NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

October 12, 2000

Dear Client:

The U.S. equity market continued to be volatile during the third quarter. Historically, September is the market's weakest month. True to form, the Standard & Poor's 500 Index was down 5.3% last month, its steepest September decline since 1986. The NASDAQ Composite Index fared worse. With a 12.7% decline, the NASDAQ had its worst September in its 29-year history.

Index	**3rd Quarter**	**Year to Date**
Dow Jones Industrial Average	1.94%	-7.36%
Standard & Poor's 500	-1.24%	-2.23%
NASDAQ	-7.39%	-9.74%
Russell 2000	0.80%	3.29%
Dow Jones World (ex. U.S.)	-7.74%	-14.42%
Merrill Lynch Corporate/Government Bond	2.84%	7.08%

This recent market correction can be attributed in large part to overvaluation. During the past five years, the S&P 500 Index has grown 220%, compounding at 26.18% per year; while its earnings per share have compounded only at 9.77% annually. Over the past ten years, the S&P 500 Index has grown at a compounded annual rate of 16.55%; compared to 7.03% for its EPS. Over this period, the Index has grown at a rate of more than twice its EPS. Significant overvaluation in some sectors of the market, particularly with respect to technology stocks, has left the market vulnerable to a severe correction. Consequently, any event perceived as negative, even a minor one, has the potential to send the market into a free fall. This is why valuation, in addition to fundamentals, is such an important investment factor.

Although there should be some moderation of the growth rate, the economic outlook remains excellent. Equity prospects continue to appear favorable. We realize that the recent oil price surge is a threat to the economy. However, as the economy continues to become more energy-efficient and service-oriented, the price of oil could become less critical. For these reasons, the oil issue should be a temporary one. Overall, productivity is still increasing, which continues to reduce costs, and fierce global competition is putting pressure on prices and wages. Therefore, monetary policy should be friendly for a while. That being said, we continue to view the economic outlook as healthy.

As our long-run confidence in the U.S. markets remains extremely high, our strategy of emphasizing long-term investments in high-quality companies remains the same. We continue to purchase and/or hold reasonably priced stocks of fundamentally solid companies as we did in the financial sector. By the same token, we would avoid or underweight highly valued stocks as we did in the technology sector. While the market is declining, our moderate cash position is proving to be appropriate and enabling us to take advantage of opportunities.

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NEW PURCHASES IN THIRD QUARTER OF 2000

Lowe's Companies, Inc.

Lowe's is the second largest home improvement retailer behind Home Depot. We believe that current demographics and the economic environment will continue to favor the sector. The industry remains very fragmented and both Lowe's and Home Depot should continue to gain market share. The company has recently entered the large U.S. metro markets on the West Coast and in the Northeast, and at the same time, is upgrading its existing store base to the more productive large-store format.

Teradyne

Teradyne is the leading automatic-test-equipment supplier to the electronics industry. The demand for test equipment remains strong as the complexity of semiconductor products increases. The company has solid fundamentals and a strong balance sheet. In our opinion, the recent correction in the semiconductor industry creates a good buying opportunity for leading companies such as Teradyne. The semiconductor industry has historically been very volatile, thus the stock may not be suitable for all accounts.

NEW ADDITION TO PROFESSIONAL STAFF

Michael C. Sanchez, a CFA charterholder, joined us recently as a portfolio manager. Michael was previously based in Portugal as a private portfolio manager. Prior to that, he was a portfolio manager with Union Bank of Switzerland and Citibank in Geneva, Switzerland. Michael holds a M.B.A. degree from the University of Leuven in Belgium and a B.S. degree from the University of California at Berkeley. Michael will focus primarily on investments in the aggressive growth area and assisting clients with strategies for managing concentrated equities positions.

Sincerely,

Joseph T. Lai
Chief Portfolio Manager