CORE EQUITY REVIEW

First Quarter 2017

CONFIDENCE – THE CHEAPEST FORM OF STIMULUS

PERFORMANCE COMMENTARY

We began this ninth year of a great bull market on a strong note with a gain of 6.1% in the S&P 500 Total Return. There are diverging views as to the cause of this rise, ranging more likely from the hope that the enactment of the new President's promises for aggressive fiscal policy initiatives would accelerate economic activity to a post election relief rally naively celebrating the end of discordant political campaigning.

Looking into the internal dynamics of the market's 1Q advance, the signals, considering the magnitude of the move, were less constructive with leadership becoming more conservative. The defensive stocks outperformed the cyclicals (beneficiaries of fiscal stimulus) and large caps outpaced more speculative small cap stocks. Leadership was found in utilities, consumer staples, information technology, health care and consumer discretionary sectors. Relative weakness was in financials, industrials, materials, real estate and energy shares. Analyzing the rotation within the market, concerns over prospects for future economic growth were apparent.

Going forward, the direction of the economy and the market rests on the ability of the new political leadership to enact some sensible fiscal policies. While it is too early to tell, we remain cautiously hopeful that modest progress will be made in stimulating the economy and financial markets will remain attractive.

	Periods Ending March 31, 2017					
	QTD	**1 Yr**	**3 Yrs**	**5 Yrs**	**7 Yrs**	**10 Yrs**
Core Equity Wrap Composite - GROSS*	**5.0**	**13.4**	**7.3**	**12.5**	**12.8**	**9.6**
*Core Equity Wrap Composite - NET***	4.4	10.9	4.9	10.0	10.3	7.1
S&P 500 Total Return Index	6.1	17.2	10.4	13.3	12.9	7.5
Russell 1000 Total Return Index	6.0	17.4	10.0	13.3	13.0	7.6

*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

The investment themes coming out of the Trump victory in November continued to play through the first Quarter. Belief in pending economic stimulation, reduced regulation, lower taxes, and repatriation of overseas monies favored large cap stocks and favored growth over value. There recently has also been a growing awareness that size matters and scale is ever more vital in determining winners. **Apple (AAPL)**, which spent most of 2016 well below prior highs, soared 25% in the quarter and was seen as a direct beneficiary of this thinking. If Apple was allowed to repatriate its overseas mountain of cash there would be enough to pay a $700 dividend to every citizen of the US. There is interest around their next iPhone offering in September, as it is the 10th anniversary of their foray into and dominance of the mobile phone market. They also sued Qualcomm over patent infringements, and while we see this as likely to be settled in some format, it is uncertain as to the meaning and magnitude of any settlement. **American Tower (AMT)** rallied - recovering 16% after selling off 6% last year post election. Classified as a REIT it was caught up in the selloff of yield stocks over concerns of a rapid rise in interest rates. We see the company as a digital railroad of sorts – transmitting an ever-increasing matter over a fixed number of cell towers. **Facebook (FB)** was up 23% after being down 10% in the prior quarter. The company continues to exceed expectations for search revenues and is gaining share as the world moves to mobile search. As much as fundamentals are a factor, large growth companies were in favor. **Cisco Systems (CSCO),** up 13%, was another large cap growth stock investors favored over value stocks. It also benefits from its position as the premier provider of servers for data centers, its offerings of data protections in cyber and an overall demand for faster communication networks. **Boeing (BA)** was up 15%. Orders for new planes continue to be strong and the likelihood that the Export Import Bank will survive under President Trump and facilitate financing for new orders was supportive to the stock price.

Verizon (VZ) was down 8% in the quarter. The stock struggled over concerns relating to quality of earnings after aggressive pricing discounts by Sprint and T Mobile. **Bristol Myers Squibb (BMY)** was off 6% after reporting disappointing earnings in January and over continued concerns over whether it is losing its leading position in oncology. **Qualcomm (QCOM)** was off 11% for the quarter reflecting their legal dispute with AAPL over royalties. With AAPL saying they are withholding royalty payments, there were obvious concerns about earnings. We believe with their pending acquisition of NXPI Semiconductor (NXPI) and its leading position in IOT chips, QCOM will have the strongest patent portfolio in data communication of anyone in the industry. AAPL's strategy of applying legal leverage in their licensing negotiations will most likely result in a settlement and QCOM will continue to benefit from their strategy of licensing their intellectual property. **General Electric (GE)** consolidated its post election push in Q4 and was down 5%. Prospects going forward will be driven by the degrees of recovery in the energy sector and global growth. However, there is growing disappointment in management that continues to weigh on prospects for price appreciation. **American Airlines (AAL)** was off 9% in the quarter but this is most likely a consolidation of its 28% gain in Q4 2016.

PORTFOLIO ACTIVITY

Not surprisingly for investors with a 3 to 5 year investment horizon, we made few changes to the portfolio in the quarter. In January we sold our position in **Monolithic Power Systems (MPWR)** and slightly trimmed our holding in **General Electric (GE)**. We had opportunistically invested in MPWR on a valuation basis and on strong stock price recovery we took our gain. We saw a greater opportunity going forward in **Alphabet (GOOGL)** and **Visa (V)** and used the MPWR proceeds to add to our existing positions. In the last days of March, we also added 1% to our position in **Pfizer (PFE)**.

MARKET COMMENTARY

On March 30th on the Charlie Rose show, Larry Summers (ex Secretary of the Treasury under President Clinton), during a discussion on monetary and fiscal policies, stated "Confidence is the cheapest form of stimulus." A simple but profound observation.

If one looks at monetary policy post the Great Recession, we see a Federal Reserve that by historic proportions flooded the financial system with very cheap money. However, given the lingering psychological wounds from the 2008-9 experience, there was little appetite by consumers and businessmen to avail themselves of this credit. Lenders did not want to lend. Borrowers did not want to borrow. The velocity of money plummeted, reserves in the banking system soared. The expression of pushing on a string had come to pass.

What business and Main Street lacked was a strong sense of confidence. Without it monetary policy was emasculated and the US economy experienced one of the slowest recoveries on record.

We entered the post recession period with a dichotomy in confidence. The election of President Obama brought optimism for the potential for change and a uniting of the country. Juxtaposed was a deep pessimism on economic prospects and lingering fears of a financial relapse.

Eight years later the political euphoria had waned and the country had not come together. Conversely, our financial system had healed and economic stability was at hand. But in both cases there was insufficient confidence to enable satisfactory economic growth.

Currently, the US is presented with the opposite scenario. There is profound pessimism over our political system and Presidential leadership. Conversely, there is optimism that the economy may experience an acceleration of growth. Four years from now, as we look back, we are hopeful that President Trump will have learned on the job and become a more effective leader with moderate legislative successes. The resultant economy will have disappointed and not reached a 3-4% growth rate, but lingered at the 2% rate.

Again, holding back faster growth will be a lack of confidence. Effective fiscal policy addressing the country's infrastructure shortfalls CANNOT be a Keynesian policy of "digging holes in the ground and then filling them in." Shovel ready projects do not address our needs. We need commitment to large, long running projects and investment in plant and equipment, not share repurchases or increased dividends, to expand the economy. These projects can only be undertaken by confident business leaders. We are not there yet and prospects are waning.

Thus, we believe the US can expect some modest stimulus from fiscal spending, but smaller and later than the optimists hope for.

The implications of a hopefully better political environment and modestly underperforming economy should be that the next two to three years look much like the past seven; subpar growth (2%), low interest rates, continued political "noise", and a stock market that continues to climb the wall of worry. We remain ever hopeful that a constructive dialogue can emerge so that confidence builds, but we are ever vigilant to the challenging dynamics of the increasingly complex world we live (and invest) in.

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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.

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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.

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