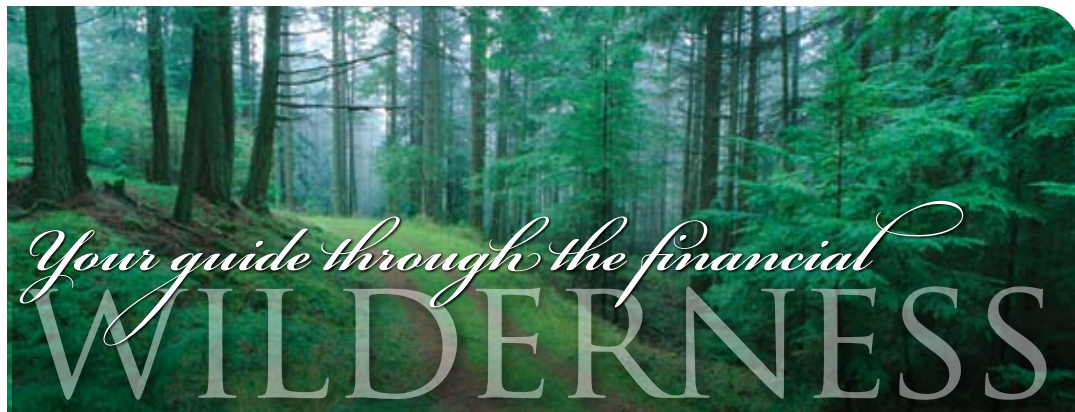




CLAYTON FINANCIAL
SERVICES, INC.

Registered Investment Advisor



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*The fact is, we are
not in a global
economic
depression today.*

Market Meltdown:

Is the World on Fire or Trading at Fire-Sale Prices?

The market devastation during the past month represents one of the sharpest declines in one of the shortest periods — and across one of the broadest array of asset categories — than many investors have ever experienced. While seasoned stock investors are well aware of a long history of violent price swings, most people do not expect to experience steep price declines in stocks as well as municipal bonds, high-quality corporate bonds, and the value of their homes — all at the same time. In just one month, trillions of dollars of paper wealth has disappeared in financial markets around the world.

No denying things have gotten worse...

Is the massive global asset sell-off justified by the underlying economic and corporate fundamentals? Certainly the investing environment has rapidly deteriorated in recent weeks. Many of the problems that were simmering over the past year raged to a boil recently, most notably the U.S. housing-induced financial crisis, which has laid waste to Wall Street institutions and resulted in outright turmoil in short-term credit markets. As the crisis has spread like wildfire throughout Europe and other regions, the outlook for the global economy has worsened considerably.

However, even given all this undeniably bad news, it is still probably difficult for many

Editor's Note: Ordinarily we prefer to write our own investment report. However, we have had to amend it so many times over last few days that we are instead going to let Fidelity—through its Market Analysis, Research & Education Unit—be our guest contributor this quarter.

Americans to comprehend how our nation's corporations are worth 15% less than a week ago, or more than 20% less than a month ago.¹ Or how China, which has grown its economy annually at a 10% clip, has a stock market worth less than half of what it was at the beginning of the year. Or how excessive lending in one sector — residential housing — ultimately led to a chain of events that forced governments around the world to pour hundreds of billions of dollars into their financial systems to avert a widespread collapse.

...But we're still a long ways from the Great Depression

So is the world in such terrible shape that the carnage in securities markets is justified? The fact is, we are not in a global economic depression today. U.S. unemployment during the Great Depression reached approximately 25%; the latest figures show nearly 94% of Americans still with jobs.² While most other developed countries, including Europe and Japan, might well be in recession, much of the developing world, such as

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New Addition



On August 6th, Assistant Financial Planner Anna Kiser, and her husband T.J., welcomed their second son, Cameron Patrick, into their family. He was born at 2:10 p.m., missing his grandfather's estimated birth time by seven minutes.



Cameron was a healthy 8 lbs 7 oz and 21 inches long. His big brother Brendan could not wait to take him home and was very upset when he learned that baby and mom had to stay in the hospital overnight. Cameron joined Anna in returning to work part-time on September 3rd, where he was a lively addition to the office. When October 1st rolled around, and Cameron started day-care, the office was again back to normal as Anna returned full time.

Market Meltdown... *continued from page 1*

India and China, are probably not. The macroeconomic environment has gotten dramatically worse during the past month and is likely to continue to do so over the next several months, but today's backdrop so far does not resemble economic devastation.

But are asset prices signaling that the end of the world is nigh? After all, investors typically try to look forward and anticipate where things are going. So yes, much of the broad-based market declines represent significantly reduced expectations for economic growth, profitability and balance sheet stability in the months ahead. That general outlook seems entirely reasonable given recent events.

Panic-induced selling

However, the current market meltdown — as happens in some form during every severe market downturn — goes well beyond a clean, clinical analysis of fundamental valuations by investors around the world. The steep declines we have experienced in recent weeks also contain a heavy dose of panic — when investors indiscriminately sell everything out of a generalized fear or forced circumstances as opposed to a well-honed strategic decision. Some investors, whether they are corporations or individuals, sell because they have to sell, in order to meet margin calls or stave off bankruptcy. Others simply succumb to the emotional stress of watching the value of their hard-earned investment accounts fall. This does not mean that panicked investors who unload assets indiscriminately will necessarily be proven wrong. Conditions in the economic and corporate worlds could at some point become so dire that all these fears are justified, meaning security prices might actually reflect the eventual reality. But we don't know that for sure — no one does. Further, history shows that when uncertainty reigns and panic sets in, asset prices can become much cheaper than justified by their intrinsic value, which at some point has always

laid the stage for a bull market rally as soon as there is more visibility about the future.

Consider the following: In a crowded movie theatre, the fire alarm goes off. No one in the crowd knows for sure if there is an actual fire, or whether it is a false alarm. In the absence of this certainty, it might be perfectly rational for an individual to lose his cool, yell and scream, and push his fellow movie-goers out of the way to get himself to the exit faster. Upon seeing this display, a chain reaction of panic may occur, unleashing violent and ugly behavior that results in injuries and outright chaos. In the end, whether there was a fire or not, the panic unleashed by the alarm itself may become a self-fulfilling calamity. But things did not have to happen that way. If there was no fire or it was already being put out by firefighters, and people had exited in an orderly fashion, harm would have been avoided. In the absence of perfect information and presence of panic-inducing stress, however, there is no way to determine what the outcome in the theatre will be.

Today we don't know if the world is on fire or not. Perhaps even if it is smoldering, the firefighters at the very least have already been called. Unlike during the Great Depression, the U.S. government is pouring enough money and effort into the task of containing the financial crisis. Governments in China and other developing countries who have built up vast stores of wealth also will likely contribute to stimulating their economies, and central banks around the world have already begun to fight economic slowdowns by cutting interest rates. This will take time, and much damage will be caused to economic growth, corporate profits and government balance sheets around the globe, but the world is unlikely to come to an end.

Fire-sale prices?

In the meantime, the question for investors to consider is whether to be scared of the po-

tential fire or to be intrigued by assets trading at potentially fire-sale prices. Remember, asset valuations can become irrational on the down side as well. We are well acquainted with the term “bubble” — when asset prices become divorced from reality in an upward spiral — but for some reason we don’t have a good word for when a similar thing happens and prices become divorced from reality on the down side. One word for it could be “opportunity.”

Investment implications

In the understatement of the year, this is a tremendously challenging time for investors. Many of their basic assumptions about investing and the strength of the U.S. economy and financial system have been thrown into question during current market turmoil. Every investor, individual or professional, has had their stomach churned in recent weeks. No one could be blamed for attempting to reduce risk in this environment, for making decisions to help one sleep better at night, or for believing the economic environment could get worse from here. However, an important lesson of investing history is that panics — similar to bubbles on the upside — can cause security price movements to fall further than might be appropriate based on the underlying fundamentals. No one can predict when a vicious bear market may end, but as long as the world does not burn down, beaten-down asset prices have inevitably set the stage for the next bull-market rally.

The Market Analysis, Research and Education (MARE) group, a unit of Fidelity Management & Research Co. (FMRCo.), provides timely analysis on developments in the financial markets.

1. Source: FactSet, FMRCo (MARE) as of 10/8/08.
2. Source: Bureau of Labor Statistics, Haver Analytics, FMRCo (MARE) as of 10/08/08.



Safe Money

With the collapse of Wall Street institutions and prominent banks, plus the concern that money market funds would “break the buck” and no longer be able to price their portfolios at \$1 per share U.S. citizens became increasingly nervous about knowing where their money was safe. The following temporary measures were put in place to ease those concerns.

FDIC Insurance

As part of the U.S. financial rescue package passed by Congress earlier this month, FDIC limits were raised from \$100,000 to \$250,000. The insurance protects depositors against the loss of their deposits if an FDIC-insured bank or savings association fails. The FDIC insures all deposits at insured banks including checking, NOW, and savings accounts, money market deposit accounts and CDs up to the insurance amount. IRAs are insured up to \$250,000 per depositor per insured bank.

FDIC provides separate insurance coverage for deposit accounts held in different categories of ownership. You may qualify for more than \$250,000 in coverage at one insured bank if you own deposit accounts in different ownership categories (single accounts, joint accounts or revocable trust accounts (i.e. payable-on-death (POD) accounts or Living trusts.)

For more information on different ownership categories, call your planner or visit <http://www.fdic.gov/deposit/deposits/insuringdeposits/index.html>. *The new limit is temporary and is effective from 10/3/2008 through 12/31/2009.*

Fidelity Money Market Funds

And from Fidelity:

Fidelity Investments and the Board of Trustees of Fidelity’s money market funds have determined that all of Fidelity’s retail and institutional money market mutual funds will participate in the U.S. Treasury Department Temporary Guarantee Program for Money Market Funds.

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End-of-Year Notes:

During the last quarter of the year we typically review all non-qualified portfolios to determine if there are any capital losses that can be taken to offset capital gains. This year we will be particularly interested in realizing capital losses where possible. Capital losses can be used in any year to offset capital gains. Consequently we can hold the losses for future use, allowing us more freedom to sell appreciated assets without as much concern for the capital gains tax. Additionally, each year the capital losses can be used against ordinary income up to \$3000 per year.

We also try to finalize any charitable gifts during October and November. In some cases 'highly appreciated assets' are not now as 'highly' appreciated as before but in a recession non-profit organizations are even more stretched than at other times. If you have a history of gifting and haven't yet done so, we'll be contacting you; if you want to start using a charitable gift fund or gift directly to a charity, please call and we will discuss your options. We prefer to not wait until December in order to avoid any complications that occasionally arise when transferring assets.

Fidelity and the Trustees believe that it is in the interests of our fund shareholders to participate in the program. Even though it is highly unlikely that the insurance will be needed for any of our funds, we expect the program to reassure our investors that their money market funds will continue to provide safety and liquidity for their cash investments.

Under the program, *the U.S. Treasury will guarantee the share price of any publicly offered eligible money market fund that applies for and pays a fee to participate in the program. The coverage would apply only to investments held in participating money market funds as of the close of business on September 19, 2008.*

Our funds continue to invest in money market securities of high quality, and our customers continue to have full access to their investments any time they wish. Below are some additional details of the Treasury Department program:

- Under the program, coverage is provided to shareholders for amounts that they held in participating money market funds as of the close of business on September 19, 2008. A shareholder's holdings in a participating money market fund as of September 19, 2008, represent the maximum amount of assets eligible for reimbursement under the program.

Any increase in the number of shares held in an account after the close of business on September 19, 2008, will not be guaranteed. If the number of shares held in the account fluctuates over the period, investors will be covered for either the number of shares held as of the close of business on September 19, 2008, or the current amount, whichever is less.

- The guarantee will be triggered only if a participating fund liquidates its assets as a result of its net asset value falling below \$0.995, commonly referred to as "breaking the buck." The Treasury Department states that, in the event that a participating fund breaks the buck and liquidates, a guarantee payment should be made to investors through their fund within approximately 30 days, subject to possible extensions at the discretion of the Treasury.
- The program is designed to address temporary dislocations in credit markets. *It will exist for an initial three month term, after which the Secretary of the Treasury will review the need and terms for extending the program.*
- Fees paid to the Treasury Department to participate in the program will depend upon each fund's net asset value (NAV) per share as of September 19, 2008.
- While the program protects the accounts of investors, each money market fund makes the decision to sign up for the program. Investors cannot sign up for the program individually.
- Eligible funds include both taxable and tax exempt money market funds.



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

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