THE VIEW FROM PRINCETON

Market Commentary ♦ March 2011

Change: The Likes of Which is Unprecedented

"Change is our friend" has been the mantra of our Firm since inception, an adaptation of the French axiom "Sans change, rien" (without change, nothing). Looking forward toward change is what we attempt to do for the benefit of our clients, as well as what we do for a living. Applying this to investing, the axiom would be expressed as, "greet change so that it might work to your advantage." Of course, we have in mind orderly changes among persons, enterprises and nations that allow anticipatory visualizations.

Referencing the last four years, change has run in extraordinarily large measures (since the virulent 2007-9 financial pandemic) and 2011 tops all with contagious social revolt from North Africa eastward, and a devastating earthquake in Japan. So, we must now cope with the unanticipated, out-of-all-bounds, event-driven forces of change. Events have borne such dissimilar natures — explosive, sporadic, and contagious — that the far ranging effects have acted to disperse attitudes, as contrasted with aiding a coherence of viewpoints. Accordingly, our responsibility and task shift from anticipation to perceiving and coping with after-event consequences, as pertaining to the vulnerable, or the unaffected, or those benefitting.

Reminiscently, the pandemic financial plague (2007-9) was highly predictable, as derived from the prologue provided by financial licentiousness, though the timing of the collapse was not evident. The sequentially developed pattern and the vastness of the outer regions of the effects and consequences ranged beyond anticipation. The recovery of security valuations since early 2009 (in magnitudes outsizing any normal experience for such a period of time) was also highly predictable (after the threat of systemic risks was buttressed by governments around the world). There was such compelling cheapness for most marketable securities that a steep or long price advance seemed inevitable. The rise in share prices has not generally brought excessive valuations. (Of course, there are always a few overvalued securities in a market so complex, and with so much variety.) Now, after more than two years of realignments of security valuations, unanticipated events in nations surrounding the Mediterranean have shaken the foundations within governments, and stressed interrelationships among other governments. Such changes as these can only be observed and responded to after the events.

The ensuing consequences, overall, will likely slow economic recoveries, having effects similar to the constraints of tax increases. The rise in fuel prices will have uneven effects worldwide as will the price increases of many materials. This is not demand/pull inflation; this is just the opposite. It is supply constraint (actual or imagined) that attracts opportunistic interest of abundantly liquid fund managers. The passing of ownership of materials (superficially) through the hands of financial managers (a detour that excites and captures price increases) acts to further constrain the normal flows of commerce. The economic consequences of a heartrending earthquake in a leading nation such as Japan (a major exporter of components and end products) will cause supply chain shortages that will have a scattered effect of further slowing worldwide recovery, until rehabilitation is accomplished.

America's strength, and the financially fortified strength of many major multinational corporations throughout many nations, will enable continuing growth. Adjustments seem likely to be largely a matter of deferring, or paring, realization of hopes and expectations. Meanwhile, there will be no shortage of overall investable funds; just as the abundance of financial liquidity acted to lift prices of marketable securities in months past. Selections for clients are aligned according to enduring formative forces as these sponsor or constrain the flows of commerce, and, in turn, affect the changes in valuation of securities.

PRINCETON CAPITAL MANAGEMENT, INC.

For our equity selections we look, for the most part, for favorable external environments for enterprises. A neutral, virgin environment can be acceptable. Uniqueness and worthiness of companies' products allow barriers to would-be competitors and profitable pricing to the product providing enterprises. This pertains to the very essence of why we place an emphasis toward the sciences. The use of focused scientifically involved companies appeals to us doubly for the benefit of insights as we perceive the societal effects, and especially because the profitability is greater. Furthermore, the increased ability to extract reliable guides from the finiteness and the specificity of product analysis is reason enough in its own right.

We synthesize all of the major generalized formative forces to derive guidance of a worldwide overview (as most traditional investment managers do) such as:

- Demographics
- Industry characteristics
- Resources - natural or man-made
- Political considerations and governance
- Interest rate levels and tendencies
- Currency relationships
- Financial wealth that is institutionalized, and thus energized

Unlike most money managers, we also add in the influences that have their origins and force in the sciences. We use scientific advisors when required depth goes beyond our understanding as to the meanings of new developments, or as to the applications and characteristics of instruments, or as to devices and therapeutic agents.

All human life has been fundamentally changed — massively — by the sciences, and change proceeds in ever greater magnitudes and with broader import. We think investors should not disassociate their analysis from these opportunities and these influences. This is our happy hunting ground for investment opportunities, and forms a vast complex from which we plan our effort in search of investments for clients. We especially like to have the confidence enabled by discernable persisting drives that come from scientific innovation in the form of products and services of great social applications.

Going forward, constraints upon national growth rates, unevenly imposed (as mentioned, by such large price advances of fuels and materials) will reverberate through currency exchanges, and, further, will tend to keep interest rates unduly low in the United States, Japan and Europe. This will also have nationally induced influences on currency valuations that will be, thus, in a distorted relationship to the realities of commerce. Passing aberrations in many forms and sizes might show in increased frequency. There is much still to be revealed, and coped with only in real time observations. Keep ever in mind the basic elements of commerce, for these eventually shall prevail. The sinews of commerce are the strongest of bonds, and can withstand the assailment of shocks from natural causes or from the aftershocks of media interpretations that excite heightened financial market responses.