

October 10, 1998

Dear Client:

The third quarter was a difficult period for equity investors worldwide. While large-cap U.S. stocks experienced sharp declines, the overall stock market and most overseas markets suffered even greater losses. Most observers agree that the continued concerns over Asian economic weakness have been a major factor. In addition, problems in Russia and Latin America and, more recently, hedge funds have significantly impacted the situation.

Index	9/30/98 versus	
	6/30/98	12/31/97
Dow Jones Industrial Average	-12.4%	-0.8%
Standard & Poors 500	-10.3%	+4.8%
NASDAQ	-10.6%	+7.9%
Russell 2000	-20.5%	-16.8%
Dow Jones World Stock Index (excl. U.S.)	-12.6%	-5.1%
Merrill Lynch Corporate/Government Bond	+4.8%	+9.3%

Although the stock market has not reflected it recently, the U.S. economy remains healthy. Inflation and interest rates are low and decreasing, and the outlook for corporate profits remains positive. Economic growth is likely to be more moderate in 1999, but there is no apparent evidence of entering a recession.

The current prolonged economic expansion has been driven, in large part, by low interest rates. Low interest rates reduce the cost of capital and stimulate economic growth, while investors are motivated to seek higher returns in the stock market. Interestingly, since 1960, the Dow Jones Industrial Average has only experienced declines exceeding 20% during periods when the Fed raised interest rates. In the current deflationary environment and global economic slowdown, reversal of the downtrend in interest rates is unlikely.

Time Period	DJIA % Decline	Changes in Fed Funds Rate
1961-62	27.1%	1.17%(7/61) – 2.93%(8/62)
1966	25.2%	4.01%(9/65) – 5.76%(11/66)
1968-70	35.9%	4.60%(1/68) – 9.19%(8/69)
1973-74	45.1%	5.94%(1/73) – 12.92%(7/74)
1976-78	26.9%	4.77%(2/76) – 10.03%(12/78)
1981-82	24.1%	9.03%(7/80) – 19.10%(6/81)
1987	36.1%	5.85%(10/86) – 7.29%(10/87)
1989-90	21.2%	6.58%(3/88) – 9.85%(3/89)



A REGISTERED INVESTMENT ADVISOR

Facing the current market challenge, our investment policy remains long-term oriented. Our clients' portfolios emphasize well-developed corporations with above average growth prospects, strong balance sheets, and track records of consistent performance.

Although our investment policy is unchanged, the current market has required us to take profits from some stocks with high valuations even where fundamentals remain strong. We have been using this liquidity to invest in attractive companies with solid fundamentals that have had significant declines in prices. In this way, we have been actively taking advantage of opportunities created by the current market correction.

We believe that the risk from the Asian crisis to the U.S. economy appears to be exaggerated. We remain positive on the U.S. economy and long-term outlook for the stock market. Investors with sufficient liquidity should seriously consider increasing their equity allocation at this time.

NEW PURCHASES IN THE PAST QUARTER

Autozone, Inc.

The company is the largest retailer of automotive parts in the U.S. A strong management team with a proven track record has opportunity to gain market share in a fragmented industry.

Hewlett-Packard Company

HP is one of the highest quality companies in the information technology industry. With a strong balance sheet and an aggressive cost cutting program initiated recently, HP should perform well even during the current economic slowdown.

Household International

Household International, which recently acquired Beneficial Corp., is the oldest and largest independent consumer finance company in the U.S. It has a solid long-term track record of high returns and high growth.

MCI WorldCom

After the merger between MCI and WorldCom, the company became the only truly fully integrated worldwide provider of telecom service and is the second largest long-distance carrier behind AT&T. With a world-class sales force, MCI brings in multinational business clients who demand quality and who can benefit from WorldCom's leading technology. We are optimistic about the prospect of the communications industry due to the accelerating demand from Internet and continued global deregulation.


NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

Xerox Corporation

Xerox is the worldwide leader in photocopy industry. The company should benefit from accelerating growth and margin expansion from focusing on digital products, while increasing earnings consistency with steady business from supplies, services and outsourcing contracts.

Sincerely,



Joseph T. Lai
Chief Portfolio Manager