NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

July 11, 1997

Dear Client:

The second quarter was extraordinary for the U.S. stock market. The S&P 500 index rose 16.9% for the second quarter, 19.5% for the first half, and 20.7% from the year's lowest point of 733.54 on April 14th. This amazing performance definitely helps grow investors' assets while it raises the level of difficulty to discover superior stocks at compelling valuations.

BETTER-THAN-EXPECTED PROFITS AND LOWER-THAN-EXPECTED INFLATION

First-quarter results remarkably exceeded consensus estimates for approximately 60% of companies of the S&P 500. Many estimates for individual companies have since been revised upward. Late in the first quarter, the Fed showed its intention to tighten monetary policy, concerned that fast growth might cause inflation. Some bearish sentiment among investors led to the market drop of almost 10% in just a few weeks.

However, without any confirmation of inflation pressure, stock prices recovered from a 10% correction in a very short time period and have since rebounded significantly.

VALUATION

As we mentioned in our 1996 annual report, past periods of low inflation have been accompanied by relatively high P/E ratios. In prior periods of the Consumer Price Index rising about 2.5%, which is the level of the consensus estimate for the coming quarters, P/E ratios ranged between 18 and 22. Based on 885.14, the closing price of the second quarter, the S&P 500 index is trading at 18.8 times and 17.4 times the estimates of $47 for 1997 and $51 for 1998, respectively. Obviously these ratios are within the ranges seen during previous periods of comparable inflation. Assuming that the current healthy economic conditions remain, the stock market would still have room to move higher.

While stock prices have enjoyed fast growth, there is little margin for disappointment if fundamentals do not meet expectations. That may partly explain why the market has been volatile so far this year and may continue to be for some time.

NEW PURCHASES

This new section is created to enable our clients to gain understanding of our current new purchases. You may find some or none of these positions in your accounts depending on your cash position, investment suitability, or some other portfolio management techniques implemented by your portfolio manager.

Cisco Systems Inc.

Cisco offers a complete line of computer networking products that connect independent computers and lets them communicate with each other over a shared medium. The company is the market leader with commanding market shares in each of its key product

1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
561-999-9888 • Fax 561-994-2893 • E-Mail: info@noesis-capital.com
www.noesis-capital.com

lines. As the biggest player, Cisco should benefit handsomely from the 30%-50% annual market growth expected in the industry for the foreseeable future.

MBNA Corp.

This is the world's second largest VISA and MasterCard card lender just behind Citibank. The company is considered the most dynamic, creative and strongest marketing organization in financial services. With concentration on professionals, MBNA differentiates itself from its rivals by having the lowest chargeoffs in the industry. Earnings growth is expected to remain at 25%-30% annually.

Nike Inc.

The world's leading designer and marketer of high-quality athletic footwear, apparel, and accessories with a 44% market share in the U.S. sneaker market. Nike is increasingly diversified into international markets, into product lines like apparel, and into sports involvement including soccer and golf. The athletic footwear business has slowed down recently but prospects remain positive on a long term basis. We consider this slow-down a buying opportunity.

OUTLOOK

In the current prolonged bull market, high-quality large stocks with high liquidity have attracted more investors than the small capitalization segment. While prices of large stocks represented by the S&P 500 increased 16.9% during the second quarter, small stock prices represented by Russell 2000 advanced 9.3%. We believe that many investment opportunities may exist in smaller-capitalization stocks. Unfortunately second tier stocks usually involve more volatility and less liquidity than large stocks. Investment in small stocks needs to be even more selective and is not suitable for many investors.

We remain positive on the outlook for the U.S. economy and stock market, provided that the incredibly healthy economic environment and the most peaceful era in recent history continue. We also remain positive on the bond market, because the real yield of 30-year U.S. Treasuries (after adjusting inflation) at above 4% is high relative to an historical yield of only 2%-3%.

In closing, we would like to thank all of you for your confidence in us, especially those who continuously add new money to their accounts and refer friends to us.

Sincerely,

Joseph T. Lai
Vice President - Money Management

1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
561-999-9888 • Fax 561-994-2893 • E-Mail: info@noesis-capital.com
www.noesis-capital.com