NOESIS CAPITAL MANAGEMENT

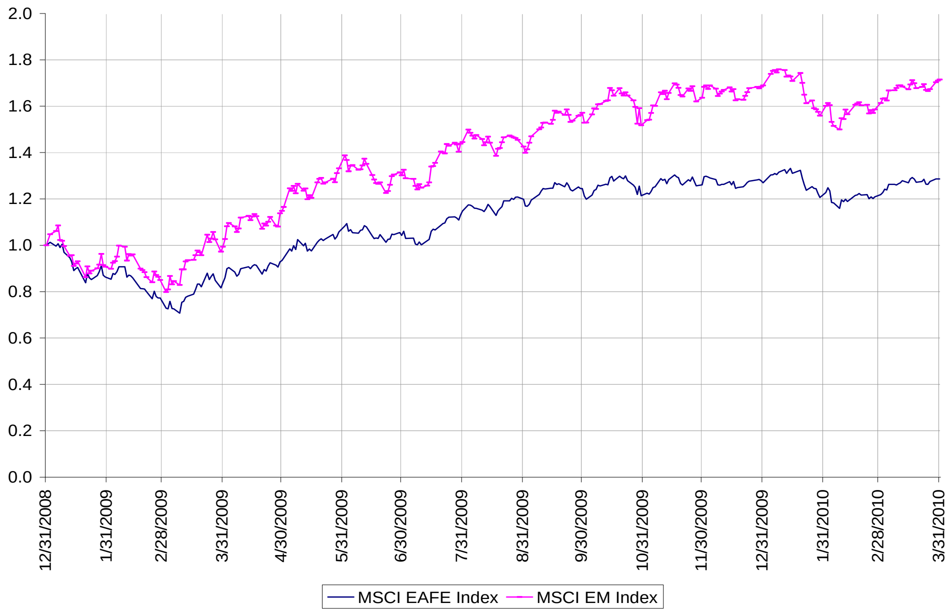
A REGISTERED INVESTMENT ADVISOR

April 15, 2010

Dear Client:

The first quarter of 2010 seemingly flew by. Fortunately, we had a relatively uneventful quarter. Total returns of the stock markets worldwide were up slightly both in the developed markets (+1.27% as measured by the MSCI EAFE Index) and the emerging markets (+1.49% as measured by the MSCI Emerging Markets Index). (See Chart 1)

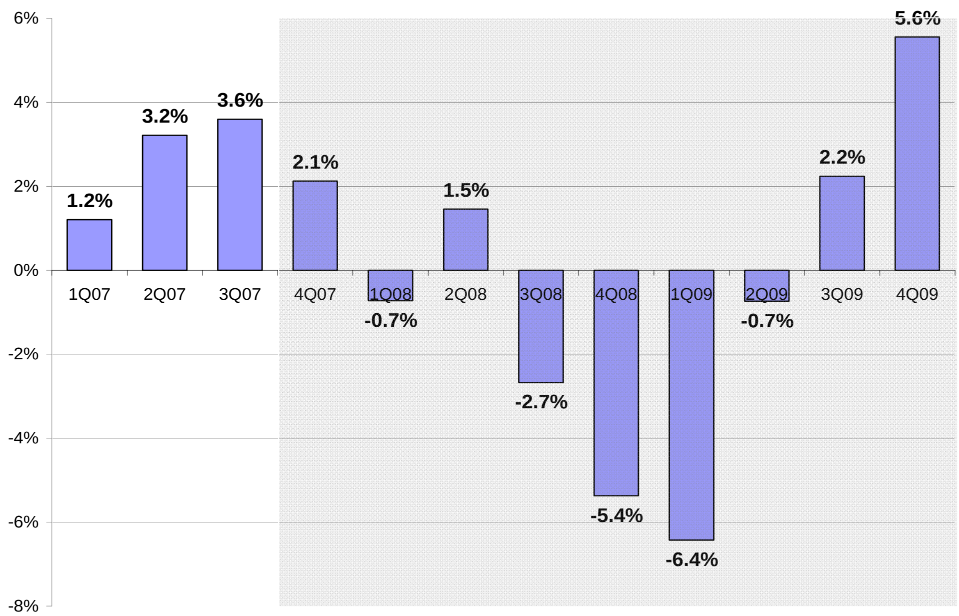
Chart 1: Stock Market Indexes



While many investors remain concerned about the sustainability of the current recovery, a number of recent economic indicators have confirmed that the U.S. economy has regained momentum. U.S. real GDP grew at a 5.6% annualized rate in the fourth quarter of 2009. (See Chart 2) Consumer confidence level was also up as measured by the Consumer Confidence Index. Finally, the job market appears to be picking up steam as shown in the increase of 162,000 non-farm payroll employment for March 2010. (See Chart 3) Based upon these indicators, we believe we are in the early stage of a recovery.

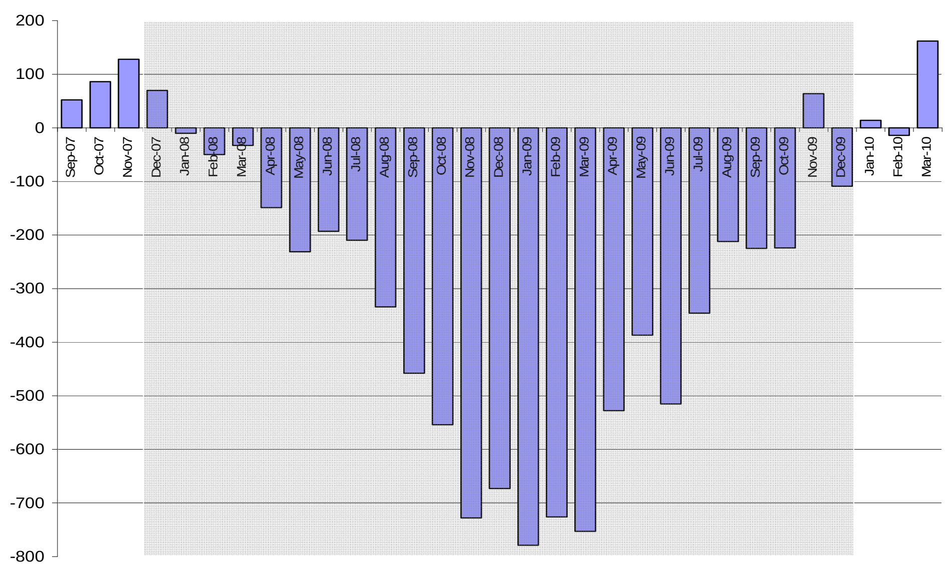
1801 Clint Moore Rd., Suite 100, Boca Raton, Florida 33487
561-999-9888 • Fax 561-994-2893 • E-Mail: info@noesis-capital.com
www.noesis-capital.com

Chart 2: Real Gross Domestic Product (GDP)



Note: Shaded area indicates the recession. Source: U.S. Department of Commerce: Bureau of Economic Analysis

Chart 3: Nonfarm Payroll (thousands)



Note: Shaded area indicates the recession. Source: U.S. Department of Labor: Bureau of Labor Statistics

Of course, there are risks and challenges ahead of us. The most serious one could be the exit timing of the economic stimulus package – too early and we risk slipping back into a recession, or too late and there is the potential of hyper-inflation. While overleveraged American households are reducing their debt and scaling back their lifestyles in general, the fact remains that personal consumption accounts for 70% of total GDP in the U.S. This reality could present a challenge for GDP growth in the long run. If developed economies cannot afford to consume at previous levels and "high-saving households" from emerging economies like China are not willing to open their wallets, where will the engine for further global economic recovery come from?

These concerns are legitimate and need to be monitored closely. However, all things considered, we believe investors remain more fearful than greedy as we have just exited the recent Great Recession. Supporting this view, the stock market worldwide has been trending sideways since October 2009. Also, U.S. households hold more than $7 trillion of cash, representing an all-time high in relation to the level of nominal GDP. The stock market currently sells at a below-average valuation while both inflation and interest rates are remarkably low. All of these factors provide a good cushion on the downside and some capacity on the upside. As such, we remain comfortable about the equity markets in general.

We recently have utilized a number of reverse convertible securities to participate in the current environment. We think these securities offer an attractive opportunity in certain situations because they offer a high yield in the short term, for example 8%, with the possibility of owning the underlying common stock if the price falls below a certain threshold, for example 20%. Typically, we will select underlying companies for these structured products which we already hold in our portfolio or would like to own in the long run, but are somewhat concerned about the short-term valuation. These securities also allow us to cut back on an overweighted stock in our portfolio. By simultaneously purchasing a reverse convertible, we reduce the risk exposure and still benefit by the high yield.

RECENT PURCHASES

<u>SPDR S&P China ETF (GXC)</u>

Having declined more than 15% from its recent high, we consider the Chinese market to be a good investment opportunity and have added this security to participate in the Chinese economic boom. GXC invests in both H-shares and ADRs, while its competitors invest in one or the other. GXC offers a more diversified exposure to these two different markets. GXC's unhedged currency component and low correlation to the U.S. market make it a good diversification tool.

FIXED-INCOME UPDATE

Short term interest rate, measured by the 3-month T-Bill, ended the quarter at 0.16%, and the long term interest rate, measured by the 10-year Treasury Note, ended the quarter at 3.84%. The Federal Reserve has closed nearly all of the special liquidity facilities that were created over the past several quarters to support the financial system. It is notable that credit markets have not shown substantial strain from the closure of these programs.

The core inflation rate, which excludes food and energy prices because of volatility, is expected to be positive but at a lower rate than in 2009. Longer-term inflation expectations continue to be stable, in part because of the substantial over-capacity in the U.S. economy.

For our income portfolios, we are buying credit spread related securities, such as corporate bonds and preferred stocks with short to intermediate maturities. We believe short to intermediate maturities (4 years and shorter) are currently more attractive than longer maturities because of the risk of rising interest rates in the near term and the steepness of the yield curve.

Once again, we greatly appreciate the referrals we continue to receive from our existing clients. We are always available to discuss your portfolio and/or address any questions.

Sincerely,

Joseph Lai, CFA
Chief Investment Officer

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

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