal government had just entered a partial shutdown, the result of Congress' inability to pass in time a spending bill authorizing sufficient funds for government operations. While government shutdowns are uncommon, they're not unheard of. In fact, every President since at least Gerald Ford, with the exception of George W. Bush, has experienced some type of shutdown. Many pundits expect that Congress will ultimately get a spending bill passed soon enough to avoid significant economic impact.

The looming battle in Congress to raise the debt ceiling is more threatening. The Treasury is expected to run out of funds sometime this month, and unless the debt limit is lifted, the Treasury faces the risk of defaulting on its financial obligations. Were that to occur, interest rates would likely spike and market volatility would return in force. We think it's very likely that Congress will find some type of solution, given how unappetizing the consequences of a default could be.

Finally, the Fed itself has reintroduced uncertainty to the conversation. The market had convinced itself that it would see the Fed begin to taper at its September meeting. Instead, the Fed decided to wait and created further confusion when it appeared to back away from tapering guidance issued back in June. The Fed meets again in October with

Strong Quarter Ends... *continued from page 1*

the market very unclear about what will come from that meeting, and a successor to Chairman Bernanke still has yet to be determined (although Janet Yellen appears to be the leading candidate at this time), further clouding future Fed policy.

Despite all of the near-term uncertainty coming out of Washington, D.C., we remain cautiously optimistic over the intermediate term. Each of these issues will ultimately be resolved and we view any related headline volatility as an opportunity to add to positions. Even with all the rhetoric surrounding the budget and debt-ceiling arguments, the federal government's financial situation is in much better shape today than it was during the contentious debt negotiations of 2011. Housing, which remains central to the U.S. economic recovery, remains affordable with attractive supply and demand characteristics. Meanwhile, inflation is still very subdued, and equity valuations remain quite reasonable. Of course, we'll change our views if and when conditions warrant.

Thank you for your continued trust in Clayton Financial Services.

Welcome Connor!

Barbara Heller, Senior Financial Planner, is happy to announce the arrival of Connor Joe Heller. Connor was born on August 25th at 4:19 pm weighing 9lb 8oz.

We've been lucky enough to have Connor visit the office a couple of times since his birth. Barbara and Connor are both doing well and will be in the office part-time during the month of October. Once Barbara returns to work full-time, Connor will spend the day with his daycare provider.

Plan Ahead for a Stress-Free Holiday Season

Elizabeth Young, CFP®
Senior Financial Planner

The season of cooler weather, falling leaves and pumpkin-goodies galore is now in full swing. And already store shelves are stocked full of Christmas-time décor. K-Mart began running their Christmas ads in September — a whopping 106 days before the holiday!

With two young children at home, I ended the last year's holiday season feeling absolutely exhausted. Mentally, physically, you name it… exhausted. You could also use "exhausted" to describe the impact on my checking account balance; it wasn't pretty. Upon further examination, it was evident I had fallen into the typical holiday shopping pattern of rushing from store to store during every moment of my "free" time (which is a prized commodity), followed by late nights getting everything wrapped and making sure everyone on my list had "enough" gifts to open.

Well, I am here to say it is time to break the cycle and now is the time to do it! Before the frenzy of the holidays has our heads spinning, I propose laying out a plan for what we want the holidays to look like.

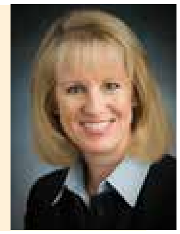
For instance, for my family, I want to focus on experiences as gifts. That's not to say there won't be stockings hung by the chimney with care (filled with goodies), but I plan to spend less time running around the malls and instead spending that time with the ones I love.

For the gifts I do purchase, I'll be making lists and getting creative. My goal is to be practical and thrifty. It's time to stop buying and giving gifts that none of us really need! I'm not terribly crafty, so my relatives need not worry about getting a one-of-a-kind creation courtesy of Elizabeth. However, I do like to bake, so they should be prepared to receive a gift of a freshly baked good. Practical will be the name of the game when it comes to gift exchanges as well. Some ideas include a board game, bottle of wine or maybe a flashlight. (It doesn't get much more practical than that!)

Every family is different. The important thing is to remember what the holidays are really all about. Having a plan in place now, before everyone is caught up in all of the "holiday cheer" the stores have to offer, will help ensure you'll conquer your goal. It's a time to celebrate all we have to be thankful for and be with those we love. It is not time to break the bank and drive ourselves into utter exhaustion!

Invest in College

Luanne Underwood
Associate Financial Planner



September 2013

In August of this year legislation was officially signed that altered the interest rates charged on Student Loans for a college education. Back in 2007, a temporary provision passed by Congress lowered the rates charged on federally subsidized loans to low-income undergraduate students from 6.8% to 3.4%. Rates were scheduled to revert back to the 6.8% in July, and a bill drafted in an attempt to keep the rate at 3.4% failed to pass the Senate. Instead, the Senate passed the "Bipartisan Student Loan Certainty Act of 2013," which creates a variable rate system tied to market rates. While this keeps the current undergraduate rate relatively low at about 3.86%, one would expect the rates to rise over time based on the current economic environment. To complicate matters more, there are different formulas for graduate students, types of federal loans, and the amount of the loan. This simply translates to an increase in the cost of borrowing to fund a college education.

Maybe this topic caught my attention because my husband and I have three daughters who successfully got through college, complete with degrees *and* student loans. I must admit, we did not have a college fund in savings when the process began. (Do as I say, not as I do!) Fortunately with the assistance of good scholarships, tight budgeting, and yes, some student loans, we were able to navigate the financial roadblocks of higher education.

When considering financial options for a college education it may be helpful to understand some of the terminology. First, there are savings and scholarships. However many students are not fortunate enough to have either, so financing college through financial aid becomes an option. To apply for assistance, you will need to complete a FAFSA form (Free Application for Federal Student Aid).

Based on the financial and family information on this form, the Federal Government may provide a grant or a loan. A **grant** is a 'gift' based on financial need and does not have to be repaid. Loans are either **subsidized** or **unsubsidized**, and the school determines amounts allowed for each. The subsidized loan means the government pays the interest cost while the student is in school and possibly a grace period. This loan is based on financial need. The unsubsidized loan interest is accruing while in school, the interest rate is typically higher, and financial need is not the criteria. In either case there are origination costs to acquire the loans.

Direct Plus Loans are available to graduate or professional students and parents. Upon graduation or leaving school, loans may be consolidated into one loan through Direct Loan Consolidation. However, this process has a number of considerations and may mean forfeiting benefits offered with the original loan. It is important to understand all factors involved with loan consolidation.

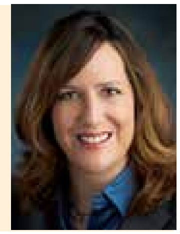
Work-study is an option presented on the application for aid. This program is administered by schools that participate in the Federal Work-Study Program and provides part-time employment to the student while enrolled in school.

The rising cost of education makes it important to consider all aspects of funding those expenses. While the rates on student loans might be higher than the rates to buy a new car, education is an investment that will provide benefits for years to come. A good website for additional financial aid information is through the US Department of Education Office of Federal Student Aid at www.fafsa.ed.gov.

The rising cost of education makes it important to consider all aspects of funding those expenses. While the rates on student loans might be higher than the rates to buy a new car, education is an investment that will provide benefits for years to come.

From a planning standpoint, and I speak from experience, saving for college early can mean less interest expense on money borrowed and will reduce the burden of graduating with a large debt to pay off. Money can be contributed into a regular account, college 529 Plan, or through gifting. Visit with us if you have questions about how you can invest for college.

Finding Your Comfort Zone



Kathleen Heit
Associate Financial Planner

So many of our financial decisions involve uncertainty, "What Ifs," and risk. Each of us is unique and we have our own comfort levels, ideas of what is risky and how far we are willing to stretch. In financial planning and investing, a client's risk tolerance is heavily considered when making investment decisions and planning recommendations.

Determining a person's comfort zone is a very interactive process with the client. This is a great opportunity for the planner and client to get to know one another and build trust. Conversations are one of the best ways to begin to gauge one's risk propensity. Topics such as past investing strategies, views of the economy and the stock market all lead to clues about a client. Even discussing the types of hobbies, travels and adventures that a client enjoys are helpful when trying to define risk tolerance.

Determining a person's comfort zone is a very interactive process with the client. This is a great opportunity for the planner and client to get to know one another and build trust.

With new clients, one thing we look at is their previous investment portfolio. We want to know how they feel about their previous allocation. Are they pleased? Do they think that it is over- or underperforming their expectations? Are the investments causing them to worry and not sleep at night? Do they not see rhyme or reason to their current holdings? All of these questions help us formulate what type of allocation would be reasonable and comfortable for our clients.

Many of you have taken our "psych test," as Randy likes to call it. Topics covered in the 25-question survey include income, investment returns, alternative investments, and even a person's thoughts and emotions. It poses questions about risk in different circumstances. These survey responses are an excellent measurable tool to rate one's risk tolerance. When discussing risk tolerance with a client, the client's answers may be influenced by what is happening at that specific time, a specific issue of concern to them or how they think they should respond.

A person's risk tolerance is always a moving target. There are always factors that can change an individual's comfort level. Perhaps a client has won the lottery and can comfortably live with more risk in their investments because their needs have now changed. Sometimes there are events in their lives that will also reduce their level of comfort and it would be appropriate to change the investment allocation or our planning recommendations. Often the simple act of aging is enough to move them to a more conservative comfort zone. Changes in one's life are important discussion topics in our client meetings. They are also why every few years we ask our clients to complete a new risk tolerance survey.

Comfort level is a significant contributing factor in determining each client's appropriate investment allocation, and determining that comfort level is a critical step toward providing the most accurate planning recommendations possible.

SAVE THE DATE!

Client Holiday Open House:

Thursday, December 5