BCN ADVANTAGE: 2000 ANNUAL REPORT

January 2001	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return:	-18.13% [1 2 3]	-21.10% [1 2]	-7.73% [1 2]	5.64% [1 2]
Jan '97 = $100,000% [4]	$213,616	$214,981	$169,827	$121,919
Beta (2000):	0.87	1.00	0.50	0.00
Risk Adjusted Return:	-18.47%	-21.10%	-7.73%	5.64%

1 Performance results are based on the Janus Enterprise Fund (-30.5% for 2000), the Vanguard Index 500 Fund (-9.1% for 2000), the Janus Worldwide Fund (-16.9% for 2000) and an average money market return of 5.64%. 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 earnings 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.

2000 BCN Advantage Signals

	Date	Market	Cash
1	1/1/2000	100%	0%
2	1/5/2000	60%	40%
3	4/18/2000	100%	0%
4	7/1/2000	100%	0%
5	10/1/2000	100%	0%
	Present	100%	0%

First a Reminder

No, we are not happy with our 2000 performance. But before we get to the missteps, here's a quick look at what we got right:

1. We correctly predicted the demise of the Internet startups: "the bust will inevitably follow. We expect fully 80% of today's high-flyers to fall by the wayside." [BCN Advantage 1999 Annual Report.]
2. We successfully avoided much of the March-April decline.
3. Where possible, we positioned our clients in mid-cap stocks, one of the year's best performing groups. This limited the downside and demonstrates that fund selection (not just market timing) is a major component of the BCN service.
4. We moved fully into the market following the March-April decline, taking advantage of the climb back to Nasdaq 4200 that ended in late August.

But… missing the September exit signal more than offset the gains from the first 8 months of the year.

Two Mistakes … Key Conclusions

Mistake #1: Thinking our key market indicators had been distorted by the uncertainty surrounding the presidential election.

Conclusion: Markets hate uncertainty and the outcome of this presidential race was the most uncertain in our nation's history. But the noise from the election should have been dismissed, not our key indicators.

Mistake #2: Thinking the market's March-April decline had already priced in the ½ point Fed hike of May 16th.

Conclusion: The market does not do a good job of anticipating (and pricing in) Federal Reserve interest rate moves. Instead the market tends to react to Fed moves after the fact. The best evidence was the

market action leading up to the Jan 3rd rate cut. The closely watched Fed futures precisely predicted that (1) the Fed would cut; (2) the Fed would cut ½ point (rather than the ¼ point many analysts expected); and (3) the Fed would cut between scheduled meetings (rather than waiting for the next FOMC meeting on Jan 31st). Despite being right on all counts, the market continued to sell off heavily right up to the Fed's "surprise" move.

For the record, this is more than just hindsight – these are invaluable lessons for the future.

Don't Fight the Fed
Sure, we know that… but what does this mean when it comes to your money? The first half of the equation is straightforward: when the Fed CUTS rates, it's time to move fully into the market. The Fed almost always cuts interest rates when economic conditions are at their worst. Though it often takes more than one rate cut to fully reverse the market's decline, waiting for an absolute bottom is rarely worthwhile. Remember the market's dramatic reversal after the Fed cut rates in October 1998, in the face of the international currency crisis? We didn't wait. We moved our clients back into the market and remained fully invested through most of 1999, a record setting year.

Okay, so what steps should we take when the Fed RAISES rates? Our analysis shows that it's almost always a mistake to move instantly to cash when the Fed begins a series of interest rate hikes. The Fed raises rates when it perceives "unsustainable growth": the economy is overheated and growing too fast. In other words, the Fed begins to raise interest rates at precisely the moment when economic conditions are at their best. Historically, interest rate hikes take six months to sink their teeth into corporate earnings and precipitate a market decline. So… when the Fed begins a series of interest rate hikes, it's important to remain in the market until the first clear sign of trouble.

That's why, in the second half of 1999, we remained fully invested despite the Fed rate hikes that began in June. Our key indicators showed the first warning signals in early January 2000, so we went 40% cash. The Nasdaq continued to climb until mid-March, when it began its 2000-point freefall over the next 4 weeks. At that point we thought the coast was clear and returned to a fully invested position. It was mid-April.

That decision was correct. If you recall, the Nasdaq clawed its way back to 4200, once in July and again in late August. But the rally failed in the first week of September. Right before Labor Day, the Nasdaq established a double-top and broke below its 200-day moving average – a clear technical signal to move substantially to cash.

The point here is that our indicators worked fine. Unfortunately, we discounted what we were seeing because of (1) the uncertainty surrounding the election and (2) the magnitude of the year's earlier decline. The tight Presidential race proved not to be a factor. The earlier March-April decline should not have created a false sense of security – one storm passing does not preclude another from brewing. When Alan Greenspan and the Fed made their ill-fated decision on May 16th to raise rates yet again (½ point, at that), we should have begun an entirely new vigil… waiting for the first clear sign of trouble.

Does Inaction Mean No Action?
Our job is to spot the warning signs. If we miss a signal or misread our indicators, we know from long experience that the worst reaction is to sell into the decline. Our job is to get our clients out BEFORE the market heads south, not after the damage is done. Unless the sky is falling, downturns become a BUYING opportunity, and not a time for panic selling. So our decision was to hold tight. That doesn't mean we weren't sweating every moment of a miserable market… and enduring sleepless nights. It doesn't mean we weren't working hard… in fact we were exercising the strictest form of investment discipline.

Is the sky falling? No way. "Because a much overdue correction in the major indexes [is] healthy for the market, wringing out excesses and setting the stage for the next up move." [BCN Advantage 1999 Annual Report.] The New Economy shakeout represents a thinning of the herd. The companies that survive will no longer face cash-burning startups that give away services to capture "market-share," "eye-balls," and hoped-for advertising. Instead that Old Economy model will prevail: charging real money for products and services that customers want to buy.

We look forward to an excellent year in 2001. 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.