ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook — Second Quarter, 2012

Entering the second-quarter, stocks and other risk assets were rallying on the newly announced three-year Long Term Refinancing Operation (LTRO) program launched by the European Central Bank (ECB) as news out of Europe sparked optimism that fiscal and monetary cooperation in the region could keep the worsening fiscal crisis from spinning out of policymakers' control. Ultimately, however, the optimism was not validated with improving fundamentals. In fact, by encouraging banks to load up with more of their domestic sovereign bonds, the LTRO actually increased risk and reinforced the negative feedback loop between weak banks and distressed sovereign bond markets.

INDEX	2nd Qtr, 2012	Last 12 Months	Last 3 years	Last 5 years
US STOCKS				
S&P 500 Index (large-cap stocks)	(2.75)	6.52	16.07	0.22
S&P 500 Growth Idx (lrg-cap "growth" stocks)	(1.77)	8.95	17.12	3.04
S&P 500 Value Idx (lrg-cap "value" stocks)	(3.13)	3.95	14.99	(2.68)
Russell 2000 Index (small-cap stocks)	(3.47)	(1.18)	17.62	0.54
FOREIGN STOCKS				
MSCI EAFE Index (developed foreign markets)	(7.13)	(12.42)	5.78	(6.10)
MSCI EMU Index (European Monetary Union)	(9.39)	(24.81)	(0.28)	(10.64)
MSCI Emerging Markets Index	(6.56)	(13.44)	9.53	0.05
MSCI BRIC Index (Brazil, Russia, India, China)	(10.77)	(21.35)	2.96	(1.94)
PRECIOUS METALS				
London Gold PM Fix	(3.56)	6.27	19.55	19.70
London Silver Fix Price	(14.82)	(21.26)	24.39	16.65
BONDS				
BarCap US Aggregate Bond Idx (investment-grade bonds)	2.06	7.38	6.92	6.79
BarCap US 20+ Yr Treas Bond Idx (long-term US treas)	10.36	36.96	14.05	12.46
S&P Nat-l AMT-Free Muni Bond Index (municipal bonds)	1.89	9.90	7.65	
iBoxx Liquid Investment Grade Idx (inv.-grade corp. bonds)	2.55	11.43	11.14	8.33
iBoxx Liquid High Yield Index (high-yield/"junk" bonds)	1.69	8.10	14.71	6.98
S&P/Citi Intern'l Treas Bond Index Ex-US (foreign bonds)	(0.31)	(2.78)	3.07	

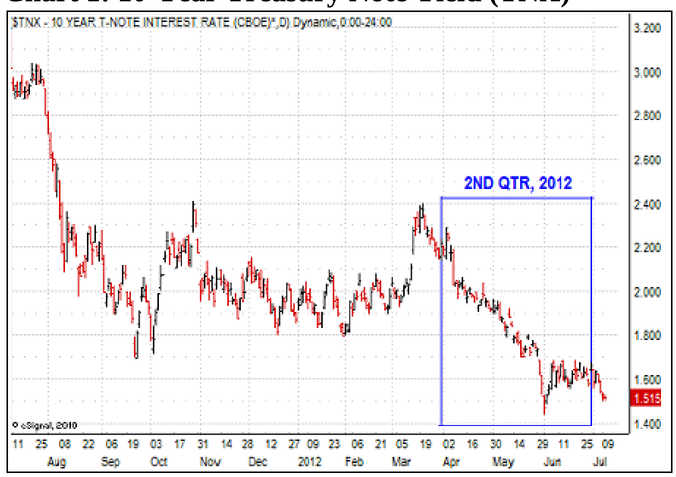
Source: iShares.com

During the quarter, euro zone stock markets dropped between 10% and 18%, Japan was off 10% and emerging markets shed around 6.5% of their value. US stocks held up reasonably well with a -2.75% return for large-caps (S&P 500) and -3.47% for small-caps (Russell 2000). These results are after global equity returns were boosted on the last day of the quarter.

Bonds once again generated strong returns as yields (which move inversely to prices) declined significantly during the quarter (Chart 1).

Data since the end of the first quarter indicate that the world economy has become weaker overall as the euro zone crisis has re-intensified. The entire euro zone economy has been slipping into recession. And while the US economy has continued to expand, its growth rate has failed to regain vigor and analysts continue to lower growth forecasts (Goldman Sachs cut its second-quarter GDP forecast to 1.3% on July 11). China's (as well as other emerging markets') economy has also taken a hard hit from the fallout in euro zone demand and a break-down in trade financing channels.

Chart 1: 10-Year Treasury Note Yield (TNX)



Source: eSignal

In the current phase of the post-bubble environment, near-zero interest rates and massive liquidity injections from central banks are doing very little to help the economy gain traction. This is the legacy of the post credit-bubble deleveraging, which probably has years more to run.

While effective early on in the depths of the late-2008/early-2009 crisis, monetary policy since then has become increasingly marginalized (to the point where it has been essentially neutralized in the US). The longer the global economy remains in this artificially supported "twilight zone," the greater the risk that the seeds will be sown for the next crisis. For example:

- Zero interest rate policies force savers to seek out riskier investments to achieve even modest returns.
- Rapidly shifting international capital flows are a challenge to domestic monetary policy, both in emerging and developed markets and can wreak havoc on exchange rates.
- The financial sector has quickly leveraged up. Proprietary trading is back to levels seen before the

crisis. Given the sporadic reports of billion dollar losses (i.e. JP Morgan's multi-billion dollar loss declared in early May), it seems few lessons have been learned. In the case of the euro zone, banks are becoming increasingly undercapitalized as bad loans spiral up, deposit bases shrink and collateral is increasingly being demanded by wholesale lenders to banks. This is in addition to the collateral required by the ECB for the €1 trillion of LTRO funding.

Nothing during the second-quarter has eased the concerns we've expressed in recent years. Excessive debt levels accumulated over decades have created a headwind to global growth resulting in a weak economic recovery with risk of another significant economic and market downturn. This risk has turned into reality in Europe and is reflected in an economic recession, which includes extremely high unemployment in the weak peripheral countries, slowing growth in the core countries, and a large decline in European stock prices.

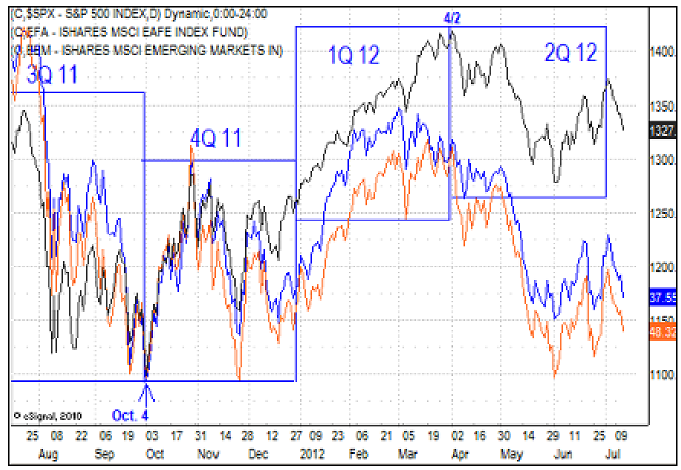
While market participants seem to believe a silver bullet with the potential to solve these debt related problems exists, it simply doesn't. At a minimum, taxes will need to rise and spending growth will decline over a period of several years, and this will continue to be a drag on economic growth.

In Europe, conflicting political motivations and economic circumstances across nations are a huge impediment in dealing with the crisis. The need for a fiscal union or fiscal integration is central to the problem, but it requires surrendering some control of country budgets, tax policy, etc. Gaining agreement will require dramatic efforts on the part of politicians. All of this suggests that a partial breakup of the euro zone is very possible. If that happens, the hope is that it will be well planned so as not to unnerve the markets, thus avoiding a possible credit freeze and increased capital flight, which would exacerbate the risk to the entire euro zone and trigger a major economic downturn. This scenario is a major worry and has been intensifying.

Outside of Europe, Japan also has a huge debt problem (relative to GDP, Japan's debt is actually greater than in the United States or Europe), though to date there has been no market focus on it. We also know that the United States has its own debt and political dysfunction over both the short- and long-term. Near term there is the potential "fiscal cliff" of large spending cuts and tax increases which, depending on how it plays out, is estimated to reduce GDP in 2013 by 1% to 4.5% depending on which measures are actually implemented.

Given the overall economic weakness not only in Europe, but in the US and Japan, financial markets seem particularly vulnerable to shocks. The large disparity in global equity returns over the last nine-months helps illustrate the potential down-side for the US market if investors shift their focus back to the debt dynamics here at home (Chart 2).

Chart 2: S&P 500, Foreign Stocks & Emerging Market Stocks



Source: eSignal

Our expectation for the third quarter is that global financial markets will continue being struck by the same forces. The euro zone debt crisis and weak global growth will cast a shadow on the global economy and sustain a heightened sense of risk, while lower energy costs, the sharp reduction in borrowing rates and stimulative policy will *hopefully* act to stabilize the situation.

Anecdotally, it still seems as though strategists hold the view that aggressive money printing by central banks will continue to support risk assets, even though it will not solve underlying economic problems. This may be true for a bit longer, but our guess is that policymakers – especially in Europe – will require further market riots in order to act more decisively in addressing the debt crisis.

As we assess the euro zone crisis, we're paying attention to developments on several fronts.
Since the current pot of money is insufficient to solve the debt crisis and pave the way for the euro to succeed, a credible solution will require 1) a substantial upgrade in the amount of funds available and 2) the

risk in sovereign bond markets and banking systems has to be mutualized across the whole euro area.

Policymakers are beginning to realize this. June 28th's Euro Summit promised "*a specific and time-bound roadmap for the achievement of a* *genuine* *Economic and Monetary Union… (with) an integrated financial framework, an integrated budgetary framework, and an integrated economic policy framework*".

A major issue, however, is that the Summit said very little on implementation. The muted reaction from the euro zone sovereign bond markets suggests we are still early in a difficult process. Considering the recent history of the countries in Europe breaking most of their promises, we expect roadblocks along the way as no solution will be adopted without more financial turmoil.

From an asset allocation perspective, our primary concerns are the high degree of uncertainty over key global macro risks and a continuation of very high correlations between most asset classes. These days, there is little downside protection in diversification. And, unfortunately, if the worst comes to pass – a messy Eurozone breakup combined with a global recession – correlations will likely increase. For these reasons, we continue to maintain a below "normal" allocation to stocks and an above average allocation to cash and short-term bonds.

STOCKS

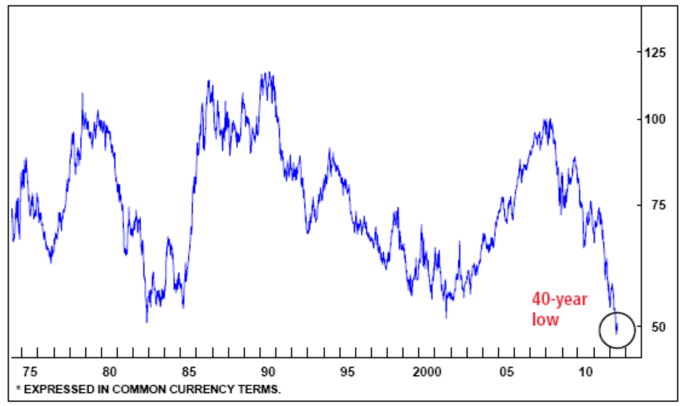
Our equity allocation remains concentrated on larger-cap US stocks with very little exposure to smaller-companies and foreign stocks. With that said, we believe that at some point – probably within the next twelve-months – there will be a rare buying opportunity for deeply oversold European stocks (Chart 3) and bonds.

We're looking for a deeper sell-off and, preferably, a major selling climax before materially overweighting stocks in client portfolios.

BONDS

The sharp drop in global top quality sovereign bond yields over the past two months signals capital flight out of peripheral euro zone economies into the presumed safety of the US, UK, Germany, Japan and a number of other countries. It is important to note that not all safe haven countries are strong financially. Countries like the UK and Japan have very high debt ratios and deficits but, because they have their own central banks, there is no fear of default on their debt. The assumption is that, in a crash, the central bank will be the backstop buyer of last resort of the debt. This ultimately will be the key for severely indebted sovereign countries in the euro – exit and a central bank can, in theory, avoid sovereign default because the latter can buy the debt in unlimited quantities, shifting the risk from default to the currency, which leads to inflation-driven oppression of creditors.

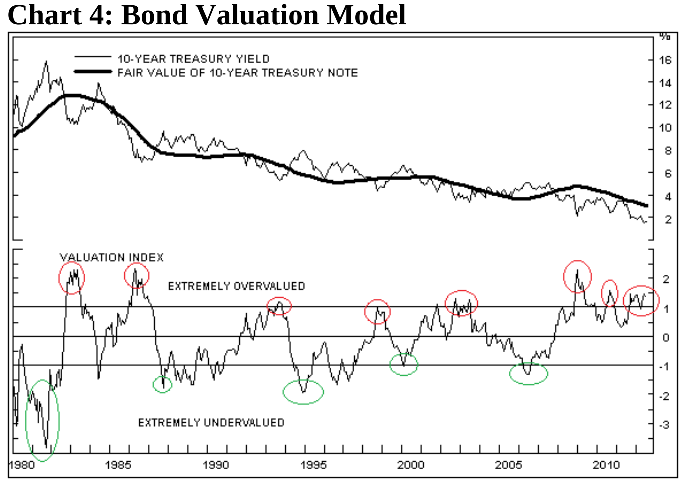
Chart 3: Euro Area Stocks Relative to US Stocks



Source: BCA Research

Bond markets of safe haven countries are a long way from fair value (Chart 4), and fixed income investors continue to face the dilemma of unattractive risk-reward profiles for most debt.

Chart 4: Bond Valuation Model



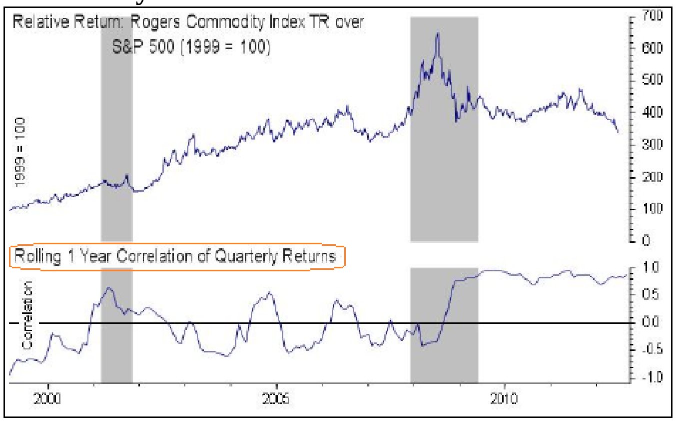
Source: BCA Research

Sovereign debt of countries such as the US, UK, Germany and Japan are more expensive than at any time in history, excluding WWII. The yield on 10-year US Treasuries, currently at 1.5%, is below the current rate of inflation and below the Fed's target rate of inflation of 2%. Even if inflation does not accelerate – unlikely, given current monetary policies – long-term Treasuries will provide a negative real rate of return.

COMMODITIES

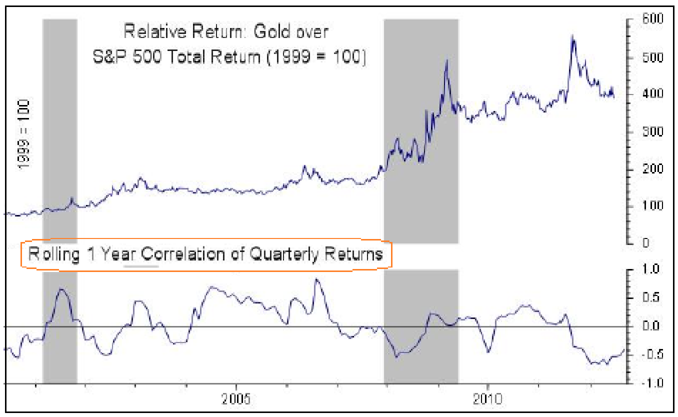
Up until the 2008 financial crisis, diversifying into commodities was the ultimate free lunch: steady returns uncorrelated with the S&P. Since then, the story has reversed (Chart 5). Prices for most commodities are near the pre-crisis average and, for the most part, are strongly positively correlated with stocks.

Chart 5: Relative Return and Correlation – Rogers Commodity Index and the S&P 500



Source: Thomson Reuters Datastream

Chart 6: Relative Return and Correlation – Gold and the S&P 500 Index



Source: Thomson Reuters Datastream

Gold and other precious metals are the exception. Despite price weakness since late 2011, the secular uptrend remains intact, and the correlation with equities is negative (Chart 6). Even if one does not believe the Armageddon story, the rarity of uncorrelated asset classes is a good reason to maintain some exposure to gold and we continue to maintain some exposure to the asset class.

Gold will remain very volatile as the global financial crisis ebbs and flows and central banks move to prevent collapse with massive debt monetization. We are close to using the current price weakness to add to existing positions.

-Brant Kairies
952-885-2732