NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

April 15, 2008

Dear Client:

The Federal Reserve and the Treasury Department, acting together, have taken aggressive measures not seen since the 1930's to avoid a financial crisis. In addition to providing a massive infusion of liquidity into the banking system, the Fed has taken the unprecedented step of lending directly to a major securities firm, which may well lead to greater government regulation and oversight of this industry.

In dramatic efforts to bring the credit crisis under control and prevent a possible drastic impairment of the financial system, the Fed has injected over $400 billion of liquidity into the credit markets with cooperative efforts by the European Central Bank, the Bank of England and the Bank of Canada. The Fed has rarely acted this aggressively, clearly indicating the level of its concern. Additional actions included cutting the federal funds rate, most recently from 3.0% to 2.25% on March 18th, with a widely held expectation that the funds rate could drop to 2.0% in the near future.

A further reduction may be possible a few months later based on the effect of recent actions. The willingness of the Fed to commit so much of its resources to defending the financial system and its expressed intent to go much further if necessary, appears to have instilled somewhat more confidence in the equity market.

The causes of the credit crunch have become well known, originating with housing weakness, excesses in the mortgage market and compounded by securitization of mortgages, with excessive use of leverage as well as other subsequent abuses. The impact on many market participants has been severe, with Bear Stearns the most widely publicized. It is now becoming increasingly evident that there is a need for tighter regulation, even among traditional foes of more stringent controls, and a key concern will be to avoid letting the pendulum swing too far.

Consumer spending, which accounts for over two-thirds of GDP, may well remain sluggish despite the economic stimulus being provided by the Fed, due to an apparent decline in consumer confidence. A real bright spot in the economy is the persistent strength of exports, reflecting the fact that weakness in the dollar makes U.S. products much cheaper for foreigners to buy. The value of U.S. exports rose 16.6% year-over-year in February, following consistently strong gains in previous months.

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 near term economic outlook will continue to be influenced by weakness in housing and consumer spending, with some recent falloff in corporate spending. Conversely, it is clear that the Fed intends to maintain a stimulative monetary policy, with low or possibly lower rates. Combined with fiscal stimulus from the federal government, there could be meaningful offsets against current economic sluggishness. Although possible, there is no apparent reason to expect a significant turnaround in the overall economy in the near term.

The President of the Atlanta Federal Reserve Bank said on March 27th, “It’s clear that the economy is in a slowdown that resembles past periods that were the leading edge of a recession. I believe that an important policy objective at this juncture is to ensure that this slowdown is short and shallow.”

Just as contraction in the housing market, combined with uncontrolled mortgage lending practices, were major contributing factors to the credit crunch and weakening economy, some reversal of these causative factors would play an important role in an economic recovery. While strong improvement in the housing sector is not a near term prospect, recent increases in liquidity in the mortgage market resulting from regulatory actions could lead to lower mortgage rates and stimulate primary lending to prospective home buyers. Combined with continuing declines in home prices, there evidently has been a modest decline in the inventory of unsold existing homes, and builders’ inventories may also be below recent peaks. There could be some light at the end of the tunnel.

Global markets have been volatile during the past two quarters, particularly among emerging markets. For example, the Chinese market, represented by the Shanghai Composite Index, has declined 43.3% from its all-time high in mid-October 2007 and 34.0% for the first quarter of 2008. In India, the Bombay Stock Exchange Index has declined 26.2% from its recent peak and 22.7% for the first quarter of 2008. In contrast to these declines, there are still widely held expectations for China’s corporate earnings to grow approximately 20% annually for the next two years and India’s to accelerate more than 20%. The Shanghai Composite Index and the Bombay Stock Exchange Index are trading at 18 and 27.7 times 2008 earnings estimates, respectively. These declines may create an opportunity to benefit from the strength of both these major economies.

We have expanded our investment universe on a global basis, with over 27% of our model growth portfolio invested in foreign companies and we intend to increase this participation. While it may not always be practical for us to invest in individual companies in certain foreign markets or in sectors we sometimes deem attractive such as energy and other commodities, we can still participate by using a passive investment approach such as ETFs.

While our investment universe is expanding, our investment philosophy remains the same. We prefer to invest in high quality companies with high earnings visibility, solid

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

balance sheets and strong cash flow generation, regardless of whether they are domestic or foreign. Moreover, as we have mentioned frequently in the past, a growing proportion of major U.S. companies now derive over half of their revenues from foreign sources and this trend is almost certain to continue.

Recognizing that there are good values available and with more cash than usual in most portfolios, we remain alert for good opportunities. Although we are aware of current problems in the financial system and in the economy, we are encouraged by recent government actions and remain optimistic about the future.

FIXED INCOME UPDATE

Yields on the 3-month Treasury Bill and the 10-year Treasury Note moved lower during the quarter to 1.38% and 3.45%, respectively, as the Fed lowered rates by a full 2% since the end of the previous quarter. The credit market turmoil that started in the housing and mortgage markets has disrupted the proper functioning of the financial system, which is adversely affecting the overall growth of the U.S. economy. The Fed has taken some innovative measures to help restore some stability into the financial system and encourage financial intermediaries to extend credit to individuals and businesses. For example, the Fed has extended credit to financial intermediaries other than banks and lengthened the borrowing period beyond overnight. In addition, the Fed has substituted treasury collateral for asset backed collateral that many intermediaries do not want to hold and loan against. Many of these measures do not increase the amount of reserves in the banking system, but rather are intended to help the flow of credit through the system. Therefore, there should not be upward pressure on inflation. Also helping to ease inflation expectations is the fact that nearly every slowdown in growth, as we are currently experiencing, has the effect of lowering inflationary pressures. Although the turmoil is not over, it does appear that the measures being taken should help to restore confidence in the financial system.

The rally in Treasury securities has not been seen in most other income segments. Even municipal bonds, considered high credit quality income securities, have substantially underperformed treasury securities during the past year. The yield on municipal bonds is actually higher than the yield on a similar maturity Treasury security, despite the fact that municipal income is tax exempt. This is unprecedented and unlikely to be a sustainable situation. Eventually, municipal bonds should rally or Treasury securities should decline on a relative basis. This should also be the case, to a lesser degree, with credit spread income segments, such as preferred stock, corporate bonds, mortgage backed securities, and asset backed securities. The reward for accepting credit risk in these various credit income segments should eventually turn positive as we move past this volatile period in the income markets.

We are always available to discuss your portfolio and/or answer any questions.

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