ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook — First Quarter, 2013

The set-back in the stock market we were concerned about at the end of last quarter failed to materialize as even the situations in Cyprus and North Korea were unable to shake the confidence in US stocks which moved sharply higher during the first-quarter of 2013. Large-cap stocks (as measured by the S&P 500 Index) gained over 12% and small-cap stocks (as measured by the Russell 2000 Index) moved higher by close to 15%. The fact that the US survived both the fiscal cliff and sequestration without a visible negative impact seems to have bolstered the market's confidence in US stocks.

Other than US stocks, most asset classes posted only modestly positive to negative returns over the last three-months. In a reversal of relative performance versus the fourth quarter, foreign stock returns were substantially lower than those in the US and were broadly negative other than Japanese stocks which surged as the Bank of Japan took quantitative easing to a new level. This has driven the yen down by around 18% since mid-November while its stock market rallied even though its economy has one of the fundamentally worst economic outlooks of any developed economy – regardless of monetary policy (its sovereign debt, alone, is 24 times its tax receipts – the US's sovereign debt is 6 times its tax receipts).

Exhibit 1

INDEX	1st Qtr, 2013	Last 12 Months	Last 3 Years	Last 5 Years
US STOCKS				
S&P 500 Index (large-cap stocks)	12.48	14.20	12.78	5.93
S&P 500 Growth Idx (lrg-cap "growth" stocks)	11.29	11.92	13.49	7.59
S&P 500 Value Idx (lrg-cap "value" stocks)	13.75	16.80	12.14	4.19
Russell 2000 Index (small-cap stocks)	14.72	15.73	13.45	8.39
FOREIGN STOCKS				
MSCI EAFE Index (developed foreign markets)	5.01	12.03	5.08	(0.95)
MSCI EMU Index (European Monetary Union)	(0.37)	8.78	(0.06)	(6.24)
MSCI Japan Index	11.16	7.95	3.49	(1.00)
MSCI Emerging Markets Index	(1.62)	2.84	3.50	0.94
MSCI BRIC Index (Brazil, Russia, India, China)	(2.96)	(1.23)	(2.06)	(2.73)
COMMODITIES				
London Gold PM Fix	(3.57)	(3.57)	13.01	11.34
London Silver Fix Price	(5.01)	(9.91)	18.64	9.30
GSCI Commodity Total Return Index	0.89	(5.91)	4.18	(10.20)
BONDS				
BarCap US Aggregate Bond (investment-grade bonds)	(0.22)	3.55	5.55	5.51
BarCap US 20+ Yr Treas Bd Idx (long-term US treas)	(3.80)	6.86	13.87	8.42
S&P Nat'l AMT-Free Muni Bond Index (municipal bonds)	0.36	4.99	6.19	6.03
iBoxx Liquid Inv Grade Idx (inv.-grade corp. bonds)	(0.78)	7.91	9.38	8.60
iBoxx Liquid High Yield Index (high-yield/"junk" bonds)	2.12	11.40	10.55	9.54
S&P/Citi Intern'l Treas Bond Ex-US (foreign bonds)	(2.92)	3.07	3.12	

Source: iShares.com

Investment-grade bonds were about flat for the quarter, longer-term US treasuries were down almost 4% and precious metals declined by 4% to 5%. Global mining stocks declined by a massive 16% to 19%.

Currency movements had a large impact on the returns of foreign investments for US investors as the US dollar and Japanese yen strengthened, and the euro declined meaningfully during the quarter (Exhibits 2 and 3).

Exhibit 2: US Dollar, Japanese Yen and Euro

Source: Bloomberg

Exhibit 3: Local Returns vs. US Dollar Returns

Index	Region/Country	12/31/12 to 04/03/13 Local Currency Return	12/31/12 to 04/03/13 Return in US Dollars
Euro Stoxx	Eurozone Blue -Chip Stocks	0.12%	-2.52%
FTSE 100	United Kingdom	8.86%	1.41%
CAC 40	France	3.13%	0.41%
DAX	Germany	3.45%	0.72%
Nikkei	Japan	18.92%	10.80%

Source: Bloomberg

Ultimately, diversification away from US stocks was a huge drag on performance during the first-quarter of the year.

Broadly speaking, our portfolios faced four headwinds during the quarter as a result of our positioning.

1) We are underweight stocks as a result of our cautious outlook coming into the quarter;
2) Our portfolios include foreign stocks (both developed and emerging markets);
3) Within our US stock allocation, we are underweight small-caps; and
4) Our exposure to gold and mining stocks.

On the positive side, our US equity sector over-weights in energy, healthcare and financials outperformed the broad market, and our fixed-income exposure outperformed the bond market.

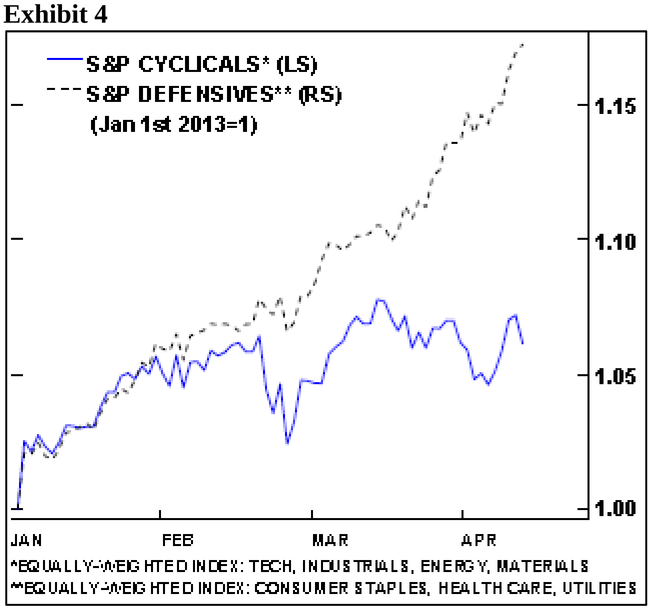
We believe stocks have rallied on a reduction in perceived financial risk far more than a likely acceleration in economic growth and rising profitability in the months ahead.

Until recently, the global economy was characterized by low growth and high instability. Investors have been preoccupied with the risk of the "next financial melt-down". The steps implemented by the European Central Bank (ECB) in the second-half of 2012 (i.e. the three-year LTRO and the OMT programs) seem to have been a watershed event. With ECB President Mario Draghi having made the explicit commitment to monetize troubled debt and protect the euro's integrity, the ECB has effectively removed the risk of a catastrophic failure in the European banking system which has paved the way for the perceived reduction in financial market risk.

The underlying growth of the world economy, however, has not changed much and the performance of asset markets remains highly dependent on liquidity being injected into the system by central bankers. In fact, one of the main factors common to regional stock market relative performance is the aggressiveness of its central banks. The euro zone is still in recession. Japan's stagnation has not ended. First quarter data for the US economy could turn out to be stronger than expected, but fiscal restraint will undercut growth this year. So, despite rising stock prices in a few of the major economies, growth remains in short supply.

Further support for our view that a reduction in perceived risk is driving stock prices higher is as follows:

Exhibit 4

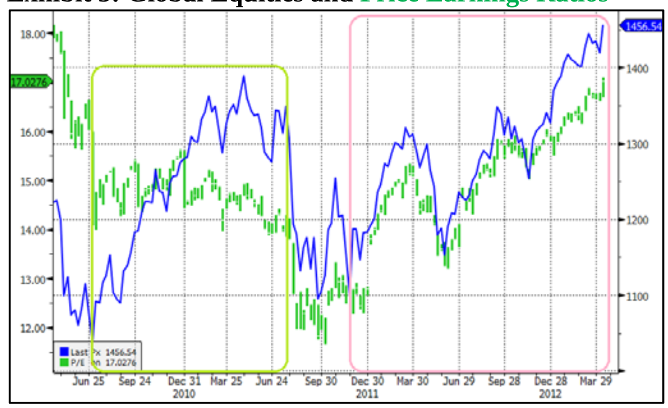


Source: BCA Research

- The uptrend in US stocks has been characterized by strong performance by defensive sectors (consumer staples, health care and utilities) versus cyclical sectors (technology, industrials, energy and materials) (Exhibit 4). This likely represents an entry into the stock market by would be or former bond market investors as bond yields have declined and the search for yield drives investors into stocks.

- The advance in stocks since 2012 has been almost exclusively as a result of expanding valuations (i.e. stocks are getting more expensive relative to various measures of their earnings and asset values – Exhibit 5). Earnings growth has actually been negative for foreign stocks and only accounts for about 1/20th of the advance in US stocks after having slowed to almost "stall speed" (Exhibit 6) as the fourth-quarter reporting season brought annual earnings growth for 2012 closer to zero, and represented the second consecutive decline in quarterly earnings per share (the third after seasonal adjustment) since the recovery began in 2009.

Exhibit 5: Global Equities and Price Earnings Ratios



Source: Bloomberg

Exhibit 6: S&P 500 12 Mo. Earnings Growth since 1990

Source: Nautilus Capital Research

This suggests a lot of good news is being anticipated by investors. Our concern is that the data could be disappointing during the second and third quarters as the strong increase in total output during the first-quarter possibly gives way to a more modest trend.

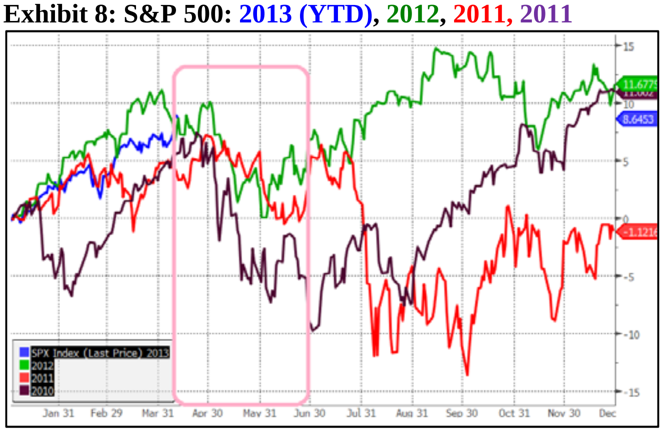
- While still positive, upside economic surprises appear to have peaked toward the end of the first-quarter (Exhibit 7) with the most recent surprises (Empire Manufacturing, NAHB Housing Market and Retail Sales) all being to the downside and warning that spending has been undermined by the January tax hike. It will likely be difficult for investors to "look through" soft economic data in the coming months as the gap between what seems increasingly needed to sustain the rally – better growth and earnings news – versus the prospect for weaker economic growth and disappointing earnings news seems to be widening.

Exhibit 7: S&P 500 and Economic Surprise Index

Source: Bloomberg

There is also a seasonal trend over the last three- to four-years of both weaker economic reports and weakness in stock prices following the first three months of the year (Exhibits 7 and 8).

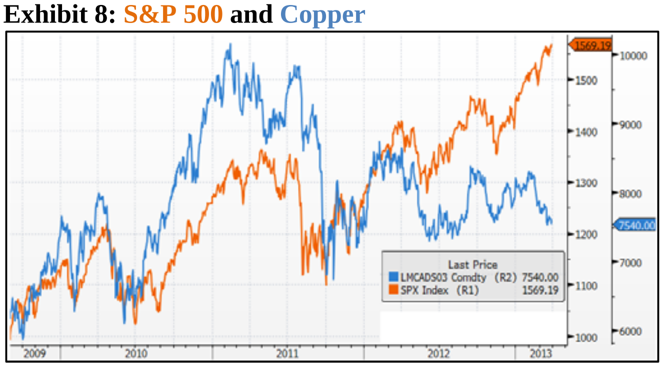
Exhibit 8: S&P 500: 2013 (YTD), 2012, 2011, 2011



Source: Bloomberg

Additionally, traditional measures of global growth such as copper (and other commodities) have diverged negatively from US stocks (Exhibit 8), likely because there are no signs of an imminent pickup in global growth.

Exhibit 8: S&P 500 and Copper



Source: Bloomberg

- The rally in US stocks has been accompanied by declines in quantitative measures of perceived risk that imply a level of complacency generally consistent with time periods leading preceding setbacks in risk assets (Exhibit 9):
    - The VIX index, which measures expected future volatility, is at extremely low levels.
    - The Citi Macro Risk Index, which measures levels of perceived risk in foreign exchange markets, and US and foreign bond markets, is at very low levels (the index ranges from 0 to 1).

Exhibit 9: S&P 500 Index, VIX Index and Citi Macro Risk Index

Source: Bloomberg

Nevertheless, leverage and risk exposure continue to expand as the search for yield and total return continues. In fact, one of the main channels through which quantitative easing and the Fed's "forward guidance" affect the economy is via the "portfolio balance effect" – lowering bond yields in order to encourage investors to shift from "safe" assets into riskier ones. The idea is that rising asset prices will boost collateral values and support spending.

There is no denying that the combination of negative real interest rates and the reduction in perceived economic "tail risk" is supporting the expansion of valuations. While this environment could persist for a while, betting on this outcome longer-term is risky on a number of fronts as the Fed's experience with successive quantitative easing programs has been that risk assets benefit initially, but the rally tends to run out of steam if signs of a growth impulse did not materialize.

Further, if unchanged, the sequester could inflict meaningful economic damage. The contraction in outlays would be concentrated in the second and third quarters, possibly suppressing quarterly growth by over 0.5% relative to what it would otherwise be. This extra drag is on top of the 1% fiscal contraction already implemented on January 2.

There is never a time when all market and economic indicators point in one direction; there are always concurrently bullish and bearish ones. Therefore, we need to exercise judgment as to which indicators to place more weight at any point of time.

Other than the performance of US stocks during the first-quarter, our cautious outlook for risk didn't miss the mark by much. Since asset prices rarely move in a straight line, and given what appears to be a high and rising likelihood of a corrective phase for stocks, our investment strategy of relatively cautious positioning has not changed a lot since the end of 2012.

We will continue to emphasize areas of the financial markets we believe have the best risk/reward outlook [larger-cap stocks in industries and sectors with below market valuations (energy, financials, technology and health care) and non-government bonds], and de-emphasize the areas we believe to be the riskiest (small-cap stocks, emerging market stocks, commodities and longer-term bonds).

As always, we will continue working hard to make the best investment decisions we can on your behalf while taking into account your long-term objectives. We appreciate your continued confidence and are available if you would like to discuss your portfolio in more detail.

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