NOESIS CAPITAL MANAGEMENT

A REGISTERED INVESTMENT ADVISOR

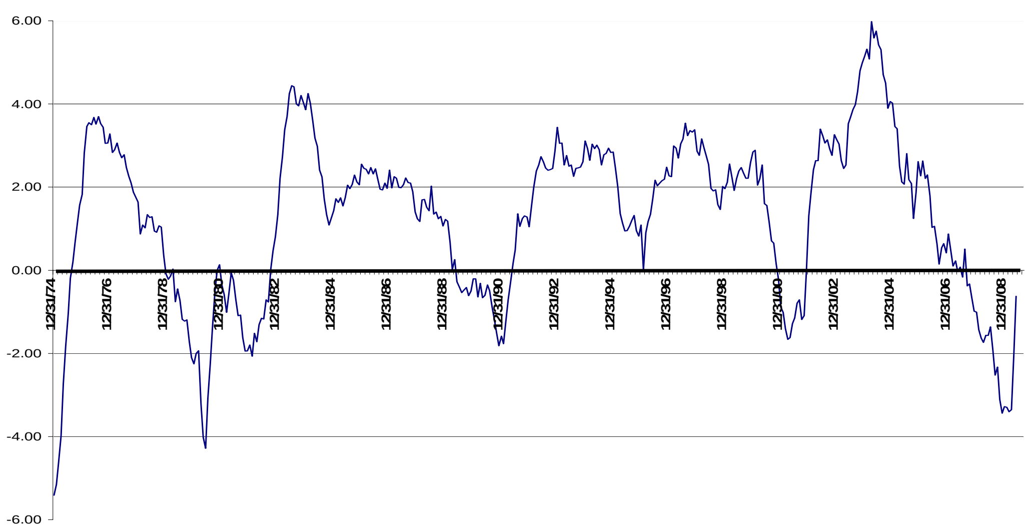
July 15, 2009

Dear Client:

As has happened repeatedly in the past, global markets have again turned around to everybody's surprise. Investor risk appetite seems to be returning and we have begun to see more money flowing into emerging markets and commodities. This is a welcome change for those investors who have participated in this recent upturn. Many investors, however, missed the recent uptrend because of their lingering uncertainty about the pace of the recovery. Many questions remain: will the recovery be quick or will it be slow and gradual?

With seven out of the ten components of the economic leading indicators having turned positive in the past two months (see Chart 1), there are signs that the economy is moving in the right direction. Based upon the severity of the current crisis, marked by the failure of so many prominent financial institutions, such as Lehman, Bear Stearns, AIG, Freddie Mac, Fannie Mae, we believe that the worst is behind us. With strong support of fiscal policies and monetary policies worldwide, the global economy should begin to grow again. The question is not if the economy is turning around, but rather how strong the recovery will be.

Chart 1. Leading Economic Index



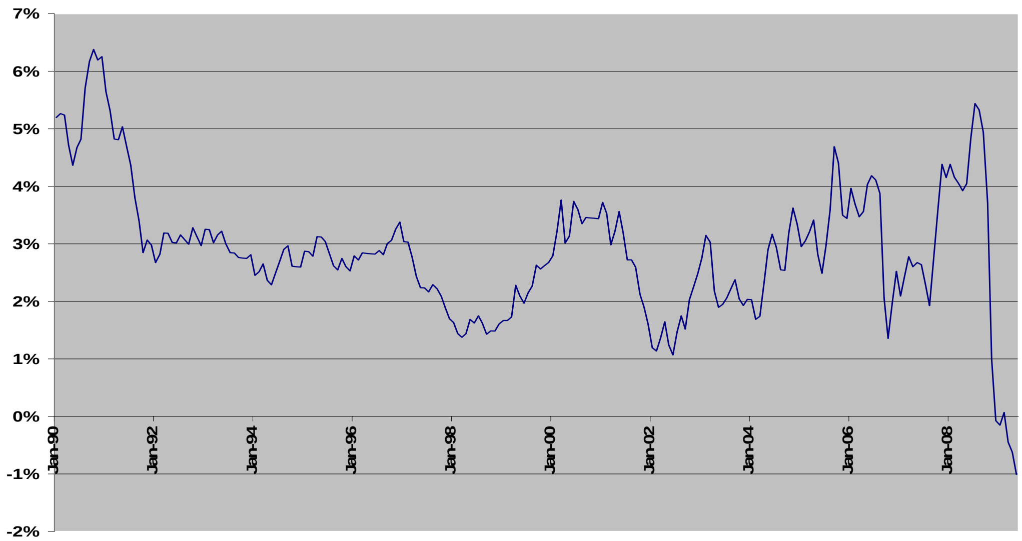
Source: The Conference Board (Gray areas reflect recessions)

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

We think the recovery will take some time. Consumers remain cautious in the face of rising unemployment and continued sluggishness in the housing market and, therefore, are saving rather than spending in the face of such uncertainty. Consumption accounts for 70% of GDP and, as such, there are still bumps in the road ahead.

We believe that the recent rebound in the price of commodities has run ahead of fundamentals. The rebound, we suspect, has been greatly helped by a number of factors including: 1) speculation on potential inflation due to loose monetary policy, 2) unattractively low interest rates and 3) expectation of a weaker dollar. These are not fundamentals. Remember that we are still in a recession and a deflationary environment stage (see Chart 2). Increasing unemployment numbers continue to be a concern and many consumers are still showing a reluctance to spend. Consequently, there is a question as to where demand will come from. Importantly, rising commodities prices without confirmed demands may further discourage consumptions and thus knock down any economic progress we have made.

Chart 2. Consumer Price Index



Of course, going forward, we understand two opposing dangers exist for policymakers. If the stimulus is withdrawn too soon, the economy may return to where we were months ago; and if too late, hyper- inflation may become a reality. The road ahead remains bumpy. Investors need to be patient.

NEW PURCHASES IN SECOND QUARTER OF 2009

Canadian National Railway (CNI)

Canadian National Railway (CNI), one of the largest railroad operators in North America, operates approximately 20,300 miles of track connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico. We believe railroad industry provides a good solution to fight against energy shortage and emission control for transportation. Besides, it serves as a back door play of rising commodities demand.

Wal-Mart (WMT)

We increased our position in Wal-Mart as it is, from our viewpoint, the best retail practitioner in the world and is well positioned to benefit from the current tough retail environment. The recent price weakness, mainly due to investors' rotation into cyclical stocks, creates a good buying opportunity.

U.S. Oil Fund (USO)

USO is an ETF designed to track the movements of the price of oil. As oil prices pulled back to $50 from a high of almost $150, this gave us the opportunity to participate in the commodity sector.

FIXED-INCOME UPDATE

During the quarter, interest rates on short term Treasuries, measured by the 3-month T-Bill, remained low and unchanged at 0.19%. However, rates on long term Treasuries, measured by the 10-year Treasury Note, rose markedly from 2.71% to 3.53%. Credit sensitive income securities, like corporate bonds and preferred stock, performed much better than Treasuries since early March and, in general, this trend is likely to continue, but likely at a slower pace. This is a sign of investor confidence improving. As investors gain more confidence, funds should move from money market funds to higher yielding income securities.

The Federal Reserve left the federal funds rate close to zero at its June meeting, stating that "economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." Recently, the unemployment rate has risen to 9.5% and the trend does not appear to be over. Historically, the federal funds rate does not start to rise until the unemployment rate peaks and starts to trend lower.

We are keeping our new purchase bond maturities to short or intermediate term. In addition, we are identifying low coupon, long maturity bonds and plan to sell these when there are opportunities. We recently purchased a 5 year bond issued by Western Union, the global money transfer company, that has a coupon of 6.5%. The company has above average free cash flow relative to sales, substantial cash on its balance sheet, and comfortable coverage of its interest costs.

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

Sincerely,

Joseph Lai, CFA
Chief Portfolio Manager

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