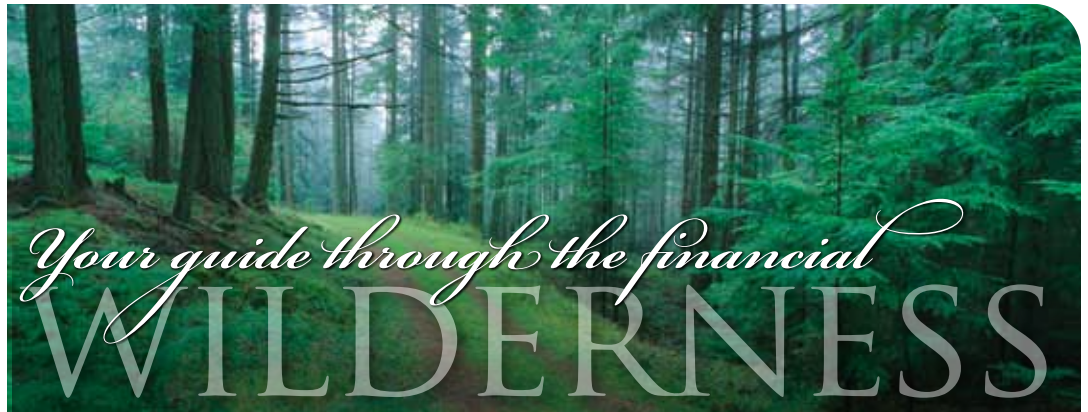




CLAYTON FINANCIAL SERVICES, INC.

Registered Investment Advisor



Q2, 2010

Inside this issue...

- Disclosure Brochure Available page 2
- Privacy Notice Enclosed page 2
- Vacation on a Budget ... page 3
- Save the Date page 3
- Income Tax Changes.... page 3
- Beneficiary Bloopers... page 4

Market Outlook Seminars

On Tuesday, August 3rd and Thursday, August 5th, we will be presenting a one-hour seminar outlining the current thinking of the Clayton Financial Investment Committee. The seminar will be presented at 2:00pm and 6:00pm both days at the Clayton Financial Services, Inc. office in downtown Topeka. Space is limited so make your reservation today. We encourage you to bring a guest. Light refreshments will be served.

Quarter Ends on Pessimistic Note

It was a dismal end to a disappointing quarter. Two days before closing the book on the second quarter the S&P 500 fell 3%; on the last day of the quarter it fell another percent, which meant the index was nursing an 8.30% decline for the first half of 2010. (And to add insult to injury the decline continued the next two days for a loss of nearly 5% for the week.) Fortunately it was legal to blow up things (fireworks) a couple of days later, providing a therapeutic release before starting the third quarter.

The issues facing investors during the quarter were varied and the concerns were justified, but the memories of the carnage from late 2008 and early 2009 are still fresh. Fear permeates the market and the mentality is to sell first and ask questions later.

The assumption that every disappointing piece of data points to Armageddon created a great deal of the volatility in the quarter. The VIX which is a measure of fear in the market was below 17 in late April when the S&P 500 reached 1217.28, its high for the year. It finished the quarter at 34.54 still substantially under its high of nearly 81 reached in November 2008 but double its level two months prior.

The main issues were both domestic and international. In the international arena, investors who had thought the Greek debt crisis was contained earlier in the year were instead seeing riots in the streets of Athens and hear-

by Debra Clayton
President
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ing conversations about Greece defaulting on its debt. Traders feared contagion—the idea that the crisis would spread to other countries—and quickly pointed out the weakness in other European countries’ debt to GDP ratio. Stock and bond markets in those countries were slammed and the strength of their banks was questioned. The global conversation escalated to a debate about the viability of the Euro and the European Union. Traders quickly sold their positions in the

The issues facing investors during the quarter were varied...

Euro and many ran to the American dollar for safety—ironically so, since they were nearly as fearful about the American economy as they were about stability in Europe. But, logic aside, the dollar gained in value versus the Euro. (See claytonfsiblog.com for further discussion of the Euro v the American dollar). Because there is typically an inverse relationship between the dollar and our international investments, they fell not only due to the sell-off in international markets but additionally because of the rise in the dollar.

Worried about stability in Europe, traders also began re-visiting their assumptions about

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to check out the Clayton Financial Services website, blog, and Facebook® page; new material is posted on a regular basis! Links to the blog and Facebook® page can be found under "Quick links" at www.claytonfsi.com.

Quarter Ends on Pessimistic Note... *continued from page 1*

other parts of the world. The bright stars on the global economic stage have been the developing markets, most notably China. These countries have growth rates in excess of developed countries such as the U.S. and Europe and many estimates of global growth are based upon developing countries' need for such commodities as steel, oil, copper and aluminum. Analysts also look for a growing middle class that will want American and European goods. But China has been trying to slow its booming economy—as it should—and analysts have grown worried a major global growth engine could falter and throw the global growth story into question. Investors sold the emerging markets and commodities with the exception of gold. Copper, an indicator of economic growth fell 24%; and palladium, which is buoyed by the auto industry, fell 28%.

In the U.S. some traders worry about a double-dip recession even though they are rare. There have been three double-dip recessions in the past 150 years with only one (1980-82) in the post-war era. But every economic release is evaluated, and if data are soft it's another indication the economy will slip back into a recession, at least in the opinion of those anticipating a double dip. Those holding the opposing position basically feel the economy will 'muddle through' as one CNBC commentator put it. We felt the economy would develop a square root sign—a V shaped recovery followed by slow growth—a description we prefer over 'muddle through.'

An improving jobs picture will be key to improving the psychology of the market but there the picture is mixed and the signs of improvement are subtler than economists would like. There are signs of strength: in May an anemic 41,000 private sector jobs were created while in June that number grew to 83,000 and the unemployment rate fell. However the unemployment rate is still at 9.5% and the economy needs to add 130,000 private and government jobs each month just to keep pace with

new workers. For those looking for a bright spot in the employment report the Business Intelligence Brief published by Armada Corporate Intelligence found a rise in employers converting part time workers to full time status. This is usually step two in a three-step process of increasing employment numbers. The first step is the use of more overtime, then the conversion of the part time employees to full time and finally an increase in hiring that signals the economy is regaining health. The market is very anxious to get to step 3. More jobs should mean a more confident consumer whose purchases will start drawing down the inventories the manufacturing sector has rebuilt after the recession.

There were bright spots in the Q2 investment results even though they were largely based on fear. In addition to buying the dollar, traders bought gold pushing the price to a record high of \$1258 an ounce before sliding back to finish the quarter at \$1245.50. Gold gained 12% for the quarter.

Investors also sought refuge in U.S. treasuries. Naturally treasury prices went up with the increased demand, and because there is an inverse relationship to price and yield, the yields declined (see 'Yield Curve: Steep or Flat' at claytonfsiblog.com). At the end of the quarter the 10-year treasury was yielding less than 3% as investors shunned risk investments such as stocks.

As we start the third quarter and await the beginning of earnings season, we suspect there could be a rebound in the stock market with a decrease in the value of the dollar and selling in the bond market. The pessimists have ignored some good corporate earnings reports and signs of growth—although patchy—that indicate the economy is moving in the right direction. But there is a very low level of confidence in the economy and it will take more time and positive data before investors are comfortable with Europe's stability and the strength of our own economy.

Vacation on a Budget

Tis the season for spending, and I'm not talking about Christmas! Summer not only brings warm weather and plenty of outdoor fun, but for many families it also means it's time for traveling. Whether your plans include a road trip to the nearest National Park or a flight to one of the coastlines, here are a few tips to help make the most of your vacation budget this summer.

Elizabeth Young
Associate Planner



Leaving on a Jet Plane

Beware of added fees when booking a flight. Currently, Southwest is the only major U.S. airline that does not charge extra for checked baggage; two bags still get a free ride. Unfortunately, charging for luggage is becoming the norm in the friendly skies. Be sure to add the fee into the price of your ticket when shopping for airfare.

It pays to travel light. An airline will charge an additional \$50 to \$150 for a bag that weighs more than 50 pounds. If it also happens to be an oversized bag, you'll pay another \$100 to \$150 per bag on top of that.

Be strategic when planning your travel dates. Generally speaking, Wednesday is the cheapest day to fly and Sunday is typically the most costly.

Enjoying the Open Road

Set the cruise control. According to Edmunds.com, smoother rides with less pedal pushing can save up to 37% in fuel economy. Conversely, high speeds, quick starts, and rapid stops burn more gas and money.

Comparison shop for a rental car. Typically, renting a car from an airport location will cost you extra. You should expect to incur a concession recovery fee which is usually 11% to 13% of your rental. Avoid the extra cost by renting off-site unless the cost of getting there will eat up your savings. If possible, consider renting a hybrid or the smallest car available; a hybrid will save you on gas and if you start with the smallest car, there's a good chance they will offer you a free upgrade.

Beware of rental car extras. Be sure to turn in your car on time; there is typically a 29-minute grace period for returns before they start to tack on additional charges. Fill up the tank before you take the vehicle back; it'll cost you less than having them fill it up for you. Check your current insurance coverage before renting a car; it's likely that there's no need to pay for the extra insurance they'll offer you.

Accommodation Tips

It's cheaper to go in the off-season. This means ski resorts, the Caribbean, Southern Florida, and Australia are cheaper in the summer than in peak winter season. Not only will you save money on lodging and attractions, you'll avoid the crowds.

Watch out for "resort fees". Upscale hotels will often charge fees to pay for amenities such as spas, swimming pools and golf courses. It can be worth-

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Save the Date!

A representative from the Fidelity® Charitable Gift Fund will be joining us on Wednesday, August 18 at 6pm. The Giving Account® is a donor-advised fund program where donors contribute to the Gift Fund, become eligible to take an immediate tax deduction, and then recommend grants to be distributed to qualified nonprofit organizations. Since 1991, the Gift Fund has helped more than 59,000 donors recommend more than \$10 billion in grants to over 136,000 nonprofit organizations with the Giving Account®. We have asked that they prepare a presentation for those clients that currently utilize the Gift Fund as well as for those who are interested in learning how the Gift Fund works and how it could be of benefit to them. If you are a current participant or are interested in the Fidelity® Charitable Gift Fund and all it has to offer, please mark this important date on your calendar! More details to follow.

2011 Income Tax Changes

In 2011, quite a few tax rules are going to change. Here are two of the major changes:

Tax Bracket changes for the 2011 tax year:

2010	2011
10%	eliminated
15%	15%
25%	28%
28%	31%
33%	36%
35%	39.6%

Increase in Capital Gain and Dividend Tax Rates:

In 2011, the maximum long-term capital gains tax rate goes back up to 20% (from 15%). A lower 10% tax rate is used by individuals who are in the 15% tax bracket (previously tax-free since 2008).

In 2011, dividend income is taxed as ordinary income at your highest marginal tax rate—no more lower rates for qualified dividends.

while to politely point out that you did not utilize the amenities they are charging you for (assuming you didn't) and they will many times remove the charge because they want you to come back.

Consider eating in, if possible. According to AAA, two adults spend about \$80 per day on food alone, which can add up fast (especially if you have to add in the cost of feeding any children).

Cut costs by cooking your own meals or planning to have your main meal of the day during lunch instead of dinner.

So, while enjoying all that summer has to offer, be sure to put some extra thought into your vacation plans. A little extra time may add up to some big savings!

Beneficiary Bloopers: Six Common Blunders to Avoid

Periodically checking beneficiary designations is usually not high on anyone's priority list. Most people make the assumption that their designations are correct and therefore don't need to be reviewed. However, I cannot tell you how many times I have come across a situation where a client thought their beneficiaries were set up one way, but they unknowingly had someone else named. Below are some common situations where an incorrect beneficiary designation can cause major issues at death.

- Never changing a beneficiary designation after marriage. The beneficiaries on a person's accounts when they are single are usually different than what they would want once they are married. If not reviewed and corrected after marriage, a person could end up disinheriting their new spouse.
- Never changing a beneficiary designation after divorce. With everything else that happens during a divorce, the beneficiaries on one's accounts often just aren't on the radar. If this isn't corrected, then an ex-spouse could end up with an inheritance at death—which could mean disinheriting children or a new spouse.
- Not all children are listed as beneficiaries. If a person names their children as direct beneficiaries, but forgets to update the beneficiaries when they have

a new child, that child will not receive their share of the asset.

- Children are grown, but their former guardian is still named as beneficiary. Sometimes, parents will name the person who they wish to be their children's guardian as the direct beneficiary on accounts. However, once the children are grown, the parents would likely want the child named as the direct beneficiary.
- There is no beneficiary named on the account. Sometimes, accounts are opened without a beneficiary named at all. When this is the case, the assets will flow through an individual's estate. If the individual has a will, ultimately the assets will make it to those beneficiaries. However, for retirement accounts, there are severe tax ramifications for the retirement assets flowing to the estate rather than to direct beneficiaries.
- Estate document have been changed but old beneficiary designations do not correspond with the new documents. When an individual updates their estate documents (wills, trusts, etc), often beneficiary designations need to be changed as well. The beneficiary designation will supersede any estate document so it is extremely important for the designations not to negate what someone is attempting to accomplish with their estate.

Barbara Heller
Associate Planner



Be sure to consider all retirement accounts, non-retirement assets, and life insurance policies when evaluating and updating beneficiaries. As financial planners, we are regularly analyzing beneficiary designations for our clients but it is good practice for anyone to get in the habit of reviewing beneficiaries. Just remember that having estate documents drafted is only one part of the entire estate planning process; ensuring all beneficiary designations correspond with your wishes is another major piece.

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

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