GROWTH EQUITY REVIEW

First Quarter 2012

PERFORMANCE COMMENTARY

This quarter responded to a respite from negative headline news: headlines were supportive. What a difference. Geopolitically, Syria was not the "Arab Spring" of a year ago, the "Greek issue" concerns were mollified (though not resolved), and there were signs of a dawning recognition that there may be more to governing and legislating than "just say no". A tsunami did not devastate a major economy. Globally, ex a brief freeze in Eastern Europe in February, the weather was benign and downright balmy in the United States and markets shook off the traumas from the shocks of 2011.

	Periods Ending March 31, 2012				
	Quarter	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – NET*	**10.5%**	**-0.2%**	**24.8%**	**4.7%**	**6.5%**
Russell 3000 Growth Index	14.6%	10.1%	25.5%	5.0%	4.4%
S&P 500 Index	12.6%	8.5%	23.4%	2.0%	4.1%

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

Growth Equity, up 10.5%, had a solid quarter, outperforming the Dow Jones (+8.14) but lagging the S&P 500 (+12.6) and the Russell 3000 Growth (+14.6). In terms of positive contribution, **JDS Uniphase (JDSU)** +39%, was followed by **Computer Sciences (CSC)** + 27%, **FMC Corp (FMC)** +23%, **Seattle Genetics (SGEN)** +22% and **Vertex Pharmaceuticals (VRTX)** + 23%. Almost one third of the thirty-one stock portfolio was up over 20% in the quarter and there were no disappointing returns. As might be expected, in a quarter in which investors took on more risk, yield oriented stocks **Verizon (VZ)** -4% and **Vodafone (VOD)** -1% were the bottom two performing holdings. **Google (GOOG)**, down less than 1% for the quarter, consolidated its 25% gain from the prior quarter. **Universal Display (PANL)** -0.4% lagged for the second consecutive quarter and **Union Pacific (UNP)** was actually +2% for the quarter. It says volumes about a quarter when a company with a positive 2% return can be cited as the fifth most lagging contributor. In terms of performance measured against an index, financials and technology (ie Apple) make up roughly 35% of the S&P 500 and Russell Growth indices. If you were under exposed to financials or technology, you were destined to underperform these indices. As strategic investors, investing to generate investment returns on a long-term basis and not investing to compete with indexes, we choose to have no exposure to financials.

PORTFOLIO COMMENTARY

We made no changes to the portfolio until the last week of the quarter when we added tech-giants **Qualcomm (QCOM)** and **Apple (AAPL)**. QCOM is a leading developer and supplier of integrated circuits and software based upon CDMA technology. The company is a key provider to the digital marketplace, is extremely well positioned in the 4G LTE (long term evolution) global marketplace, and is benefiting from accelerating smart phone growth.

We also initiated a less than 1% initial position in Apple. One might ask, why now? That AAPL is an exceptionally well positioned outstanding enterprise has never been the issue for us - the question has always been price versus opportunity. We believed that the company was entering an ever more competitive environment and wanted to wait to see how the story played out. We have reevaluated the company's prospects, and how they are positioned against what we see as the growing demand curve.

We sold our position in **Bayer AG** to add these two holdings to the portfolio. Concerns over European growth prospects continue to linger and weigh on valuation, even though the stock appreciated 9% in the quarter. We also had a significant exposure to health care in the portfolio and thought investors could be better served in a more rapidly growing industry.

As strategic investors, we maintain focused portfolios of 25 to 35 stocks with outstanding companies possessing sustainable competitive advantages that are led by managements who truly understand their business and focus on building value. We select these companies from sectors and industries that are supported by strong long-term fundamental demand trends. Our primary consideration is the appropriate price paid for the investment versus not only its own prospects but also all alternative opportunities.

Now with the trifecta in place of Google, Qualcomm, and Apple, augmented by the carriers (**AT&T, Verizon,** and **Vodafone**), the towers (**American Tower** and **Crown Castle**) and component companies (**Cisco** and **Intel**), we believe the portfolio is well positioned (owning the best of the biggest) to have broad participation in what we see as one of the strongest demand trends (after survival: health and food) — social interaction.

MARKET COMMENTARY

We have been guardedly optimistic since 2009, initially based on an uncommon valuation basis, and subsequently because we saw the incipient economic recovery improving at a faster rate than predicted by many prognosticators and market valuations. The stock market has spoken. Listen to the last two quarters. This is a demonstration of strength, worries notwithstanding. The material aspects of the marketplace are overpowering the reluctance of concerns. The message is not to put all worries aside, as there are concerns that truly linger. Perceptions (or misconceptions, as in 2011) can rule for intervals, though reality eventually prevails. Low interest rates (that will stay low for now) create a proclivity toward secure dividends from equities and toward other alternates. Equities are not generally overpriced; high quality bonds are.

As in the year past, money will continue to be abundant as supplied by (1) central banks here and in many other advanced nations, (2) the huge accumulations of cash by prosperous corporations, (3) major oil exporting sovereign states, and (4) American households, which have (in totality) been sending more money back to financial entities from their mortgage repayments than banks are obtaining with new applications. The latter has not happened since World War II; that is, households (which are categorically the largest users of credit by far) are returning money into the financial system. When central banks eventually determine to let interest rates rise naturally as the economic pace advances, rates will not rise rapidly until households begin to borrow as customarily.

Remember the so-called yen-carry in the few years preceding 2008. The extremely low interest cost of the yen led to massive borrowings by Japanese and non-Japanese financial entities which had the effect of a lifting force in all major financial centers for financial instruments and other tradable assets. If nearly zero money costs for the fourth ranking currency in those recent years could have such an observable lifting effect, what could one surmise the effect will eventually be from nearly zero costs on the top four actively tradable currencies: the US dollar, the euro, the sterling, and the yen (plus several other currencies as well). Give it time. The simple arithmetic will prevail. When money is cheapened, all other items that can be expressed in money are marked higher than these would otherwise be.

Amid a world that just will not behave according to comity of spirit nor to orderly conduct, politics have become fractionated and fractious, while commerce has rarely been so vigorous. It is necessary to look at the world in terms of the huge, prosperous, and competent multinational enterprises. These cords bind the world beyond any others. Viewing the world industry-by-industry, it is readily evident that many major industries have enduring dynamic factors driving expansion. We would cite:

- Energy (all forms, fossil and alternatively derived)
- Agriculture
- Electronics (especially facilities for communications, data processing, storage and accessing)
- Life Sciences and Human Care
- Travel and Entertainment
- Education

All of these industries are vigorous and have such massive scales that prevail over weaknesses in other industries, and withstand the gloom of attitudes and the acrid chatter and clatter of politics. For investors, these major industries abound in opportunities.

The recent flow of data has verified our reiterated perceptions that the American recovery phase has long since moved into a growth phase that is persisting (though not well rounded). The forces of expansion are prevailing over the lagging parts of the American society.

As a bottom line for equity investors, all should recognize that the unacceptably slow growth in the American economy has the effect of constraining economic improvement that could otherwise sponsor indiscriminate exuberance. Also, that this very slowness acts to keep share valuations reasonable (even cheaper) and interest rates low. Of course, these are not exact offsets to other concerns and worries that pervade societies everywhere, where social ferment is an unpredictable wild card for investors. However, these are not the regions where the world's societal wealth is a large part of the landscape, such as in Europe, in Russia, in North America, and as is rising so rapidly in Asia and in certain Latin American countries. And the inscrutable troubles from the Mediterranean eastward are not bearing so closely upon investment considerations as the factors that are herein presented, which are more relevant, and thus more forceful for decision making.

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DISCLOSURES: The Growth Equity Composite is comprised of discretionary, separately managed taxable and tax-exempt equity accounts managed for growth. 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 3000 Growth Index is an unmanaged index constructed to provide a comprehensive, unbiased, and stable barometer of the growth segment of the broad U. S. stock market. 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 Growth Equity wrap account portfolio; also a member of the Growth 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.