NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

January 15, 2004

Dear Clients:

Happy New Year! Fortunately, 2003 marked the end of the longest and deepest equity bear market since the Great Depression. Despite an early slump, the Standard & Poor 500 Index ended 2003 with a gain of 26.4%. This compares with a gain of 19.5% in 1999, the final year of the previous bull market. The change in investment sentiment during the past year was substantial, but not wholly unlike that experienced at other market bottoms.

Index	**2003**	**2002**	**2001**	**2000**	**1999**
Dow Jones Industrial Average	+25.32%	-16.76%	-7.1%	-6.2%	+25.2%
Standard & Poor 500	+26.38%	-23.37%	-13.0%	-10.1%	+19.5%
NASDAQ Composite	+50.01%	-31.53%	-21.1%	-39.3%	+85.6%
Russell 2000	+45.37%	-21.58%	+1.0%	-4.2%	+19.6%

REVIEW OF 2003

In contrast to the extreme optimism of the late 1990's, the vast majority of investors were bearish during the market lows in the fourth quarter of 2002 and early 2003. While some indications of economic improvement were seen in early January, the market was strongly influenced by intensifying concern about geopolitical risks. In fact, the Standard & Poor 500 Index was off 10.3% at the start of the war in Iraq.

Notably, all of the major market indices had positive performance for three consecutive quarters, unseen in many years. This turnaround is a welcome change, but not completely unexpected. As we observed in last year's annual report, despite the market weakness, the underlying fundamentals appeared healthy in general and economic policies were accommodating. We also recognized that many companies had strengthened their balance sheets and boosted productivity by cutting the excesses in production capacity, inventories, and payrolls. As a result, the confidence levels of business executives and investors substantially improved and was reflected in the equity markets.

While our market optimism predated the current market turn, our cash position for most of last year remained close to 10%. Typical of a new bull market, many of the best performers were low-quality, high-beta, beaten-down, small-capitalization stocks. Investors tend to speculate that weaker and cyclical companies will benefit the most from economic recovery. We focus, however, on consistent performers and choose to avoid highly volatile stocks. Despite a vastly improved market, we had some difficulty finding an abundance of high quality companies that fit our investment criterion. Accordingly, we exercised some caution about the market and maintained a relatively high cash position. Nevertheless, most of our growth portfolios managed to outperform our benchmark, the S&P 500 Index.

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OUTLOOK

Heading into 2004, the extreme bearishness of the past few years seems to have passed, although not completely forgotten. The strong momentum in U.S economic growth should continue with continued accommodative fiscal and monetary policies, strengthening consumer and business spending, low inventories and a rapid improvement in productivity. Furthermore, most companies have strengthened their balance sheets over the last two years. Investors also should be encouraged by the improved quality of reported results.

Despite significant improvement, the market is not without risk. Having advanced substantially for three consecutive quarters, valuations are no longer inexpensive. Stock selection will be critical for the foreseeable future. Higher-quality, larger-capitalization and lower-beta securities are likely to outperform in the coming years.

There is also some concern that the Fed may increase interest rates soon, hurting economic momentum and the stock market. However, history shows that a moderate increase should not adversely affect the market, especially as interest rates remain near historic lows. In fact, the Fed has recently stated that it will keep interest rates low for a considerable period, given low inflation and slack resource use. More recently, a weaker-than-expected employment report reaffirmed the unlikelihood of an interest rate hike in the immediate future.

Others worry that a weak dollar may impair our economic strength. To the contrary, most multinational companies should benefit from a weaker currency, as our products are cheaper and more attractive to foreign buyers. Moreover, the foreign earnings of these companies translate into a greater amount of U.S. dollars.

There are also encouraging signs outside of the United States, such as the recent liberalization of labor markets and lower taxes in Germany and the increasing willingness of the Japanese government to fix its banking crisis. The global economy may strengthen and come closer to achieving its greater potential, with important benefits for all participants.

OUR PHILOSOPHY

Our goal is to seek superior long-term financial results consistent with our clients' investment objectives. We believe that long-term capital appreciation is best achieved by owning the securities of high-quality companies that are expected to deliver consistent, above-average earnings growth. Growth demonstrates recurring demand, effective cost controls, and a predictable business model. Companies must also have a solid balance sheet and the capability of generating free cash flow to finance growth and operate effectively even during an economic downturn. Valuation is a key factor in determining our entry point and, accordingly, we purchase securities only when they are reasonably priced. As long as the fundamentals of the underlying company remain sound and the valuations remain reasonable, we intend to be long- term holders.

NEW PURCHASES IN FOURTH QUARTER OF 2003

Amgen Inc. (AMGN)

Amgen, the world's largest biotech company, has three primary product categories: 1) EPOGEN/Aranesp ($3.9bil est in 2003) that stimulates red blood cells to treat anemia; 2) NEUPOGEN/Neulasta ($2.5bil, 03'est) that stimulates white blood cells to treat neutropenia; 3) ENBREL ($1.3bil 03'est) that treats rheumatoid arthritis. Each of these three blockbuster drugs should continue to grow at mid-teen rates for the foreseeable future, as demand is strong. Amgen has a strong track record and continues to maintain a solid balance sheet while generating strong free cash flow and investing heavily in new product development.

UPDATE FROM OUR FIXED-INCOME DEPARTMENT

Noesis Capital Management offers income portfolio management for clients with income needs for retirement and/or supplemental income. Our strategy is to generate above average current income without incurring excessive risk. In addition to government and corporate securities, we include equity-related income securities to enhance current yield as well as add a growth component, which may increase the volatility of the portfolio relative to an all fixed income portfolio. However, we believe it is possible to balance the risks and rewards of a growth component in a prudent manner while meeting the individual return requirements, tax considerations, and risk tolerances of our clients.

The benchmark index we use for Fixed-Income Portfolio Management is an equal blend of three Merrill Lynch composites:

- Merrill Lynch Domestic Corporate/Government/Mortgage Master Index
- Merrill Lynch Fixed Rate Preferred Stock Index
- Merrill Lynch Convertible Index

Previously, we used only the ML Domestic Corporate/Government/Mortgage Master Index to benchmark the performance of the bond market. We have decided to add the two other composites as shown above to better represent the securities in which we typically invest. Corporate/Government/Mortgage securities are typical interest rate sensitive fixed income securities. Preferred stocks are interest rate sensitive and, similar to corporate bonds, are also especially dependent on the credit quality of the company. Convertible securities provide income but, in general, their price level is more dependent on the behavior of the underlying common stock of the company. Whether in a rising or declining rate environment, we believe a diversified portfolio consisting of different types of income producing securities can best meet our clients' income needs.

FINAL NOTES

Noesis enjoyed a banner year in 2003 with excellent performance and a substantial increase in assets under management. Despite rapid growth, I want to assure our clients that our focus remains on research and portfolio management, as opposed to sales and marketing.

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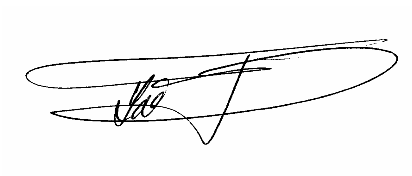
Our commitment to service and performance is unequivocal. Finally, I would like to thank all of our colleagues and business partners, including Charles Schwab, for their hard work and firm support in making this possible.

Should you have any questions or wish to review your portfolio, please feel free to contact us. Wishing you all have a healthy, happy and prosperous 2004.

Sincerely,



Joseph Lai, CFA
Chief Portfolio Manager

Our most recent Form ADV is available upon request

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