CORE EQUITY REVIEW

First Quarter 2013

OFF TO THE RACES

PERFORMANCE COMMENTARY

On the first day of the year the market rallied (rising over 2%) and never looked back. The market, as defined by the S&P 500, reached an all time high of 1,569 on the last day of the quarter and was up 10.6%. Even though this quarter was not as strong as last year's first quarter (up 12.7%), any way you slice it, this was a very good return for any quarter. If this is any indication of how the year plays out, 2013 will be another vintage year.

The market received relief from the fading of (or the extension of) the fiscal cliff fears and defied concerns over sequestration. The focus was on a better tomorrow as political concerns were put on the back burner. The much ballyhooed $85 billion in sequestration cuts and the fallout from Cyprus couldn't dent the growing recognition that the gradual degrees of the recovery in the US economy might stretch out the length of the recovery and of the improving quality (cyclical improvements in the private sector offsetting tightening fiscal policy) of the recovery.

Still bearing the scars of 2008 in their psyche and factoring headline concerns, investors' enthusiasm reflected a dose of caution in equity selections, as investors preferred yield oriented stocks. The market rotated away from last year's out performers, with value or yield oriented stocks (led by health care, consumer staples, and utilities) trumping growth. Both Apple's price action (-15%) and its significant weighting in the technology component of indices made it difficult for growth in general to keep pace as well. The technology and materials sectors were the only real drags on returns.

	Periods Ending March 31, 2013					
	QTD	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Core Equity Composite - NET	**10.9**	**17.1**	**14.1**	**8.6**	**7.9**	**11.1**
Russell 1000 Growth	9.5	10.1	13.1	7.3	6.1	8.6
S&P 500 Index	10.6	14.0	12.7	5.8	5.0	8.5

Composite performance is reported NET of fees and expenses. Please refer to the disclosures at the end of this report.
Performance figures for periods one year and longer are annualized.

Core Equity had another good quarter, especially considering that the strategy, focused on wealth preservation, is conservative in its makeup and historically lags in rapidly rising markets. **Cree (CREE)**, which has underperformed in the past, was up 61%, having finally achieved investor recognition for its leadership position in LED lighting. **Canadian Pacific (CP)**, the big railroad with exposure to energy and grain traffic in both Canada and the northern U.S., followed up on its 50% return last year with a positive 29% quarter. **Computer Sciences (CSC),** responding to management

initiatives, was up 23%, while **Bristol-Myers Squibb (BMY)** and **Verizon (VZ)**, both offering high yield and growth opportunities, were up 26% and 14% respectively. Only six holdings in a portfolio of 29 companies were negative for the quarter. **Apple (AAPL)** contributed a negative 13% return for the period, followed by **Crown Castle (CCI)** -3.5%, **Caterpillar (CAT)** -3%, **FMC (FMC)** -1% and **American Tower (AMT)** -0.50%. Crown Castle was up 60%and American Tower was up 30% last year.

PORTFOLIO COMMENTARY

The Core objective is to provide downside protection to assets and grow the assets on a conservative basis. Risk mitigation is central to the process and runs throughout the structure of the portfolio. The portfolio is more than a collection of "blue chip" holdings diversified across the spectrum of industry sectors. We are focused on where and how we expose clients to risk. We believe in investing in focused portfolios and increase exposure to sectors that we believe have limited risk against favorable conditions and avoid sectors with less than favorable prospects or risks. We have not owned banks for a number of years because we see more favorable risk reward opportunities elsewhere.

The portfolio has always consisted of defensive yield oriented and growth oriented opportunities and we increase or decrease weightings according to our perception of risks and rewards. We have been moving the portfolio more towards growth opportunities but are currently still using stocks that offer meaningful dividends. As investors, we like the growth prospects for **Intel (INTC)** over the next few years and we also like the fact that we get paid 4% in dividends to add to the total return. Currently 80% of the portfolio pays a dividend. The current yield is greater than the yield of the S&P 500 and we believe the portfolio has significantly greater growth prospects than the index with less downside risk.

PORTFOLIO ACTIVITY

Investing with a longer view, Q1 was another typical quarter for the portfolio. We enhanced the yield modestly and added to our Apple position in late January when the stock broke down. We trimmed our FMC position by 1% to do so. Since as we had roughly a 50% return on our FMC position, it was the most appropriate holding to trim.

Late in the quarter we increased our positions in Verizon (VZ) and **Vodafone (VOD)**, enhancing both our exposure to the high growth smart phone arena and the yield of the portfolio. VOD owns a 45% stake in VZ. We believe there is potential for VZ to acquire that position at an accretive price, and at a premium to VOD's present price. We sold our position in **John Wiley (JW.A)**, a solid company but in a slower growth arena, to accommodate this trade. Wiley yields 2.5%. In contrast, VZ and VOD yield 4.2% and 5.5%, respectively. Going forward, a larger weighting in VOD and VZ provides flexibility to migrate the portfolio to enhance the growth opportunity while maintaining a buffer to dampen risk exposure.

MARKET COMMENTARY

As patient investors we continue to be optimistic in terms of investing. Slow and steady are key descriptive words, and both are supportive to equity investing.

On a global basis many economies are vulnerable to event and there is much still to be worked through. However, work is in process and progress is occurring. There is ferment from the Mediterranean eastward that is beyond prediction, and there are attitudes toward America and possible strikes against America that are sobering to say the least. But these do not have the mass nor the influence to take down the improvements that are going on in Central Europe, in Eastern Europe, in Russia, in China, in the western hemisphere, and throughout the huge continent of Africa, to say nothing of the exporting nations of Australia, New Zealand, Indonesia, Malaysia, the rim of Asia, and others. Virtually all of the world's stock markets are interrelated in price responsiveness. The pieces of the world are ever more moving coordinately together, though at times rose-colored lenses are needed to see this.

Here at home, all things considered, the economy has moved into a period when it is self-sustaining, self-regenerative, and moving ahead. The fundamental factors sustaining growth are prevailing over concerns, and months ago the American economy attained the normal commercial evolvement of synergistic interactive regenerative relationships. If stripped of ulterior or personal prejudice, the landscape can be seen as highly supportive to equity valuations, helped – not diminished – by the gains of last year. Improved visibility and changed attitudes will allow more relevant observations in world changes beyond the range of parochial financial attitudes. These are fundamental and as pervasive as air and water; too huge and too omnipresent to attract attention.

One of the more conspicuous supportive influences for equity valuations is seen in the increase in merger and acquisition activity. Already, 2013 is off to a massive – possibly record – year. Prices have been at substantial premiums to quoted market prices, showing that these professional purchasers think the selected shares are cheap. This cross references like opinion to other shares as the reinvestment of money paid for purchased shares usually flows into other shares. As additional support, announced share buy-ins and dividend increases exceed prior experience.

Moving from the vastness-vague of universal concepts to industry-by-industry, we would cite several radical significant changes expected in America pertaining to energy, employment and jobs, health and relateds, and especially infrastructure. Investors should be sure that in each of these designations, the changes for prospective years are fundamentally — even radically — different from years past.

I. For energy, following decades of price increases for fuels, there is now a broadly embedded downtrend of long duration in the prices of liquid fossil fuels, and correlatively across the broad fuel-related and chemical-related spectrums. The decades-long uptrend that was created out of our national policy has ended. What could be more radically different than this? A long downtrend in the cost of fuels has more pervasive social sponsorship than a tax reduction. Everyone and every industrial entity benefits from a lower cost of fuel (except fuel providers, of course).

Support for these surmises is made evident almost wherever you look. It was part and parcel of our national policy to constrain drilling at home, to build inventories in the salt domes of the southern Gulf States, and above ground in Cushing, Oklahoma. National policy could be summarized as keep our own reserves, import from others, and raise prices as we go. That attitude is reversing, coincident with market forces from huge new discoveries of oil (especially under sea water) and from the discovery of available natural gas through hydraulic fracking, not so far from major population centers of America. Expectantly, this extends by 30% or more the total available American reserves of natural gas. Rarely has anything of this scale ever happened. Moreover, the means of delivering natural gas allows it to be shipped over waters as never before in increasing scale, which means that natural gas becomes more nearly an international commodity rather than accessible largely through pipelines.

Combined with the upgrading of gas and oil to chemicals and other products, exports will supplant imports big-time, further assured by the significantly more conservative use of fuels and the subsidized sponsoring of alternative sourcing of fuels. You might hope Congressional representatives would factor these considerations into fiscal planning which are many times more important than their vacant, heated bickerings.

II. Another new national policy is evolving that is also a radical reversal in the form of infrastructure repair and building. References to the decaying bridges, the insufficiency of roads, and the insufficiencies of some other public works is compellingly apparent. This would not be net costly in social terms; rather, it would provide net savings. Imagine the time and dollars that would be saved when you can traverse metropolitan areas at more than 15 mph, or stalled with engines running. Or, the airplanes waiting on the runways to take off, or those being held up from landing by runway congestion. These will entail billions of dollars of saving. And, when you look at our public transportation system, it is so inadequate for us; and, many of those who visit from afar, think of us as some sort of a backward nation. So, public transportation is also in for a boost as an alternate to delays on the surface through private vehicles.

III. The exportation of jobs to less developed nations and to Asia is slowing dramatically. Our interest rates no longer give Asians a several-hundred basis points or more advantage (as in decades gone by) in high-capital, low-labor-ratioed manufacturing such as semiconductors, textiles, electronic end products, and even automobiles. Dissimilar taxes and subsidies will come under increased scrutiny, and the unevenness reduced. Also, there is likely to be less immigration than the astonishing quantities of very recent years, which, in effect, take jobs from persons who have been citizens in this country for years. Expect, also, a new emphasis on infrastructure spending to be combined with job opportunity sponsorship. The foregoing will all be interactive and mutually regenerative.

IV. Another, to be sure, reversal of trend will be a reduction in military expenditures. The retreat will be more conspicuous in spending beyond our borders. Yet, a large portion of military expenditures will come under a new analysis for justification. This will release human and financial resources toward infrastructure here at home where it is so badly needed for having been neglected for so many years.

V. Also expect a slowing of population growth in America, some reduction in the birth rate while the demographic bulge of elderly will be going on in increased numbers. Meanwhile, we have large industries that experienced little or no recession, owing to underlying self-sustaining forces. Most note worthily it is the healthcare realm – huge and ever increasing. Medical care will be made more available throughout the world.

VI. Agriculture, broadly considered to include all related aspects and support services, is our largest single industry, by far. It faces ongoing years of increasing output and is ever America's trump suit.

The sourcing of energy from a variety of technologies and discoveries is more dynamic than in the memory of any of us, for its breadth and totality of expenditures. Lodging, travel, entertainment goes on as though there is a fundamental demographic affinity that crosses national borders and runs throughout our large domestic economy.

This simplest and easiest sponsorship that our national government can give in financial leadership is simply to guarantee the credits of revenue bonds issued by state and local governments to improve their facilities for transportation, for education, for improving health facilities, and other aspects where government participation is important and welcomed, and use is regionally confined. While Federal expenditures will be constrained, expenditures by state and local governments will be rising. If the healthcare program were run differently, there could be perhaps a trillion a year saved. If the military were run differently, there could be perhaps a trillion saved. If we conduct our energy conservation appropriately, we perhaps could save another trillion there. And, Americans do not have to wring their hands in anxious wonder concerning where the money is coming from. The money is already sitting idle in huge amounts. A trillion dollars held by corporations overseas is locked over there because of tax considerations. It is pretty easy to find a way to bring that home.

Repeating, with all things considered here at home, the economy has moved into a period when it is self-sustaining, self-regenerative, and moving ahead. Slow and steady are key descriptive words, and both are supportive to equity investing.

For several years, our views have been highly divergent to much that we see and hear elsewhere. As always, change is the name of the game – especially so now, as relief ensues from the traumatized years. Rarely does it pay to bet against the vigor and endemic growth of America.

DISCLOSURES: The Core Equity Composite is comprised of discretionary, separately managed taxable and tax-exempt equity accounts managed according to Princeton Capital Management's conservative, equity oriented investment strategy. Results are calculated internally using Advent portfolio accounting software. Accounts are included in the composite at the beginning of the first full calendar month in which the account is fully reflective of the investment strategy. Composite returns are weighted for the size of each underlying account and are reported net of fees and commissions. Results for individual accounts may vary due to the timing of investments, size of positions, fees, and other reasons. Client returns may be reduced by other expenses incurred in the management of the client's portfolio. Composite and index performance valuations and calculations include dividends, interest and other earnings and are stated in US dollars. All performance figures for periods one year and greater are annualized. The S&P 500 Index is an unmanaged index generally considered to be representative of the U.S. stock market as a whole. The Russell 1000

Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. Additional information regarding policies for calculations and reporting returns is available upon request. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified or discussed were or will be profitable. The stocks named as the top or bottom five contributors to performance for the period are based on a representative portfolio (Princeton Capital's oldest Core Equity wrap account portfolio; also a member of the Core Equity composite) and have been identified through a report generated by Princeton Capital Management's Advent portfolio accounting system. Further detail on the contribution to performance calculation, which takes into consideration the weighting of every holding in the representative account, as well as a list showing every holding's contribution to performance for the period, is available by contacting Princeton Capital Management at info@pcminvest.com