NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

January 11, 1999

Dear Client:

Happy New Year! 1998 was another successful year for Noesis. Once again, we outperformed the S&P 500 Index for the majority of our growth-oriented accounts; and we established a presence on the West Coast with the opening of an office in the San Francisco area. Looking forward, we are enthusiastic about the growing opportunities that we have and are confident that we will continue to achieve our goal, namely meeting or exceeding our clients' expectations.

REVIEW OF THE FINANCIAL MARKETS

In the U.S., 1998 marked the fourth consecutive year that the S&P 500 Index rose over 20% (see table below), a record, although it was one of the most volatile years in history. The market was down more than 22% during the third quarter. Continuing concerns over the Asian economic crisis, currency devaluations in Latin America and Russia, and problems involving overzealous hedge funds, all contributed to the downturn. The S&P rebounded strongly in the fourth quarter reaching new highs, partly due to the Fed lowering interest rates in September, October, and November, as well as the perception that the global economic problems are likely to be manageable.

Index	**1998**	**1997**	**1996**	**1995**
DIJA	16.1%	22.6%	26.0%	33.5%
S & P 500	26.7%	31.0%	20.3%	34.1%
NASDAQ	39.6%	21.6%	22.7%	39.9%
Russell 2000	-3.4%	20.5%	14.8%	26.2%
ML C/G Bond*	9.5%	9.8%	3.0%	19.0%

* Merrill Lynch Corporate/Government Bond Index

The third quarter correction brought panic causing many investors, individual and institutional, to reduce their holdings. We, however, took it as an opportunity, rotating overvalued and/or fundamentally weakened stocks into undervalued, high quality companies. We concluded that the risks to the U.S. economy were exaggerated and, accordingly, recommended that our clients with sufficient liquidity increase their equity allocation (refer to our research comments from Richard Brown dated September 3, 1998, and the third quarter report dated October 9, 1998). With hindsight, our observations and timing were correct.

During 1998, large-cap stocks dramatically outperformed small-caps once again (+26.7% for S&P 500 vs. –3.4% for Russell 2000). There are a couple of factors to explain this. First, institutional investors, who dominate the market, generally prefer large-cap stocks due to liquidity. Second, considering the global financial crisis, small-cap stocks are less attractive because many small companies are more economically cyclical and less predictable. In fact, the 1998 gains mainly came from a very small group of large-cap stocks, notably the large high tech stocks. The Nasdaq 100 Index, which represents Nasdaq's largest nonfinancial stocks, advanced 85.3%. Among our holdings, Cisco Systems was up 150%; Intel 69%; and MCI Worldcom 137%. We continue to believe that high techs provide very good long-term growth opportunities and will continue to emphasize this sector. Other industries that performed well included entertainment, retail, consumer services, and broadcasting.

Despite their strong performance in the first half of 1998, financial services companies fell freely in the second half of 1998. Investors feared the global financial crisis and aggressively sold financial stocks. Even high quality companies such as Citigroup, Fannie Mae, Freddie Mac, Household International, MBNA Corporation, and Merrill Lynch were affected. Most of these companies, however, have grown consistently even during past recessions. We believe the selling was overdone and, accordingly, will continue to overweight financial stocks. Other poor performers of 1998 were mainly cyclical or commodity stocks including oil-related sectors, casinos/lodging, heavy machinery, and real estate.

In Asia, at the anniversary of the financial crisis, most markets remained volatile and generally weak. Despite the efforts of many Asian governments to resolve their problems, in our opinion it will take time to turn around the whole region. In Latin America, markets ended 1998 significantly lower, with Venezuela the worst. Investors became less inclined to invest in Latin America in the wake of huge losses in Asia and Russia. Europe, buoyed by strong economic growth, started 1998 strongly but was affected by Russia. For the year, European markets recovered from summer declines and outperformed the worldwide average with Greece the best performer.

In general, the bond markets though volatile had good returns in 1998. Spurred by continued low inflation and a growing budget surplus that reduced U.S. borrowing needs, 30 year treasury bond yields declined below the 5.1% level from 5.92% at year-end 1997. The total return was as notable as a fourth consecutive year of 20%-plus returns in the equity market. Again 1998 was a year of fear. High-yield bonds outperformed treasuries in the first quarter; however, the sell-off started as investors worried about the devaluation of the Russian ruble and a possible global recession during the summer.

OUTLOOK

The launch of the Euro and European Monetary Union (EMU) is a major variable in the global economy for 1999 and the longer term. EMU creates a market as large as the U.S. and is backed by a single currency, the Euro (see table below). This could attract huge capital flows into Europe and enhance European competitiveness in global business. Although this new system might provide good investment opportunities, the monetary unification is not riskless due to its complexity and unexpected problems could challenge the sustainability of the Euro.

	U.S.	Euro 11
Population	268 million	292 million
GDP, 1997	$8.11 trillion	$6.26 trillion
Real GDP growth *	+ 2.8%	+ 2.4%
Unemployment	4.4%	10.9%
Stock market size	$12.5 trillion	$4.18 trillion
Bond market size	$11.1 trillion	$6.9 trillion

* Average % change, 1976-1996.

Asian markets excluding Japan might have seen their trough. While it may take time to fully recover, the region may start to show some improvement with the help of easy year-to-year comparisons. The Japanese market, on the other hand, remains expensive. The government for the first time in years now seems to be focusing on stimulating the economy; however, the frequent disappointments during the 1990s limit our confidence.

The U.S. economy remains healthy–low and declining inflation and interest rates, plus positive although slowing economic growth without any strong sign of recession. Typically, this is a good market environment. The current market, however, is not inexpensive relative to traditional valuation, but high valuations could reflect investors' recognition of low inflation and interest rates and increasing preference for equities in comparison with investment alternatives. We will take advantage of any correction as a good buying opportunity, because we remain positive on the U.S. economy and investment environment for the longer term.

We believe some opportunities exist in foreign markets in Asia and Europe. However, since high levels of uncertainty remain, we believe that the safest way to participate in global growth is through the American multinational companies. We are confident that many of these companies have leading technology, unique financial strength, and long-term overseas experience.

NEW PURCHASES IN FOURTH QUARTER OF 1998

<u>Dayton Hudson Corp.</u>

Dayton Hudson is the fourth largest general merchandise retailer in the U.S. Approximately three-quarters of its total revenues come from Target, a national upscale discounter. Like Wal-Mart, Target has a good reputation with efficient operations and cost controls. Unlike Wal-Mart, Target differentiates itself from its competitors by focusing on the higher educated and higher income female market. This approach should support Target's

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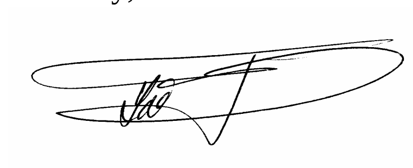
plan to penetrate the $90 billion middle market for apparel; a unique value and lifestyle oriented market. This could open exciting new growth opportunities for Dayton Hudson.

Last but not least, I would like to thank all of my colleagues. Having each of them in our Noesis family, I am confident that Noesis will be increasingly recognized in the future. In conclusion, I sincerely hope that you are pleased with our investment style, services, and performance. As your Chief Portfolio Manager, I want to make sure we are able to achieve your financial goals. Should you have any concerns or comments or any change in your financial situation, please feel free to call your financial advisor or call me directly. Wishing you the best in the coming year.

Sincerely,



Joseph T. Lai
Chief Portfolio Manager

PS An updated copy of our Form ADV is available upon request.

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