NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

July 10, 1998

Dear Client:

During the second quarter, large-cap stocks as represented by the S&P 500 Index or the Dow Jones Industrial Average moved sideways, while small-cap stocks as represented by the Russell 2000 Index slid. Although the S&P 500 was up an above-average 2.9% for the quarter, the gain is attributed primarily to a push during the final week.

Second Quarter Increases (4/1/98 - 6/30/98)

Dow Jones Industrial Average	+1.7%
Standard & Poor 500	+2.9%
NASDAQ	+3.2%
Russell 2000	-4.9%
Dow Jones World	+1.8%
Merrill Lynch Corporate/Government Bond	+2.6%

The second quarter was a busy one for Noesis. We opened our newest office in San Francisco which will serve the needs of our West Coast and Asian clients. We currently have three highly motivated people in this office, with diverse backgrounds and multilingual capabilities.

THE FUNDAMENTALS

The U.S. economy in the second quarter remained surprisingly strong, benefiting from the robust domestic demand. Industrial production grew faster than in the first quarter; May retail sales rose more than expected; and housing starts remained at a high level. With a strong domestic economy, core consumer inflation (excluding energy and food) has finally picked up a bit, rising 2.2% from May 1997 vs. 2.1% during the previous two months.

The economic crisis, however, has worsened in the Far East. Japan has officially entered into a recession, and with the Yen trading at an eight-year low, another wave of Asian economic alarm has been triggered. As Asia's biggest economy, weak demand slows down the region's exports to Japan. While the weak Yen strengthens Japan's competitive advantage, it does so at the expense of other Asian countries.

Japan's problems seem overwhelming and eventually might spread beyond Asia; however, the impact on the U.S. should be minimal. America's exports to Japan account for 1% of its GDP, while its exports to all of Asia only account for 2.4% of GDP. Even if its sales to the region fell by 25%, this would reduce American GDP growth only by half a point.

Although Japan is in a deep recession, it is not in crisis. Remember that Japan remains one of the richest countries in the world, with huge foreign assets and very minimal foreign debt.

The second quarter also brought a new wave of mergers and acquisitions. The total value of M & A deals announced so far this year exceeds $900 billion, which is close to

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surpassing the record total for all of 1997. This merger boom suggests that in today's global economy there is a belief that the best way to gain competitive advantage is to become one of the top two or three players in an industry.

THE TOP 5 DEALS ANNOUNCED DURING THE FIRST HALF OF 1998

Date	Acquirer	Target	Value
4/6	Travelers	Citicorp	$70 billion
5/11	SBC Communications	Ameritech	$62
4/13	NationsBank	BankAmerica	$60
6/24	AT&T	Tele-Communications	$48
5/7	Daimler-Benz	Chrysler	$39

I would like to briefly discuss the AT&T/TCI deal, because it has a potential major impact on the U.S. economy. Until now, the Baby Bells and cable operators held virtual monopolies and thus had little incentive to upgrade their systems. With the proposed merger, AT&T is in a position to deliver what they have been unwilling or unable to offer—bandwidth, or capacity in general terms. It will also be able to offer local service at cheaper rates than the Baby Bells. This merger should heat up the competition in the communications industry.

The likely national upgrade on fiber-optic cable, routers, and other communications systems could be big enough to once again stimulate growth in the high-tech sector of the economy. As consumers take increasingly to the Internet, e-Commerce (doing business on the Internet) will take off. Obviously, this deal will boost capital spending, increase competition, and lower prices in communications, all of which should make consumers happy. It may very well be the deal of the decade.

NEW PURCHASES IN THE PAST QUARTER

Pfizer Inc.

Pfizer is the seventh largest pharmaceutical company in the world. The company has the strongest product pipeline in the industry, without major U.S. patent expirations before 2003. The sales of its newest FDA approved hot drug, Viagra, an oral drug for male erectile dysfunction, appear to be much better than original expectations. Although the shares are not cheap, we consider Pfizer a great growth opportunity, and thus purchased it for aggressive growth accounts.

Sincerely,

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