

## BCN ADVANTAGE: 1999 ANNUAL REPORT

January 2000	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return:	63.95% <sup>1 2 3</sup>	68.32% <sup>1 2</sup>	36.47% <sup>1 2</sup>	4.61% <sup>1 2</sup>
Jan ' 97 = \$100,000 <sup>4</sup>	\$259,587	\$272,463	\$184,050	\$115,409
Beta (2000):	0.88	1.00	0.50	0.00
Risk Adjusted Return:	71.77%	68.32%	36.47%	4.61%

1. Performance results are based on the Janus Enterprise Fund (+121.9% for 1999), the Vanguard Index 500 Fund (+21.1% for 1999), the Janus Worldwide Fund (+64.4% for 1999) and an average money market return of 4.61%. The results may not reflect the actual performance of BCN Advantage clients. Past performance does not guarantee future results.

2. Performance results show the year-over-year change to net asset values and do not include the reinvestment of dividends (if any) other than interest earned from the money market fund.

3. Performance results are net of BCN Financial management fees.

4. BCN Financial is the registered investment advisor. Performance from January 1997 to June 1998 was provided through Quest Securities as the registered investment advisor.

### 1999 BCN Advantage Signals

	Date	Market	Cash
1	01/01/1999	70%	30%
2	04/01/1999	70%	30%
3	07/01/1999	100%	0%
4	10/01/1999	100%	0%
5	01/05/2000	60%	40%
	Present	60%	40%

### A Very Good Year

On the heels of an international currency crisis, unprecedented market volatility, Federal Reserve rate hikes and Y2K fears, 1999 saw just about the best performing year in market history. It will remain a classic example of Wall Street climbing a "wall of worry." To demonstrate our value, we ask for an honest answer to this one question: on your own, would you have remained fully invested right through the popping champagne corks of midnight 2000? BCN Advantage clients did, and we are very proud of our 1999 performance. But that's yesterday. What in the world is happening now... or tomorrow for that matter?

### The Next Big Thing... or Just History Repeating

Don't get me wrong. The benefits of the Internet to the consumer will be dazzling. Convenient access to all manner of goods and services at the best available price will change our lives. But for business, well... after spending billions to build-out their Internet infrastructures, corporations will discover that fierce competition - and easy access to information - will make earning actual profits extremely difficult. The Internet is nothing less than a gold rush. In 1849 those selling the picks, the shovels, the denim jeans (the equipment suppliers like our modern day Cisco) made a ton of money. But the bust will inevitably follow. We expect fully 80% of today's high-flyers to fall by the wayside.

### But This Time is Different...

We've heard the phrase "New Economy vs. Old Economy." This is a feeble attempt to explain the soaring share prices on the Nasdaq while the Dow Industrials and S&P 500 lag. What strikes me as remarkable is that 18 months ago, the prevailing wisdom had all your money going into S&P 500 Index funds (yes, those same Old Economy stocks). What these gurus forget is that "Old" buys what "New" sells, and if the Old Economy companies falter, the new ones won't be far behind. The real cause of this historic divergence is straightforward: investors are selling the perceived laggards to buy the high-flyers. Traditional 401k, 457 and IRA contributions, sources sufficient to fuel the markets at lower levels, simply aren't enough anymore. This trend is usually the precursor to major market tops. Eventually those beaten down S&P 500 and Dow stocks reach levels too attractive to sell. Buyers run

out of money to buy the "New Economy" stocks at their stratospheric prices, and the high-flyers plunge from their own weight.

### **Inflation... What Greenspan is Really Fighting**

If the idea that higher productivity causes inflation makes no sense to you... you're not alone. We suspect Greenspan's "wealth effect" is really a smoke screen. Greenspan knows where inflation is... in stock and real estate prices... and yes he's worried about a stock market bubble. But Greenspan has remarkable faith in free markets. Perhaps his real worry is what happens when Congress begins spending the billions of dollars in projected budgets surpluses over the next decade. Clinton has already proposed adding prescription drugs to Medicare. When the federal government subsidizes demand without affecting supply, you get inflation... big time. Want another example: look what's happened to college tuition costs. Have all those federal grants and loans made college any more affordable to your family?

### **1973 - 1974 Déjà vu All Over Again?**

Interest rate hikes. OPEC pushing crude oil to 10-year highs. A hand-full of companies (65 stocks accounted for 99% of last year's gains) moving the Nasdaq to record highs. Add an inverted yield curve (30-year treasuries yielding less than 10-year notes) and we have a scenario eerily reminiscent of our last true bear market: the '73-'74 crash. Japan's 1980's boom ended with a recession and protracted bear market that has lasted more than a decade. Given these potential dangers, why not move entirely to the sidelines? Because a much overdue correction in the major indexes would be healthy for the market, wringing out excesses and setting the stage for the next up move. Those budget surpluses, depending on how they're spent, could add significant fuel to the fire (consider privatized Social Security accounts, for example). And we fully expect a return to value investing (buying established companies with real earnings) when the correction ends. That will create a huge migration out of the current hot stocks and hot funds, and require vigilance to keep our clients ahead of the crowd. In the meantime, here we sit, properly positioned between two very different outcomes.

We look forward to an excellent year in 2000. We appreciate your faith and confidence. And we are eager to apply the lessons learned for your benefit.

### **BCN Financial is the Registered Investment Advisor**

We are required to offer [Form ADV Part 2](#) to our clients each year. Contact BCN Financial for a copy.