CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

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Inside this issue…

Global Divergences

AND OUR TAKE ON CHANGES AT PIMCO

by James Walden, CFA®
Director of Portfolio Management

Divergences in the Global Economy

After a period of rather synchronized global expansion, divergences among economies and policies have emerged. The United States remains in mid-cycle expansion, while other countries and regions are experiencing meaningful slowdowns. Much of this is now being reflected in the global financial markets; during the third quarter, the U.S. benchmark S&P 500 managed a total return of 1.1%, while indices representing both developed and emerging international markets each finished down in the mid-single digits. And while policymakers in the U.S. are looking to *reduce* the amount of stimulus in their economy, their counterparts elsewhere are instead looking to *increase* it.

Game-changing developments in the oil industry are one of several meaningful contributors to the relative resilience of the U.S. economy. Technological advances have made the U.S. a much bigger producer of oil. In fact, according to the Wall Street Journal and the U.S. Energy Information Agency, U.S. oil production has ramped up so much that imports now account for only 26% of our oil consumption, down substantially from 45% just three years ago. A related increase in oil supply with a simultaneous softening in global demand growth (*despite* all of the geographic risks in oil-producing regions), has contributed to the lowest oil prices in the U.S. in about a year and a half. And lower oil prices mean that U.S. consumers have more money left in their purses and wallets to spend elsewhere.

Given this backdrop, we remain more focused on U.S. stocks than international equities at this time. However, international stocks remain a very important part of a well-diversified portfolio, and we look to opportunistically add to foreign-stock positions for those clients that require it.

On balance, we remain cautiously optimistic about equity prospects from here, and we think we've appropriately tempered our expectations. We continue to be mindful of the risks out there (as they are always out there), including geopolitical concerns and any temporary, near-term volatility surrounding the mid-term elections and changes in Fed policy.

Our Take on Bill Gross' Departure from PIMCO

At the end of the quarter, Bill Gross, PIMCO's co-founder, chief investment officer and a portfolio manager, announced he was leaving to join rival Janus. Gross built PIMCO to be one of the largest investment firms in the world, and he managed PIMCO Total Return,

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SEMINAR UPDATE

Kansas Avenue Construction

No Quarterly Seminar for November 2014

The construction for the Kansas Avenue Project is well underway and we have a front row view from our office. We are open during this time, but it is slightly more challenging to find parking and navigate the sidewalks. If you are planning to come into the office for any reason, feel free to give us a call first and we can direct you to the best place to park and access our building. The tentative schedule is for surface pavement and sidewalks to be back in by mid-November. Work will not begin on the west side of the street until spring 2015.

Because of the uncertainty for the scheduled completion of the construction, we will not be having a quarterly seminar in November. As always, we encourage you to call our office if you have any questions or concerns.

Generational Differences

Luanne Underwood
Associate Financial Planner

The experiences we have during our formative years of growing up have a profound influence on our values. This carries over to attitudes toward money. Studies have been done on the characteristics of various age groups and I find it interesting that the traits are distinct enough to be able to categorize them into four generational groups, which are widely accepted.

The Traditionalists (1927-1945)

This generation grew up during very difficult economic times. The Great Depression created an economy in crisis with personal finances devastated, shortages of food and supplies, and high unemployment. This forced many people to survive on very modest means and they became frugal with their money. The New Deal and World War II helped the nation's unemployment recover and led to more prosperity, but this generation is still very loyal, patriotic, and disciplined. They are savers and tend to only buy what they need–with cash.

Baby Boomers (1946-1964)

Although this generation saw their parents struggle to make ends meet, the post war economy allowed the Boomers to flourish. They were promised the "American Dream" and were willing to work 60 hours a week to achieve it. The reward for their hard work created a strong loyalty to their careers. Income levels grew and instant gratification became more prevalent. They were influenced by the Vietnam War, the assassination of a president, and Civil Rights. So, while they grew up challenging authority they are ambitious and have a strong work ethic. They typically do not spend more than they make, but the use of credit helps achieve their lifestyle.

Generation X (1965-1980)

More dual-income families and single parents due to rising divorce rates created a generation of children that had to be more independent and take care of themselves. Their parents were laid off from jobs to which they had dedicated their lives. Therefore, this generation questioned the workaholic attitude and strived for more work-life balance. Their goal was to work smarter, not harder. They witnessed Watergate, the energy crisis, and corporate downsizing. Their attitude toward money is more cautious and conservative. They want financial empowerment, so are more involved in acquiring financial education and knowledge.

Millennials (1981-1994)

The youngest generation grew up with busy schedules, educational experiences, and a sense of confidence. They are multitaskers with strong entrepreneurial ambitions. Their exposure to technology while growing up has created a very communication savvy generation. They feel technology helps them achieve their work-life balance. Flextime, job sharing, and work from home are requested to achieve their quality of life. While they may be the most educated generation, they face many economic challenges. They are often unemployed or underemployed, and combined with record high student loan debt their financial burden is significant. Their earnings are a means to spending and it is too early to tell what the longer-term saving characteristics are.

Each generation has had their challenges and successes. One generation's attitudes are not necessarily better than another. All of us are a reflection of our experiences, which influence our financial decisions. It's important that, as financial planners, we understand and appreciate our clients' generational differences.

Global Divergences... *continued from page 1*

the world's largest bond fund. His departure is relevant to our investment-management clients, many of whom had exposure to Gross through Harbor Bond Fund (which is based on Total Return) and/or PIMCO Fundamental IndexPLUS AR.

After careful consideration, we have decided to broadly maintain our allocations to these funds at this time. To be sure, we think Gross leaving (or a change at the helm of any fund) is a major development, but one that does not automatically result in a "sell signal" for us.

We have evaluated a number of things that give us comfort to continue to hold these investments. For one, neither PIMCO nor its funds were or are about just one individual. In fact, PIMCO's big-picture strategies are determined by an Investment Committee, and managers are subject to constraints placed by the firm's Risk-Management Committee. Further, we can point to favorable, objective criteria related to the performance of several individuals chosen to take on the responsibilities Gross held, including track records at various funds they managed and the fact that they include the 2012 and 2013 Fixed-Income Fund Managers of the Year, as determined by Morningstar. We also participated in a client-wide conference call held by PIMCO, in which firm personnel indicated that there will be no change in fund strategies from those that have served our investors well over the years.

Of course, we do and will continue to evaluate to make sure the new PIMCO personnel do what they say and continue to do it well. If we begin to lose confidence in them for any reason, we would look to make changes.

Understanding Your Estate Plan

One of the financial planning topics we review with clients is estate planning, the area that clients have usually neglected the most. Frequently they have not done any planning. Other times they have documents but didn't make the necessary changes to the insurance policies or retirement plans to correspond with their documents. They may be unaware that beneficiary designations on insurance policies and retirement plans will be followed regardless of what the will or trust document says. This has presented some interesting scenarios, including a beneficiary designation naming an ex-spouse even though the client planned on leaving assets to his current wife.

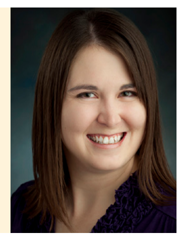
In some situations, clients have extensive estate plans with revocable trusts and life insurance trusts. These are designed to help avoid estate taxes and reduce administrative/probate costs upon death. If asset ownership and beneficiary designations are not aligned with their documents they may negate the benefits of the estate plan they had paid hundreds or thousands of dollars for.

Not all of our clients have complex estate documents; they simply have wills, but potential problems still exist. Frequently parents, for a variety of reasons, want to spread the distribution of their assets over several years or decades. And so in their wills they create a trust for their children so that the kids cannot have access to all of the money immediately. However, upon review of their life insurance and qualified plans we see they have named their children as the contingent beneficiaries of their life insurance and qualified plans. Consequently, by using the beneficiary designations (and bypassing their wills), their children will have the money immediately upon the second death—not the parents' intent.

We're not attorneys, but we work closely with attorneys to facilitate the estate planning process and will contact the attorney who drafted the documents if there is a question about the proper beneficiary designation. And—every few years—we'll review those documents again. Estate laws change, personal situations may change, and sometimes clients acquire assets but don't use the most beneficial form of ownership.

People may not necessarily enjoy discussing what will happen upon their death, but they generally have an idea what they want to have happen. We're here to help ensure assets transfer as they wish.

Barbara Heller
Senior Financial Planner



A World Without Commissions

Written by Randy J. Clayton, CFP® & Elizabeth Young, CFP®

Netherlands, United Kingdom, Australia, India, Norway, Finland and Denmark. What do these countries have in common? They have all banned commissions paid to financial advisors.

In addition to banning commissions, many of these countries have also introduced a statutory fiduciary duty, which requires financial advisors to place the best interests of their clients ahead of their own when providing financial advice.

While the bans and other financial reforms vary in scope depending on the country, the reasoning is similar: the reforms improve the trust and confidence of investors in the financial services sector.

Studies have shown time and time again that few investors truly understand how financial advisers get paid.

With these developed financial services markets introducing such financial reforms, it would seem the U.S. has fallen a bit behind in the evolution of regulating financial advisors. Unfortunately, there are too many vested interests benefiting from pseudo advisors selling expensive financial products and pocketing healthy commission checks here in the U.S.

Studies have shown time and time again that few investors truly understand how financial advisers get paid. It is clear in the medical industry: medical doctors should not sell prescription drugs or own pharmacies. If they did, there would be an inherent conflict of interest and potential threat to human life. Common sense. Yet when it comes to investing a person's life savings and providing financial advice, lawmakers have taken the stance of caveat emptor (buyer beware).

Luckily, there is one group of financial services professionals that has taken a very clear stance on the issue here in the United States: the National Association of Personal Financial Advisors (NAPFA). NAPFA states that their members must, as part of their membership, not be involved in commission-based financial planning at all, including investing in firms that accept commissions. It's also worth noting that NAPFA and the CFP Board of Standards continue to battle with regulators in an attempt to require financial planners and others who offer investment advice to adopt fiduciary standards.

At this point, we can only hope the United States learns from the reforms that have taken place abroad. With some luck (and a lot of lobbying) maybe someday the U.S. will adapt similar reforms geared toward protecting investors. Until then, we will have to rely on www.napfa.org for a listing of truly Fee-Only financial advisors.

Kathleen Heit, Associate Financial Planner, is happy to announce the arrival of daughter Morgan Anne Heit. The 7 lb 12 oz girl was born on August 8th, measuring 20.5 inches. Mother and baby are doing well. Kathleen will be in the office part-time beginning October 2.

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the power of innovation.

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