CLAYTON
FINANCIAL SERVICES, INC.

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

PLEASE NOTE TIME CHANGE!
The evening seminars will be starting at 5:30pm.

Dates & Times:
Tues, Feb. 9, 2015
Noon – Light lunch provided

Weds, Feb. 10, 2015
Noon – Light lunch provided
5:30pm – Wine & cheese

Thurs, Feb. 11, 2015
Noon – Light lunch provided
5:30pm – Wine & cheese

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

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 Quarterly
Q4, 2015

A Look Back at 2015: A Look Ahead at 2016

by James Walden, CFA®
Director of Portfolio Management

Wrapping up 2015

The broad-based S&P 500 gained a total of 7.0% during the fourth quarter (including dividends), gaining back its -6.4% total decline of the previous quarter. For the year, the index was essentially flat. If one had checked index levels only at the beginning and end of the year, he or she might reasonably think that 2015 was a dull year for investors, with little activity.

That's hardly the case. We would characterize the 2015 financial markets, in a word, as "fidgety," with the S&P 500 crossing above and below the breakeven line a record 30 times. Investors had much to digest during the year, including topics we've addressed in these pages before:

- The first 10% "correction" in the S&P 500 in four years
- The first interest rate hike by the Federal Reserve since it lowered its target rate to 0% in December 2008
- Heightened concerns about slowing growth in China
- Stress in the high-yield bond market
- Meaningful declines in oil prices

Early Thoughts on 2016

As we head into 2016, we think it's important that we and our clients have appropriately tempered expectations for the economy and financial markets. Our base case at this time is that the U.S. and global economies will see further expansion, albeit at rates similar to the modest growth since the recovery and below historical averages. While economic growth should be lackluster, we don't anticipate a U.S. recession in the near future.

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We continue with our longstanding positioning of favoring equities over bonds, although any gains in the stock market will likely be modest. Equities can produce gains in a low-growth environment, but they will likely need to be generated from earnings growth instead of the euphoria of market participants.

For bonds, we expect continued headwinds as the Fed gradually increases its target rate after its initial increase in December 2015. (As interest rates go up, bond prices typically go down, but the total return for bond funds can also be positively impacted by interest income, credit spreads and trading gains.)

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Why We Request Tax Returns

We would like to make sure all of our clients understand why we want a copy of your tax return.

Our planners review every tax return using an in-depth checklist looking for the proper deductions, classifications, entries, etc. Having a second set of eyes reviewing the returns can be helpful, and in the past has saved our clients thousands of dollars.

The tax return also provides valuable answers to many of our investment decisions and/or financial planning recommendations. Some common examples are:

- If we sell an investment, what impact will potential capital gains or losses have?
- Does the client have any loss carry-forwards we can consider?
- Instead of selling an investment, is there an opportunity to donate it to a charity?
- Are 529 plan contributions (education savings) being properly deducted?
- Were adjustments for KPERS and/or long-term care insurance premiums made?
- Would it be appropriate to consider a Roth conversion this year?

We view this evaluation process as part of the comprehensive financial planning services we provide. Look for our requests again next year and the years following. Thank you for your cooperation.

A Look Back at 2015: A Look Ahead at 2016... *from page 1*

However, there are plenty of other factors that should limit how high rates will rise this year, and we think bonds remain a very important element of a well-diversified portfolio for most investors.

Above all, we expect a period of continued, if not increased, market volatility. Some of the events driving market volatility should factor into 2016, also:

- China's growth rate should continue to slow as it progresses along its long-term economic transformation.
- While the uncertainty of when the Fed will *begin* to raise its target rate has passed, guesswork on the open-ended timing and pace of *subsequent* Fed hikes will likely cause the markets fits.

With heightened volatility comes the increased chance of market pullbacks. At this point, we don't anticipate anything deep or long-lasting; should our thinking change, we will make adjustments to portfolios accordingly.

Medicare Cost Increases

Some Medicare participants will avoid having to make higher payments next year. Others may not be so lucky. The same time it was announced that Social Security recipients won't receive any increases in their benefits, the government was announcing that certain Medicare participants would be paying dramatically higher premiums for Medicare Part B, the highest price jump in the program's history. In general, the higher premiums will affect new enrollees in 2016, enrollees who don't yet collect Social Security checks; enrollees with incomes above $85,000 (single) or $170,000 (married), and dual Medicare-Medicaid beneficiaries. In all, that represents 30% of 2016 Medicare beneficiaries—roughly 7 million Americans.

This jump in some recipients' costs is, ironically, tied to a relative bargain for others. Under something called the "hold harmless" clause in Social Security, in years when there is no cost of living increase in Social Security payments, the government also has to keep Medicare Plan B the same for those receiving Social Security payments. Under current law, the government has to collect 25% of all expected Part B costs from recipients each year. As a result, this relative bargain for many retirees had to be paid for by others, meaning: those NOT receiving Social Security checks.

Medicare recipients who are not taking Social Security checks, who fall below the income thresholds, will see their monthly premiums go up from $104.90 to $159.30. Those whose income is above the threshold could see increases of $223 a month up to $509.80 a month for individuals whose family income exceeds $428,000 a year.

Next year will see some retirees make out better than expected on their Medicare costs, while others will lose big. There are proposals in Congress to fix this situation, but you shouldn't expect any big reform in an election year.

Should you take matters into your own hands and start collecting Social Security benefits, putting you in the protected class of Medicare recipients? Probably not. First, for those under age 70, it means locking in lower Social Security benefits. And second, if your income is above the $85,000 (single)/$170,000 joint) thresholds, you will pay higher premiums anyway.

How Do I Pay for Health Care Costs While Living or Traveling Abroad?

— THE FINANCIAL PLANNING ASSOCIATION®

Generally speaking, public and private health insurance plans in the United States — including Medicare and most private policies — only pay for treatment and services provided to individuals while they are in this country. Therefore, as an American living, working, or traveling outside of the United States, you will typically be required to pay for any healthcare costs you incur while abroad.

Even though officials from a U.S. consulate may be able to help you by locating medical services, by informing family or friends of your predicament, and by assisting in the transfer of funds from the United States, the payment of all expenses remains your responsibility. (There are exceptions, however. For workers posted to a non-U.S. location, for example, insurance provided through employers usually does cover overseas medical costs.)

With that in mind, it's almost always a good idea to purchase a special health insurance policy before you depart, that will cover you during your travels — especially if you have a serious pre-existing condition (diabetes, HIV, etc.). A travel agent or insurance agent can help you find one that fits your time frame, such as a short-term health insurance policy for travelers that are available to cover brief international trips.

Without insurance, the financial implications of incurring healthcare costs in a foreign country can be significant. For example, a patient who undergoes major surgery and spends several weeks in intensive care in Mexico could receive a hospital bill for $30,000 or more. And a subsequent medical evacuation back to the United States could cost nearly as much.

Remember, too, that moving to a country with universal health coverage does not necessarily mean you will be immediately eligible for such coverage. In Canada, for example, you must be a legal resident of that country in order to fully benefit from its national healthcare system.

Although most trips abroad end without a visit to a doctor's office or hospital emergency room, purchasing a health insurance policy to cover you during international travel could end up saving you thousands of dollars in unexpected expenses.

Your Extended Lifespan:

Why you may be 15 years younger than you think you are

How long are you and I going to live? None of us knows, of course, but this number is important for a variety of planning issues—including, of course, how long your money will have to last in retirement. Actuarial tables tell us how long people will live on average, but that isn't much help for planning a specific person's life, and the averages conceal a lot of variation.

Living today is a huge advantage over living in the past, and living in a developed nation is a benefit as well. As you can see from the chart, most children born in the late 1700s had a life expectancy below age 35; today, the global average is 70, and people who make it to age 65 have a good chance of living to 85 or longer.

If you're above the national average in wealth and income, and especially if you have certain lifestyle characteristics like regular exercise and no tobacco usage, then there's a good chance you'll live longer than these averages.

There's a website that can help you get a better feel for your expected lifespan; it's called Living to 100 (www.livingto100.com). The site asks you a series of questions including your birthday, gender and marital status, and some interesting questions related to the number of new relationships you've developed over the last 12 months, the way you cope with stress and some of the sources of stress you're currently experiencing, your normal sleep habits and your education level.

There are questions on nutrition, your height and weight, how often you eat red meat and sweets, and at the end, you are told how well your answers match up with the tendency to live a long life. At the end of a tutorial on your answers and suggestions for improvement, you get a calculated life expectancy, and a list of things that could add as many as ten years to that life expectancy.

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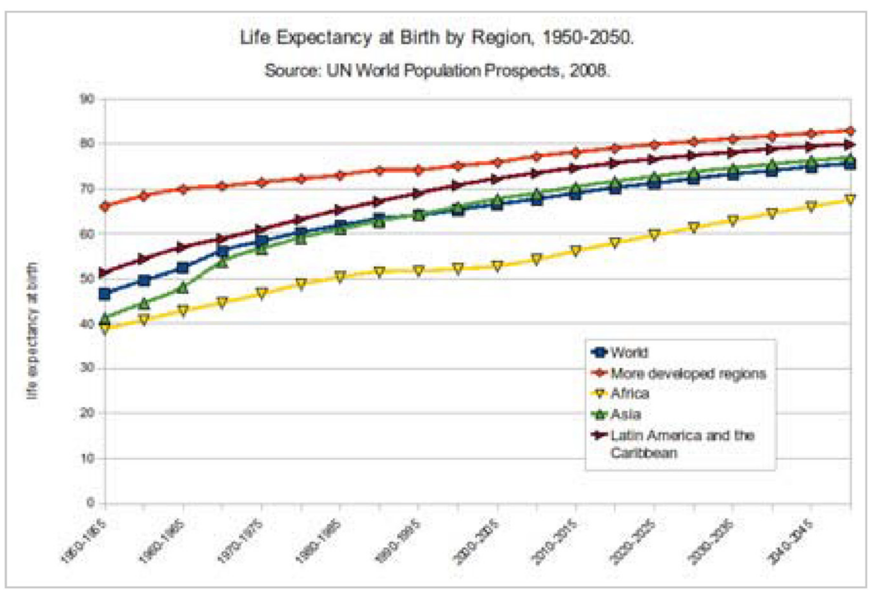


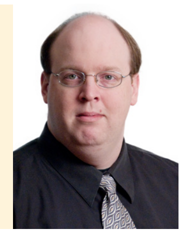
Your Extended Lifespan... *from page 3*

Chances are, you'll be surprised at how long you're expected to live, and astonished at the possibilities suggested in the list of potential changes to your lifestyle. That means that you've managed your life and your health intelligently, and the extra years could be an unexpected bonus. Of course, it also means that you should take a second look at how much you've saved and the possibilities of using your skills and experience to earn income during retirement.

Bottom line: you may discover that you have 15 more years to live than you expected based on your experience with your parents, which means you can start thinking of yourself as 15 years younger when you look at your options and personal timeline.

Opportunities in Equities

J.D. Kaad
Portfolio Analyst



2015 was an eventful year for international equities. Emerging markets suffered the most from this volatility, with a nearly 15% decline in the Morgan Stanley Capital International (MSCI) Emerging Markets index, whereas developed economies displayed a milder 1% pullback in the MSCI Europe, Australasia and Far East index (EAFE). Challenges should continue in the emerging markets, but conditions in the developed economies seem to be setting the stage for improvement.

While the MSCI EAFE's performance for 2015 was negative, its mild underperformance is encouraging in the face of the 12% correction it saw through the second and third quarters. It was during this time that concerns were raised that Greece would not adhere to its promises of austerity, which reached its peak in August when Prime Minister Alexis Tsipras resigned to hold an emergency election. In the end, Tsipras won this election, and confidence in Greece's adherence to austerity returned.

Several recent economic developments have moved in favor of growth in Europe and Japan. Both the Euro and the Yen have become relatively cheap when compared to the US Dollar, which benefits their exports since their goods will be less expensive. Also, the Bank of Japan and the European Central Bank are committed to keeping their economic policy accommodative in their ongoing efforts to foster growth in their economies. Finally, both Europe and Japan rely on imports for the majority of their raw material consumption, so they benefit greatly from the inexpensive oil and cheap commodities we see presently.

One notable headwind for investing in international equities has been the rising dollar. Investing abroad exposes the U.S. investors to exchange rate risk, which is the possibility that an investment's return will be impacted should exchange rates shift too rapidly in favor of a rising dollar. It is possible to mitigate exchange risk through currency hedging, although the cost attributed to hedging encumbers potential returns. In fact, hedged strategies have traditionally underperformed un-hedged investments over the last 20 years. Further, while the U.S. dollar has recently seen meaningful appreciation, we think it is unlikely to continue at this rate. In 1994 and 2004, the dollar appreciated in the period of time leading up to the Fed's initial rate hike, only to level out or decline afterwards. In addition, the U.S. continues to run a trade deficit, which should further pressure the dollar over time.

It is for these reasons that we originally invested in developed international funds. While last year's volatility made for a slightly disappointing performance we still hold to our view that it will contribute to our client's portfolios over a longer duration, providing meaningful returns and a source of diversification.