CORE EQUITY REVIEW

First Quarter 2015

PERFORMANCE COMMENTARY

ENTR'ACTE

The longest symphony in history, "The Gothic," was written between 1919 and 1927 by noted British composer Havergal Brian. Performed by over 800 singers and musicians, it lasts one hour and forty five minutes without a single entr'acte (intermission). The longest postwar US economic expansion (3/1991 to 3/2001) lasted 120 months (10 years) with moderate growth of 2.1%, but experienced a number "intermissions;" pauses with reaccelerations. The longest postwar bull market began in 1988 and spanned 153 months (over 12 years) with a gain of 582%. It also had numerous entr'actes allowing investors periods of retrenchment and reassessment. So, why after only 6 years of moderate economic recovery and a bull market advance of only +210%, are economists and investors fidgeting in their seats when there is much more music to be played? Why is every "intermission" in economic growth or pull back in share prices deemed to be the anti-climatic end of the performance?

The first quarter of 2015 provided the audience with the mixed emotions of joy, sadness and anxiety. The combination of increased share buybacks, heightened merger and acquisition activity, strong IPO market, commerce disrupted by the West coast port strike, hostile weather patterns, Federal Reserve "transparency", the financial dislocations and consumer benefits from the rapid drop in oil prices, persistent strength in the US dollar, and at best, mixed economic indicators contributed to expectations of slower 1Q GDP growth ("soft patch") and downward pressure on corporate profits. An "intermission" is at hand.

Unsettled by these crosscurrents, for the first quarter, the S&P 500 total return was a tepid +0.95% after 2014's respectable +13.69% gain. The internal characteristics of the market were: Growth Stocks (+3%) outperforming Value (-2%), Small Caps (+3%) besting Large Caps (+0%), and Defensives (+2%) over Cyclicals (-3%).

Individual sector performance was relatively tight with 6 of the 10 groups plus or minus 2%. Health Care (+6%) led the market, with managed care stocks up +20%. Consumer Discretionary (+4%) acted well, with internet retail +14%. Utilities (-5%) and Energy 3%) were the weakest areas, as volatility in oil prices engendered heightened investor uncertainty.

PORTFOLIO COMMENTARY

The biggest positive contributor to the portfolio was **Boeing** (**BA**) with a gain of +15%. During the quarter management reaffirmed the strength of its order backlog in spite of falling oil prices. They also reiterated their commitment to shareholder friendly dividend and buyback programs. **Apple** (**AAPL**) continued to hold favor with its shares up +13%. The combination of ongoing success in its existing product line and the enthusiasm over their new watch, set the tone for the shares. Health care was the leading market sector in the market in 1Q and **Bayer** (**BAYRY**) +10% and **Bristol Meyers** (**BMY**) +9% participated in the group move. A firming in non-residential construction markets gave **Martin Marietta Materials** (**MLM**) strong 4Q revenue and earnings gains and a stock move of +27%.

On the negative side, slow sales growth in traditional information technology markets muted the 2015 outlook for **Microsoft** (**MSFT**) -12% and **Intel** (**INTC**) -14%. Cost overruns to ensure timely service hurt **United Parcel Service** (**UPS**) 4Q results and the stock corrected -13%. **Unisys** (**UIS**) -21% struggled with its traditional computer service businesses as it moves ahead with its new cyber security technology. A senior management change added to the uncertainty. With the selloff in the price of oil, uncertainty rose on its effect of the profitability of the railroad industry. **Union Pacific's** (**UNP**) shares declined -9% in sympathy.

PORTFOLIO ACTIVITY

We did not make any changes to the portfolio in the quarter. As investors, with a longer perspective, we were comfortable with our existing holdings and weightings.

MARKET COMMENTARY

There are four major concerns troubling investors; 1) a rapid rise in interest rates will abort the economic recovery, 2) from the currently elevated level of corporate profitability, earnings will decline, 3) the economic recovery is "long in the tooth" and vulnerable, and 4) market valuations are dangerously extended. In prior letters, we analyzed and refuted the first two risks and will now address the third, the sustainability of economic growth.

The magnitude of the current expansion, starting in 3Q 2009, has been subpar relative to postwar experience. Its annualized growth rate ranks as one of the worst with a compound rate of gain of +2.3%. This is in contrast to an average gain of +3.3% in the prior 10 postwar expansions years. Of the current recovery's 22 quarterly results, 6 were greater than 4%, 8 were between 2 and 4%, 6 were between 0 and 2%, and 2 were negative. So, in 36% (the 8 slowest quarters) of the time in this economic recovery and bull market

advance, investors have anxiously endured entr'actes or "intermissions," only to be relieved by resumptions in the growth of GDP and the S&P.
How can one be confident that this pattern is sustainable and that the economic expansion is not "long in the tooth" and vulnerable?

Music theorists often use mathematics as an aid in the understanding of time, rhythm and meter. Coincidently, mathematical patterns are also of interest to behavioral economists in modeling future outcomes. In the current recovery, the pattern of the rapid snap back in GDP from -5.4% in 1Q 2009 to +3.9% in 4Q 2009 and the then ensuing 5 years of slow growth resembles an algebraic square-root sign √.

A number of the causations for this economic slow growth outcome were well documented in the conclusions of Reinhart and Rogoff's 2009 book, "This Time is Different." The offsetting pressures of the government's stimulative monetary and fiscal policies pushing the economy forward and the post financial crises retardants of negative sentiment, overregulation, ballooning government deficits, and political discord, have kept GDP growth range bound at a subpar rate. Recently, as the negatives have slowly abated, so have the government stimuli; leaving us locked into this square-root pattern with growth at 2-3% for the forecastable future. Larry Summers has aptly labeled the outlook as a period of "secular stagnation."

In order to ascertain the durability of this square-root shaped expansion, the prospects of a pending slowdown can be monitored by two measures; the amount of excess capacity in the economy and the existence of dangerously speculative, asymptotic behavior.

Excess capacity is measured by the output gap; the amount of available productive capacity compared to current output. If the gap is wide, there is little danger of inflationary pressures building. In addition, this concept can be expanded to include labor supply and credit availability. Currently there is more than sufficient productive capacity, unemployed workers, and financial liquidity. With persistently moderate GDP growth, these gaps will close slowly, arguing for a much longer than normal economic expansion.

In economics and finance, an asymptote is a rapidly rising or falling geometric line depicting unnatural human behavior. It cannot persist indefinitely and is an "accident waiting to happen." In the most recent cycle, excess in subprime lending, off balance sheet debt at money center banks, collateralizations, etc, all foretold of the pending financial crisis. Today, there are few asymptotic anomalies that run the risk of becoming systemic. Student loan debt and delinquencies, and the rapid rise of US energy production and resultant collapse in oil prices qualify as excessive, but their risks are not likely to endanger the general economy.

As the output gap eventually closes over time, inflationary pressures will build and the Federal Reserve will react. As speculative juices awaken, the likelihood of "accidents" will heighten. Thus, investors must stay ever vigilant and become increasingly prudent.

But for now, time continues to be on the side of the investor. While there will be periodic setbacks or entr'actes, these "intermissions" should be viewed in the context of an ongoing, long term bull market. The symphony has movements not yet played and thus, patiently, this audience remains positive on the economy and equity market.

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 Wrap Composite (inception date February 2008) represents taxable and tax-exempt equity wrap-fee accounts managed on a discretionary basis according to Princeton's conservative, equity-oriented investment strategy without client restrictions for the period(s) indicated. Prior to February 2008 this strategy was marketed as Princeton's Core Equity Composite and was comprised of actual separately managed taxable and tax-exempt equity client portfolios managed on a discretionary basis according to Princeton's Core Equity investment strategy 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. Gross returns are reported gross of management fees, and net of commissions. 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 Index** is an unmanaged index that measures the performance of the large-cap 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 Wrap 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®).
A full GIPS compliant presentation and/or the Firm's list of composite descriptions can be obtained by contacting the Firm at (609) 924-6867.