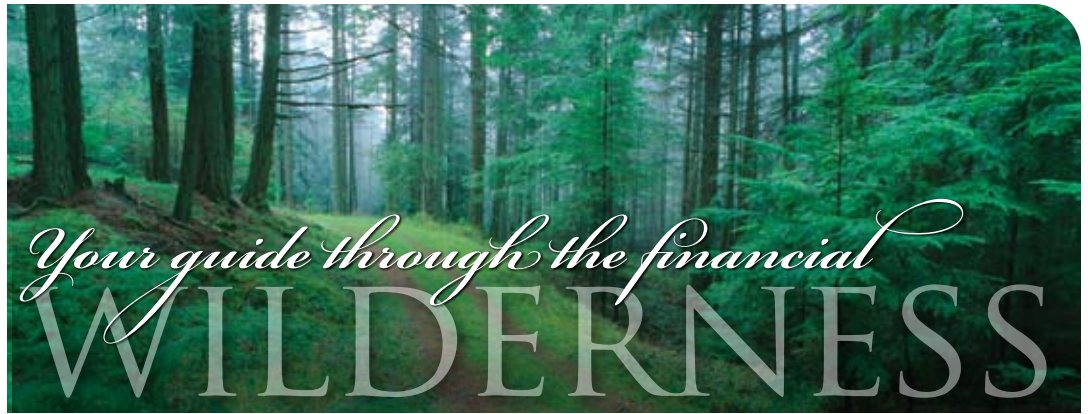




CLAYTON FINANCIAL SERVICES, INC.

Registered Investment Advisor



Q2, 2009

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**Financial Planning Week
October 5–11, 2009**

Celebrate by participating in events across the county

Mark your calendar now! We will be planning special activities aimed at helping individuals discover the value of financial planning and understand the financial planning process. Watch for more information in the coming months; we look forward to celebrating with you!

Mid-Year Cross Currents

At this half way point in the year the market is pausing—looking not only at where it has been but how far it has to go. From the March 9 low to a high in mid-June the S&P 500 rallied about 40% yet was still about 40% off the high set October 9, 2007. For the balance of June and into July the market has wavered. While the economic decline appears to be slowing we're lacking convincing evidence that the economy has turned. Additionally, earnings season is upon us and investors are looking for affirmation that corporate profits justify the current valuations.

At the beginning of the quarter we had already experienced a three week, 20% off-the-bottom rally. As the quarter continued the largest pull back in the major averages was less than 4%. While financials was the best performing sector for the quarter it wasn't necessarily based on strong fundamentals but on the belief that the financial system would indeed hold together. The main driver was the premise a global economic recovery will be led by emerging markets. These economies will have energy and material needs which drove up the stock prices of companies in those sectors. In addition, technology has been a strong leader on the premise companies around the globe will turn to technology to boost productivity. In fact the Nasdaq gained 20% in the quar-

by Debra Clayton
*President
Clayton Financial Services, Inc.*



ter and is up 16% for the year while the S&P 500 is up 3%. And, international investments that emphasized emerging markets outperformed—China's Shanghai index gained 25% for instance.

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The strength and resilience of the rally also coaxed investors from the safety of Treasuries leading that asset class to a 3% decline for the quarter and a 4% loss for the first half

of the year according to the Merrill Lynch Treasury Master index. While some of that money undoubtedly drove stock prices, it also moved into investment grade bonds which were up nearly 11% for the quarter while high yield bonds gained 23% according to Merrill indexes.

The question now seems to be whether markets have gone too far, too fast. The economic challenges are daunting: the housing industry has slowed the rate of decline but not yet reversed course, unemployment continues to rise and is commonly expected to reach double digits, consumer sentiment is negative and the deleveraging process for

continued on next page...



Fundamentals of Investing & Personal Finance for Teens

Do you have children or grandchildren between the ages of 14 – 18? If so we would like to invite them to our Fundamentals of Investing & Personal Finance Seminar for teens.

DATE: July 28, 2009
TIME: 11:30AM UNTIL 1:00PM (Lunch will be provided)
WHERE: Our office – 716 South Kansas Ave.

Jeff Dishman, our Business Development Coordinator, will conduct the seminar

RSVP by July 24, 2009 with the name & age of the child/grandchild that will be attending. Phone (785) 232-3266 or email Jeff@ClaytonFSI.com

Mid-Year Cross Currents... *continued from page 1*

companies and individuals is painful, leading to larger numbers of bankruptcies.

Those who look through the current statistics and try to anticipate the next phase of the economy are more optimistic and point to economists who think the recession may end in the third quarter.

But few think there will be a robust recovery and both bulls and bears agree it's going to be more difficult for the market from here.

The strength of earnings to be released over the coming weeks is going to be important for the rally to continue. Consequently with these cross currents at the mid-point of the year we anticipate some choppiness in the market.

While we at CFSI are aware this will be a difficult recession to recover from we know there can be strong rallies—that perhaps can be called bull markets—while the economy is improving. As such, we have tilted portfolios toward the areas experiencing the most gains. In the bond portion of the portfolio we added an 'opportunistic' category with high yield and emerging market bond funds. The 'core' part of the bond portfolio has emphasized investment grade bonds and we sold any treasury positions. In all of our corporate bond positions we have realized equity-like returns without increasing our stock allocation.

In the international equity portion of the portfolio the emerging market allocation either equals or exceeds the more diversified international fund allocation. We have added small cap growth and changed our mid cap growth investment to better capitalize on other trends we prefer: small cap over large cap and growth over value. We have also added a Nasdaq/technology position in the specialty portion of the portfolio.

We feel the trends that have been profitable so far this year to a large extent will continue

to be profitable the balance of the year with a few caveats. We anticipate more of the return in the high yield funds will come from income rather than capital appreciation but we'll continue to hold those positions. While technology is usually a leader in the early

The strength of earnings to be released over the coming weeks is going to be important for the rally to continue.

stage in the cycle it typically yields its leadership position to other groups when we move into the next phase of the rally. That may not be the case this time but we are watching that position with the possibility for a change

during the second half of the year. In addition we feel the emerging economies and markets in the Pacific region and Latin America have greater potential than developed markets and we are inclined to add to that portion of the portfolios.

In most cases we have some cash to be invested when opportunities present themselves. And, on the flip side, we are always evaluating new data and market activity and if new information or trends develop that challenge those underlying assumptions we will change course.



Clayton Financial Services, Inc.

is preparing to delve into the world of social media! You'll soon be able to find us on Facebook® and we look forward to unveiling a Blog on our website in the near future. We hope you'll join us in this new and exciting approach to connecting with our clients and community.

Credit CARD Act of 2009

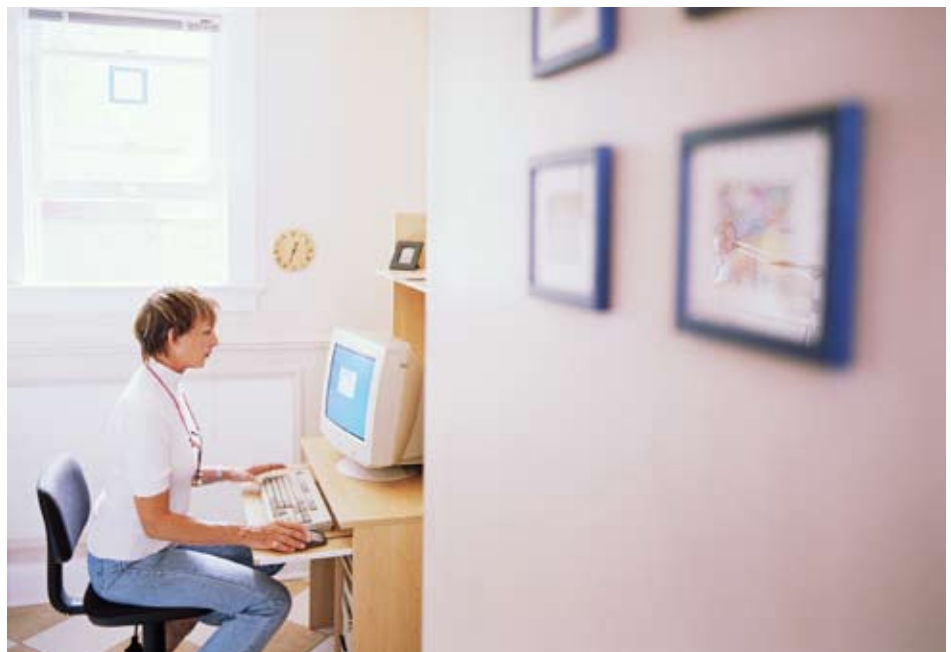
On May 22nd, the Credit Card Accountability, Responsibility and Disclosure, or Credit CARD, Act of 2009 was signed into law. The legislation will improve consumer disclosures and end some flagrant practices in the credit card industry but stops short of capping interest rates and fees. Most of the provisions go into effect in February & August 2010.

First, let's summarize some of the key changes that will be enacted by the law:

1. Issuers can't raise rates on an existing balance unless you're late by 60 days or more. In addition, rates can't be raised in the first year after issuance, and promotional rates must last at least six months.
2. Consumers get 45 days' notice before any key contract changes take effect, including rate increases. (Note: This provision doesn't apply to credit limit changes.)
3. Consumers ages 18 to 21 who don't have adequate income or a co-signor, won't get approved for credit cards.
4. The new law bans double-cycle billing, the practice of basing finance charges on the current and previous balance. Under this method, the issuer could charge interest on debt already paid off the previous month.
5. The Credit CARD Act requires above-the-minimum payments to be applied first to the credit card balance with the highest interest rate.
6. Card companies must send statements 21 days before a payment is due; current law requires a mere 14 days' notice.

While these changes are intended to protect many consumers, you may actually see some negative consequences. The fact of the matter is that these new laws will equate to large losses for most credit card issuers. To make up that shortfall, issuers can, and likely will, make some changes that are not addressed by the legislation. For instance, many experts predict issuers may charge annual fees, increase interest rates and other fees, lower credit limits, scale back rewards programs and reduce grace periods.

Forecasts aside, how credit card companies use the loopholes in the new law remains to be seen. For now, try to keep statement balances low, spend your rewards points, and be sure to watch your mail for change-in-terms notices.



“Are you taking on new clients?”

Periodically we get a call from a client asking, “Are you taking on new clients?” The fast answer is a definite “Yes”. I think people ask the question because in the past we have limited the number of new clients. As you know we expend a tremendous amount of time and energy reviewing tax returns, wills, beneficiary designations, life and liability policies while at the same time managing retirement projections and investments.

When we were smaller there were times when we needed to limit the number of new people to keep service standards high. However, over the past ten years we have hired many extremely bright, hard working professionals. And, it is our plan to continue to do so in the future. So the next time a friend, relative, or child needs objective unbiased advice, you can confidently make the referral and we will do our very best to help them make the right financial decisions.



Federal Estate Tax Law Changes are Likely

For 2009, the Federal Estate Tax exemption amount is set at \$3.5 million dollars. This means that every individual can pass to heirs an amount less than or equal to that amount without incurring federal estate taxes. In 2010, the federal estate tax is repealed and for that one year, there are not going to be any estate taxes. However, in 2011, the federal estate tax exemptions is set back to \$1 million dollars – so estates totaling over \$1 million would have the estate tax imposed on the excess.

It is very likely that Congress will enact new legislation prior to the end of 2009 that will change all of this – it would be a major revenue loss for the federal government if there were no estate taxes next year. No one is certain what the federal estate tax exemption amount will be set at in the future, but many have indicated that it is likely to stay at the 2009 amount (\$3.5 million) and then increase yearly for inflation.

If these anticipated changes are made, then many estate plans will need to be reviewed and possibly revised due to the higher permanent exemption amount. Next year we may be discussing estate planning in more detail than we have in the past few years if these laws are changed.

SEMINAR:

Strategies for Surviving & Thriving in Retirement

We'll be demystifying some of the most common questions in regards to planning for and living in retirement. Topics will include tips and pointers for both pre- and post-retirees. Anyone looking to give their retirement plan a boost should plan to attend this seminar! Space is limited, so please call (785) 232-3266 to reserve your seat today!

Tuesday, August 11th

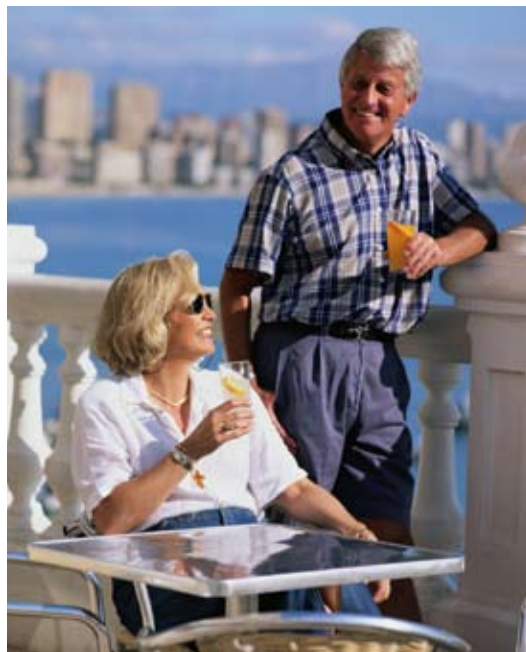
2:00pm – 3:30pm

6:00pm – 7:30pm

Thursday, August 13th

2:00pm – 3:30pm

6:00pm – 7:30pm



**The strength of tradition;
the power of innovation.**

Individualized asset management
and financial planning.



**CLAYTON
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