

the Quarterly

Q4, 2011

SAVE THE DATE!
**Economic and
Investment Seminar**

The markets were flat last year and very volatile. Come hear what Clayton Financial thinks about the future, and the impact on your portfolio.

Presenter: Randy Clayton, CFP

Times: **February 7, 2012**
2:00 pm & 6:00 pm

February 8, 2012
2:00 pm only

February 9, 2012
2:00 pm only

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

Clayton Financial Services 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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A Quiet End to a Volatile Year

The stock market, represented by the S&P 500, ended a very volatile year on a relatively quiet note. The S&P edged up about 1% in December to provide a total return of around 2% for all of 2011. This return of 2% for the entire year compares with 13 individual trading days in 2011 when the market was up at least 2%, the last one having occurred on December 20. Although this total return seems somewhat paltry, investors seemed grateful for even that as the S&P was down around 10% at the end of September. Also, it marks eight out of the last nine calendar years that the S&P 500 has provided a positive return on a total return basis.

Investors in foreign markets generally fared much worse than investors in U.S. stocks. For example, the international stock index EAFE lost 12% on a total return basis last year.

Returns from the fixed income market were somewhat better than those from the equity market. The widely watched bond benchmark, the Barclays Aggregate, returned over 7% in 2011. This return was primarily the result of investors flocking to the perceived safety of U.S. treasury bonds due to the turmoil in many European financial markets.

by **Terry Milberger, CFA®**
*Director of Portfolio
Management*



What may lie ahead after such an eventful 2011?

The discussion about the prospects for the financial markets in 2012 must first deal with the issues in Europe. Foremost of these are the debt refinancing needs of both European governments and banks. It is estimated that their combined borrowing needs approximate \$2 trillion and will occur primarily in the early part of the year. Market fears about the ability to refinance this huge debt burden have driven interest rates—their cost to borrow—up significantly.

Many countries, under pressure from the financial markets, are now moving ahead with long overdue fiscal and structural reforms.

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As the near-term focus is on more austerity, it seems likely to result in weaker economic growth. Many economists are now forecasting a mild recession for the Euro area in 2012. The risk to this forecast, given the

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uncertainties that exist, seem skewed to the downside.

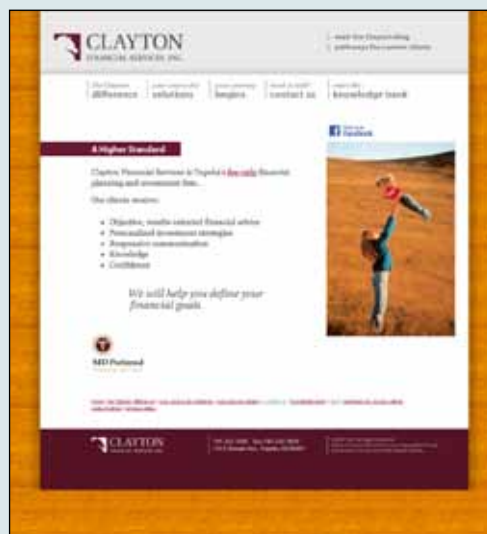
Crafting a viable solution to the complex issues that exist is an extremely difficult undertaking. There are 17 countries linked by a common currency, the Euro. Thus, a “muddle-through”-type solution is likely to be the best that can be accomplished. The good news is that throughout this uncertain period, the European Central Bank, the ECB, has taken bold measures to boost bank liquidity. This should reduce the risk of a catastrophic bank failure and full-scale credit crunch in the Euro area.

The bright spot in 2012 is likely to be the U.S. economy. Estimates for economic growth have been increasing in recent months in spite of the uncertainties in the Euro area and the slowing of the Chinese economy. Exports continue to show growth, strong profit and cash flow trends at corporations are leading to increased capital spending, and consumer spending is showing an improving pattern. Construction activity continues to firm. The severely depressed housing area is finally showing signs of stability and may add to overall growth in 2012. Interest rates should stay low this year which will continue to offer stimulus.

The many crosscurrents in global economies are likely to once again create above-average volatility in financial markets. The first half is likely to be a tug-of-war between the expected bad news out of Europe and the prospect of better-than-anticipated economic news out of the U.S. The second half of 2012 will bring increased focus to the election and its possible ramifications. Although it is important to utilize a flexible investment approach, one can be overwhelmed trying to absorb and respond to every single reported nugget of information. Much of these can be more noise than any kind of signal. We will continue to approach the investment decision-making process with discipline. Our asset allocation on the equity side is focused on investments in large, mid-size, and smaller growth companies. They are performing relatively well in the current market environment. We continue to maintain some investments in international markets, although on a somewhat diminished level. The expected turmoil in the Euro area in 2012 may offer an opportunity to increase these investments. We believe it is appropriate to maintain an investment in gold in these uncertain times as a buffer to possible further destabilizing global events. On the fixed income side, the low level of interest rates makes it difficult to achieve much in the way of absolute income returns. However, fixed income investments can help to moderate potential volatility in total portfolio returns. As always, we stay focused on crafting the appropriate asset allocation to achieve a balance between investment return and possible volatility.

Website News

Have you seen the redesigned Clayton Financial Services website? The content and look has been updated — check it out and let us know what you think! Also, don't forget to visit the Clayton Financial Blog and Facebook® page; new material is posted on a regular basis. Links to the blog and Facebook® page can be found on our homepage at www.claytonfsi.com.



Resolutions for the New Year

Here we are in January 2012 already. This can only mean one thing: It is time to make New Year's Resolutions! Alas, by March I'll likely be muttering and sputtering about how I resolve not to make resolutions ever again, but for the time being, I'm going to give it my best shot. While I intend to continue this year with my never-ending resolution to trim some measurable amount from my waistline, I also want to do some "trimming" of a different sort in 2012. My resolution is to trim the fat not only from my waistline, but from my budget! My ultimate goal: Increase savings.

So, my husband politely reminded me during a recent shopping trip that money does not grow on trees. You'd think he would realize that a financial planner knows where money comes from, but alas, he continues to remind me of this fact from time to time. I don't consider myself a spendthrift but with the flurry of the holiday season I will admit that I've been a little less than thrifty with my spending habits as of late. My guess is after reviewing a couple months worth of

bank statements, I'm likely to find issues in the categories of eating out and entertainment; these would be the typical "problem areas" for many people. Admittedly, I also enjoy spending on my children; probably a little more than I should from time to time. Much of the problem is that when people have comfortable cash flow, they tend not to pay much attention to where the funds are actually going. I know this is true for me, which is okay much of the time. However, without regular budget checkups, spending tends to increase and funds that could (and should) be saved are being forfeited.

Don't get me wrong here; I have no intention of living and dying by a budget day in

Elizabeth Young
Associate Financial Planner



and day out for the next 365-ish days of the year. That would most certainly be unrealistic for me and I'm trying to set myself up to succeed here! My real goal is to get a better handle on exactly how much I'm spending and where it's going. With this information in hand, I hope to be more budget-conscious when contemplating purchases going forward.

In order to get things back on track, my first plan of action will be to analyze at least the last 60 days of bank statements and

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categorize expenses to see where my money is going. Next on the agenda will be creating a suitable budget based upon realistic discretionary spending and savings assumptions. I'll plan to keep you posted on my endeavor. After all, what is more motivating than having to report on my progress to an audience, right?

Maybe after figuring out how I will be trimming my budget, I should start on the details of how I intend to trim my waistline! Good luck on achieving your resolutions in 2012! Best wishes to you and yours in the New Year!

Tax Tidbits

Long-Term Care Insurance Credit: When itemizing your deductions, don't forget to include your long-term care insurance premiums as a qualified deduction on your Federal and State returns.

College Savings Plans: Be sure to include any 529 College Plan contributions up to the State-allowed deduction amount on your State return. Kansas taxpayers may invest in any state-sponsored 529 Plan and receive a Kansas adjusted gross income deduction for their contributions. This deduction applies to contributions of up to \$3,000 per beneficiary, per year (\$6,000 if married filing jointly).

Tax Forms: In addition to your Fidelity tax forms (1099-INT, 1099-DIV and 1099-R), you will receive a year-end tax report from Clayton Financial Services by February 1st. This information will come in an envelope marked 'Important Tax Information'. Be sure to watch for it and take it along with your other tax documents to your tax preparer.

Refund Checks: The IRS has announced that it is looking to return \$153.3 million in undelivered tax refund checks. In all, 99,123 taxpayers are due refund checks from 2010 filings that could not be delivered because of mailing address errors. Taxpayers who believe their refund check may have been returned to the IRS as undelivered should use the "Where's My Refund?" tool at www.irs.gov.

FAFSA Time... Some Basics You Should Know

It's that time of year again for those of you with children in college: FAFSA time. This is the Free Application for Federal Student Aid and it must be completed for any student who wishes to be considered for any Federal aid (grants, loans, and work study). Many private scholarships require it to be filed as well. This means that even if you are sure your student won't qualify for any Federal aid, it is still a good idea to submit it so they do not lose out on any private scholarships they may wish to apply for.

Each state has application deadlines that may differ from the Federal deadlines. Kansas has a deadline of April 1, 2012. In addition, each school may have their own deadline that is even earlier (most are between February and mid-March). Make sure you check with each school to make sure you apply in time. Even if your taxes are not done yet, you can still file an application and use good estimates. Once your taxes are done, you will need to go back and file a corrected FAFSA.

You can file the application online at www.fafsa.ed.gov. This is the fastest

way to file. You can also save the application at any time so you do not have to complete it all in one sitting if you need to gather additional information.

Once you file the FAFSA, you will be given an estimate of your Expected Family Contribution (EFC). This is a rough estimate of how much money the student's family will be expected to contribute for a year of college education. This number is calculated based on many factors (savings and earnings amounts, assets, number of family members in college, etc.). The amount that a family has in non-retirement assets is one of the most common factors that can be altered in order to help lower the EFC. If non-retirement assets are in the student's name, it is assumed that 20% are available for education expenses. If they are in the parents' names, only a maximum of 5.64% are considered available for education. Below are a few planning tips for reducing the amount of non-retirement assets held in the students' or parents' names. You may be able to make some changes to qualify for additional aid.

Barbara Heller
Associate Financial
Planner



- Consider utilizing a Section 529 college savings plan; it can be a useful tool because it is treated like a parent asset. *If grandparents are making the 529 contribution, have them open the 529 account in their name rather than the parents'. This will remove the assets from the financial aid calculation altogether.*
- Accelerate necessary expenses such as a new computer or vehicle prior to filing the FAFSA.
- Pay off consumer debt or prepay on your mortgage.
- Maximize contributions to your retirement account.

If your family's financial circumstances have changed from the prior year, you should make an appointment with the financial aid office at your school. They may be able to make some adjustments depending on your situation.



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