



A REGISTERED INVESTMENT ADVISOR

April 10, 1998

Dear Client:

The first quarter of 1998 was one of the best ever for equity investors. In fact, most markets around the world rebounded from the lows reached late in 1997. The U.S. markets and many European markets rose to all-time highs.

First Quarter Increases (1/1/98 - 3/31/98)

DJIA	11.3%	DJ World	13.7%
S&P 500	13.5%	MSCI EAFE	14.2%
NASDAQ	16.9%	London	15.5%
Russel 2000	10.0%	Tokyo	8.3%
Canada	15.2%	France	24.7%
Mexico	-8.4%	Germany	17.0%

It was also a successful quarter for Noesis Capital Management. First of all, our portfolios grew very well during the first quarter. Secondly, we were approved by Charles Schwab & Co. to be listed in its AdvisorSource, a service that helps individuals find independent investment managers. We are delighted by the confidence that Schwab has shown in us by allowing us to serve their customers. In addition, to further service our West-Coast and Asian clients, we opened an office in Fremont, California, a city in the San Francisco metropolitan area.

#### THE FUNDAMENTALS

In our opinion, the U.S. economy remains healthy -- moderate growth, low inflation, and low interest rates. We do not see any dramatic change in economic conditions, at least in the near future.

In terms of valuation, the current market level is acceptable as long as present conditions continue. In prior periods of the Consumer Price Index rising about 2.0% or less, which is the level of the consensus estimate for the coming quarters, P/E ratios ranged in the 20s. Based on 1101.75, the closing price of the first quarter, the S&P 500 index is trading at 21.8 times the estimate of \$50.50 for 1998. This is at the low end of ranges seen during previous periods of comparable inflation.

Although we feel comfortable with the current market level, we would not rule out the possibility of a temporary correction at any time. This could be triggered by perception of a problem, real or imaginary, and could, under some circumstances, be a buying opportunity.



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## FIXED-INCOME BENCHMARK

To serve as a comparison and benchmark for many fixed-income investments and to further educate and enlighten our clients, we will be showing the quarterly rate of return of the Merrill Lynch Corporate/Government Index. This calculation includes changes in principal plus interest. Therefore, it is the total rate of return. This broad market fixed income index is comprised of 5,949 corporate and government bond issues. The average maturity of these bonds is 10 years and the average quality is AAA as rated by Standard & Poor's. The average coupon is 7.3%.

This index is listed in The Wall Street Journal in the "Bond Market Data Bank" under "Broad Market". At the end of the quarter it closed at 864.64, representing a 1.84% increase for the period.

## NEW PURCHASES IN THE PAST QUARTER

### Amgen, Inc.

Amgen is the largest biotechnology company in the U.S. that has developed two of the industry's most successful commercial products, Epogen and Neupogen. Each of these two products has sales in excess of \$1 billion and an 85% gross margin in 1997.

R&D expenditures were \$631 million, or 26% of revenues in 1997, and are expected to exceed \$650 million in 1998. Amgen has consistently invested heavily in R&D and has more than ten products undergoing clinical trials, with estimated market potential for each product to be \$300-500 million. The pipeline should become more visible in the next few months.

### Hewlett-Packard Company

Hewlett-Packard is the second largest computer manufacturer with broad product lines ranging from hand-held calculators to servers. Its inkjet printer business dominates the market with a 45% market share and could lead to an ink-and-paper cash cow. Its UNIX server business is growing at twice the market rate.

Revenues and earnings per share compounded at 21.2% and 27.4%, respectively, during the five-year period from fiscal 1992-1997. A 15% growth rate over the next five years is anticipated. To participate in the fast-growing information technology industry, we chose Hewlett Packard as a core holding because of its broader product lines, superior management team, and strong balance sheet.

Sincerely,

Joseph T. Lai  
Chief Portfolio Manager