NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

January 15, 2002

Dear Client:

Happy New Year! 2001 will be remembered by many as a year filled with shock, sadness and anger. Fortunately, it ended with improvement in consumer confidence and, in general, the economic outlook.

Despite a sharp decline following September 11th, the equity markets subsequently have had a strong recovery. The S&P 500 Index has rebounded 21.5% and the technology-led NASDAQ was up 40.6%. This reflects restored confidence in the underlying strength of the U.S. economy and a willingness to look beyond near-term uncertainty. Annual returns for the past five years are shown below.

Index	**2001**	**2000**	**1999**	**1998**	**1997**
Dow Jones Industrial Average	-7.1%	-6.2%	25.2%	16.6%	22.6%
Standard & Poor 500	-13.0%	-10.1%	19.5%	26.7%	31.0%
NASDAQ Composite	-21.1%	-39.3%	85.6%	39.6%	21.6%
Russell 2000	1.0%	-4.2%	19.6%	-3.5%	20.5%
Merrill Lynch Corp/Gov't Bond	8.5%	11.9%	-2.1%	9.5%	9.8%

REVIEW OF YEAR 2001

The current recession, officially started in March 2001, marked the first in a decade and ended the longest U.S. expansion in history. Significantly, the primary cause cited for this economic downturn was a sharp decline in business investment, particularly for technology equipment, rather than weakness in consumer spending. The softness in business spending followed several years of what proved to be unsustainable growth, driven to some extent by nonrecurring factors, including Y2K, "free" equity financing, and one-time required Internet corporate ramp-ups. Remember that the U.S. economy was softening prior to September 11th. The events of that day created further weakness thus delaying a possible capital-spending pickup.

The longest bull market in American history ended in 2001. Interestingly, while the tech-led NASDAQ gained 39.6% in 1998 and 85.6% in 1999, and outperformed the S&P 500 by large margins, its 3 and 5-year cumulative average growth rates of –3.83% and 8.60%, respectively, under performed the S&P 500. The myth of unbeatable technology stocks finally collapsed.

Consecutive down years are rare in stock market history. They have occurred only three times since the end of World War I. Declines in 1929-1932 were due to the Great Depression; weakness during 1939-1941 coincided with the start of WWII; and the 1973-1974 bear market was a result of a global recession, major political uncertainties, and a painful oil embargo.

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OUTLOOK

Despite short-term difficulties, we continue to believe that the long-term prospects of the U.S. economy remain intact and consider it the strongest economy in the world. Accordingly, we began to position our clients' portfolios during the first quarter of 2001 to take advantage of the contraction in equity prices. As mentioned in our April 15, 2001 quarterly letter, cash positions were increased through the sale of some fully-priced financial, technology and consumer cyclical stocks enabling us to focus on buying opportunities among companies we considered attractive. The cash position in our Model Portfolio rose to over 20% early in 2001, but has since been lowered aggressively to a current level of approximately 5%. We have focused on competitively and financially strong companies capable of dealing with difficult conditions in an increasingly global environment, but with the potential to benefit from a significantly improved economic environment, when it develops.

Shorter term, more evidence indicates that the economy is moving toward recovery supported by stimulative monetary and fiscal policies. The Federal Reserve has cut the funds rate from 6.5% to 1.75% and possibly has some more easing to do, the most aggressive Fed policy ever implemented. Reduced interest expense and greatly increased liquidity in the banking system could be important stimulants. Although subject to political differences, fiscal stimulus could become substantial -- potentially up to $200 billion of spending increases and tax cuts, which would make it the largest since World War II. These programs could limit the duration and depth of any economic disruption.

Longer term, the U.S. productivity revival remains largely intact. This provides further opportunity for businesses to create more jobs and raise wages without stimulating higher inflation, for the Fed to maintain an easy monetary policy, and thus for the economy to grow at a healthy pace. In addition, corporate America continues to improve its global competitiveness and gain market share, with the benefit from continuing technological innovations.

The US equity market has shown recent signs of recovery as investors have tried to anticipate a rebound in the U.S. economy. While the S&P 500 Index currently is priced at approximately 40 times trailing 12-month earnings, a record high, many investors might argue that it does not leave much room for disappointment. However, from our viewpoint, the US equity market appears fairly valued in relation to depressed earnings and consistent with historical bear-market bottoms. Moreover, with low inflation and interest rates, the overall stock market deserves a high premium. Bear in mind, long-term economic growth, a key driver of the market, was not affected by the September crisis.

High quality assets appear to be particularly attractive now, which is rare. Our investment approach remains disciplined. We will continue to invest in top-quality companies that should prosper in good times and hold up well when conditions are more difficult, as long as their valuations appear reasonable. This strategy has worked in the past and should perform well in the future.

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OUR PHILOSOPHY

To better understand how we manage portfolios, it is helpful to discuss our philosophy periodically. Our goal is to maximize total net return on a long term basis consistent with our clients' investment objectives while assuming a reasonable level of risk. We believe the best way to achieve this goal is to own the securities of excellent companies with solid management that can be purchased at attractive prices and held for the long term.

We prefer companies that can deliver consistent earnings growth demonstrating recurring demand, effective cost controls, and a predictable business model. In addition to reported earnings, a business should be able to generate free cash flow to fund its growth as well as benefit shareholders through share repurchase or rising dividends. A solid balance sheet is also important which provides a company with the capacity to finance its growth and operate effectively during an economic recession. A high-quality management team with the capability of execution, vision, and a desire to act in the shareholders' interest is key in managing a successful business in the long run.

As we have said before, the financial markets are emotional and difficult to predict in the short term, but remain rational in the long run. Therefore, we evaluate companies from a long-term perspective and take advantage of short-term volatility to purchase/sell stocks. In this way, we seek to limit risk while increasing the probability of achieving attractive absolute returns.

At Noesis, we utilize a model portfolio to guide the management of actual client portfolios. Our growth model portfolio has grown 101.3% during the past 5 years, while the benchmark S&P 500 Index and the Nasdaq were up 55.0% and 51.1%, respectively. For the past 3 years, our model has grown 4.1%, compounded annually, while the S&P 500 and the NASDAQ declined 2.3% and 3.8%, respectively. In 2001, our model ended the year -2.7% versus -13% for the S&P 500 and -21.1% for the NASDAQ. Most of our long-term growth managed portfolios have enjoyed similar performance during this period. We believe that our performance over this period confirms the soundness of our investment philosophy.

NEW PURCHASES IN FOURTH QUARTER OF 2001

American International Group (AIG)

AIG is a global insurance company. Under current management, the company has diversified from a pure property-casualty insurer into more stable businesses including life insurance, financial services and asset management. As a result, AIG has consistently delivered mid-double-digit revenues and EPS growth and mid-teens returns on equity -- an exceptional record.

Cardinal Health, Inc. (CAH)

Cardinal Health, Inc. is a leader in the pharmaceutical distribution industry, providing technology and services to pharmaceutical companies, and pharmaceutical and healthcare

products, pharmacy management and related consulting services to drug stores, hospitals and other healthcare providers. The pharmaceutical distribution industry is a $115 billion-plus per year industry and continues to grow at a double-digit annual rate.

Carnival Corp. (CCL)

With 44 ships, Carnival Corp. is the world's largest cruise company. The company offers a broad range of cruise products in the contemporary, premium and luxury markets. Carnival is a market-leading franchise in a high return business. Carnival could benefit from easing competition following the September crisis as smaller less efficient operators may exit the business over the next few quarters.

FINAL NOTES

We welcome two new persons to our team. Jennifer Tang, a graduate of the University of Miami, joined us as an operation executive/assistant analyst. Greg Reynolds, a graduate of Southern Methodist University and an institutional bond broker before joining us, will work as a financial advisor/assistant analyst.

I would like to thank all of my colleagues for their hard work and support. Although 2001 was a difficult year for many, Noesis was fortunate to gain many new clients and substantially increase its assets under management. We greatly appreciate this recognition of our performance during a challenging market and our continuing commitment to service. We thank our clients for the confidence they have given us.

As always, should you have any questions or wish to review your portfolio, please feel free to call us. Wishing you the best in the coming year.

Sincerely,

Joseph Lai, CFA
Chief Portfolio Manager

Our most recent Form ADV is available upon request