NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

January 15, 2003

Dear Client:

The stock market turned in its third consecutive year of losses in 2002, an extended decline not seen since the Great Depression. The broad Standard & Poor's 500 Stock Index declined 23.4%, its worst year since 1973. The technology-led NASDAQ Composite Index fell even more, 31.5%. In fact, the S&P 500 and NASDAQ were off 43.4% and 74.0%, respectively, from their peaks at the first quarter of 2000. Fortunately, the bond market enjoyed its third consecutive year of positive returns. Annual returns of major indices for the past five years are shown below.

Index	**2002**	**2001**	**2000**	**1999**	**1998**
Dow Jones Industrial Average	-16.76%	-7.1%	-6.2%	+25.2%	+16.6%
Standard & Poor 500	-23.37%	-13.0%	-10.1%	+19.5%	+26.7%
NASDAQ Composite	-31.53%	-21.1%	-39.3%	+85.6%	+39.6%
Russell 2000	-21.58%	+1.0%	-4.2%	+19.6%	-3.5%
Merrill Lynch Corp/Gov't Bond	+10.95%	+8.5%	+11.9%	-2.1%	+9.5%

REVIEW OF 2002

An ugly mixture of corporate scandals, terrorism/war uncertainty, and the technology meltdown seriously damaged investors' confidence and all the leading indices, leaving the damage widespread. Investors' portfolios suffered substantial declines in value. To many, the past year had an abundance of very disturbing events.

Many issues in corporate management, such as aggressive accounting practices, overcompensated CEOs, and irresponsible boards were systematic, not random. During the prolonged economic expansion and growing stock market of the 1990s, many corporate managers had become aggressive and greedy, taking advantage of easy financing and technological innovation to aggressively upgrade their equipment and grow their businesses, while ignoring the amount of risk they could tolerate. On the other hand, investors saw their assets growing at a rate unseen in their lives and naively expected their assets to continue growing at an eye-popping rate. Under such pressure, managers were motivated to be very aggressive.

Following the tragic events of September 11, 2001, international terror spread to Bali, Moscow and elsewhere. The conflict between Palestinians and Israel continued. While hostilities with Iraq were imminent, fresh concerns over North Korea's nuclear weapons program cast another shadow. 2002 was a year of geopolitical threat. As such, investors lost confidence and the stock market thus was seriously punished.

Although the technology bubble popped in early 2000, the fallout has lingered. After passing the Y2K checkpoint and, in general, spending excessively on equipment, managers substantially cut back high tech expenses. Much of the technology strength was simply nonrecurring. As we questioned in our 1999 annual report, "the outlook for many Internet

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companies is difficult to forecast and some may have questionable survival prospects. It should be borne in mind, as an example, that hundreds of automobile manufacturers in the United States in the early years of the industry eventually distilled down to three."

In spite of the uncertainty, stock prices rose quite impressively during the fourth quarter, marking October as the bottom. During the past few years, we believe the U.S. economy has completed the digestion of the excessive capacity built in the late 90s. In fact, despite the market weakness, the underlying fundamentals have been healthy in general and economic policies are accommodating. Moreover, there have been early indications of improvement in the economic activity. In our opinion, this is why equity markets have shown some strength.

OUTLOOK

As we have expected, the U.S. economy is heading back on the right track. One might argue that the current recovery is too slow. The fact is the 2001 recession was quite shallow. Remember that the downturn was caused by a slump in investment after an unsustainable capital-spending binge during the late 1990s. Consumption, which accounts for three quarters of GDP, has not been weak. Therefore, the expectation of consumption strengthening much further and a strong rebound of the economy were unrealistic, in our opinion. Moderate and sustainable growth would be far more desirable.

Since the economic downturn was mainly driven by a sharp decline in business investment, the recovery has to rely on corporate inventory and capital spending. Unfortunately, many companies had made heavy investments in the late 1990s and have enough capacity to handle current business trends. Further, there does not seem to be any "killer application" that companies must rush to purchase. Therefore, the coming upgrade cycle may be moderate. However, inventory levels are low and there may be a need for some inventory rebuilding, particularly in the non-IT area. Such production could be critical to operating earnings growth.

The economic recovery is supported by stimulative economic policies. On the monetary policy front, the Fed's November 6th cut in the target Fed funds rate from 1.75% to 1.25% could enhance economic activity. On the fiscal front, President Bush just proposed his new economic stimulus plan to cut taxes by an additional $670 billion over the next 10 years. The President's key goals are to assure continued consumer spending and to boost business investment.

Greater use of technology and more efficient business procedures have shifted the long-term productivity trend higher. Greenspan has pointed out that workers become more proficient with existing equipment and work processes over time. As seen in the recent data, in an era of no significant revenue gains, companies are increasingly leveraging productivity to hold down costs and lift their profit margins. The overall benefits to the bottom line are already starting to show up and could result in an upside surprise in corporate earnings.

The U.S. stock market has recently shown some signs of recovery. As we had expressed in the past, we remain confident on the long-term prospects of the U.S. economy and consider it the strongest economy in the world. We have all learned some difficult lessons in the past few years. Checks and balances are being restored in the financial system and corporate governance is improving. Consequently, a new solid foundation for long-term growth is developing. As we all know, the stock market should reflect the underlying fundamentals in the long run.

OUR PHILOSOPHY

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 which demonstrates recurring demand, effective cost controls, and a predictable business model. It is also important for a company to have a solid balance sheet and the capability to generate free cash flow to finance its growth and operate effectively even during an economic recession.

The following companies in our model portfolio serve as good examples. First Data Corp., the world's largest payment processing company, earns revenues whenever money is wired as well as when credit cards or debt cards are swiped. With an increasing mobility of the global population, the international wire transfer market is large and underserved. Further, 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.

Freddie Mac is a shareholder-owned, government-sponsored enterprise established by Congress in 1970. Its purpose is to provide liquidity to the mortgage market, helping Americans achieve the dream of home ownership. Although Freddie Mac is not part of the US government, investors, with the perceived backing, are willing to lend to Freddie Mac at below-market rates. Freddie Mac has a long solid track record of mid-teen earnings growth, despite interest rate fluctuations and economic cyclicality.

Our growth model portfolio outperformed the S&P 500 Index six of the past seven years. 1999 was the only year we underperformed the S&P 500, as we felt uncomfortable about the market, avoided high-risk dot-com stocks and started to liquidate high-tech stocks. Cumulatively, our growth model portfolio grew 90.6% vs. 42.8% and 26.9% for the S&P500 and NASDAQ, respectively, since 1995, the year we started Noesis. Most of our managed long-term growth portfolios have enjoyed similar performance during this period. We believe that our performance over this period confirms the soundness of our investment philosophy.

FINAL NOTES

We want to remind our clients to review all year-end statements. It is important to review an overall picture of all of your assets in a consolidated manner. Feel free to ask us for help to insure you are properly diversified, eliminating duplications, and managing against risk properly. For US taxpayers, please remember that investment management fees such as ours might be tax deductible. Ask your tax professional if you qualify.

I would like to thank all of my colleagues for their hard work and support. 2002 was another difficult year for many, but Noesis was fortunate to expand its team, gain many new clients and substantially increase assets under management. We greatly appreciate this recognition both of our performance during a challenging market and our continuing commitment to service.

Finally, as you know, the majority of our resources and time are dedicated to securities research and portfolio management, not to marketing. Our commitment will always be to performance and service, and we appreciate all of the personal referrals you have given us over the years.

As always, should you have any concerns 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

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