CLAYTON
FINANCIAL SERVICES, INC.

the Quarterly

Q4, 2013

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Inside this issue…

A Quick Review and a Brief Look Ahead

by James Walden, CFA®
Director of Portfolio Management

Santa Claus came early and often for investors in the U.S. equity markets during the fourth quarter. The broad-based S&P 500 returned a total of about 10% in the fourth quarter, providing an exclamation point at the end of an already strong year. In fact, the 32% total annual return for the S&P 500 was the strongest since 1995. This far outpaced the annual 2% decline in both emerging-market equities and U.S. investment-grade bonds (as measured by the MSCI Emerging Markets Index and the Barclays Capital Aggregate Bond Index, respectively).

Once again, governmental policy provided most of the headlines and catalysts during the quarter. The period began with a partial federal government shutdown that lasted 16 days. While the shutdown no doubt had a negative impact on the economy, we think the damage will prove to be minimal and not enough to tip us into recession; all furloughed employees received full back pay and the economy should experience a bounce back during the following quarter. Following the reopening of the government, Democrats and Republicans were able to put aside their differences (at least temporarily) to avoid a debt-ceiling crisis and to finally agree upon a budget. The significance of passing this budget isn't so much the dollars involved or their impact on the deficit; rather, it's the fact that it covers a two-year period, removing the related uncertainty from the financial markets for a considerable time.

Perhaps the most significant policy-related event was the decision by the Federal Reserve, after head fakes and market misinterpretations, to *finally* begin tapering its massive $85 billion-a-month bond-buying program known as "Quantitative Easing." Given the broad and violent selloff across virtually all asset classes when the Fed first floated the idea of tapering back earlier in the spring, we were very pleased with the market's reaction this time around. It seems the market accepted that tapering is not the same as tightening and cheered the Fed's new commitment to keep rates low for longer than expected in exchange for beginning to taper now. While it is certainly still early in process, we view this initial reaction by the markets as a significant positive for our investors.

Turning our attention to what may lie ahead, we are cautiously optimistic for 2014 prospects. From an economic perspective, we believe the U.S. will turn a corner for a few reasons. GDP growth should accelerate in 2014, due in large part to fewer headwinds from the public sector. The economy shouldn't experience the negative impact from reduced spending related to troop withdrawals, and the collective fiscal situation of the states should be better. Also, we expect to see more meaningful progress on the jobs front. In fact, if current employment trends continue, the private sector should re-

continued on page 4…

Heit Receives Certified Financial Planner Designation

Kathleen Heit, CFP®

Months of committed work and study paid off for planner Kathleen Heit last year when she was awarded the CFP® designation by the Certified Financial Planning Board. Kathleen joined the company in 2011 and the following year began the CFP® coursework. Her studying took a hiatus while planning for an October 2012 wedding to architect David Heit of Schwerdt Design Group, but the couple decided to postpone the honeymoon until after the exam. Months of late nights and weekends studying paid off for Kathleen with a successful completion of the exam the following year.

Finally, a year after the wedding, Kathleen and David went to Fiji for their honeymoon. An experienced scuba diver and instructor Kathleen was able to drop the student role and become the teacher so that both she and David were able to swim with the sharks.

Kathleen joins the other planners at Clayton Financial in offering comprehensive advice about retirement and employee benefits, asset accumulation, estate planning, risk management and investments. The CFP® designation reflects the ethical standards, experience and rigorous education standards expected of professional planners.

We're pleased to have Kathleen at Clayton Financial and proud to have her join the ranks of CFP® practitioners. We're looking forward to seeing what she will accomplish in 2014—and recommend her as a planner and a resource for any of your scuba diving questions!

2014 Contribution Limits

Elizabeth Young, CFP®
Senior Financial Planner

As we embark upon the New Year, many are doing a quick review of their retirement saving plans. As part of this endeavor, I thought a brief overview of the contribution limits for 2014 might be helpful. For the most part, the 2014 contribution limits will remain the same as they were for 2013. Here's the breakdown.

You can contribute as much as $17,500 to a 401(k), 403(b), 457 or the federal government's Thrift Savings Plan. For those that are age 50 or older in 2014, an additional catch-up contribution of $5,500 can be made. The annual limit for traditional and Roth IRAs also remains the same at $5,500, plus as much as $1,000 more if you're 50 or older.

The income limits, which determine who can contribute to Roth IRAs is increasing slightly. You can contribute to a Roth IRA in 2014 only if your adjusted gross income (AGI) is less than $129,000 if single or $191,000 if married filing jointly.

For some self-employed people, they may be funding a Simple IRA. If you are under age 50, the contribution limit for them is $12,000. If you're age 50 or older in 2014, you can contribute an additional $2,500 for a total contribution of $14,500 to a Simple IRA.

Other savings vehicles utilized by the self-employed and small business owners include the SEP IRA and Solo 401(k). The contribution limit for these plans will increase from $51,000 to $52,000 in 2014. This is due to the new compensation limit used in the savings calculation: It is now $260,000, up from $255,000.

The 2014 annual contribution limit to a Health Savings Account (HSA) for someone with single medical coverage is $3,300. The limit is $6,550 for those covered under qualifying family medical plans. If you are age 55 or older in 2014, you can contribute an additional $1,000 per year.

Compensation Confusion: Fee-Based and Fee-Only

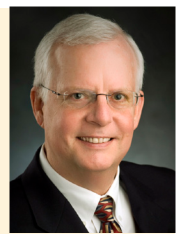
"If you need professional help with your finances, we've long recommended using a fee-only financial planner to avoid conflicts of interest. If an adviser is paid through sales commissions, it's hard to be sure he or she is choosing financial products that are best for you. Paying a fee that's not tied to a sale can reduce potential conflicts."

— Consumer Reports

"Anyone can hang out a shingle as a financial planner, but that doesn't make that person an expert. They may tack on an alphabet soup of letters after their names, but CFP (short for Certified Financial Planner) is the most significant credential."

— Wall Street Journal

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



I do not know of any respectable financial publication that does not reiterate the same sentiments as Consumer Reports & the Wall Street Journal: be cautious when working with commission-based sales people that are not Certified Financial Planners (CFP®). Most people would benefit most from a CFP® that can provide an unbiased opinion about their financial situation, not someone that sells things (investment and insurance products).

While many of our clients have been with us for several years and value our unbiased advice, studies and surveys have shown the utter confusion among the general public with regard to the financial services industry. And the confusion is understandable. Fee-based sounds very similar to Fee-Only, but to not understand the difference can cost a person dearly. Fee-based means someone is charging a fee AND earning a commission. Fee-Only means no commissions, and no conflict of interest. Many believe there is an intentional attempt to make the name sound similar and mislead the client/customer.

There are two internet sources a person can use to find a financial advisor. One is the Certified Financial Planner Board of Standards: www.cfp.net. There, a person can search for an advisor, limiting the search to Fee-Only financial advisors. The other is the National Association of Personal Financial Advisors: www.napfa.org. This is a professional association of only Fee-Only financial advisors. In both searches, within a 30-mile radius of Topeka, you will find only one firm.

...the confusion is understandable. Fee-based sounds very similar to Fee-Only, but to not understand the difference can cost a person dearly.

SAVE THE DATE!

Economic and Investment Seminar

Plan to attend our Market Update Seminar to hear Clayton Financial Service's outlook for the future.

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

Presenter: Randy Clayton, CFP®
James Walden, CFA

Times: **Wed. Feb. 12, 2014**
2:00 pm & 6:00 pm
Thur. Feb. 13, 2014
2:00 pm only

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

A Quick Review... *continued from page 1*

cuperate all of the jobs lost since the downturn by around April. (Total employment will still be down, as jobs at the federal and state levels remain significantly lower than pre-crisis levels—although trends look to be improving here, too.)

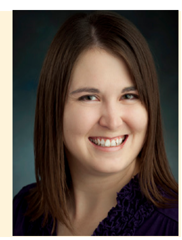
The big question for 2014: With U.S. equities turning in such a stellar year in 2013, what will happen next? When looking at previous instances of outsized annual gains, the results of the years following provide a mixed picture, and every year is different. At the very least, we want our investors to have appropriately tempered expectations of equity returns in 2014; while it is quite possible that 2014 will log another positive return, it is *highly unlikely* that any such returns will come close to 2013 results. On one hand, there is credible evidence that we are in the early stages of a multi-year bull market, and valuations, while not cheap, are still pretty reasonable. On the other hand, using historical trends as a guide, we are due for a market correction. (Market corrections are a normal part of the financial cycle.) We continue to spend a great amount of effort trying to anticipate the next one and its magnitude—and to position your portfolios appropriately, weighing the costs and benefits of any action we may or may not take. At this time (subject to new information that always comes along), we expect the next correction to be relatively short and shallow, simply because we don't see any excesses similar to those that built up during the tech bubble and the housing crash. But we continue to look for them.

And while U.S. equities should have a much more modest year in 2014 compared to 2013, we think equities are still a better place to be than fixed income, all else equal. Interest rates should continue to rise in 2014 in lockstep with an improved economy. They may not always rise in a linear fashion, but we anticipate any changes to be much less volatile than some of the whiplash changes during 2013. While rising rates will put some pressure on bond prices, the all-in return for bond investors is buffeted by factors such as interest income and credit spreads. Regardless, fixed income remains a critical component of most well-diversified portfolios in appropriate doses.

Thank you for your continued trust in Clayton Financial Services.

The Health Sherpa

Barbara Heller, CFP®
Senior Financial Planner



The past few months the news has been filled with reports of issues with the government website where individuals are supposed to be able to sign up for health insurance (HealthCare.gov). Many people have not even been able to determine what a policy would cost them if they wanted to sign up. However, it is possible to shop healthcare options by completely bypassing the government website.

An independent website where you can shop and compare health plans is www.thehealthsherpa.com. This site was created by three young programmers who experienced their own difficulties in trying to use the government site. From the website: "The Health Sherpa is a free guide that makes it easier to find and sign up for health insurance under the Affordable Care Act. We only use carefully vetted, publicly available data. The Health Sherpa is not affiliated with any lobby, trade group or government agency and has no political agenda."

It is important to know that you cannot use this website to sign up for insurance; it is only for research purposes. However, it does allow you fine-tune the results by your zip code, age, family size, and income level. This is a valuable tool for exploring options before signing up for insurance.