ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook — First Quarter, 2012

INDEX	1st Qtr, 2012	Last 12 Months	Last 3 years	Last 5 years
US STOCKS				
S&P 500 Index (large-cap stocks)	12.59	8.34	23.96	2.01
S&P 500 Growth Idx (lrg-cap "growth" stocks)	12.27	11.76	24.12	4.80
S&P 500 Value Idx (lrg-cap "value" stocks)	12.97	4.92	23.92	(0.83)
Russell 2000 Index (small-cap stocks)	12.44	0.20	27.59	2.13
FOREIGN STOCKS				
MSCI EAFE Index (developed foreign markets)	10.86	(5.77)	17.88	(3.51)
MSCI EMU Index (European Monetary Union)	12.56	(15.66)	13.68	(6.90)
MSCI Emerging Markets Index	14.08	(7.91)	25.70	4.67
MSCI BRIC Index (Brazil, Russia, India, China)	13.80	(14.02)	21.67	3.78
PRECIOUS METALS				
London Gold PM Fix	8.59	16.63	21.45	20.23
London Silver Fix Price	15.08	(13.59)	35.76	19.42
BONDS				
BarCap US Aggregate Bond Idx (investment-grade bonds)	0.30	7.75	6.88	6.25
BarCap US 20+ Yr Treas Bond Idx (long-term US treas)	(6.73)	27.16	6.59	9.46
S&P Nat-l AMT-Free Muni Bond Index (municipal bonds)	1.77	12.66	7.88	
iBoxx Liquid Investment Grade Idx (inv.-grade corp. bonds)	3.16	11.83	13.71	7.52
iBoxx Liquid High Yield Index (high-yield/"junk" bonds)	4.55	6.70	20.77	6.49
S&P/Citi Intern'l Treas Bond Index Ex-US (foreign bonds)	2.61	(0.16)	4.90	

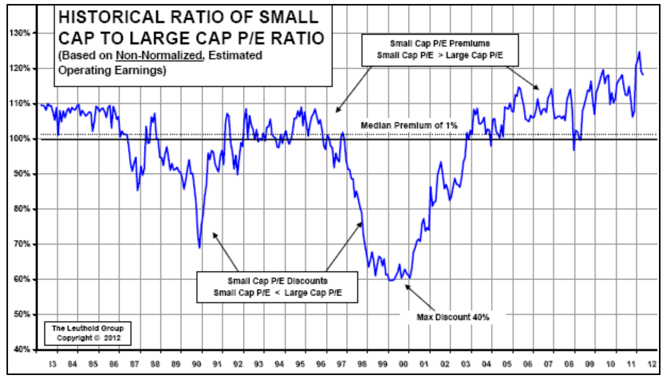
Source: iShares.com

Stocks and other risk assets surged in the first-quarter of 2012, continuing the strong run that began in the fourth-quarter of last year. In each of the past two quarters, domestic stocks gained about 12%, marking one of the strongest runs over the October – March span going back to the 1920s. It seems as though we've entered an environment where not a day goes by in which some financial or economic time series moves up to "its highest level since 2008!"

Small-cap U.S. stocks were up 12.44% as measured by the Russell 2000 Index and are now trading at a valuation premium of 18% relative to large-caps [based on estimated 12-month operating earnings, large-cap stocks trade at a P/E ratio of 13.2 versus small-caps P/E ratio of 15.6 – mega-caps (the largest 50 companies) are currently the cheapest segment at 11.7] (Chart 1). A regression to the median historical relative P/E ratio of 1.01 implies an incremental price decline of about 14%, assuming the large-cap P/E ratio remains unchanged.

Developed foreign stocks rose by 10.86% in the first-quarter and emerging-markets stocks gained 14.08%. While the S&P 500 Index of large-cap US stocks now stands only 11% away from an all-time high (in nominal terms), foreign stock market composites are nowhere close to their prior highs.

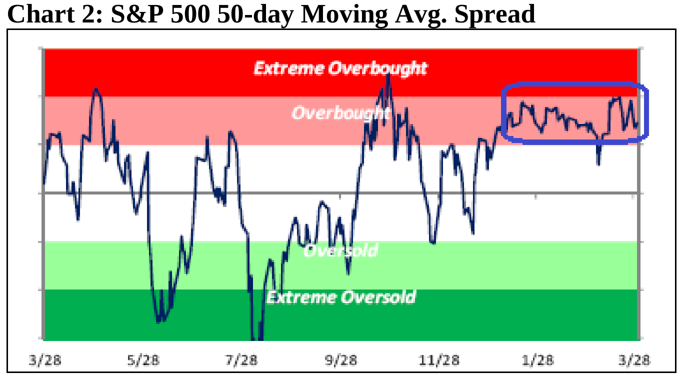
Chart 1



Source: The Leuthold Group

In contrast to stocks, core investment-grade bonds (as measured by the BarCap Aggregate Bond Index) are flat on the year, and Treasury bonds are in the red. After bouncing around below the 2% level for much of the first-quarter, the yield on the benchmark 10-year Treasury popped higher in mid-March, closing at 2.39% on March 19, 2012, its highest level since late October 2011. By the end of the month the yield had drifted down to 2.22%. But that is still up from a 1.9% yield at the end of 2011.

Chart 2: S&P 500 50-day Moving Avg. Spread

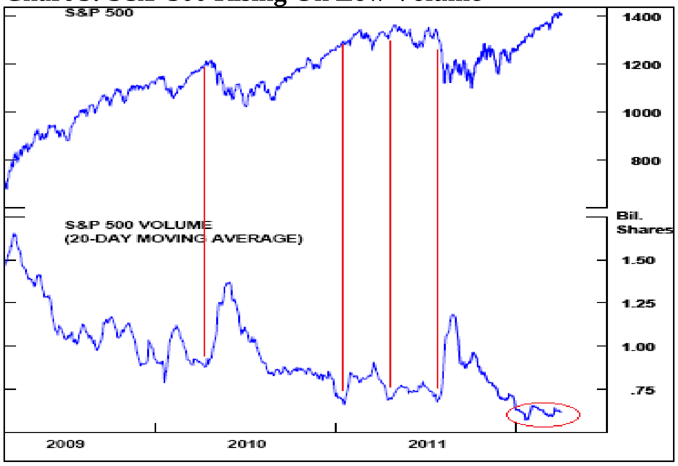


Source: Bespoke Investment Group

Given their recent substantial out-performance, US stocks are (and have been) "overbought" from a shorter-term momentum perspective (Chart 2). This, in an environment where earnings growth momentum appears to be peaking and a number of additional measures are historically inconsistent with strength in stock prices:

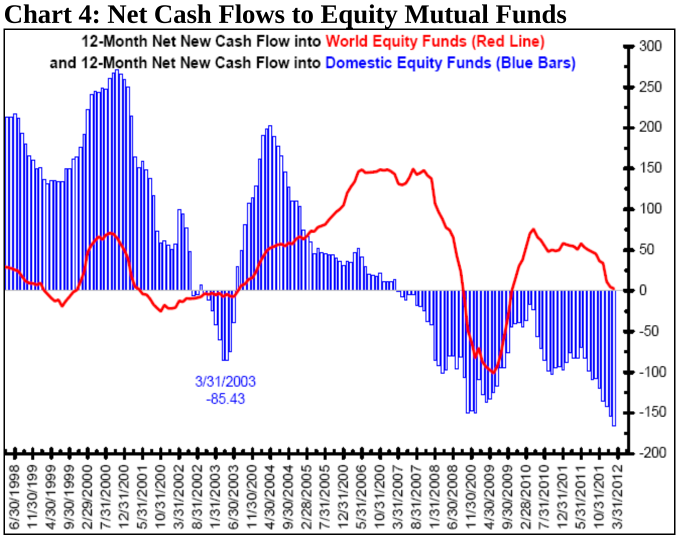
- The recent advance in stock prices has been accompanied by very low trading volume (Chart 3).
- Net cash flows to US stock mutual funds have been increasingly negative (Chart 4).
- A number of "risky" asset classes stopped advancing in February and March as the S&P 500 continued its advance (Chart 5).

Chart 3: S&P 500 Rising On Low Volume



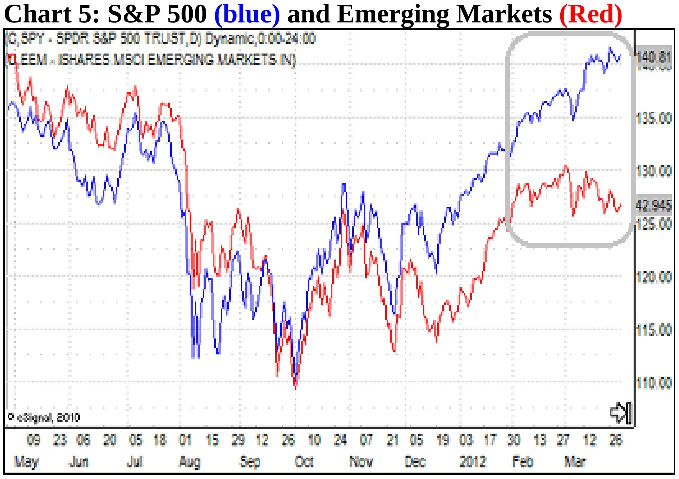
Source: BCA Research

Chart 4: Net Cash Flows to Equity Mutual Funds



Source: Bianco Research LLC

Chart 5: S&P 500 (blue) and Emerging Markets (Red)



Source: eSignal

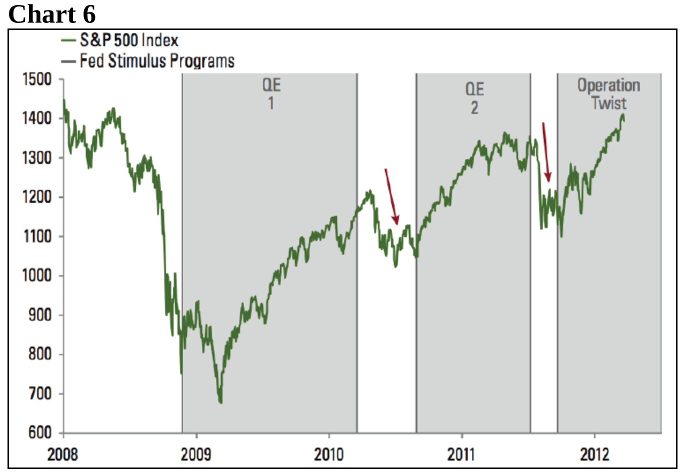
While it is possible that the many factors which are inconsistent with stock market strength will reverse (i.e. trading volume will strengthen, cash flows to US stock mutual funds will swing from negative to positive and "risky" asset classes that have not kept pace with US stocks will rebound) and drive stocks even higher from here, our concern is that the opposite happens with stocks retreating as they ultimately reflect the weak underlying demand environment.

> *"In the last three plus years, central banks have had little choice but to do the unsustainable in order to sustain the unsustainable until others do the sustainable to restore sustainability"*
>
> \- PIMCO's Mohamed El-Erian

From our perspective, much of the rally in US stocks since March, 2009 has been stimulus driven – both monetary and fiscal. Our concern is that the eventual withdrawal of the various forms of stimulus will result in a period of weakness as assets are re-priced as new stimulus fails to materialize.

The chart below (Chart 6) illustrates that since 2009, periods of strong US stock market returns have been associated with the three periods of quantitative easing by the Fed (QE1, QE2 and Operation Twist). The result of the Fed's strategy of holding interest rates extraordinarily low *across the entire yield curve* (i.e. not just the very front – or short-term area of the maturity spectrum as has historically been the case) has created an artificially low interest rate environment that will have to be "normalized" at some point. This can be achieved either by the Fed's withdrawal or by market forces. Either way, the impact on "risky" assets is unlikely to be positive.

Chart 6



Source: Bianco Research LLC

Looking beyond monetary policy, by mid-year, the presidential campaign will be in full swing and the inevitable debate about what to do with the whole host of expiring tax measures (Bush-era tax cuts, temporary payroll tax cut and long-term unemployment benefits to name a few) and looming spending cuts (due to the failure of the Joint Select Committee on Deficit Reductions) will have reached a high pitch. Even based on the benign assumption that most of the Bush-era tax cuts will be extended and the automatic spending cuts under the Budget Control Act will be watered down, it is reasonable to expect the withdrawal of fiscal support of around 2.5% of GDP next year, up from around 1% of GDP this year. This incremental fiscal drag of around 1.5% of GDP is substantial and will serve as a formidable headwind to growth. Additionally, by December of this year, we will be bumping up against the national debt ceiling (again).

This brings us back to the Fed: With involuntary fiscal tightening in the US on the horizon, it is likely that further gains in equities will require additional monetary support (i.e. quantitative easing). Our concern here is three-fold:

1. Does the Fed have the additional firepower necessary to support an endless supply of additional liquidity?
2. If it does and continues its strategy of more and more quantitative easing, will the economy ever be in a position to grow on a self-sustaining basis?
3. If it doesn't, how will the economy and financial markets react when interest rates "normalize"?

Based on the performance of US stocks over the last six-months, investors remain willing to ignore the growing imbalances and continue to be comfortable with the current strategy of "kicking the can down the road". So, for now, we are alone in our concerns. "Operation Twist", however, is set to end in June. With profit margins having already recovered significantly, additional quantitative easing will likely be necessary to ensuring strength in financial assets. The unanswerable question is: How long can this cycle be repeated? Longer-term, sustainability for investors is more a function of being pulled into an investment due to its inherent attractiveness rather than being pushed into it by central banks' artificial manipulation of relative prices.

STRATEGY

Our investment strategy at this time hasn't changed materially over the last three-months. In last quarter's *Quarterly Review and Outlook* we summarized our investment strategy as follows:

Our strategy in this environment is to:

- *invest relatively conservatively from an overall asset allocation perspective*
- *underweight sectors and asset classes we believe have poor risk/reward profiles*
- *overweight sectors and asset classes we believe have strong risk/reward profiles*
- *use market weakness to add to our favored areas*
- *use market strength to tactically reduce appreciated positions*

We also laid out our rationale for overweighting three specific sectors: technology, health care and energy.

While energy and health care outperformed the S&P 500 during the fourth-quarter of 2011, our energy and health care over-weights detracted from performance during the first-quarter of 2012 (so did being underweight the financial and consumer discretionary sectors) (Table 1).

Table 1: Sector Returns for the First-Quarter

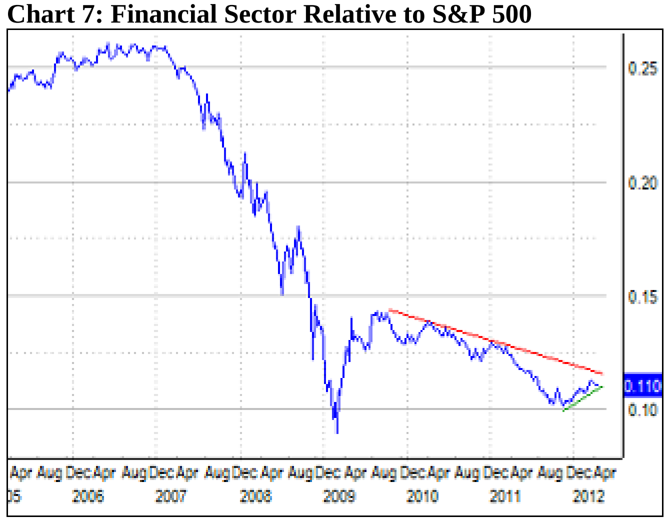
SECTOR	1ST QTR RETURN	RETURN RELATIVE TO S&P 500
Financials	21.46%	8.87%
Technology	21.14%	8.55%
Cons Disc	15.54%	2.95%
S&P 500 (Total Return)	**12.59%**	**0.00%**
Industrials	10.67%	-1.92%
Materials	10.59%	-2.00%
Health Care	8.42%	-4.17%
Cons Staples	4.75%	-7.84%
Energy	3.38%	-9.21%
Telecom Svc	0.64%	-11.95%
Utilities	-2.68%	-15.27%

Source: Standard and Poor's

Our view on the two top performing sectors during the first-quarter (financials and consumer discretionary) is as follows:

- While financials have bounced recently relative to the S&P 500 (chart 7), they remain susceptible to further deterioration in Europe and reduced growth expectations.

Chart 7: Financial Sector Relative to S&P 500

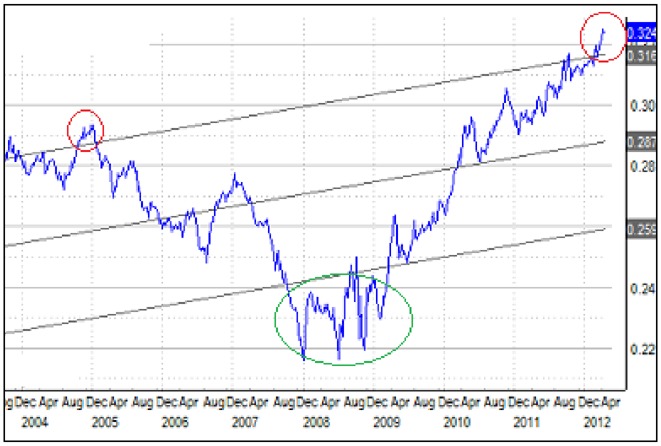


Source: eSignal

- Consumer discretionary stocks have become stretched to the upside on a longer-term basis relative to the S&P 500. We expect the forces of mean reversion to act as a growing headwind going forward as sectors tend to go through extended periods of out- and under-performance relative to the broad market (Chart 8 on page 4).

Table 2 on page 4 updates some earnings and valuation measures for the ten sectors of the S&P 500 we presented last quarter. Based on these and other factors, technology, energy and health care remain fundamentally attractive in our view and overweight in our clients' portfolios (although the technology sector's strong relative price gains since mid-2011 argue for a more cautious stance toward the sector – Chart 9).

Chart 8: Consumer Discretionary Sector Relative to S&P 500



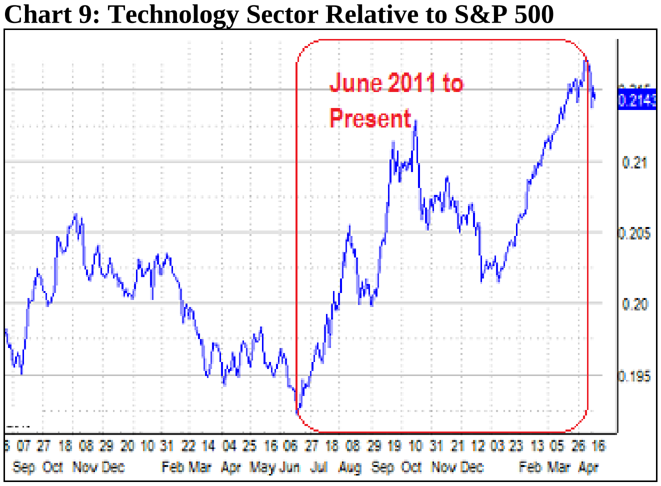
Source: eSignal

Table 2

Sector	12 Month Forward Earnings Growth Expectations (%)	Forward P/E Ratio Current	Historical Mean	Ratio
Financials	19.7	11.3	12.8	88.3%
Cons Discretionary	15.0	15.1	18.1	83.4%
Technology	12.7	12.6	22.6	55.8%
Industrials	11.4	12.7	16.6	76.5%
S&P Total	**10.4**	**12.5**	**15.0**	**83.3%**
Materials	9.7	12.4	15.6	79.5%
Cons Staples	7.8	14.9	17.6	84.7%
Telecom	6.0	17.0	17.1	99.4%
Energy	5.5	10.0	15.2	65.8%
Health Care	4.1	11.9	18.7	63.6%
Utilities	(3.2)	14.0	13.3	105%

Source: BCA Research

Chart 9: Technology Sector Relative to S&P 500



Source: eSignal

The economic outlook remains highly uncertain. While US stocks have advanced smartly, we think it is premature to conclude that US growth has moved into high gear and that the euro crisis is behind us. (In fact, the structural problems in Europe remain unresolved, making another market "riot" likely later this year.)

While the many factors contributing to our conservative bias have yet to weigh on the financial markets, we can't justify ignoring them simply because US stocks have been strong. Our clients' portfolios are positioned relatively conservatively given the concerns we have outlined and the increasing likelihood that the financial markets begin to reflect the fiscal and monetary cliffs we find ourselves moving toward.

We appreciate your continued confidence. Please don't hesitate to contact us if you have any questions.

-Brant Kairies
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