CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q3, 2015

SAVE THE DATE!

Holiday Open House

Thursday, December 17

4:30-7:30.

CFSI 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…

The Stock-Market Correction: What Happened and What's Next

by James Walden, CFA®
Director of Portfolio Management

The third quarter was a rough one for stock markets around the world, with the U.S. benchmark S&P 500 down 6.4%, including dividends. The index's quarterly performance was its worst since the third quarter of 2011, which came on the heels of a U.S. debt-rating downgrade and European debt fears. It was also enough to push the S&P into "correction" territory (a market decline of at least 10%) for the first time in four years. The biggest catalyst for the sell-off was heightened concerns about China's slowing economy and clumsy responses by its policy makers.

While a market correction brings joy to no one, we think it's important to keep this decline in perspective.

While a market correction brings joy to no one, we think it's important to keep this decline in perspective. Looking back over time, the stock market has experienced one correction a year, on average. Corrections can be a healthy part of a normal business cycle if they prevent markets from becoming too frothy, and, in turn, help avoid a more precipitous decline the next time around.

In our opinion, the most important question now is "Is this 10% decline a normal, garden-variety correction, or is it the start of something bigger?" We've spent a considerable amount of time analyzing the situation, and at this point in time, we believe that the correction will be relatively short and shallow.

At the top of our list of supporting evidence is the historical relationship between bear markets and economic recessions. Most bear markets (a decline of at least 20% from the previous market high) in the S&P 500 have been associated with recessions in the U.S. economy. And we don't anticipate a U.S. recession in the near term:

- Business activity typically contracts from untenable inflation and/or interest rates. Both conditions are absent.
- Oil has been declining, not increasing.
- Job growth has remained steady.
- Despite our concerns about China, the United States' exports to China represent only 1% of U.S. GDP.

Of course, we remain diligent in our analysis, and we will shift our thinking and become more defensive with our allocations as warranted. In the meantime, we have slightly reduced our equity exposure for our more conservative clients to reduce portfolio volatility.

The Harm in Financial Journalism

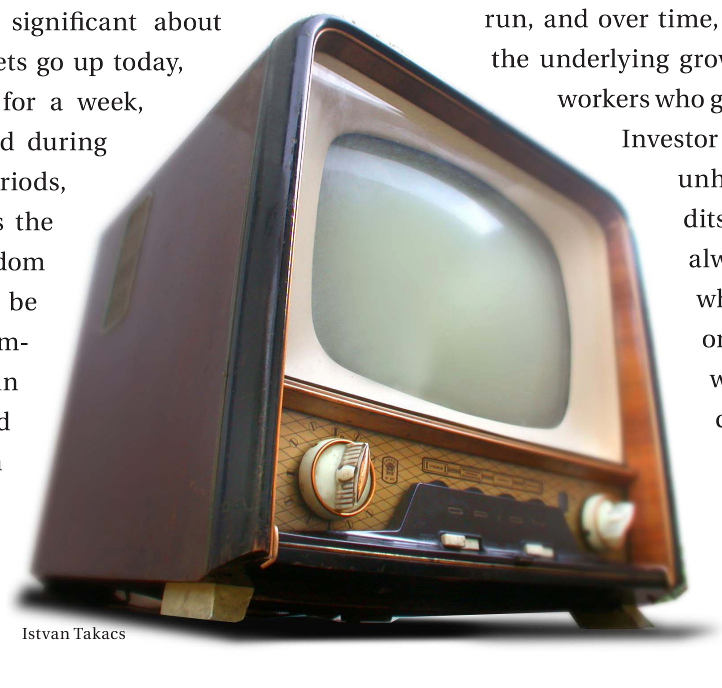
One more reason to turn off the TV.

In most areas of our lives, the more information we get and the more up-to-the-minute it is, the better we can do business and make astute decisions. It is interesting that investing is one area where the opposite is true.

We're not talking here about the second-by-second blips on a Bloomberg terminal that traders and computer algorithms use to make quick-twitch buys and sells. We're talking about the normal news reports, cable TV investment reports and investing articles that you're bombarded with on a daily basis. In general, the news and data supplied by consumer journalists is almost always harmful to your financial health.

How? Consider profiles of mutual funds and mutual fund managers. The quarterly profiles in *Barron's* and the articles in *Money*, *Kiplinger*'s and the *Wall Street Journal* tend to focus a bright spotlight of attention on the hot funds—that is, funds that outperformed their peers (and the market) in the previous quarter. Three months' worth of track record is statistical nonsense, but the hot fund manager is interviewed with breathless deference normally given to a certified genius. It is interesting that seldom if ever is the next quarter's genius the same as the last one. Anyone who invests with the fund of the hour is in grave danger of suffering a regression to the mean—which means losses when compared with the indices.

Even one-year and five-year rankings have no predictive value, particularly when the focus is on outliers who were well ahead of their peers. Meanwhile, when we aren't reading about hot managers, we're hearing about what the stock market did (or is doing) today. Today's price movements are, to a statistician, meaningless white noise, indicative of nothing remotely significant about the future. The markets go up today, down tomorrow, up for a week, down for a week, and during each of these time periods, analysts try to tell us the causes of these random bounces. They would be more productively employed trying to explain the "causes" behind each of the waves in the ocean, yet we can't help listening to their plausible explanations as to why this earnings report, that jobs report, or some other speculation on what the Federal Reserve Board will or will not do has affected our investment outlook.



Istvan Takacs

And, of course, at market tops, when new money is chasing returns at the most dangerous possible time, the news reports are telling us how the markets have been going up, up, up. When markets are depressed, and it is the best possible time to put new money to work, the news reports are telling us all the bad news about months of market losses. Swimming against that tide is nearly impossible, even for professionals.

There may be meaningful information among this chatter, but it's unlikely that most of us will see it amid the noisy background. Back in the late 1990s, one analyst who couldn't believe how much people were paying for tech stocks finally broke through the background noise by pointing out that Amazon's share price had reached approximately the same level as the entire yearly economic output of the nation of Iceland, plus a few 747 cargo jets to carry it all back to the U.S. Of course, few listened, and the bursting tech bubble cost a lot of investors a fortune.

> *In general, the news and data supplied by consumer journalists is almost always harmful to your financial health.*

Unlike just about any other activity you might pursue, the best, most astute way to invest is to turn off the noise and let the markets carry you where they must. The short-term drops tend to become buying opportunities in the long run, and over time, the U.S. and global economies reflect the underlying growth in value generated by millions of workers who go to work each day and build that value. Investor sentiment will swing around with the unhelpful prodding of journalists and pundits, but people who stay the course have always seen new market highs eventually, while people who react to every positive or negative report tend to fare much less well. When it comes to the markets, wisdom trumps up-to-the-minute knowledge every time.

Maybe somebody should tell that to the journalists.

The Value of Objective Planning

What is the value that people get when they work with an objective, client-focused financial planner?

Most financial planning firms are reluctant to toot their own horns—partly out of modesty, and partly out of a conviction that you probably have better things to do than read about how they help you with your financial life. But every once in a while, it's a good idea to stop and think about what you get for what you pay.

1) An independent financial planner helps you keep track of your financial affairs.

It is not uncommon for financial planners to talk with clients who once had a will drawn up, but they're not sure exactly when. Now that you mention it, they're curious about what, exactly, it says. There's an insurance policy in a drawer somewhere, and it may be term or it may be a cash value contract; all the client knows for certain is that he writes a check to the insurance company every year. The auto insurance policy he happens to own is way more expensive than the lowest rate available in the market, and the homeowner's policy hasn't been updated since the Clinton Administration.

And the investments are not uncommonly a hodgepodge from lack of a long-term strategy.

Hopefully, this was never you. But it does offer a certain peace of mind to know that everything is organized, in one place, and that somebody is paying attention to the details. Because in your financial life, the details matter.

How many people do you know who have taken the time to identify what they really want out of life?

2) An independent financial planner will stand between his/her clients and the dysfunctional emotional decisions that everybody makes with their own investments.

Do you remember how it felt when Lehman Brothers went down, and the U.S. government was bailing out General Motors? Many people sold everything at the bottom, and then waited, and waited, and waited to get back into the markets until it was "safe." They never dreamed that the markets would go on a six-year bull run that would take us to new record highs.

The Morningstar organization has calculated the difference between investment returns and investor returns—that is, between the returns people get vs. what the markets (or individual mutual funds) have delivered. Results? It is not unusual, during various time periods, for individual investors to get about half the returns of the market. How is that possible? They may be moving the portfolio around, or buying an attractive-looking hot fund or selling a great fund that's going through a rough patch. They may sell out at the bottom of a scary period, or go all-in when the markets are about to take a nasty tumble.

For many of us, the best approach is to find good, solid investments and stay the course through thick and thin, ups and downs. But it's very hard to do those things on your own. An independent advisor provides a dose of objectivity right when you need it.

3) An independent financial planner is a strong advocate for your future.

You know the statistics about the savings rate in America (the 2000-2008 numbers hovered around 0% of income, spiked briefly after the Great Recession and are now back in the 1% range again). But the keepers of these statistics don't tell you that they probably overstated the actual rate, because they didn't include things like increasing credit card balances or home equity loans. When people put money in their savings account, and at the same time run up more debt, it counts as an increase in their savings.

The problem for most consumers is that there is no voice in their environment advising them to pay themselves a fair percentage of the income they earn. Instead, they're bombarded by messages that make powerful arguments to do the opposite: to buy this, that, or something else. The entire advertising community conspires to take those dollars out of their hands before they ever hit an investment account.

Advisors become that rare voice speaking out in favor of saving. And in some cases, they help identify expenditures that are not in line with your stated future goals. Which leads us to:

4) An independent financial planner helps people identify what is important in their lives and prioritize their goals.

How many people do you know who have taken the time to identify what they really want out of life?

The incredibly sad truth is that the vast majority of people in our advanced, prosperous society have not taken the time

The Value of Objective Planning... (continued)

to figure out what they really want out of the all-too-brief time they will spend on this planet. And because they don't know their destination, they will never reach it. They are, in a very real sense, at the mercy of whatever agenda others have for them.

An independent financial planner will ask questions in your initial interview which help you recognize what you don't know about what you want, and help you identify your most personal goals and desires. That, alone, can be a priceless service.

5) An independent financial planner can help people turn seemingly impossible goals into a routine that can achieve them.

After years of running retirement planning spreadsheets, and working with successful individuals in the community, advisors eventually master one of the truly magical lessons of life: that any enormous goal can be broken down into manageable, monthly increments, and achieved by routine and persistence. You save "X" amount of dollars every month in a portfolio that gets something close to what the market offers, and you will retire with a sum of money that seems impossible to you now.

Clients who have goals that they don't believe they can achieve are put on a schedule that will get them there as a matter of routine.

Of course, this list doesn't include specialized services like making retirement planning projections, charitable planning, creating special needs trusts for a disabled child, evaluating disability and long-term care insurance—and it doesn't mention the comfortable knowledge that you can call an expert for advice on virtually any financial subject, and you'll get an answer that is not tainted by a sales agenda.

The point is that the services offered by an independent financial planner can have enormous value to people who are motivated to enjoy successful, prosperous lives. An independent planner's only goal is your success and prosperity, which should not be—but is—unusual in our financial world.

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, Nov. 3, 2015
Noon – Light lunch provided
6pm – Hors d'oeuvres & wine

Weds, Nov. 4, 2015
Noon – Light lunch provided

Thurs, Nov. 5, 2015
Noon – Light lunch provided
6pm – Hors d'oeuvres & wine

Place:

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

Barbara Heller
Senior Financial Planner
Elizabeth Young
Senior Financial Planner
Kathleen Heit
Associate Financial Planner
Luanne Underwood
Associate Financial Planner

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