



Form ADV Part 2 – Disclosure Brochure

Effective: March 20, 2012

This Brochure provides information about the qualifications and business practices of Clayton Financial Services, Inc. (“CFSI”). If there are questions about the contents of this Brochure, please contact CFSI at (785) 232-3266 or by email at messages@claytonfsi.com.

Clayton Financial Services, Inc. is a registered investment adviser registered with the United States Securities and Exchange Commission (“SEC”). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority. Registration of an Investment Adviser does not imply any specific level of skill or training.

Additional information about CFSI and its advisory persons is available on the SEC’s website at www.adviserinfo.sec.gov.

Clayton Financial Services, Inc.
CRD No: 105898
SEC File No: 801-17344
716 South Kansas Avenue
Topeka, KS 66603
Phone: (785) 232-3266 ▼ Fax: (785) 232-9602
www.claytonfsi.com

Clayton Financial Services, Inc.
716 South Kansas, Topeka, KS 66603
Phone: (785) 232-3266 ▼ Fax (785) 232-9602 ▼ www.claytonfsi.com

Item 2 – Material Changes

Summary of Material Changes

CFSI's most current ADV Part 2 before this one was dated September 23, 2012.

This ADV Part 2 dated March 20, 2012, represents the required routine annual update. There have been no material changes since our last filing.

From time to time, CFSI may amend this Firm Brochure to reflect changes in business practices, changes in regulations, and routine annual updates as required by the securities regulators. This complete Firm Brochure **or** a summary of Material Changes shall be provided to each client annually or if a material change is made.

A copy of the complete Firm Brochure may be requested, at any time, by contacting CFSI at messages@claytonfsi.com or at (785)-232-3266.

Item 3 – Table of Contents

<u>ITEM 1 – COVER PAGE</u>	<u>1</u>
<u>ITEM 2 – MATERIAL CHANGES</u>	<u>2</u>
<u>ITEM 3 – TABLE OF CONTENTS</u>	<u>3</u>
<u>ITEM 4 – ADVISORY SERVICES</u>	<u>4</u>
<u>ITEM 5 – FEES AND COMPENSATION</u>	<u>6</u>
<u>ITEM 6 - PERFORMANCE BASED FEES</u>	<u>7</u>
<u>ITEM 7 – TYPES OF CLIENTS</u>	<u>8</u>
<u>ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS</u>	<u>8</u>
<u>ITEM 9 – DISCIPLINARY INFORMATION</u>	<u>9</u>
<u>ITEM 10 – OTHER FINANCIAL ACTIVITIES AND AFFILIATIONS</u>	<u>9</u>
<u>ITEM 11 – CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING</u>	<u>9</u>
<u>ITEM 12 – BROKERAGE PRACTICES</u>	<u>10</u>
<u>ITEM 13 – REVIEW OF ACCOUNTS</u>	<u>11</u>
<u>ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION</u>	<u>12</u>
<u>ITEM 15 – CUSTODY</u>	<u>12</u>
<u>ITEM 16 – INVESTMENT DISCRETION</u>	<u>12</u>
<u>ITEM 17 – VOTING CLIENT SECURITIES</u>	<u>13</u>
<u>ITEM 18 – FINANCIAL INFORMATION</u>	<u>13</u>

Item 4 – Advisory Services

A. Firm Information

Clayton Financial Services, Inc. (“CFSI”), a corporation formed under the laws of the State of Kansas, filed for investment adviser registration with the Securities and Exchange Commission (“SEC”) in August 1984. CFSI is a **Fee-Only** Registered Investment Advisory firm with a **fiduciary** responsibility to its clients. CFSI is a member of the National Association of Personal Financial Planners (“NAPFA”). Debra Clayton, CRD number 2165594, is the President and an Advisory Representative. Randy Clayton, CRD number 842998, is the Secretary/Treasurer, Chief Compliance Officer and an Advisory Representative. Additional business information about Debra, Randy and the other Advisory Representatives is disclosed in the Supplemental Brochures attached to this Brochure.

B. Advisory Services Offered

CFSI provides the following client-centered wealth management services: 1) **asset management services, which include individualized financial planning**, and 2) **hourly financial planning and consulting services**.

Asset Management Services

An initial, no charge, no-obligation meeting is offered to introduce a client to CFSI’s investment management services, which provide discretionary continuous active management of the client’s assets. If it is jointly agreed to go forward, an advisory agreement will be entered into and fact-finding sessions will be held to gather information including, but not limited to, retirement and financial goals, investment objectives, investment horizon, financial needs, existing portfolio statements, cash flow analysis, cost of living needs, savings tendencies, and education and tax needs.

After evaluating the information provided by the client, the CFSI Advisory Representative will determine which model portfolio would be most suitable. From there, the portfolio allocation is customized taking into consideration client limitations or restrictions, the market, and the economy at the time. Once the initial portfolio allocation is implemented, CFSI will provide continuous and ongoing management of the portfolio using its discretion to make changes to the allocation as deemed appropriate. Depending on the client’s specific goals and objectives, CFSI will generally hold positions in the account for a long term, even more than a year, or CFSI may actively trade some securities holding such positions for periods of 30 days or less.

CFSI primarily uses individual securities, open-ended mutual funds including no-load and load-waived or mutual funds purchased at net asset value (NAV), and exchange traded funds (ETFs). However, managed accounts are not exclusively limited to those products and may include certificates of deposits, cash and cash equivalents, government securities, money markets, real estate and variable and fixed life and annuity investments.

If the client’s financial situation or investment goals or objectives change, the client must notify CFSI promptly of the changes.

Financial Planning and Consulting Services

As with Asset Management Services, an initial, no charge, no-obligation meeting is offered to introduce a client to CFSI’s hourly Financial Planning and Consulting Services. If it is jointly agreed to proceed, a

financial planning agreement will be entered into and fact-finding sessions will be held to gather information including, but not limited to, retirement and financial goals, investment objectives, investment horizon, financial needs, existing portfolio statements, cash flow analysis, cost of living needs, savings tendencies and education and tax needs.

Based upon a client's needs, CFSI will prepare a written financial plan and present the analysis along with recommendations for steps to be taken to assist the client in working towards the client's financial goals. This plan is based on the financial information disclosed by the client to the Advisory Representative. Clients need to be aware that certain assumptions may be made with respect to interest and inflation rates as well as the use of past trends and performance of the market and economy. However, past performance is in no way an indication of future performance. CFSI cannot offer any guarantees or promises that the client's financial goals and objectives will be met. Further, the client must continue to review the plan and update the plan based upon changes in the client's financial situation, goals, or objectives or changes in the economy. If the client's financial situation or investment goals or objectives change, the client must notify CFSI promptly of the changes. Based on specific needs or a particular situation, a client may need to seek the services of other professionals such as an insurance adviser, attorney, and/or accountant.

Clients are not obligated to implement planning advice through CFSI.

C. Client Account Management

Within Asset Managed Services, CFSI offers six (6) model portfolios that serve as the foundation for its investment asset allocation service. The composition of the models will be adjusted based on market conditions and will be specifically tailored for each client's needs. An Advisory Representative will work with the client to define the model that is right for that client. The models are:

- Capital Appreciation – the primary objective is long-term Capital Appreciation, with a very small amount allocated to income. This portfolio emphasizes investments in a diversified selection of equity securities;
- Capital Preservation – the primary objective is income. Such a portfolio emphasizes investments in a diversified selection of bonds and cash equivalents;
- Growth – the primary objective is long-term Growth, with a small amount allocated to income. Emphasis is on investments in a diversified selection of equity securities with a small portion allocated to bonds and cash equivalents;
- Growth & Income – the primary objective is long-term growth with the secondary objective of income. This portfolio emphasizes investments in a diversified selection of equity securities with a portion allocated to bonds and cash equivalents;
- Income – the primary objective is income with a small secondary objective of long-term growth. This portfolio emphasizes investments in a diversified selection of bonds and cash equivalents with a small portion allocated to a diversified selection of equity securities; and
- Income & Growth – the primary objective is income with the secondary objective of long-term growth. This portfolio emphasizes investments in a diversified selection of bonds and cash equivalents with a portion allocated to a diversified selection of equity securities.

An Asset Managed Client will develop an on-going relationship with an Advisory Representative who will be available via phone, email or personal contacts to answer questions, make recommendations about financial issues and to continually manage and update the portfolio position. The annual fee is all-inclusive of this support.

D. Wrap Fee Programs

CFSI does not participate in any wrap fee programs.

E. Assets Under Management

As of June 30, 2011, CFSI has approximately \$265 million of client assets under its discretionary management. CFSI manages accounts for approximately 408 clients.

Item 5 – Fees and Compensation

A. Fees for Asset Managed Services

- Fees are not based on a share of capital gains or capital appreciation of the funds or any portion of the funds in client accounts
- Exceptions to CFSI's general fee schedule are available under certain circumstances (e.g., responsibilities involved; accounts or groups of accounts which are expected to have significant capital additions in the future; anticipated future earning capacity; related accounts; account composition; pre-existing client; account retention; pro bono activities, etc.)
- Clients may make additions or withdrawals from their accounts. No fee adjustments will be made for such activity or for account appreciation or depreciation.
- The schedule below represents annual fees. This fee is billed quarterly in advance based upon the value of the assets on the last business day of the preceding calendar quarter. If a client's account does not contain sufficient funds to pay the advisory fees, CFSI has the limited authority to sell or redeem securities in sufficient amounts to pay advisory fees. Except for ERISA and IRA accounts, clients may reimburse accounts for advisory fees paid to CFSI.

Account Size	Maximum Annual Fee
First \$250,000	1.25%
Next \$250,000	.75%
Next \$250,000	.65%
Next \$250,000	.55%
Next \$1,000,000	.45%
Next \$1,000,000 & above	.35%

Fee calculation example for a \$650,000 dollar account:

- First \$250,000 x 1.25% = \$3,125
- Next \$250,000 x .75% = \$1,875
- Remaining \$150,000 x .65% = \$975

Total \$5,975 divided by 4 = \$1493.75 per quarter

- CFSI may change the above fee schedule upon 30-days prior written notice to its clients.
- CFSI does not receive securities commissions or other compensation that is contingent on the purchase or sale of any security.
- From time to time CFSI may reimburse clients for miscellaneous transaction fees such as Transfer of Asset fees.

B. Fees for Financial Planning and Consultation Services

CFSI's planning and consulting fees are negotiable and are \$100 to \$150 per hour depending on the person doing the work. A Financial Planning Agreement is required and the fees are payable upon the client's receipt of CFSI's invoice. Generally an invoice is sent within one month of the meeting.

C. Other Fees

In addition to the advisory fees above, a client may incur transaction fees for securities transactions executed in the client's account in accordance with the third-party custodian's transaction fee schedule. A client may also pay fees for custodial services, account maintenance fees, transaction fees, and other fees associated with maintaining the account. These fees are not charged by CFSI but are charged by the product, broker/dealer or account custodian. CFSI does not share in any portion of these fees.

Additionally, a client may pay the proportionate share of the fund's management and administrative fees and sales charges as well as the mutual fund adviser's fee of any mutual fund CFSI purchases for the client. These advisory fees are not shared with CFSI and are compensation to the fund-manager.

D. Compensation for Sale of Securities

Neither CFSI nor its Advisory Representatives receive compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

E. Termination Provisions

Asset Management Services

A client may terminate investment advisory services obtained from CFSI, without penalty, upon verbal or written notice within five (5) business days after entering into the advisory agreement. The client will be responsible for any fees and charges incurred from third parties as a result of maintaining the account such as transaction fees for any securities transactions executed and account maintenance or custodial fees. Thereafter, a client may terminate investment advisory services with a written notice to CFSI. If a client terminates investment advisory services during a quarter, the client will be charged a pro-rata portion of the advisory fee for the quarter up to the date of termination. Fees collected in excess of the pro-rata fee will be returned to the client within 30 days of termination.

Financial Planning and Consulting Services

A client may terminate planning services obtained from CFSI, without penalty, with written notice within five (5) business days after entering into the Financial Planning Agreement. Thereafter, the client may terminate planning services at any time with written notice to CFSI. The client will be responsible for any time spent by CFSI providing planning and/or consulting services or analyzing the client's situation.

Item 6 – Performance-Based Fees

CFSI does **not** charge performance-based fees.

Item 7 – Types of Clients

CFSI's services are geared towards **individuals, trusts, estates, foundations, and non-profit organizations, corporations or other business entities, and high net worth individuals** (i.e. clients with a net worth of \$1,500,000+).

The minimum investment required in the CFSI Asset Management Program is generally \$250,000. Accounts below this minimum may be accepted on an individual basis at CFSI's discretion. Such circumstances may include, but not be limited to:

- Additional assets will soon be deposited
- The client has other accounts with CFSI

Performance of smaller accounts may vary from the performance of accounts with the minimum dollars invested due to difficulties with diversifying smaller accounts and due to risk controls potentially being compromised.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

A. Methods of Analysis

CFSI's investment strategy is for the long-term and is well diversified. The CFSI investment team conducts continuous **cyclical** economic analysis, attempting to understand and determine trends, as well as **fundamental** analysis. **Fundamental analysis** generally involves assessing a company's or security's value based on factors such as sales, assets, markets, management, products and services, earnings and financial structure. Other security analysis methods include **charting** and **technical analysis**. CFSI also uses **third party analysis** of securities from various sources including Morningstar Direct, S & P 500 and others. In addition CFSI participates in webinars, conference calls and conferences held by fund managers and other industry specialists.

Once a client's investment portfolio is implemented and the allocation customized for that client, taking into consideration the client's particular financial goals, CFSI will provide continuous and ongoing management of the portfolio using its own discretion, making changes to the allocation as deemed appropriate. Depending on the client's specific goals and objectives, CFSI will generally hold positions in the account for the long-term or CFSI may actively trade some securities, holding such positions for periods of 30 days or less.

B. Risk of Loss

Investing in securities involves risk of loss, including the potential loss of the principal money invested. Therefore, participation in the Account Management and Financial Planning and Consulting services offered by CFSI requires clients to be prepared to bear the risk of loss as well as the fluctuating performance of accounts due to market conditions. CFSI, based upon information provided by a client, will place a client's assets into a model portfolio that best suits the risk tolerance of that client and that is designed to best help the client reach his/her financial goals. No guarantee can be offered that a client's goals or objectives will be achieved. CFSI is dependent upon the client to provide complete and accurate financial information. Further, no promises or assumptions can be made that the advisory services offered by CFSI will provide a better return than other investment strategies. CFSI makes every attempt to minimize these risks by the diversification strategies it employs.

Item 9 – Disciplinary Information

There is no reportable disciplinary information for CFSI or its management persons.

Item 10 – Other Financial Industry Activities and Affiliations

A. Other Business Activities

Neither CFSI nor its management persons is actively engaged in a business other than giving investment advice. Nor does CFSI nor its management persons sell products or services other than investment advice to clients.

B. Other Financial Industry Activities or Affiliations

Neither CFSI nor its management persons are:

- Registered as a securities broker-dealer
- Registered as a futures commission merchant, commodity pool operator or commodity trading advisor

Neither CFSI nor its management persons has any arrangements that are material to its advisory business or its clients with a related person who is a (n) or works for a (n):

- Broker-dealer
- Investment company
- Other investment adviser
- Financial planning firm
- Commodity pool operator, commodity trading advisor or futures commission merchant
- Banking or thrift institution
- Accounting firm
- Law firm
- Insurance company or agency
- Pension consultant
- Real estate broker or dealer
- Entity that creates or packages limited partnerships

Neither CFSI nor a related person is a general partner in any partnership in which clients are solicited to invest.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A. Code of Ethics

CFSI has a fiduciary duty to act in the client's best interest and to place the client's interests first and foremost. CFSI takes seriously its compliance and regulatory obligations and requires all staff to comply with such rules and regulations as well as its policies and procedures. The Code of Ethics contains provisions for standards of business conduct in order to comply with federal securities laws, personal securities reporting requirements, pre-approval procedures for certain transactions, code violations

reporting requirements, personal securities trading, and safeguarding of material non-public information, among other items. CFSI is required to conduct its securities and investment advisory business in accordance with all applicable Federal and State securities regulations. A copy of CFSI's Code of Ethics will be provided upon request.

B. Participation or Interest in Client Transactions and Personal Trading

CFSI and its associated persons may buy or sell securities identical to those recommended to clients, therefore, CFSI's associated persons may have an interest or position in certain securities that are recommended to and bought or sold to clients. CFSI's associated persons will not put their interests before their clients' so neither CFSI nor any associated person may trade ahead of its clients or trade in such a way to obtain a better price than for a client.

CFSI is required to maintain a list of all securities holdings for its associated persons and to develop procedures to supervise their trading activities at least quarterly. Further, associated persons are prohibited from trading on non-public information or sharing such information.

Item 12 – Brokerage Practices

A. Custodian

CFSI has an arrangement with Fidelity Investments for its Asset Management services accounts. The institutional platform **services include**, among others, **brokerage, custody**, and other **related services**. Fidelity's institutional platform services that assist CFSI in managing and administering clients' accounts include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide research, pricing and other market data
- Facilitate payment of fees from its clients' accounts; and
- Assist with back-office functions, recordkeeping and client reporting

Fidelity also offers other services intended to help CFSI manage and further develop its advisory practice. Such services include, but are not limited to:

- Performance reporting
- Financial planning
- Contact management systems
- Third party research
- Publications
- Access to educational conferences, roundtables and webinars
- Practice management resources
- Access to consultants and other third party service providers who provide a wide array of business related services and technology with which CFSI may contract directly.
- Access to many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges.

In initially selecting Fidelity Investments, CFSI conducted due diligence. CFSI's evaluation and criteria included the ability to service clients, staying power as a company, industry reputation, ability to report to clients and to CFSI, trading platform, products and services available, technology resources, and educational resources.

B. Aggregating and Allocating Trades

CFSI typically places trades by aggregating orders of one security for several discretionary accounts at once. This results in an average price/share for all accounts included in the trade. CFSI conducts aggregated transactions in a manner designed to ensure that no participating client is favored over another client. CFSI only permits "all or none" aggregated trades and obtains a complete fill or the trade is canceled.

Item 13 – Review of Accounts

A. Review Frequency

Asset Management Services

Clients participating in the CFSI Asset Management Program, receive at least an annual review of accounts, or as agreed upon by the client and the client's Advisory Representative. More frequent reviews may be requested and thresholds may be set for triggering events that would cause a review to take place. Every review of the client's portfolio includes a review of the portfolio's performance against benchmark portfolios (discussed more below in item B). Clients are advised to notify CFSI promptly of any changes to financial goals, objectives or financial situation as such changes may require immediate review of the portfolio allocations and may result in recommendations for changes.

Financial Planning and Consulting Services

Clients participating in the CFSI hourly Financial Planning Services will not receive regular reviews without entering into additional Financial Planning Services agreements. CFSI recommends at least an annual review to allow for updates to any plans. However, the time and frequency of the reviews is solely the client's decision.

B. Account Monitoring & Review

The CFSI Investment team continually monitors for changes or shifts in the economy, changes to the management and structure of a mutual fund or company in which clients assets are invested as well as market shifts and corrections. It reviews the performance of the model portfolios daily and also follows a benchmark portfolio composed of the recommended mutual funds. Portfolios are benchmarked against the model portfolios that are composed of indexes of the asset classes used in the portfolios. Portfolios are then brought into alignment with the model portfolios according to the rebalancing rules developed by CFSI. No less than quarterly, the performance of all portfolios is compared with like portfolios, changes are determined and may be made in the recommended funds.

C. Reports

Asset Management Services

Clients will be provided statements at least monthly directly from the account custodian. Additionally, clients will receive confirmations directly from the account custodian of all transactions. CFSI will

provide asset management clients with a quarterly report with a listing of the assets, their current value and total portfolio return. Clients should compare this report with statements received directly from the account custodian. Should there be any discrepancy, the account custodian's report will prevail.

Financial Planning and Consulting Services

Other than the initial plan or analysis, there will be no other reports issued.

Item 14 – Client Referrals and Other Compensation

A. Client Referrals or Use of Solicitors

CFSI does not directly or indirectly compensate any person, solicitor or other entity that is not a supervised person of CFSI's firm for referrals.

B. Other Compensation

CFSI is solely compensated for its Asset Management Services by an annual fee as described in Item 5A or its Financial Planning & Consulting Services hourly rate as defined in Item 5B. CFSI does not receive commissions for the sale of securities products of any kind.

Product vendors used by CFSI may provide monetary and non-monetary assistance with client events and/or provide educational tools and resources. CFSI does not select vendors as a result of any such assistance. CFSI's due diligence of a product does not take into consideration any assistance it may receive; therefore, this is not considered a conflict of interest but a benefit for CFSI and its clients.

Item 15 – Custody

CFSI does **not** take custody of client funds or securities. However, the client gives the right to deduct advisory fees to CFSI upon signing an advisory management agreement. Clients will be sent an invoice quarterly showing the accounts, their value on the last business day of the preceding quarter and the amount to be deducted. As noted under Item 13C above, clients should compare the statements CFSI provides with the statement received from Fidelity.

Item 16 – Investment Discretion

All Asset Managed accounts are managed on a discretionary basis without obtaining prior approval from the client. The client grants such authority to CFSI by execution of the advisory agreement and CFSI does take into consideration specific guidelines and limitations defined by the client. A client may terminate discretionary authorization at any time by giving CFSI verbal or written notice.

Additionally, be advised that:

- Written consent is required to establish any mutual fund, variable annuity, or brokerage account;
- With the exception of the deduction of CFSI's advisory fees from the account, with a client's authorized automatic deductions, CFSI will not have the ability to withdraw funds or securities from the account.

Item 17 – Voting Client Securities

CFSI does **not** vote client securities. Unless a client suppresses proxies, the account custodian or transfer agent will send securities proxies directly to the client. Clients may contact a CFSI Advisory Representative with questions and for opinions on how to vote the proxies. However, the voting is solely the client's decision.

Item 18 – Financial Information

CFSI will not require prepayment of more than \$1,200, per client, six or more months in advance of a client receiving advisory service; therefore, CFSI is not required to send a balance sheet along with this brochure.

CFSI has discretionary authority over client accounts; however, that authority does not extend to the withdrawal of any client assets, with the exception of deduction of CFSI's advisory fees from clients' accounts.

CFSI is financially stable. There is no financial condition that is likely to impair CFSI's ability to meet its contractual commitments to its clients.

Neither CFSI nor its Advisory Representatives has ever been the subject of a bankruptcy petition.