NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

January 14, 2005

Dear Clients:

All of the major U.S. stock indices rose during 2004, with the small-capitalization Russell 2000 Index showing the largest increase with a rise of 17.0%. Please refer to the following table.

Index	**2004**	**2003**	**2002**	**2001**	**2000**
Dow Jones Industrial Average	+3.15%	+25.32%	-16.76%	-7.10%	-6.18%
Standard & Poor 500	+8.99%	+26.38%	-23.37%	-13.04%	-10.14%
NASDAQ Composite	+8.59%	+50.01%	-31.53%	-21.05%	-39.29%
Russell 2000	+17.00%	+45.37%	-21.58%	+1.03%	-4.20%
Morgan Stanley EAFE	+17.59%	+35.28%	-17.52%	-22.61%	-15.21%

REVIEW OF 2004

The strength of the domestic economy at the end of 2004 exceeded widely held expectations, notwithstanding the fact that not all sectors participated equally. Based on prevailing estimates, the U.S. economy grew by over 4.0% in 2004, with third quarter GDP growth of 4.0% and about 4.0% expected in the fourth quarter. Consumer and business spending as well as exports participated in the overall GDP growth, while employment data remained sluggish. Corporate earnings also are expected to show strong growth for 2004, with a 16%-18% gain in operating earnings likely for the S&P 500 companies.

The performance of the Noesis model portfolio reflected positive growth for the year, although not surprisingly, below that of the S&P 500 Index. A closer look at the 2004 performance of the S&P 500 Index shows a heavy contribution from certain industry sectors, including energy, commodities and other typically cyclical sectors. Our investments, however, have been concentrated in less cyclical companies which typically have more consistent and predictable earnings. In part due to these differences, the Noesis model portfolio has significantly outperformed the S&P 500 Index when compared over a period of several years.

OUTLOOK

The positive performance of the equity markets in 2004 reflects confidence in domestic and international economic prospects despite concerns about the lag in employment growth, which is being perceived as more of a secular than a cyclical problem, high energy prices, a ballooning budget deficit, the war in Iraq and geopolitical unrest in other areas.

1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
561-999-9888 • Fax 561-994-2893 • E-Mail: info@noesis-capital.com
www.noesis-capital.com

Our view of 2005 is basically optimistic, although not without some concerns such as the U.S. budget deficit, oil price volatility and exposure to other global economies. Nevertheless, consensus expectations are for continuing economic expansion in 2005, but at a more moderate rate than experienced last year. Expectations for 2005 indicate an earnings gain of about 5% for the S&P 500 companies due to a change in accounting standards, or a 10% gain if the FASB (Financial Accounting Standards Board) does not require expensing employee stock options until 2006.

There is continuing attention being directed toward the rise in interest rates in 2004 and the expressed Fed policy of further moves in this direction if inflation concerns make such actions advisable. It must be borne in mind, however, that rates are still at historically low levels and it appears premature to believe that they will rise sharply unless economic activity is substantially stronger than current expectations. In addition, some observers perceive a weak dollar as a possible impediment to our economic strength. In reality, our exports benefit because products are more attractively priced to foreign buyers. Moreover, our multinational companies also benefit materially because their foreign earnings translate into a greater amount of U.S. dollars. The lower exchange rate for the dollar also attracts more foreign investment in U.S. businesses and real estate.

We expect more portfolio turnover this year as we replace some positions that are approaching our price targets with other stocks that should have greater potential in the type of environment that appears probable. In addition, we intend to increase the number of stocks held in our growth portfolios, from the low twenties at present to a total close to thirty. Our emphasis on strong fundamentals and value will not change.

The consensus S&P 500 operating earnings estimate for 2005 is currently in the $69 - $71 per share range, excluding the aforementioned accounting change, with a P/E multiple of about 16.9 times earnings. This is low by historical standards compared with previous periods of low interest rates and low inflation. The average valuation of our core holdings is comparable but with more rapid projected earnings growth, which adds to our confidence in their long term appreciation potential.

NEW PURCHASES IN FOURTH QUARTER OF 2004

Johnson & Johnson (JNJ)

Johnson & Johnson, the second largest healthcare company in the world, has had consistent mid-teen earnings and dividend growth with a 5-year average return on equity of 29.5%. It is an exceptionally well managed company with a diversified product line. Pharmaceutical products represent 46.6% of total sales; medical equipment products (i.e. stents, sutures, artificial spinal discs), 35.6% of sales, and consumer products 17.8% (Johnson's Baby Products, Band-Aids®, Neutrogena®). The company is highly regarded and normally trades at a premium P/E multiple. We consider the current valuation quite reasonable and reacted to the opportunity.

NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

UPDATE FROM OUR FIXED-INCOME DEPARTMENT

We recently added a “Traditional Income Guideline” to complement our existing “High Yield Income Guideline”. The two guidelines have different objectives, strategies, and risks and will help us to further customize the management of our fixed income portfolios to our clients’ individual needs. The “Traditional Income Guideline” looks to provide current income and preservation of capital, while the “High Yield Income Guideline” seeks high current income and capital growth.

We recently purchased a new 5 year, non-callable, fixed income security issued by HSBC Finance (formerly Household Finance) that pays interest monthly and adjusts monthly based on the level of the Consumer Price Index (CPI). Basically, if inflation increases, the monthly coupon of this security will increase and protect the individual’s buying power. Should the CPI decrease, the interest payment will likewise decrease. The security is A1/A rated by Moody’s and Standard & Poor’s, respectively, and the current yield will start out at 4.72%.

FINAL NOTES

We welcome Christian Paterok who recently joined the firm as an Equity Research Analyst. Christian is from Germany and bolsters our growing international staff. Christian earned a degree in Business Administration from the University of Applied Sciences, Cologne Germany and completed his studies in Finance and International Business at Florida Atlantic University.

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 2005.

Sincerely,

Richard M. Brown

Richard M. Brown, CFA
Chief Investment Strategist

Our most recent Form ADV is available upon request

1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
561-999-9888 • Fax 561-994-2893 • E-Mail: info@noesis-capital.com
www.noesis-capital.com