CORE EQUITY REVIEW

Second Quarter 2014

"Slowly I turned - step by step - inch by inch"

PERFORMANCE COMMENTARY

These first few words of this old vaudeville routine, popularized by Abbot and Costello, might be a good descriptor of how the market performed in the second quarter of the year. After an outstanding 2013, the broad market found its footing in mid May and inched its way higher "step by step" for the balance of the quarter. It could be described as a stealth rally, as the market defined by the S&P 500 was up 5.2%. The indices have had twenty-two new highs year to date with the majority of them coming in late May through June. Each week was incrementally better with historically low volatility and volume. In terms of what gave the market it strongest lift, energy stocks were up 12% and utilities rose almost 8% and are up almost 19% year to date. As in the first quarter, the market continued its rotation from growth to value.

			Periods Ending June 30, 2014				
	QTR	**YTD**	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Core Equity Composite - NET	**4.1**	**4.2**	**23.2**	**16.4**	**19.1**	**9.8**	**10.9**
Russell 1000 Growth	5.1	6.3	26.9	16.3	19.2	8.0	8.2
S&P 500 Index	5.2	7.1	24.6	16.6	18.8	6.2	7.8

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.

PORTFOLIO COMMENTARY

Four of our top five contributors to performance this quarter were up over 20%. Our largest holding **Canadian Pacific (CP)** leading the way was up 20%, while **Apple (AAPL)**, continuing to regain investor enthusiasm, gained 22%. **Universal Electronics (UEIC)**, which is not a household name but is used in every household, was up 28%. UEIC has by far the dominant share of the market for remote control devices for TVs and home entertainment systems. **Intel (INTC)** advanced 20% while **American Tower (AMT)** was up 10%.

Cree (CREE), which was a laggard last quarter, continued its slump this quarter and was down 12%. Ordinarily being down two consecutive quarters would be a cause for alarm, however, Cree almost doubled in price last year. We see LED lighting and CREE, the market leader with ever increasing more efficient and lower cost bulbs, as presenting great investment opportunities. As investors owning businesses with a 3 to 5 year view, we will live with the interim ups and downs, as long term we see a very bright future for the company. **United Airlines (UAL)**, which we added early in the quarter, was down 12% on rising fuel costs due to geo-political events. Over time, we look for declining fuel costs to be beneficial to earnings, and we established the position in part as a way to invest in the burgeoning supply of hydrocarbons and gains being made in energy conservation. **Bristol-Myers Squibb (BMY)**, **Vodafone (VOD)** and **FMC Corp (FMC)** were down 7%, 11% and 7% respectively.

PORTFOLIO ACTIVITY

We added United Airlines (UAL) in early April, while reducing our positions in **Computer Sciences (CSC)** and **Universal Electronics (UEIC)**. As investors, we like long duration demand drivers and changing circumstances, as change presents opportunity. We have been researching the airline industry and see significant change in the pricing of energy ahead. In addition, there are recent changes to industry dynamics that will be favorable to industry profitability. After decades of poor results, the wind is finally at their back, giving lift to the companies and their stocks.

In this investment (UAL), rather than benefiting from an upwardly rising demand curve, it is a long duration downward glide in the price of energy that we anticipate will be very beneficial to the airline industry. Between the discovery of new fields of oil and enhanced recovery in existing fields, energy conservation practices, and strides made in the cost efficiency of alternative energy, we see a lower overall price of energy. Declining fuel cost is the variable that can enhance the airline industry's long run profitability.

In past years, the industry was extremely competitive. But after the recent domestic mergers, interlocking global alliances, lessened regulatory hurdles and higher financial costs for new entrants, it is unlikely that the industry will go back to being a destructively competitive industry. Specifically, UAL, benefitting from its combination with Continental Airlines' domestic and international alliances, now has an excellent global route structure. In addition, its stock's valuation is attractive relative to its competitors.

At the end of the quarter we continued to modify our exposure in communications (broadly defined), increasing our growth exposure and commensurately reducing our yield by selling Vodafone (VOD) and adding to our positions in **America Movil (AMX)** and **Qualcomm (QCOM)**.

We completed scaling out of Computer Sciences (CSC), after realizing a substantial profit, and invested the proceeds in **Unisys Corporation (UIS)**. Both companies provide information technology services, but we believe Unisys has a much better upside with their usage of what we see as a transformational approach to cyber security and data protection.

Unisys is an information technology (IT) services provider with two offerings: services and technology. The Services segment manages data centers, computer servers, and end-user computing environments, as well as offering IT consulting services. The Technology segment designs and develops servers and related products as well as operating system software and middleware. It provides data center, infrastructure management, and cloud computing offerings for clients to virtualize and automate their data-center environments.

These businesses in and of themselves are not unique. What we believe to be special is a new approach to internet security – data transmission – that they are incorporating into their offerings. Today, the internet is an open operating system - anyone can access it. 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 part of the internet will be a closed system with access permitted only with encrypted keys.

Unisys 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 by non authorized users. In an overly simplified explanation, the new UIS technology converts the internet from an open system, where you blacklist bad guys, to a closed system, where you white list people with whom you do want to communicate.

We also sold our position in **Bunge (BG)** to initiate a position in **Merck (MRK)**. As a leading pharmaceutical company, Merck needs little introduction or description. We see immunotherapy as the next big breakthrough in the pharmaceutical space. Immunotherapy leverages the patient's immune system to eliminate or slow the growth and spread of cancerous cells. New advances in tumor biology are enabling the development of potent therapies that prevent the tumor from evading the immune detection with manageable safety profiles. In effect, the technology gives physicians the ability to transform cancer into a chronic disease.

There are several companies active within immunotherapy. Our focus has been on Bristol-Myers Squibb (BMY). The company has the lead in immuno-oncology research programs, as well as a continued focus on specialty therapeutic areas. They expect FDA approval in the fall for their immunotherapy treatment for metastatic melanoma and have promising drug candidates in the pipeline for hepatitis C diabetes, osteoporosis and HIV.

We also closed out our position in Vodafone (VOD) using the proceeds to augment these new positions.

MARKET COMMENTARY

Over the past year, investors have had growing concerns over two potential negatives. The first is that the duration and magnitude of the current stock market "rally" off its March 2009 low makes it vulnerable to a meaningful reversal. In addition, the combination of an escalation of global military conflicts, continued domestic political contention, and a succession of perplexing economic reports has kept market participants uncharacteristically cautious.

We have written in recent letters on our strong belief that we are in a secular bull market that, with corrections along the way, has sufficient investible life left. This bullishness is grounded in our belief that the economy is on sound footing, the strengths of American corporations are underappreciated and their valuations in the marketplace remain reasonable.

The second worry is that the reversal in the Federal Reserve's policy of monetary accommodation will cause a rapid rise in interest rates with collateral damage to the economy. Again, we take issue with this pessimistic perspective.

In order for there to be dramatic declines in asset prices (stocks, bonds, real estate, commodities), they need significant overvaluation, ownership concentration, and excessive leverage. Currently in the case of bonds, only the first condition exits. From Fed Funds to junk bonds, both in the US and abroad, central bank policies have resulted in abnormally low interest rates. Thus, normalization will, by definition, cause rates to rise. But, without forced liquidations due to excessive leverage and concentrated sellers acting in unison, rates should advance in an orderly manner.

Importantly, the varied motivations of bond holders should act as a modifier to rapid rate increases. The wide range of rationales for ownership include; income, safety, diversification, legal requirements, and capital appreciation. Only in the latter case would holders appear to be vulnerable under the prospects of higher rates. This diversity of needs argues for the normalization process to be gradual.

In addition to diverse investment objectives, bonds are held by a wide range of investors, including speculators, individual retirement plans, pensions and endowments, financial firms, mutual funds and global central banks. Their differing goals, time horizons and decision making processes should obviate a rapid "run" on the bond market.

These structural characteristics of the fixed income markets, when combined with a continuing outlook for sub-par economic growth and contained inflation, give credence to our position that the worst fears of the bond market alarmists are without merit. Accordingly, we continue to see and find opportunities ahead of us in the equity markets.

❖ ❖ ❖

DISCLOSURES:

Princeton Capital Management, Inc., ("Princeton") is an independent investment management firm registered with the U.S. Securities and Exchange Commission based in Princeton, NJ.

The Core Equity composite was created on October 1, 1988, representing actual separately managed taxable and tax-exempt equity client portfolios managed on a discretionary basis according to Princeton's conservative, equity-oriented investment strategy without client restrictions for the period(s) indicated. Prior to 1/1/2008, this strategy and composite were marketed as Princeton's Balanced Tax-Exempt composite and was comprised of only tax-exempt accounts. While the strategy, whose portfolios may be fully invested in stocks, has not changed, it was renamed to make it more distinct from traditional balanced products that typically maintain ongoing bond allocations.

Performance results are calculated internally using Advent portfolio accounting software. Accounts are included in each composite and its performance at the beginning of the first full calendar month in which the account is fully reflective of the investment strategy. Performance and index valuations and calculations include cash and cash equivalents and also include the reinvestment of dividends, interest and other earnings and are computed and stated in US dollars. All performance figures for periods one year and greater are annualized. Returns are weighted for the size of each underlying account. Net returns are reported net of management fees and commissions. A client's return will be reduced by our advisory fees and other expenses a client may incur in the management of the client's portfolio. Our advisory fees are disclosed in our Form ADV 2A. Also, there is a compounding effect of advisory fees over time on the value of a client's portfolio. As an example, the deduction of investment management fees would reduce the annualized return for the five years ended December 2013 from 19.4% to 18.7%. Actual investment advisory fees incurred by clients may vary.

The **S&P 500 Index** is an unmanaged index generally considered to be representative of the US stock market as a whole. The **Russell 1000 Growth Index** is an unmanaged index that measures the performance of the large-cap growth segment of the US equity universe. These indices are unmanaged and include the reinvestment of dividends and earnings. Individuals cannot invest directly in any of these indices

Performance results, and advisory fees, for individual client portfolios will vary due to the timing of investments, additions/withdrawals of funds, diversification guidelines, length of relationship, and size of positions, among other reasons. For additional information about the performance of the composite or our current fee schedules, please contact Princeton Capital Management.

Any securities listed in this material do not represent all the investments purchased, sold or recommended for client accounts by our Firm and may only be a representative list. Our investments and recommendations may and do change from time to time or at any time. Individual portfolios may have different characteristics due to a portfolio’s start date, particular client needs, portfolio manager preferences, or other factors. The securities listed have been selected on an objective and non-performance based criteria. One should not assume that an investment in any of the listed securities was or will be profitable or equal the performance of the securities listed. Princeton offers to provide a list of all recommendations for the prior one year period on request.

The stocks named as the top or bottom contributors to performance for the period are based on a model portfolio structured to represent the Core Equity composite. 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

PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE

Princeton Capital Management claims compliance with the Global Investment Performance Standards (GIPS®).