NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

January 15, 2000

Dear Client:

Happy New Year! Many equity markets worldwide were up dramatically in 1999 and the U.S. markets were not an exception, with the S&P 500 Index up 19.5%. Despite the fact that most of our growth portfolios outperformed the S&P 500 Index, 1999 marked the first year that we fell short in terms of our own expectations.

1999 was a year of extraordinary divergence with performance of key market indices obscuring the fact that approximately two –thirds of NASDAQ and NYSE stocks were down more than 20% from their respective highs. The technology sector accounted for a disproportionate share of overall market appreciation, with tech stocks representing an unprecedented 30% of the value of the S&P 500 Index. Moreover, Internet stocks were introduced into the S&P 500 Index with the inclusion of Yahoo and AOL. Interestingly, minus techs, the S&P 500 Index would have ended the year with a loss of 1%. Reflecting the fact that it is heavily weighted by tech stocks, the NASDAQ Composite rose 85.6% for the year.

Index	**1999**	**1998**	**1997**	**1996**	**1995**
Dow Jones Industrial Average	25.2%	16.6%	22.6%	26.0%	33.5%
Standard & Poor 500	19.5%	26.7%	31.0%	20.3%	34.1%
NASDAQ Composite	85.6%	39.6%	21.6%	22.7%	39.9%
Russell 2000	19.6%	-3.5%	20.5%	14.8%	26.2%
Merrill Lynch Corp/Government Bond	-2.1%	9.5%	9.8%	2.9%	19.1%

We strongly believe that Internet usage will continue to expand dramatically and that the industry being created will represent an increasingly important portion of global economic activity. In contrast, however, the outlook for many Internet companies is difficult to forecast and some may have questionable survival prospects. It should be borne in mind, as an example, that hundreds of automobile manufacturers in the United States in the early years of the industry eventually distilled down to three.

Furthermore, in our opinion, the market value enjoyed by many of the new "pure-play" Internet companies does not seem to be tied to an ability to generate profits in the foreseeable future, but instead to an untested business model. These extremely high valuations leave little margin for error for Internet companies. For this reason, we have not considered it prudent to invest in these stocks. As we will discuss, however, we have chosen an alternative strategy for participating in the dynamics of this industry and, for the present, feel confident that this is a sound approach.

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OUR PHILOSOPHY

Our goal is to seek superior long-term financial results consistent with our clients' investment goals, with capital preservation a priority at all times. We believe, over the long run, the best way to earn high returns in the market is to own stocks of companies in high-quality businesses that are projected to grow at above-average rates which we can purchase at attractive prices. We hold these stocks as long as the fundamentals of the underlying companies remain sound and the valuation remains reasonable.

One characteristic of a high-quality company that very often is ignored by investors is a strong balance sheet. A strong balance sheet could provide a company the capacity to finance its growth and assure its survival during an economic recession or other temporary difficulties.

As we have all witnessed, the financial markets are emotional and difficult to predict in the short term, but remain rational in the long run. As long-term investors, we limit risk and increase the probability of achieving attractive absolute returns. Furthermore, a longer-term holding period can also reduce transaction costs and taxes.

OUTLOOK

The biggest potential crisis we have faced in many years, the Y2K bug, is now behind us. Many companies put aside their technology upgrading projects during the last several years while they focused on the Y2K issue. Now, they are expected to accelerate technology spending to catch up with the dot.com start-ups. We cannot agree more with Andy Grove, the Chairman of Intel, that "In five years, there will be no Internet companies, because every company will be an Internet company." This being said, we believe that focusing on established, brand name companies with intelligent Internet strategies makes sense.

With the acquisition of Fingerhut, one of the largest mail order and Internet retailers, Federated Department Stores gained Internet order fulfillment capabilities, direct marketing expertise, and e-commerce knowledge required to leverage both the Macy's and Bloomingdale's brand names. Federated enables vendors such as Wal-Mart and eToys to sell on the Internet. Besides their eight proprietary websites, Fingerhut has been aggressively expanding in e-commerce through its strategy of taking equity positions in high-growth, state-of-the-art e-tailers, such as www.andysgarage.com and www.pcflowers.com.

Citigroup is widely viewed as a technology leader among banks. For example, the nation's largest financial-services company was among the first to embrace automated teller machines. Citigroup has spent more than $200 million in researching and developing new Internet products since 1997. The quality and the variety of financial services offered on the website: www.Citi.com is extensive. They offer foreign language home pages for 40 different countries. With a widely recognized brand and the resources for marketing, Citigroup is capable of being a major Internet participant.

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In terms of the tech sector, we believe those companies that are building the infrastructure and providing the solutions to function efficiently in the e-business marketplace offer great long-term investment opportunity.

Cisco is one of the premier suppliers of Internet and intranet infrastructure equipment. Today, 80% of the Internet's routers, which direct data to the right destination on the Net, come from Cisco. Cisco's share of its addressable market has increased to 41% in 1999 from 35% at the end of 1998. We estimate that Cisco's current addressable market of about $40 billion should grow 30-50% per year.

In addition to comments that follow relating to our recent purchases of IBM shares, we also wish to point out that about 25% of total IBM revenue, roughly $20 billion, is being generated by e-business solutions installed by customers. This is four times the revenue generated by the top 25 Internet companies (which also lost $1 billion). In customer surveys conducted during the first quarter of 1999, IBM had seven times the brand recognition in providing e-business solutions compared with its closest competitor.

MCI WorldCom owns an enviable collection of network assets, positioning the company toward offering integrated local, long distance, and data/Internet services over its own facilities. Through its UUNet division, MCI WorldCom carries an estimated 50% of the world's Internet traffic. Without doubt, it is the largest Internet backbone provider.

In terms of our macro-view, we think the current economic environment is sustainable and thus is favorable for the financial market. One of the main determinants of an economy's long-run growth are technological advances that enhance the productivity of its basic inputs such as capital and labor. Faster productivity growth is enabling wages to rise for most workers without triggering cost and pricing pressures. Further, the surge in productivity substantially upgrades the sustainability of the U.S. economic growth rate. We believe most of the economic benefits of information technologies are ahead of us, not in the past.

In terms of valuation, we believe that the general market is modestly oversold. Remember that there exists a major disparity between tech stocks and non-tech stocks. In fact, the median price performance of the constituents of the S&P 500 was a loss of 5%. The S&P 500 median P/E is just under 16x, which is not an outrageous valuation. However, while we certainly are not bearish on technology, we continue to be concerned about the overall high valuations in this sector.

While we remain positive on the U.S. market, we believe overseas markets provide some opportunities. Technology and productivity enhancement will continue to be the driving force for the global expansion in 2000. In particular, Asia is steadily recovering. Many Asian countries learned from the 97-98 financial crisis and have been restructuring aggressively. Their product strength is moving to information technology, which is in an early stage of a technology upgrade cycle. On the other hand, European economic growth should accelerate in 2000, though still below the U.S. rate.

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For the bond markets, 1999 represented one of the worst-performing years in many decades. The tightening monetary policy pushed interest rates up dramatically, and thus bond prices down. While 3-month T-bills closed at 5.19%, up from 4.48% one year ago, 30-year T bonds were at 6.48%, up from 5.09%. This of course caused a significant decline in the price of this and other fixed income obligations. Unfortunately, many economists believe that concerns related to Y2K was the primary reason for the Fed leaving interest rates unchanged in December. Further tightening is generally expected in the coming weeks. In other words, the bond market remains under pressure in the near term. However, we believe that inflation remains calm and much of the expectation of further tightening is already discounted into the bond market.

NEW PURCHASES IN FOURTH QUARTER OF 1999

IBM Corp.

As the dominant supplier to the Fortune 500 companies, IBM is the largest provider of IT hardware, software and services to corporate customers. Since Louis Gerstner joined the company in 1993 as CEO, he has successfully turned around the dinosaur into an energetic giant, which became a leading provider of total solutions to e-business with a broad line of innovative technologies. We believe that the emergence of business-to-business on the Internet will be very significant for IBM. As the Fortune 500 companies start to play catch-up with the dot.com companies in the coming 18 months, IBM is positioned to benefit significantly.

Safeway Inc.

With approximately 1,400 stores, Safeway is the second largest supermarket operator in North America. With the top 5 companies only accounting for a 35% market share, this is a highly fragmented industry and provides a great consolidation opportunity for the best operators such as Safeway. In fact, Safeway is the most experienced and successful acquirer of strong regional chains. With its successful experience in Canada, Safeway may have global expansion opportunities. In general, the fundamentals of the food retailing industry have been very solid even during the recent disinflationary environment.

Sincerely,

Joseph T. Lai
Chief Portfolio Manager

An updated copy of our Form ADV is available upon request and please visit our website: www.Noesis-Capital.com .