NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

January 13, 2006

Dear Clients:

As shown in the table below, all of the major U.S. stock indices were marginally ahead in 2005, except for the Dow Jones Industrial Average which declined 0.61%.

Index	2005	2004	2003	2002	2001
Dow Jones Industrial Average	-0.61%	3.15%	25.32%	-16.76%	-7.10%
Standard & Poor 500	3.00%	8.99%	26.38%	-23.37%	-13.04%
NASDAQ Composite	1.37%	8.59%	50.01%	-31.53%	-21.05%
Russell 2000	3.32%	17.00%	45.37%	-21.58%	1.03%
Morgan Stanley EAFE	10.86%	17.59%	35.28%	-17.59%	-22.61%

REVIEW OF 2005

The prevailing opinion several months ago was that the devastation caused by Hurricane Katrina in the Gulf Coast region would negatively impact the economy for several months and, subsequently, would have a stimulating effect when housing construction and rebuilding of the infrastructure got underway. The short term restricting effect did not occur and it is too early to gauge the pace of reconstruction. It was also widely believed that soaring gasoline prices would divert purchasing power and put a crimp in economic growth in the latter part of the year. This did not happen either. GDP rose a surprising 4.1% in the third quarter, representing the eighth consecutive quarter of economic expansion at approximately that rate, and historically one of the most stable stretches of growth. Full year 2005 economic growth will likely be about 3.7%. In retrospect, the underlying strength of the U.S. economy was clearly greater than anticipated by most forecasters with the likely prospect that 2006 could be another year of reasonably good economic growth.

The Noesis Model Portfolio performed almost in line with the S&P 500 Index, with a gain of about 2.8%. The Model underperformed for the first half when the S&P 500 continued to benefit significantly from certain industry sectors such as energy, commodities and other cyclical sectors that Noesis tends to avoid. However, our focus on less cyclical companies with more predictable earnings provided relative strength in the second half due to better performance of retail, financial services and healthcare companies.

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

The consensus estimate of S&P 500 operating earnings for 2006 is $72.50 per share, with a P/E multiple of 17.2 times earnings, and a projected growth rate of 6.5%. The Noesis Model Portfolio has a P/E multiple of 18.7 times estimated 2006 earnings with a projected growth rate of 13.0%. While the valuations are comparable, the more rapid projected earnings growth of our core holdings adds to our confidence in their long term appreciation potential.

OUTLOOK FOR 2006

Entering 2006, the pace of economic expansion in the U.S. is strong and should benefit further from post-Katrina reconstruction. Moreover, international economies have high levels of financial liquidity, without serious inflationary pressure and appear capable of supporting broad worldwide expansion. China, India and other Asian countries are experiencing strong growth and Japan and Europe appear to be accelerating.

We believe that the aforementioned positive factors support our basically optimistic view of 2006 prospects, notwithstanding the presence of some concerns, as there always are. These include the U.S. budget deficit, oil price volatility, a widely anticipated slowdown in the housing market, and exposure to the possibility of troubling geopolitical events.

We believe the most likely outlook for the housing market is a moderate decline rather than a sharp drop, except perhaps in some of the "hot" markets on both coasts. Unless there is a severe decline in the housing market, we expect the Fed to adhere to a monetary policy of moderate restraint in order to prevent core inflation from becoming a problem. However, in the unlikely event of severe weakness in housing, the Fed could be expected to shift gears in order to encourage lower mortgage rates.

A recent consensus forecast of 56 economists surveyed by The Wall Street Journal is that GDP will grow at an annual rate of 3.5% in the first half of 2006 and 3.1% in the second half. Although these growth rates are below the 4.1% average of the past 2½ years, they nevertheless are considered acceptable.

NEW PURCHASES IN FOURTH QUARTER OF 2005

During the fourth quarter we made two investments in the auto industry, Toyota Motor Corporation and Honda Motor Co. We believe that both companies are well positioned to take advantage of the attractive growth prospects of this industry for several reasons. First, there is a growing demand for automobiles in developing economies, such as China, India and Eastern Europe. Second, concerns about the environment and high costs of energy are increasing the demand for hybrid vehicles and other innovative technologies which will create new opportunities for the industry. Finally, Toyota and Honda are two of the strongest and most efficient competitors in the industry and the American "Big Three" continue to struggle.

Toyota Motor Corporation (TM)

Toyota Motor Corporation is the world's third largest automaker. Toyota has a strong track record of efficiency and cost-control with an industry leading operating margin of 9.0%. With a strong cash position ($44.6b by the end of fiscal year 2005) and strong free cash flow ($4.2b), the company can afford greater investments in R&D and facilities than most of its competitors. Toyota is also the leader in developing and manufacturing hybrid vehicles, which have become increasingly popular due to high gas prices and environmental concerns.

Honda Motor Co. Ltd. (HMC)

Honda Motor, is the world's seventh largest automaker due in large part to its engineering-led culture and disciplined growth strategy. Honda has 12% of the Japanese auto market; 8% in the US, 8% in China and 2% in Europe. Honda has grown rapidly over the past decades by introducing high-quality and hugely popular cars. With a solid balance sheet and capability to generate strong cash flows, Honda should be able to continue gaining market share. Honda is well positioned in China and is the first automaker that exports cars produced in China to other regions. As one of only two automakers in the world that can now produce hybrid-cars in volume (along with Toyota), Honda is well positioned for growth in this new industry segment.

UPDATE FROM OUR FIXED INCOME DEPARTMENT

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

Index	4th Quarter	Year to Date
Merrill Lynch Domestic Corp/Gov't/ Mortgage Bond Index	0.59%	2.55%
Merrill Lynch Preferred Stock Index	0.38%	0.97%
Merrill Lynch Convertible Security Index	0.49%	-0.34%

There was a significant flattening of the yield curve in 2005. The spread between the 3 month Treasury bill and 10 year Treasury note was 202 basis points in the beginning of

2005 and narrowed to 31 basis points by the close of December. With a flat taxable yield curve, there is little reward for extending maturities beyond our current shorter maturity position. In contrast, the municipal bond yield curve is upward sloping, offering more attractive long term rates. This is due, in large part, to the fact that municipal bonds are not used as monetary policy tools to adjust the cost of funds by the Fed. We can take advantage of the higher yield offered by longer dated municipal securities. Furthermore, the Fed appears to be at the end of the rate hiking cycle and therefore we feel comfortable that the yield of longer than average maturity municipal bonds will be stable in the near term.

On a final note, 2005 marked tenth anniversary of Noesis Capital Management. We appreciate your trust and loyalty over the years and look forward to more decades together. Wishing everyone a happy and prosperous 2006 and, as always, we are available to discuss your portfolio and any other questions you may have.

Sincerely,

Richard M. Brown

Richard M. Brown, CFA
Chief Investment Strategist

*An updated copy of our Form ADV is available upon request.

1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
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