

October 15, 2002

Dear Client:

The third quarter brought one of the most severe quarterly declines in history, with all major stock indices down over 20% year to date. Accounting scandals, corporate misconduct, distrust of Wall Street analysts, the threat of war, terrorism and continuing economic uncertainty were all contributing factors. Ironically, the equity market has shifted from an economic forecaster to a contributing cause of our economic challenges.

The U.S. was not alone, as the weakness was global in scope. In fact, many overseas markets experienced more severe declines than our own. For example, Brazil was off 36.75%, Taiwan was off 23.03%, Germany, Netherlands and Sweden were all off over 30%, and many other European and Latin American markets declined more than 20%. The best performing markets were in Asia, with New Zealand only off 5.86% and the Philippines off 6.93%.

<b>Index</b>	<b>3<sup>rd</sup> Quarter</b>	<b>Year to Date</b>
Dow Jones Industrial Average	-17.87%	-24.24%
Standard & Poor's 500	-17.63%	-28.99%
NASDAQ Composite	-19.90%	-39.91%
Russell 2000	-21.70%	-25.84%
Dow Jones World (ex. U.S.)	-19.41%	-20.18%
Merrill Lynch Corporate/Government Bond	12.91%	16.44%

As market weakness continues, many investors have become increasingly discouraged and have begun to question remaining in the market. Assuming prudent investment planning and a long term growth objective, our position is to remain invested in companies with sound fundamentals. Our belief is based on a number of considerations:

First, *nobody can time the market accurately with any consistency*. Getting out of the market near the top with the expectation of jumping back in near the trough would require a crystal ball.

Second, excluding uncontrollable factors such as a possible war, economic conditions are generally healthy and slowly improving. *Corporate fundamentals are getting stronger* as the U.S. is more competitive than it has ever been, while *valuations are reasonable* if we consider low inflation, low interest rates and the possibility we are at the trough of the economic cycle.

Third, current *investor sentiment is extremely low*, which, historically, is typical at a market bottom. This is in complete contrast to 1999 before the market peaked out, when investors were overly optimistic and could not find any reason to sell stocks. We believe, as long as we are confident about the long-term prospects of the economy, we should buy or hold at the trough, but not sell.

Finally, *there are not many good alternatives*. Interest rates are at historical lows, money markets offer very little, and bond prices are expensive and very vulnerable. The real estate market has been strong for years making good values hard to find. Overseas markets are vulnerable -- Japan remains in trouble, Europe is economically weak and generally not as competitive, and many emerging markets have serious problems. Short term and even long term, the U.S. economy arguably remains among the strongest in the world. All said, the U.S. stock markets look relatively attractive and funds worldwide will eventually flow back.

NEW PURCHASES IN THIRD QUARTER OF 2002

Affiliated Computer Services (ACS)

Affiliated Computer Services provides a full range of outsourcing services and solutions to businesses, government, and industry leaders, small and large. Its primary business is called Business Process Outsourcing (BPO), which manages and operates the back office processes, such as accounts payable/receivable, billing, and loan processing for its clients. The trend toward outsourcing is expected to continue, especially in a more challenging economic environment. Approximately 90% of its revenue is recurring and, importantly, 75% of revenue comes from “defensive” customers, such as government and health care.

First Data Corporation (FDC)

First Data Corporation is the world’s largest payment processing company and has three divisions:

1. Payment Services (42% of 2001 revenues) focusing on securely moving money worldwide by providing money transfer, money orders and official checks for financial institutions. It has an 85% market share. With an increasing mobility of the global population, the international wire transfer market is large and underserved.

2. Merchant Services (35% of 2001 revenues) focusing on securely enabling merchants to accept any type of electronic payment, including credit cards, debt cards, e-commerce and checks. As the clear market leader, FDC is well positioned to take advantage of the secular trend towards increasing usage of cards instead of cash and checks to pay for goods and services.

3. Card Issuing Services (23% of 2001 revenues) focusing on processing card transactions for issuers worldwide of which FDC is the market leader.

It is my pleasure to introduce a new member of our team. Jason Whitby is a Financial Consultant/Assistant Research Analyst in our Boca Raton, Florida office. Jason received a B.S. in Chemical Engineering from Purdue University and a M.B.A. in Finance from the University of Santa Clara. Prior to joining Noesis, Jason worked as a Senior Financial Analyst with KLA-Tencor. Prior to that, he worked for Applied Materials. He is a Level II candidate in the Chartered Financial Analyst Program.

Despite a difficult market, we have been fortunate to add many new clients during the past quarter. We want to thank all of our clients for their trust and confidence.

Sincerely,



Joseph T. Lai, CFA  
Chief Portfolio Manager