NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

July 15, 2004

Dear Client,

Most of the major U.S. stock indices finished the second quarter with small gains, despite overall weakness in the global markets. The technology-led NASDAQ and small-capitalization Russell 2000 Index, however, have dramatically outperformed Standard & Poor's 500 Index since the March 2003 market turnaround.

Index	**2nd Quarter**	**Year to Date**
Dow Jones Industrial Average	+0.75%	-0.18%
Standard & Poor's 500	+1.30%	+2.60%
NASDAQ	+2.69%	+2.22%
Russell 2000	+0.20%	+6.21%
Morgan Stanley EAFE	-0.68%	+3.04%
Merrill Bond/Preferred/Convertible Composite	-2.45%	+0.51%

The economic outlook worldwide remains generally strong and, accordingly, we continue to be optimistic. In the U.S., real GDP growth is robust, although gains are expected to slow in 2005. In addition, the job market is strengthening despite short-term fluctuation in the employment numbers. Overall, we believe that the current economic momentum is healthy and a moderate growth rate should be sustainable through 2005. Encouragingly, the U.S. is not alone as an economic growth engine. China is now the clear growth leader, followed by India. Moreover, Japan is experiencing strong economic growth in 2004, although its sustainability beyond the current year is uncertain.

We think inflation is an important variable in the near-term outlook. Pressures have moved through the economy from commodity prices to producer prices and, more recently, to the consumer level. The year-over-year core consumer price index has jumped up almost three-quarters of a percentage point to 1.8%, much higher than expected. However, we believe that much of the pressure comes from temporary factors, such as commodity prices, which are subject to fluctuation. Furthermore, global competition is far from over and thus we still expect a manageable rate of inflation.

The Noesis Model Growth Portfolio has slightly lagged the S&P 500 Index so far this year, which can be mainly attributable to a deliberate and purposeful concentration of investments in high quality retailing and financial companies. Regarding retailing, the strong bounce in consumer confidence and the robust payroll/wage growth witnessed this year should support continued consumer spending. In addition, leaner inventory levels, systems implementations, and a more efficient supply chain should help to expand gross margins. We also have a high level of confidence in the U.S. financial services sector, despite some popular

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concern regarding interest rates. As Alan Greenspan noted in recent comments regarding the U.S. commercial banking system, "in general, the industry is adequately managing its interest rate exposure" and "the industry appears to have been sufficiently mindful of interest rate cycles and not to have exposed itself to undue risk."

Turning to the general market, the best performers in the early stage of a new bull market historically have been smaller-capitalization, higher-beta, beaten-down, stocks. Not surprisingly, the NASDAQ has outperformed the S&P 500 Index substantially over the past 12 to 18 months, while our own Model Growth Portfolio has trailed. However, our Model Growth Portfolio has comfortably outperformed both the S&P 500 Index and NASDAQ from their respective peaks in the first quarter of 2000. Once again, this demonstrates that superior long-term results are achievable by the patient investor.

Noesis' consistent, long-term performance is, in large part, attributable to a disciplined investment philosophy. We apply principles and techniques that we consider to be sound and consistent with our objective of achieving the optimum long-term return for our clients relative to their investment objectives and risk tolerance. Our focus has always been, and remains, directed at owning the securities of well-managed and well-financed companies with sustainable above-average growth and earnings predictability, when available at attractive valuations. History has repeatedly demonstrated that retention of such securities on a long-term basis normally provides superior returns in comparison to a more trading oriented approach, particularly when transaction costs and taxation are included.

With our approach, portfolio turnover naturally tends to be relatively low, since securities are unlikely to be sold unless there is reduced confidence in a company's fundamentals or an excessive valuation. We also recognize that short-term volatility in the equity markets is frequently irrational, often based on greed and fear. As such, we generally avoid attempting to follow such movements, which would be based more on guesswork than analysis. We strongly believe that our clients' assets are far better protected by keeping them invested in sound companies with solid long-term potential, despite possible exposure to short-term market fluctuations.

In conclusion, the valuations of most of our core portfolio holdings are compelling and fundamentals remain solid, notwithstanding short-term performance. We are very confident that our holdings will outperform the market in the future.

We hope each one of you has an enjoyable summer.

Sincerely,

Joseph T. Lai, CFA
Chief Portfolio Manager