NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

July 15, 2006

Dear Client:

As we round the midyear point, it is timely to share some general perceptions of the investment environment as well as some additional insights regarding our portfolio positions and strategy going forward.

Recent market volatility has been fed by conflicting and fluctuating views ranging from domestic and global economic slowdowns to economic overheating. Rising inflation and higher interest rates also contributed to the volatility. While a variety of scenarios are possible, we foresee a somewhat slower pace of GDP growth for the second quarter and perhaps the second half of 2006, together with a moderate but manageable pickup in inflation and interest rates.

We expect the equity markets to remain volatile and consider it likely that market leadership may change. This may already be happening. Recently strong segments such as small-caps, emerging markets and cyclical stocks were hit particularly hard during the recent market decline. On the other hand, many of the largest and most respected blue-chip stocks have maintained strong earnings trends and now sell at valuations far below their peak P/E ratios. Furthermore, the prospect of such a turnaround could be enhanced by the fact that many of these companies have developed major international diversification and are building up their participation in the strong global economic growth now taking place.

The U.S. and global economic outlook draws substantial underlying support from the strength and diversity of the global uptrend, which appears to have sustainability. The present momentum in China, India, Mexico, Brazil and other developing countries is based on a wide range of contributing forces covering consumer demand, manufacturing competitiveness, service function capabilities and, in many countries, young demographics. While the pace of expansion will no doubt fluctuate, sustainability at a vigorous rate does not appear to be an issue.

In its April economic outlook, the International Monetary Fund forecast world economic growth at an inflation-adjusted 4.9% for 2006 and 4.7% in 2007. The forecast indicates that for the four years ending in 2007, growth will average 4.93%, the highest sustained rate since 1973. The IMF expects only three of the 180 economies it tracks - Zimbabwe, Equatorial Guinea and Seychelles - to contract in 2006, which would be the lowest number in over twenty-five years.

Noesis will continue to maintain a global orientation towards our portfolios. Many of our companies have more international exposure than may be readily apparent. Wal-Mart, for example, derived 20% of its $312.4 billion in 2005 revenue from its stores in foreign countries. This amounted to $62.5 billion of international sales which would rank it fifth in size among retailers outside of the United States if it were a separate company. This component of Wal-Mart accounted for 16% of its total 2005 operating profit, a percentage likely to increase as the company's foreign operations become better established and achieve anticipated margin improvement.

Citigroup, which has operations in China, India, Korea, Mexico, Brazil, Russia and nearly 100 other countries earned 41% of its 2005 net income in foreign markets. We are currently looking for an additional major international banking company to broaden our participation in global economic growth.

United Parcel Service's international air-cargo business is expanding rapidly, transporting goods back and forth across the Pacific and within foreign regions. Its international operations are still at a relatively early stage and have plenty of room to grow. Since the bulk of international cargo traffic travels by sea, we are interested in finding a suitable publicly traded operator of containerships as another form of participation.

Dell Computer, as well as other technology companies, relies on foreign sources for a significant portion of its manufacturing in its own, as well as in outsourced, facilities. This also applies to Nike in a major way, with the bulk of its merchandise produced abroad and over 50% of its sales in foreign markets. Similarly, Wal-Mart is one of the largest U.S. importers, relying heavily on foreign manufacturing sources.

Novartis, one of the world's largest pharmaceutical companies, is based in Switzerland and a major portion of its business abroad. Genentech is also Swiss controlled and very active internationally. Two other foreign-based companies among our holdings are Toyota and Honda, both among the leaders in the global automotive industry and rapidly gaining market share.

The Noesis investment strategy emphasizes quality as well as opportunities. We continue to focus on well-managed companies with strong balance sheets, proven performance, above-average predictability and reasonable valuations. As indicated earlier, we have broadened the scope of our interests geographically because the proportion of attractive investment opportunities that exist worldwide will continue to increase. Not only will this strategy enhance returns, in our opinion, but the greater degree of diversification could decrease risk as well.

NEW PUCHASES IN SECOND QUARTER OF 2006

Maxim Integrated Products Inc. (MXIM).

Maxim Integrated Products manufactures high-performance analog circuits for a wide range of markets including industrial, automotive, computing, wireless, and wire-line applications. The company supplies its diverse array of about 5,000 circuits to a broad base of customers. Roughly 70% of the firm's sales are outside the United States. Demand for analog semiconductors is expected to grow strongly due to its wide applications in many end-markets. The lack of emphasis in the educational system on analog technology versus digital and the difficulty of acquiring experience have limited the supply of analog engineers and created a high barrier for new companies entering this business. Maxim offers one of the most diversified portfolios and the highest growth potential among its competitors as a result of expanded offerings in the fast-growing handset and consumer markets.

Linear Technology Corp. (LLTC).

Linear Technology is one of the main competitors of Maxim and shares similar high quality characteristics. The company has more than 7,500 products for functions like power management and signal processing in a variety of electronic systems and it serves over 15,000 customers across the globe. Its gross margin (~80%) and operating margin (~50%) are among the highest in the industry due to its sharp market focus, price discipline, and best-in-class execution capability. Linear Technology is well positioned to benefit from the growth in energy and battery sensitive devices due to its market leadership in power management products.

Stryker Corp. (SYK).

Stryker develops, manufactures and markets orthopedic products and medical specialties worldwide. It operates two segments: Orthopedic Implants (59% of sales) and MedSurg Equipment (36% of sales). The company also runs 270 physical therapy centers. The demographic trend is highly favorable for medical device manufacturers. Moreover, orthopedic firms enjoy a narrowly dominated competitive landscape in addition to stable growth. Styker's well diversified product portfolio combined with a strong distribution network and a large sales base give it an excellent opportunity to further leverage its business and expand operating margins.

Autodesk Inc. (ADSK).

Autodesk develops software that allows users to do 2-D design and drafting, 3-D modeling, visualization and animation. Its client base includes architectural, engineering, construction, manufacturing, media and entertainment companies. International sales account for 60% of its total revenue. Autodesk's products are the *de-facto* industry standard tools for architects and engineers. No other competitor offers such a broad range of products. The global outsourcing of design, manufacture and support facilities to emerging countries has fueled a strong demand for its software products. Autodesk has moved towards a subscription based business model thereby generating more stable and predictable revenue. Only 20% of its existing clients have upgraded to 3-D products which implies there is plenty headroom to grow.

FIXED-INCOME UPDATE

We include equity-related income securities in our income portfolios to enhance current yield as well as add a growth component. Convertible bonds, master limited partnerships, and real estate investment trusts generally pay high current income and have the potential to appreciate. We also use hybrid securities derived from common stock, which pay above average current income but do not have the potential to appreciate before conversion. The hybrid maturities are generally one year and depending upon performance, may convert into the underlying common stock at maturity. In the event that a hybrid converts to common stock, we determine whether or not we want to continue as an equity investor with the company. Consequently, a converted hybrid security may remain in the portfolio if we believe there is capital appreciation potential even though it is no longer paying above average current income.

We are always available to discuss your portfolio and welcome the opportunity to address any questions.

Sincerely,

Richard M. Brown

Richard M. Brown, CFA
Chief Investment Strategist

Our most recent Form ADV, Part II is available upon request