CORE EQUITY PORTFOLIO REVIEW

Third Quarter 2011

PERFORMANCE COMMENTARY

In our last commentary we wrote that the second quarter was devoid of natural or manmade upheavals, without an earthquake or Arab spring. This past quarter made up for it and then some. The third quarter of 2011 was what might be called a disaster from both a natural and manmade perspective. While we cannot protect ourselves from floods and drought, we certainly can expect our leaders to provide constructive leadership and our media to promulgate less negatively nuanced headlines, and every now and then look on the bright side of life. Also, we might properly expect the financial markets to function for their original intent (the formation of capital) and not run as casinos with a bet on black today and red tomorrow, or even worse, with a bet on black in the morning and a doubled up bet on red in the afternoon.

It was pretty simple: both European handling of the "Greek" issue and our domestic politics darkened the outlook, dampened sentiment and created uncertainty. In turn volatility chilled investor sentiment. World markets in general were down 20% for the quarter. US markets ranged from down 21.87% in the small cap sector (as measured by the Russell 2000) to down 13.9% for the S&P 500. This quarter was the fifth worst quarter over the last twenty-five years as measured by the S&P 500.

	Periods Ending September 30, 2011					
	Quarter	Year-to-date	1 Year	3 Years	5 Years	10 Years
Core Equity Composite – NET	**-13.5%**	**-8.4%**	**4.2%**	**3.1%**	**3.5%**	**7.0%**
S&P 500 Index	-13.9%	-8.7%	1.1%	1.2%	-1.2%	2.8%

Composite performance is reported **NET** of fees and expenses. Please refer to the disclosures at the end of this report.

As depicted above, we provided clients with essentially market performance this quarter and through nine months as well. It is a telling comment on the quarter when only eight holdings in a 28 stock portfolio made a positive contribution, and when their contribution was to such a minimal degree as well. The company with the greatest positive attribution in the quarter contributed only 33 bps. Not surprisingly, it was a utility, **Duke Energy (DUK)**, up 6.2%. Another defensive holding **Bristol-Myers (BMY)** was up 8.2%. Three companies bought mid-quarter that made a positive contribution were up 7.6%, 3.6% and 2.6% respectively: **American Tower (AMT), Intel (INTC),** and **Bayer AG (BAYRY)**. On the negative side **Dupont (DD),** a leading performer in Q1, which lagged however in Q2, topped the list for negative attribution this quarter, and was down 26.1%. **Websense (WBSN)**, one of our top contributors last quarter, was down 33.3%. **Ametek (AME)** and **Life Technologies (LIFE),** two names we sold in early August, were down 21.1% and 22.6% respectively. **FMC Corporation (FMC)** was down 19.6%. (Note: the calculation for contribution to return considers a position's size as well as its share price gain or loss, recognizing that the larger the position the greater its impact on total portfolio performance, and vice versa.)

PORTFOLIO COMMENTARY

As you know, our investment philosophy is to invest in companies supported by long-term fundamental demand trends. In this letter we are writing about a trend we significantly increased our exposure to in the quarter.

"The Decade of Wireless"

We embrace positive trends, particularly those that have a long, evolutionary investment life. Witness the rapid growth and spectacular changes of the wireless telecommunications industry. One industry executive calls this "The Decade of Wireless." We agree, and in our portfolios we are building positions to take advantage of this trend.

During the initial wireless boom in the 1990s, mobile cell phone usage - making phone calls - was the primary driver. Cumbersome, brick-sized mobile phones eventually were reduced, through technological advances, to ones you could put in your pocket. Those pocket phones now are on the cutting edge of the wireless boom.

Today, look at all the devices that consumers now use for voice, data and video services. These are ubiquitous and new ones are sprouting up all the time: smartphones, tablets and the latest laptops/notebooks. Research firm IDC estimates that by 2015 more people will access the Internet through mobile devices than through stationary PCs. Mobile devices allow people not only to be connected but also entertained.

Take smartphones: These are not only phones, but also computers, cameras, and music and gaming devices rolled into a single unit. Text messaging has exploded as people have embraced cell phones as the centerpiece of their personal and business communication lives. The penetration of smartphones - which consume twenty times more data than traditional feature phones - was 39% in the second quarter 2011. It is estimated that by the end of the year two-thirds of all cell phone customers will be using a smartphone. Cisco, a name in our portfolio, estimates that North American mobile data traffic will grow by more than 140% this year, and 70% annually from 2012 through 2015. Growth should slow - still to nearly 50% - in the last five years of this decade.

Apple's introduction of the touchscreen iPad in 2010 began the phenomenon of the media tablet generation. In its first year introduction, Apple sold more than 15 million units. This year, tablets are expected to capture 15% of all personal computer sales. Goldman Sachs' research estimates that tablet growth, with all the new emerging manufacturers, will boost unit growth by 300% in the next two years. By 2020, 17% of all wireless data traffic will be from tablets.

Today most carriers use 3G (third generation) wireless technology, but 4G adoptions are rapidly gaining momentum, particularly to accommodate the proliferation of the above-mentioned new products. The speed of 4G is ten times faster than 3G and, for example, allows a customer to download music albums in 4½ minutes instead of 45 minutes under 3G. Future 4G growth receives important sponsorship from computing via "cloud" - which enables consumers to have access to unlimited data at their fingertips. As 4G networks become more pervasive and utilization of the cloud expands, customer expectations for an open and seamless environment should increase. The open availability of data should stimulate even more demand.

We have been investing and continue to expand in this arena. We own two wireless service providers, major U.S. carriers AT&T (T) and Verizon (VZ). To handle all the carrier's traffic, cell towers are needed to transmit their wireless signals. The tower companies remain some of the most levered stocks to the rapid growth of wireless data. Think of towers as electronic real estate. The more carriers rent space on a tower, the larger the revenue and the wider the profit margins.

So in the recent quarter we added Boston-based American Tower (AMT), a major player in the global growth of wireless communications. American Tower is the largest global cell tower company, with more than 38,000 towers, 30% of which are outside the U.S. Its international portfolio is located in Latin America, India and Africa. In 2010, there were more than 3.5 billion mobile users globally, and there are estimates of 5.8 billion by 2013. AMT is betting that by expanding into the developing world (where there is limited fixed telephony) the company will benefit from all people wanting wireless broadband services for telephony, data, and media delivery.

All four of the largest U.S. wireless carriers (Verizon, AT&T Mobility, Sprint Nextel, and T-Mobile) lease antenna space on American's towers, and this year should account for three quarters of American's more than $2.3 billion in revenue, with the rest of the total coming from international carriers, governments and corporations. American has matured into a company that should throw off nearly $1 billion in operating cash flow. Next year, the company plans to become a REIT, paying an estimated 2% or higher dividend. Management's stated goal is for American to be a growth-and-income stock, similar to high growth, dividend-paying S&P 500 stocks.

The stock market has obviously gone through a rough patch recently, and the slowing economy, coupled with troubling global and Washington issues, certainty does not help. But many of the telecommunications stocks have held up well, buoyed by strong dividends and a promising future. We think the wireless industry will continue to be a terrific place to invest.

By the way, the executive cited in the first paragraph who coined the term, "Decade of Wireless," was James Taiclet, the CEO of American Tower.

PORTFOLIO ACTIVITY

This quarter produced an unusually large degree of turnover in the portfolio. We are active managers investing with conviction. Based upon our investment perspective, what occurred in the quarter demanded responses. We have commented previously that larger capitalization companies have lagged smaller companies in appreciation and over the last year the valuation disparity was expanding. After the squabble in Washington over raising the debt ceiling was resolved, we responded accordingly. We repositioned the portfolio to respond to what we believed might be a period of investor uncertainty as delays in the resolution of the debt issues in Europe and the political situation in Washington were imposing on global economies and increasing the likelihood of a potentially slower recovery. We used this opportunity to purchase lower risk larger companies with similar upside potential to higher risk smaller companies.

We sold a number of our mid cap holdings and tilted the portfolio towards larger names with solid growth prospects. We added **AT&T (T), American Tower (AMT), Bayer AG (BAYRY), Bristol-Myers (BMY), Bunge Limited (BG)** (against our sale of **Monsanto (MON)** as a swap to maintain our exposure to agriculture on a relative valuation basis), **Canadian Pacific (CP), Cisco Systems (CSCO), Computer Sciences (CSC), Cree (CREE), Deere & Co (DE), Intel (INTC), Union Pacific (UNP), Universal Electronics (UEIC)** and **Vodafone (VOD)** to the portfolio. We sold our holdings in **Activision (ATVI), Ametek (AME), Apollo Group (APOL), CVS Caremark (CVS), Cardinal Health (CAH), Express Scripts (ESRX), Henry Schein (HSIC), Life Technologies (LIFE), Pepsi (PEP), and Rovi (ROVI),** and trimmed our positions in **Novartis (NVS) and Novozymes (NVZMY)**. All in all, we significantly increased the yield of the portfolio and lowered the risk profile by adding larger and what we believe to be more defensive companies.

MARKET COMMENTARY

Where we go from here is more puzzling than years past. We believe both the underlying international and domestic economy continues to improve and is in much better shape that headlines read. From all we can ascertain in talking to managements of industries and companies that we invest in, they are guardedly optimistic. We expect sectors facing headwinds (primarily those relating to finance and real estate) to continue to struggle. High unemployment will continue to be a drag on the economy as well and while not intractable we will not replace many of the over six million jobs lost in the recession in the near future. From a global perspective, notwithstanding a slower growing Europe mired down resolving sovereign debt issues, the rest of the world continues to grow at acceptable levels and levels both the US and Europe would be delighted to experience.

All markets, domestic and global, will be impacted and respond to issues of more of a psychological nature driven by political issues to which there is little clarity. The key questions and hurdles facing our markets are how will the Common Market and the US government (both the legislative and executive branches) address and resolve issues spawned by past flawed policies and practices? These two issues have been a wet blanket on markets and may well continue to be so for an indefinite period as long as we keep “kicking the can down the road” and delay the requisite resolution. In Europe there are many disparate nations whose policy responses are driven by internal politics. Hopefully leaders will lead and focus on the larger picture and objective instead of responding to localized electoral needs and reelection pressures. In all likelihood, domestically we are in for a long twelve months of stalemate as both parties engage in highly partisan politics to position themselves for the upcoming election.

From an investment perspective, we look for a rising market going forward, but one with many ups and downs. As an example, the Super Committee is due out with a report in November. How this will be perceived is anyone's guess. We do believe that in coming months the volatility that we have experienced will remain and resolution of the issues before us will be uneven at best.

In terms of where do we go from here, the analogy of a children's playground comes to mind. We seem to be going round and round on a merry-go-round with political leaders refusing to address and resolve the pressing issues ahead of us and with investors riding the teeter totter - the up and down swings of the market reflecting positive and negative developments. While we remember how it felt when the other party jumped off the seesaw while we were on the upswing, we do not expect to suffer the same pain in the markets in the ensuing months.

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DISCLOSURES: The Core Equity Composite is comprised of discretionary taxable and tax-exempt accounts of similar risk and investment objectives that are managed according to Princeton Capital Management's conservative, equity oriented investment strategy. Prior to 1/1/09 this strategy and its composite were marketed as Princeton Capital Management's Growth and Income investment product. While the strategy has not changed, it was renamed to reflect its intended strategic role within an investment program. Accounts are included in the composite at the beginning of the first full calendar month each account is fully reflective of the investment strategy. The S&P 500 Index is an unmanaged index considered generally representative of the U.S. stock market. Results are calculated internally using Advent portfolio accounting software and information provided by outside custodial firms. Composite and index performance valuations and calculations include dividends, interest and other earnings and are stated in US dollars. Performance figures for periods one year and longer are annualized. Composite returns are asset weighted and are reported net of fees and commissions. Performance results for individual accounts may vary due to the timing of investments, size of positions, fees, and other reasons. A client return may be reduced by other expenses incurred in the management of the client's portfolio. Additional information regarding policies for calculating and reporting returns is available upon request. PAST PERFORMANCE SHOULD NOT BE CONSTRUED AS A GUARANTEE OF FUTURE PERFORMANCE. The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified or discussed were or will be profitable. The stocks named as the top or bottom five contributors to performance for the period are based on a representative portfolio (Princeton Capital's oldest Core Equity wrap account portfolio; also a member of the Core Equity composite) and have been identified through a report generated by Princeton Capital Management's Advent portfolio accounting system. 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.