GROWTH EQUITY PORTFOLIO REVIEW

Fourth Quarter 2011

PERFORMANCE COMMENTARY

What's not to like about a Quarter that returns 10.9% for the broad market, as defined by the Russell 3000, or 11.8% for the S&P 500 or even better a 15.1% return in the Russell 2000? What's not to like about the domestic US equity markets that outperformed virtually all other world equity markets? For such outstanding returns it sure didn't feel like a great Quarter, based on both commentator and investor attitudinal responses.

This sour mood is due in part to the parade of headlines about a looming European recession and slowing global economy, the continuation of wrangling and political posturing in Washington, the lack of visible leadership of the President, and the evidential likelihood of little plausible potential leadership as depicted by the Republican primary debates. The returns of the Quarter came only from a sharp short bounce off the early October bottom. November ended on a sell-off and the Santa Claus rally of December never came to fruition. December made up just enough to recover from November - taken together the two months were essentially flat).

To those old enough to remember the old Alka Seltzer jingle, it was simply a "plop plop fizz fizz, oh what a relief it is" Quarter. However, the hangover remains. A caustic attitude still prevails in both the hearts and minds of most investors. Ghosts from 2008 are still haunting investors' psyches, as deep scars remain, and the hurdles ahead appear to be intractable as we seem to be lacking in corporate and political leadership both here at home and in Europe.

	Periods Ending December 31, 2011					
	Quarter	Year-to-date	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – Gross	**6.4%**	**-1.6%**	**-1.6%**	**17.9%**	**4.2%**	**6.6%**
Russell 3000 Growth Index	10.9%	2.2%	2.2%	18.1%	2.5%	2.7%
S&P 500 Index	11.8%	2.1%	2.1%	14.1%	- 0.2%	2.9%

Composite performance is reported **GROSS** 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.

Growth Equity (up 6.4%) had a disappointing quarter as against the Russell 3000 Growth Index (a proxy for growth stocks of all capitalizations), which was up 10.9%. Essentially mirroring the Russell 3000 Growth Index through the first three quarters, underperformance in the 4th Quarter produced a negative year both in absolute terms (-1.6%) and against the Russell 3000 Growth, which was up 2.2% for 2012.

In terms of the most positive impact for the Quarter, **Google (GOOG)** up 25%, **Union Pacific (UNP)** up 30%, **Boeing (BA)** up 22%, **General Electric (GE)** up 19% and **FMC Corp (FMC)** up 24%, all recovered nicely from the September sell-off. There was a demonstrated surge of interest in safety and yield. All but one of the top ten positive contributors to the quarter (Google) paid dividends ranging from 1% to over 5%. Investors' focus on safety and yield in the quarter left a portion of our portfolio significantly behind. Every stock that contributed to the negative attribution for the quarter did not pay a dividend. Several got caught in tax loss selling, which seemed this year to last all the way through year end. **Universal Display (PANL)** down 23%, **Hansen Medical (HNSN)** down 22%, **Cytori (CYTX)** down 26%, **Biolase Technology (BLTI)** down 14% and **STEC (STEC)** down 16%, performed the poorest for the Quarter. By all means, that does not indicate that prospects are limited for these holdings, but based on the snapshot in time ending on 12/31/11, these fared poorly in the last two quarters.

PORTFOLIO COMMENTARY

After a significant realignment in the portfolio in Q3 to increase yield and take advantage of what we believed to be extraordinarily discounted prices against their opportunities in both large and small companies, we continued to adjust the portfolio in the quarter. We increased the yield throughout the quarter by adding **ATT (T)** and **Verizon (VZ)** in early October and **Vodafone (VOD)** in late November. These add yields to the portfolio ranging from over 5.8% to 3.8%. We increased the yield of the portfolio sixty basis points from 0.80% at the end of September to 1.4% at year end. We bought **Crown Castle (CCI)** in mid November to add a second cell tower company, in keeping with our belief that the demand for mobile media and data and transition from 3G to 4G will increase transmission traffic significantly and drive revenues and earnings. We trimmed positions in three holdings to add **Vertex Pharmaceuticals (VRTX)** in late December. Vertex discovers and develops drugs for the treatment of critical diseases. The Company's hepatitis drug is the market leader. Vertex's first in the world treatment for Cystic Fibrosis now awaits FDA approval. A second Cystic Fibrosis treatment (also from Vertex) to address a broader segment of the sufferer population is in development. Drugs to treat epilepsy and rheumatoid arthritis are in clinical trials. With achievement of commercial as well as scientific success, we felt the price for Vertex made it a timely addition to the portfolio.

As we seek to invest in solid long-term demand trends, we view Internet security, an industry still in infancy, to have tremendous growth potential. As corporations move to cloud computing for data storage and communication continues to migrate from voice to data, the need to protect such grows exponentially. With one Internet security holding already in the portfolio (**Websense (WBSN)**) we broadened our exposure by adding the cyber security company **CACI International (CACI)**. CACI is a professional services and IT solutions company focused on the areas of defense, intelligence and homeland security. Sadly, the burgeoning governmental needs for national security, secure information systems and networks, and enhanced data collection and analysis, seem not likely to diminish but to increase. This is the case for the corporate world as well.

We sold our positions in **Novozyme (NVZMY)** and **Nuance (NUAN)** in the quarter as they had both fully capitalized their potential – certainly in the near term. We also sold **Rovi (ROVI)** and **Eastman Kodak (EK)**. We became disenchanted with Rovi’s management’s tone, comments, and their expectations for the future on their call lowering guidance. There appeared to be no near-term catalysts. The growth drivers we had been anticipating have been pushed out to at least late next year. With lowered expectations and the current market environment, we felt investors would be better served moving on.

The same is true of Eastman Kodak. We sold our position in Eastman Kodak after adding the company to the portfolio in mid September. We viewed EK as the preeminent participant in the worldwide printing industry with a patent portfolio estimated at over $2 billion in image capture/image display patents. As a company long in transition from an iconic film or “image capture” company to the dominant participant in the printing industry, we knew there were challenges. We focus our investment effort on enterprise and valuation risk and while we believed the valuation to be compelling we got the magnitude of the enterprise risk wrong.

As a review of the portfolio activity in 2011 and regarding our expectations for the portfolio in 2012, we would begin with the statement, “All Hail Dividends". At least that is what the market seemed to say in the second half of 2011. That same theme seems likely to continue in 2012. While 2011 was a frustrating year for investors, we see 2012 to be a bit more promising. That being said, we continue to have a significant portion of growth stocks paying dividends in our portfolios. We consider this to be an insurance policy. With interest rates near zero, it makes sense to own stocks in companies that are growing their dividends. That is, we want to get paid to wait as the market deals with both the tumult and uncertainty of the presidential and congressional election cycle, and the stumbling European responses to resolving their debt crisis.

MARKET COMMENTARY

The issues before us do not need further delineation or discussion from us as these are dissected, debated, and headlined almost ad nauseam by both market seers and headline seekers. As we look to invest in a world finding its way ahead, we pose several residual questions and considerations for equity investing.

1) Would you prefer (as is happening) a slowing of economies (especially in America and Europe) that induces very low interest rates to a more rapid growth rate and much higher interest rates? Do not the extremely low rates, now enforced by central banks, set a proclivity of preference among investors to move from bonds or from cash toward shares of robust enterprises?

2) Can investors recall times (other than those few brief moments of extreme market stress) since 1948-49 when so many shares were so attractively priced relative to alternative securities?

3) Was there ever a time when major American corporations held so much cash, enabling many options for deployment — increasing dividend payouts, purchasing their own shares, strategic acquisitions, or capital expenditures for expansion?

4) As mergers and acquisitions were a major driving force to the stock market uptrend in the latter 1990's, will the huge acquisitions and mergers of this year, previously and prospectively, have a similar effect, in combination with other supportive factors (cheap money noteworthily among such)?

5) Was the October rally merely a correction to the over-sold September low points, or another spurt of strength along an enduring uptrend? This is the larger and most primary of questions, to which a positive answer comes in from worldwide circumstances.

Our answers to all five questions are supportive to expectations for shares of most strong enterprises; especially those fortified with cash and supported by assured high dividend yields. Contemporary circumstances seem to provide a never-before-experienced precept: No matter the fears and expectations — positive or negative — this is the first time in the long career of the writer that bulls and bears would enjoy the same diet. Think about this. It is true. Both the conservative and the fearful are better served owning the shares of many providers of communication services and of electric energy. Their dividend yields obviate rational choice of cash at such low interest yields, or of high quality bonds whose yields (also unduly low) will probably be surpassed by declining prices of principal beginning probably before 2012 moves into history. Also for the optimist, the solid attractiveness of secure dividend yields from enterprises that also provide growth (albeit at pedestrian pace) qualifies such shares for a large platform portion of a diversified investment position. So the bull and the bear may well inhabit the same quarters, as never before — and much before "the lion and the lamb might lie down and eat straw together." We are not waiting for eternity. We see value in the market in select sectors and enterprises now.

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DISCLOSURES: The Growth Equity Composite is comprised of discretionary taxable and tax-exempt accounts of similar risk and investment objectives that are managed for growth. Accounts are included in the composite at the beginning of the first full calendar month each account is fully reflective of the investment strategy. The S&P 500 Index is an unmanaged index considered generally representative of the U.S. stock market. 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. Results are calculated internally using Advent portfolio accounting software. Composite and index performance valuations and calculations include dividends, interest and other earnings and are stated in US dollars. Performance figures for periods one year and longer are annualized. Composite returns are asset weighted and are reported net of fees and commissions. Performance 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. Additional information regarding policies for calculating 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.