GROWTH EQUITY REVIEW

Second Quarter 2012

PERFORMANCE COMMENTARY

Were we April fools not to sell in May and go away? It certainly looked that way for much of the quarter as May/June followed the pattern of recent second quarters with a sharp selloff and a modicum of recovery in June. Positive news out of Europe prompted a premature 4th of July skyrocket pushing the market up 2+% on the last day of the quarter. This one day response went a long way to salvaging the quarter in relative terms. The broad market as defined by the S&P 500 market closed down 2.75% and both the Russell 1000 Growth and Russell 3000 Growth were down 4.0% for the quarter.

The responses of investors seemed to be logical if one focused on headline news and renewed concerns re a slowing economy rather than considering corporate earnings or managements' comments in their tempering of expectations. Defensive plays Telecom and Utilities (which lagged so much in the "risk on" first quarter) were up 14.1% and 6.5% respectively, and were the only two sectors that provided a meaningfully positive return. Telecom stocks are now the best performing sector for the first six months of the year, up 16.5%.

In the grand scheme of things, most investors would be thrilled with a long term return equal to the 9.5% percent return of the S&P 500 for the first half of the year, or better yet the 10.1% return for the Russell 3000 Growth. All too often the responses of investors seem to be, "so what, look at the magnitude of issues before us and the proverbial mountain we have to climb". That the market has generated a meager return at best for the last five years is a bitter pill that cannot seem to be swallowed. We are still mentally and emotionally encumbered by the actions and events of the recent past and hence focus on the negative instead of the positive changes taking place (albeit at a measured pace).

While Growth Equity did outperform the benchmark indices it was not immune to investor concerns.

	Periods Ending June 30, 2012				
	Quarter	1 Year	3 Years	5 Years	10 Years
Growth Equity Composite – NET	**-1.5%**	**-1.4%**	**17.9%**	**2.7%**	**8.7%**
Russell 3000 Growth Index	-4.0%	5.0%	17.5%	2.8%	6.1%
S&P 500	-2.7%	5.4%	16.4%	0.2%	5.3%

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.

For our non private clients the return for the quarter was -3.09. **Vertex Pharmaceuticals (VRTX)** and **Seattle Genetics (SGEN)**, both top contributors to performance in Q1, followed through with another strong quarter. VRTX, up 40% driven by a positive development in the treatment of Cystic Fibrosis, was the standout winner this quarter. Verizon with its yield of 4.5% was up 18%, while another health care holding, SGEN, was up 17%. **American Tower (AMT)** and **Union Pacific (UNP)** both gained 12% in the quarter.

If a company was small or engaged in science, it was a difficult quarter from a performance perspective although not necessarily from an enterprise perspective. Being small and in science was a double whammy for stocks. All but two of the nineteen holdings that had a negative contribution to the quarter were scientifically focused companies. **JDS Uniphase (JDSU)** and **Computer Sciences (CSC),** both top five contributors last quarter, neutered their earlier contribution. JDSU was down 24%, **Biolase Technology (BLTI)** was down 28%, while **Hansen Medical (HNSN),** Computer Sciences and **Cisco (CSCO)** were down 24%, 16%, and 19% respectively.

PORTFOLIO COMMENTARY

We added one new holding to the portfolio in the quarter. We bought **Express Scripts (ESRX)** in late May, trimming positions in two of our top performing stocks in this quarter (VRTX and SGEN). We also sold our holding **Websense (WBSN)** in the first week of the quarter to establish a full position in **Apple (AAPL)**, which we had initiated in the last week of Q1.

ESRX is a pharmacy benefit management company (PBM) offering prescription drug services to organizations for their employees or members. After their acquisition of Medco Health Solutions, ESRX now provides prescription drug services to one third of the population of the United States. The combined entity will control 60% of the market for mail-order drugs. Buying in such volume, both organizations and participants benefit from pricing discounts that PBMs are able to obtain from pharmaceutical companies.

There are several catalysts that should be beneficial to the stock. ESRX will benefit from the drive to reduce the federal deficit as Medicare/Medicaid is the largest component of the deficit. Lowering prescription drug costs will be a huge step towards reducing costs. In addition, we see PBMs as the best way to play the rapid growth in generic drugs. Margins are higher selling generic drugs than patent protected drugs and there is a pending surge to expanded generic drug utilization as a number of best selling drugs face the end of patent protection. We also believe ESRX will prevail in contract negotiations with Walgreens. Walgreens left Express Scripts to shift to Medco in a pricing contract dispute. Now that the two have combined, it is all the more imperative that Walgreens work a out a new deal with Express Scripts to defend its core prescription business from aggressive competitors like CVS Caremark and Rite Aid.

MARKET COMMENTARY

There are several primary and persisting forces – or factors – that undergird our strategy for such long-term oriented investing. These are so omnipresent, so gentle; and, as the air we breathe so apparent, little or no consideration is given to their presence, or so it seems. Take a moment for comprehension of the effects of just these four:

(1) Generally speaking, shares of thriving enterprises are uncommonly cheap compared to commonly-used metrics, and relative to the very low yields from investment-grade bonds.

(2) For pervasiveness and for force of macro influence, give top ranking to the now-visible unfolding of a long downtrend in the cost of fuels. There is a massive economy-based downward trend now underway in prices of fossil-derived fuels and feed stocks that is washing out the political support that fueled the huge price advances in recent years. The unrelenting economic competitive pressures of alternative sourcing of energy, the more efficient use of energy, and the recent-year discoveries of gas and oil all act to overwhelm the political price of oil that elevated prices by five times, from the twenties of dollars a barrel to top one hundred and forty dollars. An enduring downtrend seems probable. All are affected, from the cost of fuel used in climate control of homes to nearly all forms of transportation and industrial activity. This should act as a stimulus from top to bottom for most of the world. The effects of cheaper fuels and feed stocks can prove much greater than the stimuli of tax cuts, for cost benefits are so general, so immediate, and so tangibly specific.

(3) There is a moderate slowing of economic activity in most leading nations (and weakness in some smaller nations) that should be providing a great gift of assurance to investors. This acts in concert with the other factors tending, as mentioned, to lower the prices of fuels, and acts also to extend the duration of the truly extraordinary low rates of interest on money for most of its uses or applications. Given such beneficial effects of this moderation in economic activity, it is amazing to see how often this breeds anxiety among investors instead of embrace.

(4) Very importantly, most well-managed major enterprises have been prospering without setback for thirteen quarterly reportings of revenues and earnings. Of course, incremental gains are diminishing, owing to the increased heights for base comparison, and to the contemporary slowing of growth for many nations. However, rarely have these major enterprises been so self reliant in financial resources, in universal presence, in power of product positions, and in intent.

The winds of change in immediate months are likely to be more gusty than directionally prevailing, heated also by the volatile emotions that arise from some of the provisions of the Health Care Act. And dismal dread-of-dreads, this is a Presidential election year in which the priceless reminders of the blessings of a benign constitutional democracy, sustained by an open election process, get overwhelmed by the noise of contest. America will be wafted and blown by many acrid breezes that maybe (or maybe not) the election will clear and the resolution of Europe getting its fiscal house in order may continue to be a series of halting progressions.

So, the stock market interplay of the constancy of rationalizations vis-à-vis the volatility of emotional responses seems to want to go on. Meanwhile, how long must we wait for welcome fresh new breezes that could universally blow away discontent, dissent, denial, and consequential governmental dysfunction? The message for investors is largely this: Attitudinal funks are not the stuff that supports proper appraisal of specific enterprise worth, or the appraisal of forces derived from commerce and from societal factors that influence valuations of financial assets. Perhaps something is to be gained toward perceiving contemporary reality and prospective opportunities in juxtaposing these seemingly morose, and sometimes phantasmagorical, interpretations against the solid real world evidence of significant contra trends. Today's apparent discounted mispricing of equity securities makes prospective appreciation of prices appear to be larger and more likely.

For the enterprises whose shares we have selected for clients, there is a very minimum of scattered adverse occurrences. For market share prices, the score differs. The correlations between corporate progress and share price changes are disproportionate. Strategically and proverbially speaking, bet on the steadiness of the tortoise to win the race against the speedy, but distraction susceptible, hare.

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.