

CORE EQUITY REVIEW

Third Quarter 2013

PERFORMANCE COMMENTARY

Our investment team has collectively managed assets through the cold war era of the 50's and the Cuban Missile crisis, the social unrest of Vietnam and the Nixon resignation, the Volker induced "20%" interest rates and energy crisis of the 70's, portfolio insurance and the '87 crash, the Long Term Capital and currency crisis of the early 90's, the dot com bubble, and the financial follies and ensuing debacle of 2008.

With today's ever present media there always seems to be a new "crisis" that dominates headlines, commandeering commentator's voices and ensnaring emotions or minds. If we look back to the past few years there have been several pending collapses of the European banking system or economic recessions, imminent double dips in our economy here at home, and several political crises of debt ceilings. We began the year dealing with sequestration and the fiscal cliff and ended Q3 with a government shutdown and threatened repudiation of our debts.

We have taken these recent, and what we view as mostly manufactured, crises in stride and remain optimistic. We continue to believe that the economic recovery is in place on a global basis and opportunities exist to earn a significant return as well. Through it all the market has done the same and has moved, although haltingly at times, markedly higher.

Both for the quarter and the year to date, this has been another wonderful year for equity investors and we have more than kept pace with generalized market returns.

	QTR	YTD	Periods Ending September 30, 2013				
			1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Core Equity Composite - NET	5.7	21.8	23.5	17.6	11.4	9.2	10.4
Russell 1000 Growth	8.1	20.9	19.3	16.9	12.1	7.6	7.8
S&P 500 Index	5.2	19.8	19.3	16.3	10.0	5.6	7.6

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.

Not surprisingly **Vodafone (VOD)** made a positive impact on the portfolio this quarter. The stock was up 22% on its announced sale of its position in Verizon Wireless to Verizon. This quarter there was balance to the contribution to performance in terms of sectors and overall positive returns. **Universal Electronics (UEIC)**, which dominates the home entertainment remote control market and which we believe will increasingly be a part of all devices controlling the home, was up 28%. **Computer Sciences (CSC)** was up 19% and **FMC Corporation (FMC)** was up 18%. **Boeing (BA)** had an outstanding quarter in terms of new orders, and as Dreamliner issues abated, was up 15%.

With predominantly solid market returns there were few laggards. One of our largest holdings **Verizon (VZ)** was down 6%. **CREE (CREE)**, a leader the prior quarter, gave back some of its gain and was down 6% as well. **Intel (INTC)**, **Microsoft (MSFT)** and **AT&T (T)**, down 3-4%, also trailed in the quarter.

PORTFOLIO ACTIVITY

PRINCETON CAPITAL MANAGEMENT, INC.

We sold our position in **GlaxoSmithKline (GSK)** because of concerns over Chinese regulatory actions and potential bribery scandals being an ongoing issue for GSK. We maintained our portfolio weighting and exposure to health care by investing the proceeds in two other large cap pharmaceutical companies, **Sanofi (SNY)** and **Bristol-Myers Squibb (BMY)**. Sanofi is one of the largest European drug companies and we believe the world leader in the development and manufacture of vaccines. They also have significant pharmaceuticals and health care product offerings.

We are very excited about new developments in the industry modifying and regulating genes in therapeutic treatment. If successful, these developments will have the ability to modify DNA sequences in certain ways and in effect be able to turn genes on and off in targeting delivery of therapeutic drugs. Bristol-Myers Squibb is leading in this area among large cap pharma companies. Since BMY is a current holding, we took this opportunity to increase our position.

PORTFOLIO COMMENTARY

Investing requires formulating “guesstimates” and integrating them into a hypothesis as to what the future will be. Politics and regulatory concerns are one of the vagaries factored into these considerations.

In trying to factor “Washington” into investing, hark back to the scene in “The Sound of Music” where the nuns are deliberating over how to deal with a recent addition to the convent, who seems to be on a different page. “How do you solve a problem like Maria” needs to be modified to, “How do you invest with a problem like Washington?” As investors, we don’t get into comparing the charming and delightful Julie Andrews to members of Congress or become involved in formulating solutions.

As intractable and thorny this issue we have created for ourselves may be, we believe that it will not be the undoing of our economic recovery or markets. However, political wrangling is damaging to our economy, which remains in a slow mid-cycle expansion amid improvements in employment and manufacturing, a steady corporate sector, and a somewhat benign credit and inflation environment. Kicking the can down the road addressing critical decisions to 2014 only extends the uncertainty. This will continue to be a wet blanket on corporations and a hindrance to economic growth possibly for the foreseeable future. One of our favorite adages is “successful investing is a marathon not a sprint” and Washington has added a few hills to our race.

Investing with a problem like Washington in mind is the reason we have built a higher yield into our portfolios than many other growth managers. We will continue to focus on companies with the best prospects that have the capacity to provide outstanding returns over the long-term. We invest factoring in the stock's potential total return. That is why many of the companies in our portfolio pay dividends. We believe yield helps mitigate the market's short-term volatility impact on our portfolio and enhances the total return. Historically, dividends are a helpful way to soften vicissitudes of a volatile market and of an economic downturn. Dividends help managements send a clear message to shareholders about a company's prospects, performance, and fundamentals. Dividends force managements to allocate capital wisely.

Companies in the S&P 500 are on track to earn more than \$1 trillion this year. Yet, even with companies paying out 32% of their earnings in dividends, above the average for the past 10 years, the S&P 500 yield is around 2%, less than half the historical yield of 4.4%.

Dividends have helped to boost portfolios' performance. According to investment firm Blackrock, over a 76 year period ending in 2011, the S&P 500 averaged a little over a 10% annual return. Dividend stocks in the S&P in that period returned 12.3%, while non-dividend payers returned 8.96%.

From 1990 to 2010, the S&P 500 returned 394%. Ibbotson Associates say 43% of that total return came from dividends, while 57% came from rising stock prices. Many fast growing speculative companies don't pay dividends because they are preserving their capital for internal growth. But for more mature growth stocks, dividends send a clear, powerful message about future prospects and performance. A company's willingness and ability to pay steady dividends provides clues about its fundamentals.

In our Core offering 85% of the holdings pay a dividend and 30% of the portfolio is comprised of companies paying over a 3% yield. We like the long term prospects of the dividend-paying telecoms in our portfolios - Verizon, AT&T, and Vodafone - not only because they are direct beneficiaries of the booming cell phone/smartphone phenomenon, but also because they pay hefty dividends, ranging from 4 to over 5%. We regard them as bond equivalents with potential for increased payout as well as market appreciation - and a great way to invest in the wireless revolution. Other high quality names in the portfolios with at least 3% yields include: Intel (3.9%), Microsoft (3.4%), General Electric (3.2%), DuPont (3.1%) and Bristol Myers (3%). We believe these companies are not only solid fundamental entities, but also have high, growing payouts that are well-protected for the long term.

MARKET COMMENTARY

A view of the world economies from a scanning satellite would show slow improvement in Europe, the same for Japan, a slowing in the steaming pace of China, a slowing in the exporting nations of Latin America, and encouraging persistence in the tempered pace of America and of Canada. This all condenses to a genre of slow improvement that is supportive for shares. Refractive unemployment of persons and of facilities continues to keep central banks in stimulative modes, and acts to obviate the sponsoring of overreaching viewpoints and of excessive activities nearly everywhere. Endemic to the progress underway, there is little or no need for more help from governments (and for that matter not very much is), within the powers of governments to boost activity without fostering counter forces. The key to progress is seen in the supportive interrelationships of commerce throughout the normal course of activity among societies, as by-and-large is taking place.

As always, the health and disposition of the stock market must be defined within the context of the emotional waves that emanate from the political background. As the tragic violence in Syria sent menacing clouds beyond its borders casting shadows across financial markets, the coincidental intensification of tensions that centered upon Iran's nuclear weaponry roiled national interrelationships through mid-summer weeks. The combined stress of such foreboding consequences had the effect of pressing Russia, the United States and other nations into cooperative dialogue which were fortuitously (and fortunately) timed for the eve of the United Nations' Assembly meetings in New York City. The resilience of the American stock market in the midst of Washington deliberations that proceeded to the very edge of direct military involvement (that surveys showed to be unsupported by a large majority of citizens) seems to imply there is latent, as well as kinetic, financial energy underpinning the upward market trend.

Also out of the political background of events, take special note of Mrs. Merkel's victory for its granting (as election wins do) increased degrees of freedom, and of the propitious timing in the context of German

leadership for greater Europe. This gives a breeze of good hope to refresh unity of spirit throughout Europe, and beyond.

Improvements have become self-regenerative. The down cycle patterns of yesteryears no longer dominate; that is, with one looming exception. The automobile industry, which has done so well around the world, has attained a rate of output that seems unsustainable. We suspect that this very large industry will give the most conspicuous appearance of slowing as progress proceeds beyond immediate months.

After the persistent increase in America's economic activity, after so much recent-year gain in corporate earnings (especially by larger corporations), and after so much advance in equity prices, the word slow is an appropriate description for months ahead. Corporate profits are at very satisfactory levels. Accordingly, we continue to emphasize full investment positions, giving emphasis to quality, and continuing with due emphasis upon current return through dividend payments. Many observers and wannabe sages still speak in traditional literary phraseology of cycles as though a downturn is imminent, unaware that most modern economies have outgrown such cycle patterns. In contrast, we do not visualize a down cycle that would impose on equity valuations in immediate months.

All things considered, circumstances continue to be propitious for selecting shares of thriving industries.



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The Core Equity composite was created on January 1, 2003, representing actual separately managed taxable and tax-exempt equity client portfolios managed on a discretionary basis according to Princeton's conservative, equity-oriented investment strategy without client restrictions for the period(s) indicated. Prior to 1/1/2008, this strategy and composite were marketed as Princeton's Balanced Tax-Exempt composite and was comprised of only tax-exempt accounts. While the strategy, whose portfolios may be fully invested in stocks, has not changed, it was renamed to make it more distinct from traditional balanced products that typically maintain ongoing bond allocations.

Performance results are calculated internally using Advent portfolio accounting software. Accounts are included in each composite and its performance at the beginning of the first full calendar month in which the account is fully reflective of the investment strategy. Performance and index valuations and calculations include cash and cash equivalents and also include the reinvestment of dividends, interest and other earnings and are computed and stated in US dollars. All performance figures for periods one year and greater are annualized. Returns are weighted for the size of each underlying account. Net returns are reported net of management fees and commissions. A client's return will be reduced by our advisory fees and other expenses a client may incur in the management of the client's portfolio. Our advisory fees are disclosed in our Form ADV 2A. Also, there is a compounding effect of advisory fees over time on the value of a client's portfolio.

The **S&P 500 Index** is an unmanaged index generally considered to be representative of the US 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 US equity universe. These indices are unmanaged and include the reinvestment of dividends and earnings. Individuals cannot invest directly in any of these indices

Performance results, and advisory fees, for individual client portfolios will vary due to the timing of investments, additions/withdrawals of funds, diversification guidelines, length of relationship, and size of positions, among other reasons. For additional information about the performance of the composite or our current fee schedules, please contact Princeton Capital Management.

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The stocks named as the top or bottom contributors to performance for the period are based on a model portfolio structured to represent the Core Equity composite. 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

PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE