GROWTH EQUITY REVIEW

First Quarter 2013

OFF TO THE RACES

PERFORMANCE COMMENTARY

On the first day of the year the market rallied (rising over 2%) and never looked back. The market, as defined by the S&P 500, reached an all time high of 1569 on the last day of the quarter and was up 10.6%. Even though this quarter was not as strong as last year's first quarter (up 12.7%), any way you slice it, this was a very good return for any quarter If this is any indication of how the year plays out, 2013 should be another vintage year.

The market received relief from the fading of (or the extension of) the fiscal cliff fears and defied concerns over sequestration. The focus was on a better tomorrow, as political concerns were put on the back burner. The much ballyhooed $85 billion in sequestration cuts and the fallout from Cyprus couldn't dent the growing recognition that the gradual degrees of the recovery in the US economy might stretch out both the length of the recovery and the improving quality (cyclical improvements in the private sector offsetting tightening fiscal policy) of the recovery.

Still bearing the scars of 2008 in their psyche and factoring headline concerns, investors' enthusiasm reflected a dose of caution in equity selections, preferring yield oriented stocks. The market rotated away from last year's out performers, with yield oriented stocks (led by health care, consumer staples, and utilities) trumping growth stocks. Apple's price action (-15%) and its significant weighting in the technology component of indices made it difficult for growth in general to keep pace. The technology and materials sectors were the only real drags on returns.

	Periods Ending March 31, 2013					
	QTD	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Growth Equity Composite - NET	**11.6**	**14.5**	**13.7**	**7.8**	**5.6**	**11.6**
Russell 3000 Growth	9.8	10.4	13.2	7.4	6.0	8.8
S&P 500 Index	10.6	14.0	12.7	5.8	5.0	8.5

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.

Growth Equity utilizes both large growth companies and a smaller percentage of emerging growth companies, generally driven by scientific discovery, that have the capacity to add a significant performance to the portfolio. **Biolase Technology (BIOL)** which has struggled in past quarters, was up 115% this quarter. **Cree (CREE)**, which has also lagged in the past, was up 61%, having finally achieved investor recognition for its leadership position in LED lighting. **Computer Sciences (CSC),** +25%, **Novozymes (NVZMY)** +22%, and **Verizon (VZ)** +14% rounded out the top five contributors to the quarter's performance. These five holdings total 20% of the portfolio. Small company stocks are not always rockets, as three small companies were in the bottom five with negative attribution. **Mako Surgical (MAKO)** was -13%, **Cytori (CYTX)** was -11%, and **STEC, Inc. (STEC)** was -10%. **Apple (APPL)** was a negative 14%and **Unisys (UIS),** which we added to the portfolio in mid February, was down 13%.

PORTFOLIO COMMENTARY

We invest to enhance returns yet mitigate risk. We strive to do so by investing both in large stable companies with supportive trends behind them and positive attributes, and in smaller rapidly growing companies engaged primarily in creativity driven, intellectual property rich companies. Since smaller company investing entails greater degrees of risk, we counterbalance that risk by investing the preponderance of the Growth Equity portfolio in larger more secure large growth companies. Historically, the greatest returns on investment have come from investing in small emerging companies and frequently companies that have successfully developed new technologies or product offerings. Accordingly, we include these types of investments in the portfolio expecting to achieve a significant return.

While Biolase has fluctuated above and below our purchase price of $2.50, it was up over 100% in the last quarter. In February, BIOL received FDA approval to expand usage of its soft tissue laser to nineteen additional medical markets (ranging from oral surgery to vascular surgery), was issued patents for laser devices to treat ocular conditions, as well as introduced a laser product line for veterinary usage. While we had to wait for these advances, developments such as these provide the significant growth component to the portfolio we seek. This unequally weighted portfolio structure approach has enabled the portfolio to achieve enhanced returns against benchmarks over market cycles yet reduce the portfolio's overall risk exposure.

PORTFOLIO ACTIVITY

We added to our position in **Apple (APPL)** when the stock broke down to $450 in late January. We trimmed our position in **FMC Corporation (FMC)** to do so. With an average cost basis of $41 in FMC, and the stock trading at $62, we thought on a relative opportunity basis scaling back our position and adding to APPL was appropriate.

We introduced one new holding to the portfolio in the quarter - Unisys (UIS). We sold our position in **Celgene (CELG)** and trimmed our position in Computer Sciences, as both of these holdings have experienced significant price appreciation since purchase. We prefer to be early and own what we see to be mispriced securities and wait for recognition to occur. With an average cost basis of $56 and with CELG trading at $100, it seemed to be an opportune time to take profits.

Unisys Corporation is a technology (IT) services provider with two offerings – services and technology. The Services segment provides outsourcing services. They manage data centers, computer servers, and end-user computing environments, as well as offer IT consulting services. The Technology segment designs and develops servers and related products and operating system software and middleware, and provides data center, infrastructure management, and cloud computing offerings for clients to virtualize and automate their data-center environments.

These services in and of themselves are not unique. What we believe to be special is a new approach to internet security – data storage and data transmission – that they are incorporating into their offerings. Today the internet is an open operating system which anyone can access. Firewalls are used to restrict access and to secure data. This is not the optimal strategy for cyber security, as we know from the frequency of successful cyber attacks and recurring data theft. There will always be a way around, over or through a wall. We think that in the near future the internet will likely be a closed system with access permitted only with encrypted keys.

UIS has licensed and are early adaptors of a new patent-pending way to protect networks using certified encryption that bit-splits data into multiple slices as it moves through the network. More importantly, it enables multiple entities to share the same network while restricting outside access to data, servers, or workstations of non authorized users.

We are investing in UIS as an early adapter of this concept, as well as being very reasonably priced based on a number of metrics.

MARKET COMMENTARY

As patient investors we continue to be optimistic in terms of investing. Slow and steady are key descriptive words, and both are supportive to equity investing.

On a global basis many economies are vulnerable to events and there is much still to be worked through. However, work is in process and progress is occurring. There is ferment from the Mediterranean eastward that is beyond prediction, and there are attitudes toward America and possible strikes against America that are sobering to say the least. But these do not have the mass nor the influence to take down the improvements that are going on in Central Europe, in Eastern Europe, in Russia, in China, in the western hemisphere, and throughout the huge continent of Africa, to say nothing of the exporting nations of Australia, New Zealand, Indonesia, Malaysia, the rim of Asia, and others. Virtually all of the world's stock markets are interrelated in price responsiveness. The pieces of the world are ever more moving coordinately together, though at times rose-colored lenses are needed to see this.

Here at home, all things considered, the economy has moved into a period when it is self-sustaining, self-regenerative, and moving ahead. The fundamental factors sustaining growth are prevailing over concerns, and months ago the American economy attained the normal commercial evolvement of synergistic interactive regenerative relationships. If stripped of ulterior or personal prejudice, the landscape can be seen as highly supportive to equity valuations, helped – not diminished – by the gains of last year. Improved visibility and changed attitudes will allow more relevant observations in world changes beyond the range of parochial financial attitudes. These are fundamental and as pervasive as air and water; too huge and too omnipresent to attract attention.

One of the more conspicuous supportive influences for equity valuations is seen in the increase in merger and acquisition activity. Already, 2013 is off to a massive – possibly record – year. Prices have been at substantial premiums to quoted market prices, showing that these professional purchasers think the selected shares are cheap. This cross references like opinion to other shares as the reinvestment of money paid for purchased shares usually flows into other shares. As additional support, announced share buy-ins and dividend increases exceed prior experience.

Moving from the vastness-vague of universal concepts to industry-by-industry, we would cite several radical significant changes expected in America pertaining to energy, employment and jobs, health and relateds, and especially infrastructure. Investors should be sure that in each of these designations, the changes for prospective years are fundamentally — even radically — different from years past.

I. For energy, following decades of price increases for fuels, there is now a broadly embedded downtrend of long duration in the prices of liquid fossil fuels, and correlatively across the broad fuel-related and chemical-related spectrums. The decades-long uptrend that was created out of our national policy has ended. What could be more radically different than this? A long downtrend in the cost of fuels has more pervasive social sponsorship than a tax reduction. Everyone and every industrial entity benefits from a lower cost of fuel (except fuel providers, of course).

   Support for these surmises is made evident almost wherever you look. It was part and parcel of our national policy to constrain drilling at home, to build inventories in the salt domes of the southern Gulf States, and above ground in Cushing, Oklahoma. National policy could be summarized as keep our own reserves, import from others, and raise prices as we go. That attitude is reversing, coincident with market forces from huge new discoveries of oil (especially under sea water) and from the discovery of available natural gas through hydraulic fracking, not so far from major population centers of America. Expectantly, this extends by 30% or more the total available American reserves of natural gas. Rarely has anything of this scale ever happened. Moreover, the means of delivering natural gas allows it to be shipped over waters as never before in increasing scale, which means that natural gas becomes more nearly an international commodity rather than accessible largely through pipelines.

   Combined with the upgrading of gas and oil to chemicals and other products, exports will supplant imports big-time, further assured by the significantly more conservative use of fuels and the subsidized sponsoring of alternative sourcing of fuels. You might hope Congressional representatives would factor these considerations into fiscal planning which are many times more important than their vacant, heated bickerings.

II. Another new national policy is evolving that is also a radical reversal in the form of infrastructure repair and building. References to the decaying bridges, the insufficiency of roads, and the insufficiencies of some other public works is compellingly apparent. This would not be net costly in social terms; rather, it would provide net savings. Imagine the time and dollars that would be saved when you can traverse metropolitan areas at more than 15 mph, or stalled with engines running. Or, the airplanes waiting on the runways to take off, or those being held up from landing by runway congestion. These will entail billions of dollars of saving. And, when you look at our public transportation system, it is so inadequate for us; and, many of those who visit from afar, think of us as some sort of a backward nation. So, public transportation is also in for a boost as an alternate to delays on the surface through private vehicles.

III. The exportation of jobs to less developed nations and to Asia is slowing dramatically. Our interest rates no longer give Asians a several-hundred basis points or more advantage (as in decades gone by) in high-capital, low-labor-ratioed manufacturing such as semiconductors, textiles, electronic end products, and even automobiles. Dissimilar taxes and subsidies will come under increased scrutiny, and the unevenness reduced. Also, there is likely to be less immigration than the astonishing quantities of very recent years, which, in effect, take jobs from persons who have been citizens in this country for years. Expect, also, a new emphasis on infrastructure spending to be combined with job opportunity sponsorship. The foregoing will all be interactive and mutually regenerative.

IV. Another, to be sure, reversal of trend will be a reduction in military expenditures. The retreat will be more conspicuous in spending beyond our borders. Yet, a large portion of military expenditures will come under a new analysis for justification. This will release human and financial resources toward infrastructure here at home where it is so badly needed for having been neglected for so many years.

V. Also expect a slowing of population growth in America, some reduction in the birth rate while the demographic bulge of elderly will be going on in increased numbers. Meanwhile, we have large industries that experienced little or no recession, owing to underlying self-sustaining forces. Most note worthily it is the healthcare realm – huge and ever increasing. Medical care will be made more available throughout the world.

VI. Agriculture, broadly considered to include all related aspects and support services, is our largest single industry, by far. It faces ongoing years of increasing output and is ever America's trump suit.

The sourcing of energy from a variety of technologies and discoveries is more dynamic than in the memory of any of us, for its breadth and totality of expenditures. Lodging, travel, entertainment goes on as though there is a fundamental demographic affinity that crosses national borders and runs throughout our large domestic economy.

This simplest and easiest sponsorship that our national government can give in financial leadership is simply to guarantee the credits of revenue bonds issued by state and local governments to improve their facilities for transportation, for education, for improving health facilities, and other aspects where government participation is important and welcomed, and use is regionally confined. While Federal expenditures will be constrained, expenditures by state and local governments will be rising. If the healthcare program were run differently, there could be perhaps a trillion a year saved. If the military were run differently, there could be perhaps a trillion saved. If we conduct our energy conservation appropriately, we perhaps could save another trillion there. And, Americans do not have to wring their hands in anxious wonder concerning where the money is coming from. The money is already sitting idle in huge amounts. A trillion dollars held by corporations overseas is locked over there because of tax considerations. It is pretty easy to find a way to bring that home.

Repeating, with all things considered here at home, the economy has moved into a period when it is self-sustaining, self-regenerative, and moving ahead. Slow and steady are key descriptive words, and both are supportive to equity investing.

For several years, our views have been highly divergent to much that we see and hear elsewhere. As always, change is the name of the game – especially so now, as relief ensues from the traumatized years. Rarely does it pay to bet against the vigor and endemic growth of America.

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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.