NOESIS CAPITAL MANAGEMENT
A REGISTERED INVESTMENT ADVISOR

April 15, 2011

Dear Client:

After the Tunisian revolution in late 2010, 2011 started with more unrest - the Egyptian revolution, Yemeni protests, a civil war in Libya - and was followed by a triple disaster in Japan with an earthquake, tsunami and nuclear crisis.

In terms of the economy, a global recovery is moving ahead, though unevenly spread. Most developed economies are slowly but steadily turning around with high unemployment, high debt burdens and mild inflation. On the other hand, emerging economies continue to show strong growth with rising inflation pressures. Meanwhile stock market results this quarter are mixed. Our view is that the global economy continues its recovery and should further benefit the markets; however, risk levels appear higher since the recovery is aging and prices have nearly doubled since March 2009.

Japan

The natural disasters that struck Japan will have major economic consequences. Some could be longer term – for example, how manufacturers will organize and diversify their operations, logistics and supply chain. The nuclear accident and its radiation may further increase scrutiny and construction costs of nuclear plants as well as accelerate the development of alternative energy. Another important issue is transparency. During the crisis, Tokyo Electric Power delayed announcements of some problems and was late with rescue measures, which have caused serious and unnecessary global concerns.

However, if history offers any guidance, most natural disasters are soon followed by a sharp increase in business activities thanks to reconstruction. Infrastructure rebuilding should start soon and will positively impact economic growth. It is important to realize that the Tohoku region contributes less than 4% to Japan's GDP, most of which comes from tourism, farming and fishing. We conclude that the shock on business activity and market sentiment has reached its maximum impact and the worst is behind us.

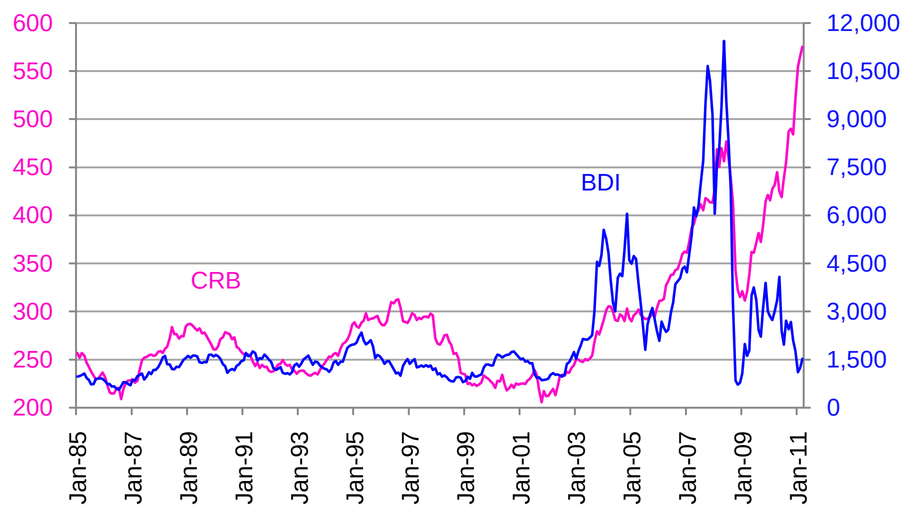
Inflation

Inflation remains a hot topic among investors as commodity prices continue to rise quickly (Chart 1). Interestingly, while those commodity prices traded in the securities market, measured by the CRB Commodity Index, are rushing to all-time highs, transportation prices of major raw materials shipped by sea, represented by the Baltic Dry Index (BDI), remain mild. In other words, the fundamentals of supply and demand of commodities are quite different from what is perceived by investors. Historically, the BDI is viewed by economists as a leading economic indicator because it provides an accurate barometer of the volume of global trade and predicts future economic activity.

Based on the BDI, global activity remains subdued. The strong asset growth of commodity exchange-traded funds confirms the investor hype. This relatively new investment tool provides an easy and convenient way for retail investors to directly participate in commodities.

We understand that the current loose monetary policy could potentially cause inflation. However, with excess capacity both in the job market and in manufacturing, we don't yet see an imminent inflation threat. One potential problem is that we get what we wish for: inflation expectation, measured as yield gaps between treasury and Treasury Inflation-Protected Securities (TIPS), has jumped back to historical averages. The perception of rising inflation from consumers and investors may indeed cause rising inflation.

Chart 1: CRB Commodity Index vs. Baltic Dry Index

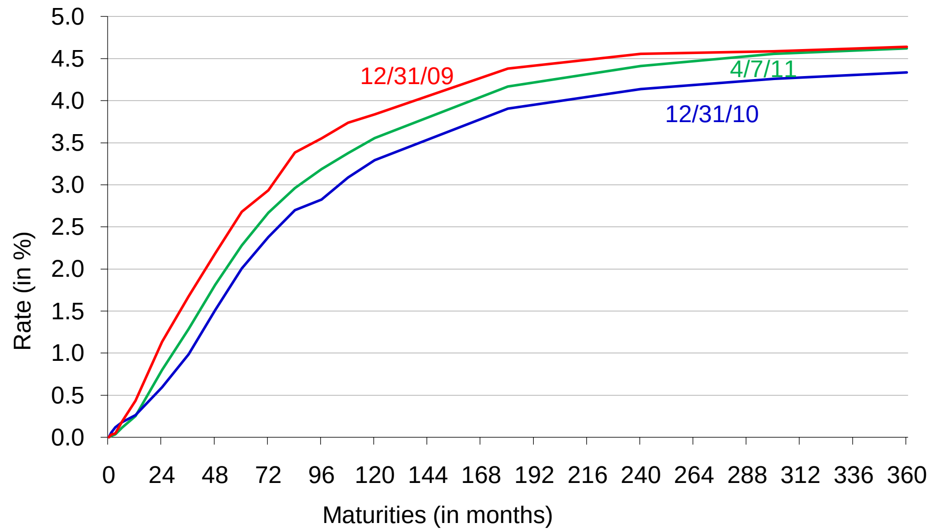


QEII

The planned termination date of the second wave of quantitative easing (QEII) is June 30, 2011. Before we talk about the potential impact, let's review QEII. Since the short-term rates have been near zero (in line with the Federal Reserve Department's target), operating at the short-end of the yield curve (Chart 2) doesn't do much good because rates cannot come down any further. During QEII the Fed has been buying longer-term treasuries, thereby forcing the long-term yields to stay low and thus hopefully stimulating consumption and investment.

Data shows that nearly 70% of the Treasury issuance since the beginning of QEII has been purchased by the Fed. Without the Fed's support, interest rates appear to have nowhere to go but up. As the bond yields rise, bond prices decline. In fact, the bond market recently discounted this concern, as shown in Chart 2.

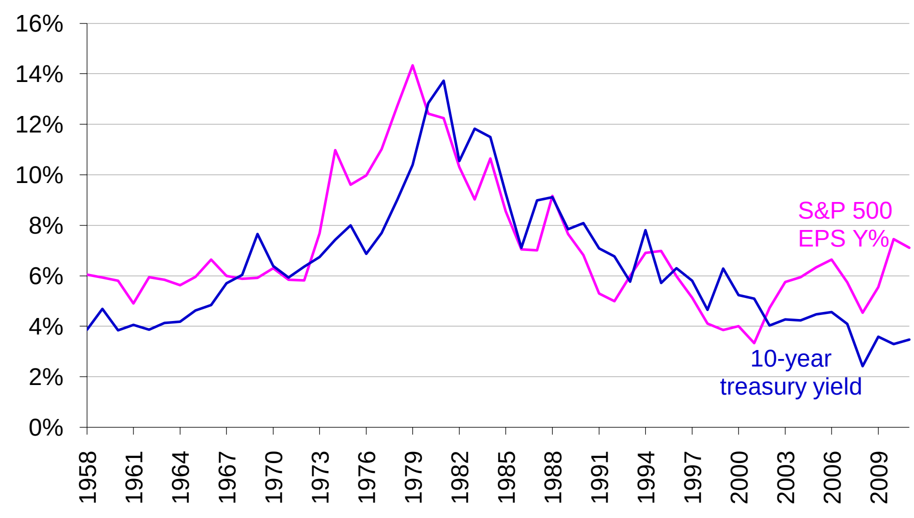
Chart 2: The Yield Curve of Treasuries



US Stock Market

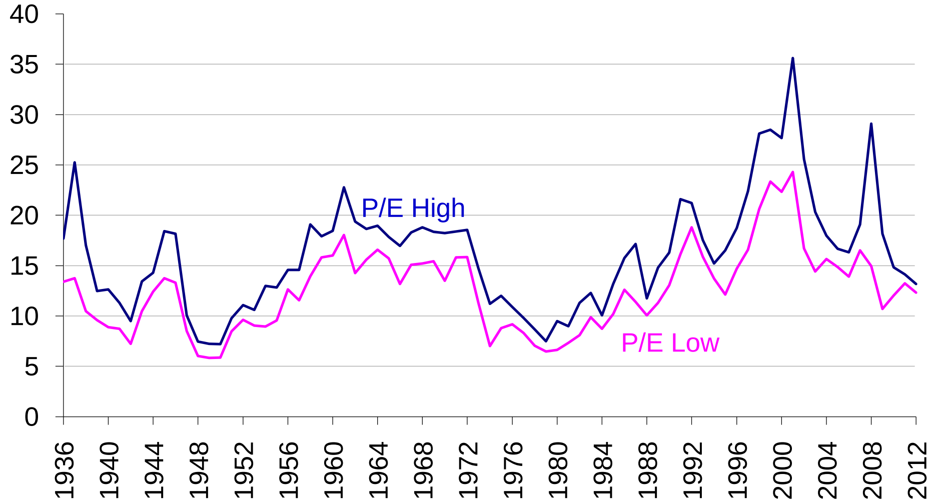
Compared to the bond market, the stock market looks relatively attractive (Chart 3). The 10-year Treasury yield has historically moved in sync with the earnings yield of the Standard and Poor's 500 Index. However, these two markets in recent years have been moving in opposite directions. While the S&P 500 Index offers earnings yields of 7.1% based on street's estimate of 2011 earnings, 10-year treasury is at 3.5%. From a historical perspective, this gap is wide.

Chart 3: The 10-Year Treasury Yield vs. Earnings Yield of the S&P 500 Index



Based on the S&P 500 Index, the current market is traded at 14.2-times the 2011 consensus estimate. It is slightly below historical averages (Chart 4). Don't forget that nearly half of all sales from the S&P 500 companies come from overseas. Global sales can benefit these blue chip companies both in terms of risk diversification and strong growth from emerging markets. We believe that top-quality global organizations remain attractive.

Chart 4: The P/E Ratio Range of the S&P 500 Index



RECENT PURCHASES

American Express

Unlike MasterCard and Visa, American Express operates a closed-loop credit card network. Therefore, it earns money by both issuing cards and processing transactions. Amex targets the top-spending customers, allowing the company to charge merchants a premium. In recent years, Amex reached agreements with major banks in the U.S. to issue its card to their clients and has signed up with third parties to acquire transactions on Amex's behalf.

Ecolab

Ecolab provides cleaning and sanitizing products/services to food service, food processing, hospitality, health care and industrial customers, such as Walt Disney, McDonald's and Starbucks. With approximately 12% market share, Ecolab is twice as big as the next competitor and the clear leader in this $50 billion industry.

Nearly half of its sales are derived from international markets. The company estimates that 95% of sales are recurring in nature. The installed equipment and consumables model makes switching costs high.

Sincerely,

Joseph Lai, CFA
Chief Investment Officer
Our most recent Form ADV, Part II is available upon request