ACCESS FINANCIAL SERVICES, INC.

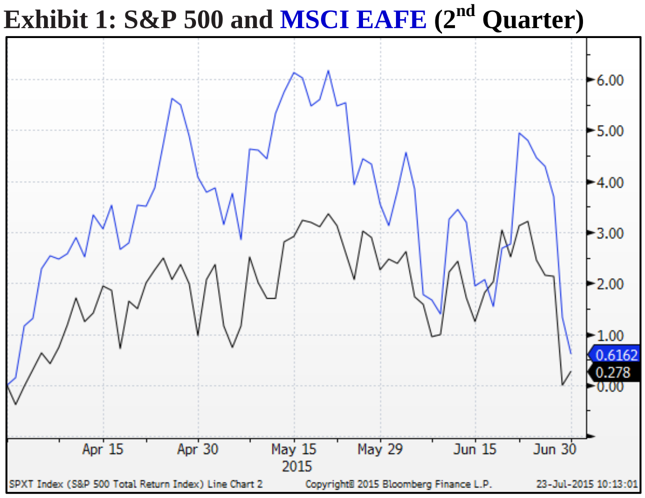
Quarterly Review and Outlook — Second Quarter, 2015

INDEX	2nd Quarter, 2015	Last 12-Months
US STOCKS		
S&P 500 Index (large-cap stocks)	(0.59)	7.42
Russell 2000 Index (small-cap stocks)	0.03	6.49
FOREIGN STOCKS		
MSCI EAFE Index (developed foreign markets)	(0.56)	(4.22)
MSCI Emerging Markets Index	1.29	(5.12)
COMMODITIES		
US Dollar Index	(2.92)	19.69
Gold Spot $/oz.	(1.22)	(10.95)
Silver Spot $/oz.	(5.71)	(24.77)
WTI Crude Oil	24.94	(43.56)
BONDS		
BarCap US Aggregate Bond (investment-grade bonds)	(1.53)	1.86
BarCap US 20+ Yr Treas Bd Idx (long-term US treas)	(8.85)	6.71
Barclays Municipal Bond Total Return Index	(1.03)	2.73
Barclays US Credit Bond Index (corporate bonds)	(2.71)	0.93
Barclays US Corp. High Yield	(0.67)	(2.50)
S&P/Citi Intern'l Treas Bond Ex-US (foreign bonds)	(2.37)	(13.44)

Source: iShares.com & Bloomberg

Broad based measures of global stocks finished the quarter mostly flat while volatility increased (Exhibit 1) as market participants focused on the implications of a possible Greek exit from the euro zone and on what turned out to be the beginning of a meltdown in Chinese stocks.

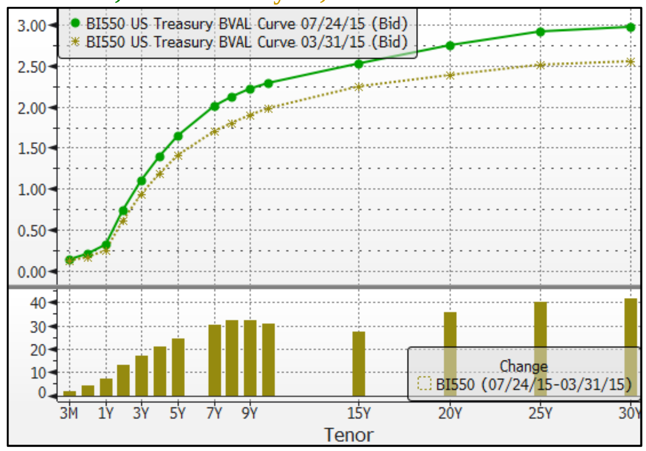
Exhibit 1: S&P 500 and MSCI EAFE (2nd Quarter)



Source: Bloomberg

Core fixed-income sold off after five consecutive quarters of gains as yields (interest rates) rose during the quarter, especially for intermediate- and long-term maturities (Exhibit 2).

Exhibit 2: US Treasury Yield Curves
March 31, 2015 and July 24, 2015



Source: Bloomberg

Faced with a hard deadline, a collapsing banking system and an economy that is seizing up, Greece eventually blinked. It submitted to its creditors a request for a new three-year loan and offered a set of reform proposals that looks a lot like the creditors' demands that were soundly rejected by Greek voters in the recent referendum. The result was a bounce in global stocks off their lows on July 8 on the enhanced prospects of a deal with Greece.

Greece's capitulation to the demands of the European Commission, the International Monetary Fund and the European Central Bank (collectively referred to as the "Troika") will help the country buy more time, but it is doubtful that this will be the final chapter in the ongoing crisis. The proposed program is unlikely to be viable. Even if Greece tightens fiscal policy by another 2% of GDP as the Troika is insisting, the economic contraction will only deepen further. The only question seems to be when, not if, the program goes off track.

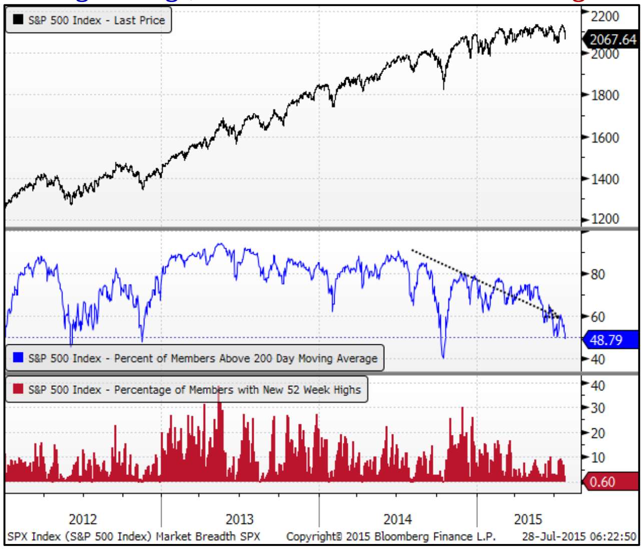
Last quarter we wrote: "we're maintaining a cautious near-term outlook as valuations within the US stock market continue to appear stretched and the Fed seemingly intent on raising short-term interest rates in September." This view hasn't changed even as stocks have readily digested difficult macroeconomic news and negative earnings surprises.

Strategy-wise, where we stand today in relative equity/bond valuations, the dollar, oil and profit margins support the argument of a favorable risk/reward tradeoff for high-grade bonds over stocks. While it is possible that stocks will continue to benefit from the "there is no alternative" argument, this rationale is beginning to fray at the edges.

As we've mentioned in the past, this is the third longest stretch since 1932 without a 10% correction in the S&P 500. More than 100% of this year's gains in the Index is attributable to two sectors, health care and consumer discretionary. That's the tightest clustering for an advancing year since at least 2000 according to Bloomberg.

Exhibit 3 shows that both the percent of stocks above their 200-day average price (49%) and the percent making new 1-year highs (0.6%) have been declining even as the market has advanced. Further, the two strongest performing sectors trade at valuations (based on price/earnings ratios) that are 20% greater than the overall market (which is already elevated) leaving plenty of room for these two supporting sectors to drop in the event of disappointing data.

Exhibit 3: S&P 500, Percent of Stocks Above 200-Day Moving Average, Percent of Stocks at 52-Week Highs



Source: Bloomberg

An advancing market on declining breadth is a textbook warning that support for the market is weakening. A recent example is that during the technology bubble in the late 1990s, six computer and software companies accounted for 55% of the S&P 500's gain over the 12-months leading up to the peak (again, according to Bloomberg).

In most cases, we have not changed course strategically. We are at benchmark weightings from an asset allocation perspective (stocks/bond/cash). Within our stock allocation, our emphasis has been geared toward reducing risk and our view that investor's search for yield will continue. Our relative performance has suffered lately as our emphasis on higher yielding stocks has not paid off as the Fed has continued to talk tough. However, our view is that even though we anticipate a small rate hike this fall, the Fed will move very slowly in its quest to raise rates in the future.

Within the US stock market, it is likely we will begin increasing our allocation to the financial sector given high valuations and weak earnings growth in the broad market while the financial sector is reporting the fastest earnings growth of any major sector in the second-quarter. Management commentary is upbeat and valuations are relatively low, while rising interest rates provide a catalyst for a move upward in valuations.

Additional factors pointing to outperformance of financial stocks include:

- Loan growth is strong – especially in commercial and industrial, with commercial real estate leading the way. Residential mortgage lending should also continue accelerating given the improving job market and deleveraging pressures receding.
- Net interest margins should improve with the Fed's anticipated interest rate hikes, and expenses should remain under control against a backdrop of accelerating loan growth.
- Profit margins in the financial sector remain well off their peak, unlike the broad market.
- Accelerating profits should bolster dividend growth.
- Regulatory pressures appear to have peaked with capital ratios at their highest levels since the 1940s which is freeing up massive cash flow.

We also continue to favor high-quality intermediate-term bonds (mostly US Treasuries and agency securities) within our fixed-income allocations. While large gains are unlikely over the long-term, we continue to believe that this asset class is our best defense in the event of a meaningful decline in the equity markets.

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