NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

July 14, 2001

Dear Client,

The U.S. stock market advanced during the second quarter, as shown in the table below, but the third quarter began with sharp declines in most sectors. Six interest rate cuts by the Federal Reserve since early January created a degree of cautious optimism regarding the prospects for late this year and 2002. Such optimism is based upon the normal stimulative effect of monetary easing, combined with a moderate infusion of some favorable economic indicators, including modest improvements in housing data and consumer spending.

Index	**2nd Quarter**	**YTD**
Dow Jones Industrial Average	+6.31%	-2.64%
Standard & Poor 500	+5.52%	-7.26%
NASDAQ	+17.40%	-12.55%
Russell 2000	+13.90%	+6.12%
Morgan Stanley EAFE	-0.17%	-15.47%
Merrill Lynch Corporate/Government Bond	+0.17%	+3.34%

Market volatility recently has been impacted by earnings warnings from a significant number of major companies, indicating the effect of current economic weakness is more severe than anticipated. An additional concern about near term economic prospects is the unexpected strength in the value of the U.S. dollar against the world's two other major currencies, the Euro and the Japanese Yen. While lower interest rates usually cause a currency to weaken, diminishing economic prospects in Europe and Japan could be encouraging some foreigners to believe U.S. economic prospects are better than their own, providing for a more attractive investment climate in the U.S.

Nevertheless, a stronger dollar makes American products and services more expensive, hurting exports, combined with whatever effect may be caused by weaker economic conditions abroad. Conversely, a strong dollar also creates an important benefit by cutting the cost of imports and reducing inflation risk to some extent.

Since the overall trend of our economy is normally more influenced by domestic factors, we remain positive about 2002 prospects, notwithstanding the fact that we have exposure to an increasingly global environment. Accordingly, we will continue to remain alert for attractive investment opportunities focusing on competitively and financially strong companies with the ability to deal with difficult conditions, should they continue.

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NEW PURCHASES IN SECOND QUARTER OF 2001

American Express (AXP)

American Express provides travel services, financial advisory services and international banking services throughout the world. While probably best known for its charge card and travelers check businesses, American Express has made significant inroads in the financial services and travel and entertainment businesses over the last decade. We would believe this household name is well positioned to benefit from an economic recovery later this year.

Freddie Mac (FRE)

Freddie Mac is a shareholder-owned, government-sponsored enterprise established by Congress in 1970 to help Americans achieve the dream of home ownership. The company profits in two ways: 1) it earns fees by creating mortgage-backed securities and collects a fee for guaranteeing the asset quality of the underlying mortgage: 2) It invests in mortgages and mortgage-backed securities when the spread is wide between their yields and its cost of funds.

United Parcel Service Inc. (UPS)

UPS is the world's largest express carrier, the world's largest package delivery company and a leading global provider of specialized transportation and logistics services. Founded in 1907, the company completed its IPO in November 1999. UPS operates about 149,000 delivery vehicles and over 500 airplanes. The company delivers an average of 13.6 million packages globally per business day.

Duke Energy 8.25% Corporate Units

This is a convertible issue offering 7.9% yield and convertible to 0.5257 shares of common stock per unit. Duke Energy's primary business is its utility operations in North and South Carolina. The company owns regulated gas transmission pipelines. Duke's growing portfolio of non-regulated businesses include gas gathering and processing, energy trading and marketing. It has independent energy assets in the United States and Latin America. Non-power related businesses include telecom, a large domestic real estate business and infrastructure finance. We believe this security is an attractive way to participate in the company's growth while achieving an attractive current rate of return.

Sincerely,

Joseph T. Lai
Chief Portfolio Manager

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