NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

January 15, 2008

Dear Client:

There are concerns that the credit market meltdown, triggered by the subprime mortgage and housing collapse, created conditions that will bring about a slowdown in economic growth or possibly a recession. Continuation of strength in consumer spending, the largest component of GDP, has become a serious concern and doubts are developing about the outlook for corporate spending.

It would be difficult to believe that the recent massive infusions of funds into the financial system by the Federal Reserve and the European Central Bank will be ineffective and therefore consider it probable that these actions, if not successful in avoiding a recession, will at least reduce its severity and length. While there are valid reasons to question the likelihood of a recession, the possibility appears to be rising. If one occurs, however, we believe it would probably be relatively mild and brief.

While operating earnings of companies in the S&P 500 Stock Index are expected to decline in the fourth quarter (excluding special items), omitting the financial sector, earnings of the remaining companies in the index may rise somewhat. The strongest sectors are telecommunications, healthcare and information technology, expected to show gains of 33%, 24% and 23%, respectively.

Real GDP growth was a meager 0.6% in the first quarter of 2007 followed by gains in the area of 4.0% in the next two quarters and the prospect of minor growth in the 1.0% area for the fourth quarter of 2007 and perhaps less in the first quarter of 2008. The subsequent two quarters will compare with two very robust quarters a year ago and therefore it would be difficult to show significant gains. However, barring a recession, rising momentum later in 2008 could result in moderate full year improvement.

We would expect continuing growth in the sectors that remained strong in 2007, with some momentum building up as the year progresses. Exports should remain strong, although perhaps at a moderated pace, aided both by the weak dollar and ongoing strength in expansion of the global economy maintaining persistent strong demand for U.S. products.

The exchange rate of the U.S. dollar has been declining for over five years, significantly contributing to U.S. economic growth and, since the U.S. is a primary supplier for many other countries, it contributed importantly to growth in international trade.

Excluding financial companies, the remaining components of the S&P index performed well in 2007 and, as mentioned above, some sectors showed very impressive results. One possible scenario for this year is that the financials, which in many cases took a beating in

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

2007 with huge write-offs, but also did some aggressive cost cutting, succeed in achieving strong earnings recovery later in 2008. With continuing strong growth in telecommunications, healthcare and information technology, 2008 could turn out to be a reasonably good year for overall corporate earnings growth despite the possibility of a slowdown in some economically sensitive industries and continued weakness in housing.

Dollar weakness combined with strength in foreign economies continue to fuel growth in U.S. exports, although there may recently have been some moderation in the pace. In addition, an increasing number of U.S. companies have been rapidly expanding their foreign operations. Profits earned abroad, as well as export revenues, now convert into more dollars when they are included in consolidated earnings reports.

We expect foreign trade to remain a significant factor in aiding U.S. growth in 2008. The export boom had an important effect last year in helping to reduce the trade deficit. This, in effect, offset most of the negative impact of weakness in homebuilding activity on total GDP growth.

In 2008 we will continue to emphasize our policy of broadening participation in global growth through direct investment in foreign based companies, but not to the exclusion of attractive U.S. opportunities. Our model portfolio and most clients' growth portfolios already include: Honda, Toyota, HSBC, National Bank of Greece, Novartis, Amdocs, Logitech International and Suntech Power. While we are committed to further international diversification, we remain alert to domestic opportunities that could become available as a result of market volatility and changes in economic conditions.

Our strategy is to buy companies with the best prospects in any industry we consider attractive, regardless of their principal location. We bought Toyota and Honda, for example, because of their superior product quality, technological innovative skills and marketing strength, not because they are Japanese companies. Similarly, we invested in Novartis because of its R&D capability and outstanding product lines, not because it is based in Switzerland.

Collectively, we are very pleased with the progress these companies are making and remain optimistic about their ability to continue these trends. Toyota and Honda, for example, are becoming increasingly prominent in strengthening their positions in the automotive industry. This applies to technological innovation, product quality and marketing success, with Toyota on the verge of becoming the worldwide market leader. The market performance of these stocks did not reflect these strengths in 2007 because the rising yen had a restricting effect on the Japanese stock market, but we believe the outlook for these investments remains exceptionally strong. Other foreign stocks are also affected from time to time by conditions in their local markets, but we do not believe that their long term performance will be diminished.

In contrast to the serious earnings declines of major banks in the U.S., HSBC had modest earnings growth in 2007 because strength of its operations in Hong Kong, the rest of the

Asia-Pacific region, Latin America and other emerging markets more than offset the impact of the subprime mortgage collapse on its business in the U.S. and Great Britain.

The National Bank of Greece is another example of the benefits of international diversification. In addition to the bank's solid fundamentals, it continues to prosper due to its strong position in Greece and Turkey and successful expansion into Eastern Europe.

As mentioned previously, foreign stocks are affected frequently by local market conditions which can alter their performance in either direction. These are short term variations, with little or no bearing on longer term investment results. It must be borne in mind, however, that the year-to-year results of a portfolio with a significant number of foreign stocks is obviously influenced by such variables that are unrelated to actual company performance and comparisons with widely recognized market indices can lead to erroneous conclusions.

While there is no index that offers a realistic comparative measure of annual performance, for the aforementioned reasons, one that is now available, although imperfect, appears to be the most useful for this purpose. The S&P Global 1200 Index includes about 70% of the world's capital markets and is a composite of leading indices in various regions, including: S&P 500, S&P Europe 350, S&P/TOPIX 150 (Japan), S&P/TSX 60 (Canada), S&P/ASX All Australia 50, S&P Asia 50 (Asia, excluding Japan), and S&P Latin America 40. As we continue to expand our investment geographics, the S&P Global 1200 will eventually become a better benchmark for our portfolios. In the future, we will provide both the S&P 500 and the S&P Global 1200 indices as references.

NEW PURCHASE

<u>Delta Electronics, Inc.</u>

Delta Electronics, Inc., based in Taiwan, is a diversified manufacturer of power supply solutions, components, visual display products and electro-mechanical products. Founded in 1971, Delta is the indisputable market leader for switching power supplies used in computers and consumer electronic applications. Delta's revenue and earnings growth over the past ten years have been impressive and its operating and net margins are among the best in the industry. The company's shares trade on the Taiwan Stock Exchange.

FIXED INCOME UPDATE

Interest rates, measured by the 3-month Treasury Bill and the 10-year Treasury Note, moved lower during the quarter to 3.36% and 4.04%, respectively. The Fed lowered the federal funds rate twice during the quarter to 4.25% and each time noted equal concern about the risk of higher inflation versus slower growth. Recently, the strength of the job market has moderated, as measured by the weekly initial jobless claims and the December unemployment rate. This should ease inflation expectations and, if needed, allow the Fed to continue easing monetary policy.

For the year, the worst performing income sector of the three in which we typically invest was preferred stocks. The total return of the Merrill Lynch Preferred Stock Index ended the year down 11.3% (-17.2% excluding dividends). The poor performance was caused, in large part, by the credit sensitive nature of preferred stocks during an intense credit tightening environment and the fact that approximately 75% of the preferred stock issues outstanding are financials, which as a sector performed poorly.

An important part of our fixed income strategy involves adjusting the allocation among the three income segments (equity related income, corporate/government bonds, and preferred stock) based upon market conditions to achieve the best risk adjusted returns. Going into the credit turmoil, we were underweighted in preferred stocks, but it was still a large enough allocation to cause unfavorable overall performance. Looking ahead, there should be significant opportunity in the preferred stock income segment to receive safe but attractive dividends and also realize capital appreciation once we move past this period of credit turmoil. We believe the prices for many high quality income securities have been temporarily pushed lower and would expect prices to rebound as market participants realize the quality of the cash flows.

We are always available to discuss your portfolio. Wishing everyone a happy, healthy and prosperous 2008.

Sincerely,

Richard M. Brown, CFA
Chief Investment Strategist

Our most recent Form ADV, Part II 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