YOUNG ENTERPRISE SHARES (YES) REVIEW

Fourth Quarter 2014

PERFORMANCE COMMENTARY

"The same people who laugh at science fiction listen to weather forecasters and economists," Anonymous

As the historic, monster blizzard of 2015 passed through New York City, economists and investment strategists took solace that they were not the only fallible forecasters. In spite of the vast amount of time and energy expended in the creation of erudite prognostications, on both the buy and sell sides of the financial markets, history shows them to be less than accurate and of dubious predictive value. However, this "wisdom" is increasingly being produced with great passion and consumed with blind confidence in its credibility.

The 2014 stock market confounded the forecasters by registering its sixth consecutive year of gains. The alarmists, ever concerned over subpar economic growth, political discord, geopolitical upheaval, and an impending reversal of Federal Reserve policy, husbanded their cash reserves and rationalized their risk adjusted returns. The realists, sensing the US was repairing economically and financially at a much faster pace than its global competitors, continued to participate in the strong bull market advance.

For the fourth quarter of year, the S&P 500's total return was +4.9%, bringing the full year advance to +13.7%. The five year compounded return stands at +15.5%. Leadership resided in large capitalization, quality stocks as investors here and abroad sought safety in premier US companies.

The final quarter S&P strength was broad based with only energy a significant underperformer, down over 11%. For the calendar year, investors searched for income favored utilities (+29%) and growth with health care up +29% and information technology advancing +25%. Energy was the sole losing sector, down -8%

In contrast, smaller capitalization stocks lagged with the Russell MicroCap Growth Index up only +4.3 for the year. More dramatic was the aversion to many early stage science oriented, developmental companies; an area in which we have interest and expertise. Meaningful price setbacks were suffered by a number of young enterprises in spite of their strong portfolios of intellectual property.

		Periods Ending December 31, 2014				
	QTD	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Young Enterprise Shares (YES) Composite - GROSS*	4.0	4.3	14.5	13.3	6.4	5.1
Young Enterprise Shares (YES) Composite - NET	*3.7*	*3.0*	*13.0*	*11.8*	*5.0*	*3.7*
S&P 500 Total Return Index	4.9	13.7	20.4	15.5	7.3	7.7
Russell MicroCap Growth Total Return Index	12.9	4.3	22.5	16.8	7.7	6.4

*Gross performance is presented as supplemental information to the full GIPS compliant presentation which is available upon request.
Performance figures for periods one year and longer are annualized.

PORTFOLIO COMMENTARY

For the second quarter in a row, **TriQuint Semiconductor (QRVO)** was the strongest gainer. On January 2nd, 2015, it merged with **RF Micro Devices** to become **Qorvo**. The positives of strong demand from hand held device manufacturers and merger synergies moved the shares +45% higher. After a sharp decline earlier in 2014, **Sangamo BioSciences (SGMO)** recovered 41%. Interest from a leading investment firm highlighted the firm's potentially breakthrough gene therapies. After a setback earlier in 2014, **Unisys (UIS)** rallied +27%. As an emerging factor in the cyber security business, the stock benefited from continued news of the hacking of corporate systems with Sony the notable example. New management was installed during the quarter, lifting expectations of more aggressive growth strategies.

The downdraft in micro capitalization "new technologies" companies continued in the fourth quarter. **Solazyme (SZYM)** with renewable bioproducts off -66%, **Hansen Medical (HNSN)** with medical robotics down – 53% and **Senomyx (SNMX)** falling – 27% were all caught up in the carnage.

PORTFOLIO ACTIVITY

With the sharp decline in the shares of **Cree (CREE)**, we initiated a position. The company is the technological leader in LED lighting products. Continued inroads in the commercial markets and new applications in the home bode well for a reacceleration of growth.

Our position in **Solazyme (SZYM)**, a developer of renewable bioproducts, was increased as the shares declined in tandem with the overall retreat in the small capitalization technology sector and the sharp fall in crude oil prices.

The purchases were funded by reductions in **IPG Photonics (IPGP)**, a leading industrial laser manufacturer and **TriQuint Semiconductor (QRVO)**, a provider of radio frequency solutions for mobile devices.

MARKET COMMENTARY

Over the last few decades, economics and its first cousin investment management have undergone remarkable transitions from arts to sciences which facilitated the intellectual excesses that lead to the Great Recession and financial collapse of 2008-2009. What had been behavioral, social sciences had morphed into mathematical disciplines. The study of human behavior had been replaced by multi-factor macro asset allocation models and sophisticated mathematical algorithms. The greater the complexity, the greater the credibility, the greater the confidence, the greater the risk allowed and unfortunately the assurance of an eventual collapse.

The forecasts generated by meteorologists and those imputed in modern economic/investment models are convictions gained by great effort. Both, unfortunately, are less than dependable. Notable economic misestimates would include the GDP forecasts of the Federal Reserve, interest rate outlooks by bond gurus, and sadly the assurances by investment bankers of ever rising housing prices. All were key factors in forecasting future investment returns and building portfolios.

"Tell us what the future holds, so that we may know you are gods." Isaiah 41:23

Amen!

Now that the gods have been at least temporarily discredited, the fundamentalist can regain the stage and recapture the audience. Factors such as scientific discovery, innovation, and changing demographics can drive investment decisions. Sound business plans and strong managements can be rewarded.

We continue to find very attractive opportunities in health care (biochemistry and oncology), information technology (big data, cloud computing, and consumer/social media), advanced industrial technologies (materials and manufacturing processes), telecommunications (pipes and towers) and an initial interest in the rebuilding of our infrastructure (construction).

Our view on the overall US market remains constructive. Continued economic growth, sustained levels of profitability, and reasonable valuations argue for a continuation of the six year advance. The ends of bull markets have historically been caused by an economic accident, recession, or tight monetary policy. Since few if any excesses exist in the economy or equity market today, the likelihood is that any problems lie in the future.

This not to infer we are not aware that investor sentiment has moved from cautious "risk/reward" to more optimistic "reward/risk" and that there are pockets of speculation. Therefore, we remain, as ever, vigilant with regard to capital preservation.

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The Young Enterprise Shares (YES) composite was created on January 1, 1993, representing actual separately managed taxable and tax-exempt equity client portfolios managed according to Princeton's YES strategy on a discretionary basis primarily in the equities of smaller-capitalization growth companies without client restrictions for the period(s) indicated.
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 22.0% to 20.4%. 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 MicroCap Growth Index** is an unmanaged index that measures the performance of the microcap 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.
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