NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

October 15, 2005

Dear Clients:

All of the major stock indices advanced during the third quarter, as illustrated in the table below:

Index	3rd Quarter	Year to Date
Dow Jones Industrial Average	2.86%	-1.99%
Standard & Poor's 500	3.15%	1.39%
NASDAQ	4.61%	-1.09%
Russell 2000	4.40%	2.49%
Morgan Stanley EAFE	9.85%	6.82%

The full effect of Katrina and Rita has not been completely evaluated, but the damage and human tragedies caused by these catastrophic storms place them among the worst natural disasters in U.S. history. Although the storms, particularly Katrina, are having a severe economic impact in the Gulf Coast region, the effect to the national economy appears to be more moderate and temporary. Extensive infrastructure and housing reconstruction which is anticipated to be largely supported by the federal government, will likely be a strong economic stimulus over the next few years. The proposed $200 billion of federal assistance raises many questions and it will likely be some time before we know the possible effects on the budget deficit, interest rates and inflation. However, the markets do not seem to be overly concerned.

Contrary to many initial predictions, the storms did not seriously impact crude oil prices. Refinery operations in the Gulf region have been interrupted, but there has not been severe widespread damage. Moreover, the federal government has been releasing some of its strategic reserves to help mitigate the impact. The recent spike in gasoline prices should moderate as supplies trend back towards normal levels and should not have a lasting effect on consumer spending patterns.

As mentioned last quarter, we expected some moderation in GDP growth in the second half of this year and into 2006. In fact, third quarter growth was stronger than generally anticipated. Prevailing "pre-Katrina" GDP growth forecasts for the second half of 2005 were approaching 4.0%, or perhaps higher. However, consensus forecasts for the fourth quarter have been cut due to the hurricanes, with GDP estimated to rise about 3.5% this year. The negative impact of the hurricanes will likely carry over through the first quarter of 2006, but should turn more positive as a result of reconstruction.

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PORTFOLIO UPDATE

We remain confident about the positioning of our clients' portfolios. Most of our model portfolio companies have met or exceeded street earnings estimates the past few quarters and fundamentals and valuations remain attractive. This is a combination that eventually should be favorably reflected in the stock prices.

We have continued to increase our participation in the healthcare industry over the past year. As a group, the performance of the healthcare companies in our model portfolio has been impressive. We believe that the factors that have resulted in this performance, namely strong fundamentals and attractive valuations, also exist in most of the other companies comprising our model portfolio. While we cannot predict timing, we are confident that our portfolio will perform well over time. It is a matter of discipline and patience.

During the quarter, we added Biomet, Inc. (Nasdaq: BMET), the world's fourth largest orthopedic components company. Founded in 1977, Biomet has a 15% market share, behind Zimmer (25-30%), J&J (20-25%) and Stryker (20-25%). The company's principal product segments include: reconstructive products (mainly hip and knee replacements), fixation products and spinal products. For the past two decades, Biomet has grown at a mid-to-high teens per year rate, and during the past five years, has maintained the highest returns with the lowest leverage in the industry. We expect the estimated $20 billion worldwide orthopedic industry segment to benefit significantly from an aging population and earlier adoption from younger patients due to improved technology.

We recently reduced our holdings in Genentech (NYSE: DNA), which was close to double the price of our initial purchase in February 2005. While Genentech's product pipeline is exceptionally strong and we remain very optimistic about its outlook, we considered it prudent to cut back due to the rapid price change and liberal valuation.

We have been asked about our model portfolio's exposure to international stocks. Although we currently hold few non-U.S. companies, we are very attuned to economic globalization and recognize that there are attractive growth opportunities outside the U.S. Rapid growth in countries such as China and India, and improving economies in countries such as Japan and Germany, benefits U.S. companies in a number of ways, including increasing external demand for products and services. Remember, most of our portfolio companies derive significant revenue from international operations. We will continue to pay close attention to foreign markets and take advantage of investment opportunities, directly or indirectly.

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UPDATE FROM OUR FIXED-INCOME DEPARTMENT

Recently, we have been buying publicly traded "Pipeline Master Limited Partnerships" (MLPs), which are issued by companies involved in the storage, transportation and distribution of oil, gas and refined petroleum products. MLPs are attractive securities for several reasons, including above average current yields, capital appreciation potential, distribution growth possibly above inflation rates, the benefit of tax deferred income and a participation in the energy segment without the inherent commodity risk. Similar to bonds, MLPs are sensitive to long term interest rates. However, they do have the potential to grow their cash distribution and this should help mitigate the negative effects of rising interest rates. These securities do have a higher risk profile than traditional corporate bonds because principal is not protected and, accordingly, expected returns are generally higher.

Following is the performance of the three broad indices that are representative of our fixed income securities:

Index	3rd Quarter	Year to Date
Merrill Lynch Domestic Corp/Gov't/ Mortgage Bond Index	0.68%	1.95%
Merrill Lynch Preferred Stock Index	0.44%	0.59%
Merrill Lynch Convertible Security Index	3.71%	-0.82%

On a firm note, we congratulate Greg Reynolds for passing the Level III CFA examination. Greg is now a CFA, Pending Charter. Finally, as we move into the last quarter of the year, we encourage our clients to communicate with us regarding any year-end planning and, as always, we are available to discuss your portfolio.

Sincerely,

Richard M. Brown

Richard M. Brown, CFA
Chief Investment Strategist

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