NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

April 9, 1999

Dear Client:

The first-quarter performance of the U.S. stock market varied dramatically among sectors, especially in terms of market capitalization. Large-capitalization companies represented by the S&P 500 Index and the Dow Jones Industrial Average increased 4.6% and 6.6%, respectively, while the smaller-cap groups represented by the Russell 2000, S&P 400 MidCap and S&P 600 SmallCap, actually fell 5.8%, 6.7% and 9.2%, respectively. According to the *Wall Street Journal*, the S&P 500's advance during the first quarter was attributable to only 21 stocks.

During the first quarter, the bond market suffered from the expectation of a tightening monetary policy. While 3-month Treasury bills remain at 4.4%, 30-year Treasury bonds climbed above 5.6% from below 5.1% at the beginning of the year.

Index	**First Quarter**
Dow Jones Industrial Average	6.6%
Standard & Poor 500	4.6%
NASDAQ	12.3%
Russell 2000	-5.8%
Dow Jones World (ex. U.S.)	1.8%
Merrill Lynch Corporate/Government Bond	-1.2%

The U.S. economy is undoubtedly robust. The "New Era" of noninflationary growth results primarily from a combination of information technology, globalization, deregulation, and low commodity prices. Preliminary figures indicate that economic growth was approximately 4% in the first quarter and the GDP deflator as a measure of inflation only 1%. The belief that U.S. economic growth above the 2.5% level is not sustainable, now becomes questionable.

While we can celebrate this robust economic growth, we have to remind ourselves that higher growth does not necessarily transform into higher stock prices in the immediate term. As the S&P 500 trades at above 25 times the consensus 1999 earnings per share estimate, this historically high valuation already discounts the expectation of continued low inflation, low interest rates, and strong earnings growth. At the current level, our strategy will remain the same; we will continue to selectively focus on reasonably-priced, high-quality stocks (including many of the S&P 500 stocks that have not participated in market's upswing).

The explosive growth of Internet stocks warrants some mention about this new sector. The electronic business or e-commerce provided by the Internet offers a new growth opportunity experienced never before. A small, local business now has the opportunity to expand its market globally. We believe that the business opportunity afforded by the Internet is virtually unlimited. However, Internet technology and e-commerce business models are so new and immature that it is impossible to predict which companies will survive. What we can

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expect, however, is that Internet technology will improve rapidly and many of the current Internet companies may disappear in the next few years. Unfortunately, the prices of most of the Internet stocks already reflect extremely high expectations, and the possibility of disappointment is high. We will give more thought to adding some high-quality Internet companies to our portfolios once the sector shows proven fundamentals and reasonable valuations.

NEW PURCHASES IN FIRST QUARTER OF 1999

Edison International

Edison International is the parent company of Southern California Edison, one of the nation's largest electric utilities. It also owns three non-utility businesses, including Edison Mission Energy, Edison Capital and Edison Enterprises. Its non-regulated businesses, which generate one-third of total earnings, should be the most significant driver of its earnings growth in the long term. The global deregulation trend provides good operators like Edison International significant growth opportunities.

McKesson HBOC Inc.

McKesson HBOC is an important participant in the healthcare services industry. The company is a result of a recent merger between McKesson, the number one healthcare products distributor, and HBO & Company, a major healthcare information technology provider. The company now has complementary products, services and skills to assist in better managing the distribution channels between pharmaceuticals and medical supplies, and among hospitals, physicians and pharmacies. The company is expected to provide much needed solutions to the healthcare industry.

Sincerely,

Joseph T. Lai
Chief Portfolio Manager

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