NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

July 12, 2000

Dear Client,

During the second quarter, investors experienced one of the most volatile markets in history. The high-tech led NASDAQ dropped 38.14% from its highs before rebounding to its current level. $2 trillion of market value disappeared in one week alone, as tightening monetary policy, inflation fears, valuation concerns and profit taking all hit the market. While most other indexes were off 3%-4% for the quarter, the NASDAQ declined 13.27%. This decrease represents the worst quarterly performance during the current bull market.

Index	**2nd Quarter**
Dow Jones Industrial Average	-4.34%
Standard & Poor 500	-2.93%
NASDAQ	-13.27%
Russell 2000	-4.05%
Dow Jones World (ex. U.S.)	-5.87%
Merrill Lynch Corporate/Government Bond	+1.34%

Speculative expectations reached extremes based on any rational standards and, in many cases, the lack of profitability and financial strength were completely ignored. Excessive valuations were unsustainable and reacted severely as soon as market sentiment began to change. The S&P 500 Index increased 220% over the last five-years, while per share earnings of the S&P 500 increased only 59.3%. The price-to-earnings ratio increased to 26.8 from 14.4 during this same period, reflecting the fact that valuations have run ahead of fundamentals in the short-term.

While the S&P 500 currently trades at 26 times our 2000 EPS estimate, the median P/E is just 15.3x. This indicates that many of the stocks in the S&P 500 are reasonably priced. The valuation of the broad index was simply skewed by extremely expensive, high-technology stocks which substantially declined in the second quarter. We believe that there are attractive long-term buying opportunities in today's market. Accordingly, we will take advantage of the short-term volatility resulting from investors' emotions by buying high-quality stocks in beaten-down sectors that offer promising growth potential. Markets are rational in the long run and ultimately will reflect fundamentals.

NEW PURCHASES IN SECOND QUARTER OF 2000

CVS Corp.

With 4,100 stores and ten distribution centers in operation, CVS is the largest in the U.S. drug store industry, an industry which continues to enjoy strong pharmacy sales trends and a stable competitive environment. CVS has the greatest market share in 30 of the top 100

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U.S. drugstore markets, more that any other drugstore chain. With CVS.com, the company appears well positioned to capitalize on e-commerce. CVS is the exclusive provider of over-the-counter and general health products to Merck-Medco's Internet customers and also provides prescriptions for several major Internet portals including WebMd/Healtheon, Excite, Lycos, and the Microsoft Network. CVS has recently created a new business model in specialty pharmacy with ProCare, which has the potential to be a $1 billion business in 3 to 4 years. Earnings are growing at a 17% rate, and at a P/E of 21x, it is trading at a significant discount to its historical valuation and to its peers.

First Data Corp.

First Data is the world's largest payment processing company, with a dominant position in each of its three core businesses: payment instruments, card issuer and merchant processing. Electronic transactions over the Internet are expected to reach $1 trillion within five years, and First Data is uniquely positioned to profit from the shift from paper to electronic payments. Earnings are growing at a 15% rate.

Honeywell International

The December 1999 merger between Honeywell and AlliedSignal created a new $24 billion powerhouse. The company is a diversified technology and manufacturing leader with the flagship aerospace division accounting for over 40% of sales. The company expects to generate 35% to 40% of total sales from recurring replacement parts and service revenues, which should smoothen the earnings trend, yet fuel sustainable earnings growth. While the recent pre-announcement of a Q2 earnings shortfall raised new questions about management execution at the merged company, it is premature to believe that the company cannot deliver superior returns over the long term. At 10.8x the 2000 EPS estimate the price makes more than adequate allowance for the recent disappointment and appears too cheap to ignore for the long term.

Sincerely,

Joseph T. Lai
Chief Portfolio Manager

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UPDATE ON OUR CURRENT HOLDINGS

Masco

Masco has an extraordinary record that few companies can come close to matching. Over the past 5,10 and 43 year periods, per share earnings growth were 20%, 11%, and 15%, respectively. In 1999, sales rose 19% to $6.3 billion with net income up 20% to $569.6 million and per share earnings of $1.28. Dividends have increased in each of the past 25 years.

The company is the largest manufacturer of faucets in the U.S., with over 35% of the market and also the largest manufacturer of kitchen and bathroom cabinets with approximately a 22% market share. The company also has a strong position in residential and commercial door locks, decorative hardware and a wide range of other specialty products. It is a major supplier to Home Depot and other retailers in this field.

Approximately 25% of Masco's sales are related to new construction, with most of the balance keyed to home improvement and remodeling. Fluctuations in housing starts naturally effect demand for many of Masco's products. However, the company's long term record illustrates that, while there is some sensitivity to the building cycle, operating results do not have a high degree of cyclicality.

Masco's current business recently has slowed to some extent reflecting the impact of interest rate increases on the housing market and some softening in big ticket home improvement sales. Earnings expectations for fiscal year 2000 have been reduced to $1.70 per share versus our previous $1.85 estimate, and our fiscal year 2001 estimate is now $2.05 down from our earlier $2.13 estimate. Nevertheless, (at 19 ¼) the valuation of the stock is 11.3 times our fiscal year 2000 estimate and only 9.4 times our estimate for fiscal year 2001. In our opinion, this valuation is unrealistically low relative to Masco's strong position in its markets and a prospective EPS growth rate of 15% for the next five years. We believe, therefore, that the appreciation potential for the stock far exceeds the downside risk. In addition, it is important to note the company recently announced a repurchase program to buy back 10% of the outstanding stock.

Federated Department Stores

Federated Department Stores, Inc. is the nation's leading operator of department stores, with more than 400 locations in 33 states under names including Macy's, Bloomingdales, The Bon Marché, Burdines, Stern's, Goldsmith's, Lazaras and Rich's. In addition, the company's direct-to-customer operations include wholly owned e-commerce sites within its Fingerhut, Macys.com and Bloomingdales.com operations, as well as national direct mail catalog titles within its Fingerhut, Bloomingdale's by Mail and Macy's by Mail subsidiaries.

Management continues to improve its execution. During the past 5 years, operating margins have expanded from 7.3% to 9.6%, while net margin has nearly doubled from 2.6% to 4.5%. Returns on average equity have expanded to 13% from 8.4%, even though leverage has dramatically decreased. Earnings per share have grown 15.5% per year compounded. For a mature chain, same store sales are critical, and Federated has boosted sales gains from low-single-digit to solid mid-single-digit.

More excitingly, the company created a multi-channel-integrated approach to serve customers and grow sales. Federated focuses on its branded e-commerce business, which is expected to generate $500-$600 million in revenues and breakeven in 2 to 3 years. Further, the company has invested in various Internet startups with the purpose of enhancing its strategy.

The stock is currently traded at 9.0 times and 7.9 times fiscal years 2000 and 2001 earnings estimates, respectively. With such solid fundamentals and prospective growth opportunities, Federated represents one of the best values in the broad-line retail universe. Federated continues to generate strong free cash flow that can be used to support its e-commerce strategy, buyback shares, and/or reduce debts.