CORE EQUITY REVIEW

Fourth Quarter 2016

LET THE GAME BEGIN

PERFORMANCE COMMENTARY

The eighth year of the bull market was very rewarding for sage and steadfast investors.

However, it proved to be humbling for stock market sages, economic forecasters and political pundits. Few prognosticators predicted the inter year volatility or rapid swings in market leadership, much less a double digit return for the year. Misreading a normal inventory cycle correction earlier in the year, many economists were startled by a 3+% GDP in 3Q. And the political gurus, most notably the press (liberal and conservative), lost both credibility and respect for their uneven and biased election reporting.

The year ended on a strong note with a 4Q advance in the S&P 500 Total Return average of 3.8%. This brought the full year gain to 12%. The optimism centered on the hope that President-elect Trump's proposed fiscal stimulants would accelerate economic growth. As a result, the leadership in the quarter focused on the banking industry, energy, materials and industrial stocks. Telecommunication and financials also outperformed on the hope of a reduction in regulatory burdens. Underperformance occurred in the more defensive and interest sensitive sectors: consumer staples, health care and real estate. As we look into 2017, we expect the positive tone to continue. Moderate economic growth, rising corporate profits and contained interest rates will be supportive towards equity price appreciation. While the US will have more than its share of political anxieties, the most likely scenario is for the market to continue to climb the wall of worry and the bull market advance to remain intact.

	Periods Ending December 31, 2016				
	QTR	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
Core Equity Wrap Composite - GROSS*	2.2	12.3	5.7	13.4	9.2
Core Equity Wrap Composite - NET*	*1.6*	*9.8*	*3.3*	*10.8*	*6.8*
S&P 500 Total Return Index	3.8	12.0	8.9	14.7	7.0
Russell 1000 Total Return Index	3.8	12.1	8.6	14.7	7.1

*Gross performance is presented as supplemental information to the full GIPS compliant presentation which is available upon request.

**Net Returns reflect the highest fee any advisor charges - most advisory clients are not charged the highest fee

Performance figures for periods one year and longer are annualized.

PORTFOLIO COMMENTARY

As industries can go in and out of favor on a short-term basis and markets rotate accordingly, reporting on investments held for many years at times seems to have a recurring theme: a good quarter or six months of good performance is often followed by a brief period of underperformance. This has been the case this year, as all four leaders in the quarter were a leading laggard at least one quarter earlier this year. Much of the ups and downs in stock prices were driven by investor concerns over the downward pressure on pricing of drugs and the profitability of the pharmaceutical industry, as well as more generalized concerns over the health and direction of the economy.

Martin Marietta Materials (MLM), a leading performer the first two quarters, more than recouped its loss in the prior quarter, and rallied 24% this quarter. They will be a significant beneficiary of the pending infrastructure rebuild as proposed by the new administration. **Boeing (BA)**, which sagged badly in the first quarter was up 19% this quarter. **American Airlines (AAL)**, a laggard in Q2, rallied 28% on prospects for an economic recovery in the quarter. A long time holding, **Unisys (UIS)**, which has been mentioned for its ups and downs on a quarterly basis, frequently was up over 50% in the quarter. It appeared to investors that the new management team has finally righted the ship and they are on course for a recovery.

In a generally very good quarter for the broad market performance, **Facebook (FB)** was off 10% as investor sentiment rotated away from technology and towards banks and the energy sector. **Novo Nordisk (NVO)** which was down 21% in the 3rd Quarter was off another 14% after management lowered their long term revenue growth rate projections due to pricing pressure on their insulin drugs. We continue to hold the stock, as at current prices it appears cheap versus the demand for treatment for an increasingly diabetic prone global population. **Universal Electronics (UEIC),** a leader in Q1, consolidated 13% in the quarter but was still up roughly 30% on the year. Cell tower operator **American Tower (AMT)** is classified as a REIT. Fears over rising interest rates pushed many yield-oriented stocks down in the quarter and the stock was off 6%.

PORTFOLIO ACTIVITY

We sold our position in **NXP Semiconductor (NXPI)** in November after the company was acquired by **Qualcomm (QCOM)** for cash. NXPI is based in Holland and the deal will not be consummated until the European Union gives its regulatory approval. We currently own QCOM and like the value add to them, but believe we could invest the cash more profitably in another opportunity. We used the proceeds to invest in **Visa (V)**. Operating in more than 200 countries, we view Visa as a software company first and as a financial services company second even though it is the world's largest credit card company by transaction volume. Last year it registered more electronic swipes than MasterCard, American Express and Discover combined. The company's operating margins are in the mid 60% range, and its earning should grow predictably in the mid teens for the next several years. We see this as a platform for stable growth as a beneficiary of the contined transition from cash to electronic forms of payment. Visa has a history of solid growth in uncertain times. With over $6 billion in cash, the company has a strong balance sheet and has grown its dividend by over 25% since initiated in 2008. We also trimmed our position in **Union Pacific (UNP)** from 4% to 2%as the stock has recovered nicely. We added to our existing positions in our two cell tower holdings, **American Tower (AMT)** and **Crown Castle (CCI)**.

MARKET COMMENTARY

Up until the 2016 Presidential cycle, the word trump had two different connotations: the designation of a suit in a card game or a real estate tycoon. It is now most thought of in terms of the President-elect.

There are four suits in a deck of playing cards: hearts, diamonds, clubs and spades. Over time these have taken on meanings of specific human characteristics: Hearts – love, emotion, sharing; Diamonds – energy, success, imagination; Clubs – work, growth, luck; Spades – negativity, challenges, problems. Among the face cards are two males, the King and the Knave (Jack). The King has come to represent love and leadership engendering trust and respect. Conversely, the Knave is charismatic and resourceful, but challenged by integrity and honesty.

In the game of bridge, a spirited bidding process determines which of the four suits will be most powerful and dominate the action of the game. The suit winning the bid is designated as trump. Soon, in the game of government, the election winner will bridge to new leadership. It is uncertain what this Trump will be. Like a Heart, Diamond, Club or Spade? A King or a Knave?

Despite the difficulty in analysis and ascertaining how, and more importantly to what extent, European politics and pending elections in France and Germany, Middle east strife, expectations for increased acts of terrorism, US/Russian/Chinese relationships and the unprecedented domestic political uncertainty will impact an already fragile global growth, the general outlook for the US economy is sound and improving.

The US enters the New Year on a firm footing. Despite continued subpar underlying growth - hovering around 2% - consumers are in good spirits while the financial system has been significantly repaired. The stabilization of oil prices bodes well for capital spending, and fiscal deficit spending, as projected in the pending highway bill, should be stimulative. Monetary policy should also remain accommodative.

However, as we go through the eighth year of the recovery, the economy should begin to show its age. Major sectors are maturing, potentially adding little to future growth. Auto production and commercial construction are the two most immediate examples. Based upon the current economic trajectory, the US economy would be growing at merely a +1% rate by 2018.

Fortunately, with the election of Trump, new fiscal stimuli are being proposed that would offset the upcoming slowdown. With his promises/platform he vowed to “Make America Great Again”, and consumer and investor confidences have surged. Optimistic economists have ratcheted up their forecasts to 3-4% growth. We are in a period when unbridled optimism can flourish and rosy assumptions cannot be disproven. How long can this honeymoon last?

There are four main proposals that contribute to the estimates for an improved outlook.

- Repatriation of offshore profits will stimulate domestic capital spending. Issue: Presently, the US financial system and corporations are awash with low cost capital. It has been the paucity of good projects that has inhibited capital investment.

- Tax cuts/reform will provide business/consumer stimulus. Issue: This is a political hot potato with powerful interest groups mounting their defenses. In the zero sum game of moving money from the high income tax payer (investment) to the mid-to-low income class (consumption), how are the pressing needs for capital and infrastructure investment satisfied?

- Reversal of onerous regulations will increase US productivity. Issue: The excessive use of executive orders by either party will have, over the long run, a dampening effect on business confidence. What Obama put in and Trump takes out, the next President can put back in. Long term capital investment is problematic with fickle government policies. However, over the short term, regulatory relief will be moderately helpful, especially in energy and banking.

- Fiscal stimulus (deficits) will be additive, especially in defense and infrastructure. Issue: In the long run, these are positive, but the planning cycle is long and projects multi year. The impotence of the TARP spending program gives one pause.

While the direction of these initiatives is positive, the timing and magnitude are questionable. Remember, the Tea Party, paring knives in hand, is waiting in the wings to whittle away on these proposals. It is possible that the upcoming State of the Union address may be the peak of optimism and the end of the one-sided debate, marking the end of our honeymoon period.

The most likely economic outcome may be a continuation of the 2+% growth with shifting leadership within the maturing economy. Overall corporate profits should improve as energy and financials recover. For the financial markets, interest rates will remain unpredictable after the recent rise, with movement in either direction possible. For equities, the next few years should look like the past eight: up in direction with the magnitude of move and the extent of volatility the unknown.

While this is the most likely scenario, much will depend on how this game of cards is played. In the game of bridge, success is determined by the player's possession of three attributes:

- Deductive Reasoning: The ability to size up a situation on inferences available
- Empathy: The ability to view a situation from another person's (friend or foe) perspective
- Foresight: The ability to visualize problems before they arrive

Are these the same attributes needed to be an effective President? If so, only time will tell how this game of government will end. It started in the Republican primaries with a bid of one no Trump. Will it end with the final card being played the King of Hearts or Knave of Spades? Despite the uncertainty, we believe America is well positioned to hold the winning hand. Let the game begin.

❖ ❖ ❖

DISCLOSURES:

Princeton Capital Management, Inc. ("Princeton") is an independent investment management firm established in 1988. Princeton is registered with the U.S. Securities and Exchange Commission and based in Princeton, NJ.

Core Equity Wrap Composite – (inception date February 2008) representing 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. Statistics presented for the period prior to February 2008 are those of the Core Equity Private Client Composite (inception date October 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 investment product 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. Pure gross returns are shown as supplemental information and are stated gross of all fees and transaction costs. Net returns are reduced by the highest wrap fee of 2.25%. 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 Core Equity 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 Total Return Index** gauges the large-cap U.S. equity market. The **Russell 1000 Total Return 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. Inclusion of index information is not intended to suggest that its performance is equivalent or similar to that of the historical investments whose returns are presented or that investment with our firm is an absolute alternative to investments in the index (if such investment were possible). Investors should be aware that the referenced benchmark funds may have a different composition, volatility, risk, investment philosophy, holding times, and/or other investment-related factors that may affect the benchmark funds' ultimate performance results. Therefore, an investor's individual results may vary significantly from the benchmark's performance.

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. Past performance is not necessarily indicative of future returns and the value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed and a loss of principal may occur. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may also result in economic loss to the investor. The Core Equity Portfolio snapshot and Top Ten Holdings are based on a model portfolio structured to represent the Core Equity Wrap Composite. For additional information about the performance of the Core Equity Wrap 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 Top Ten Holdings securities listed have been selected as our largest holdings and 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.

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.