

## BCN ADVANTAGE: 2001 ANNUAL REPORT

January 2002	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return: Jan '97 = \$100,000 <sup>4</sup>	-2.16% <sup>1 2 3</sup> \$209,560	-18.36% <sup>1 2</sup> \$175,509	-7.20% <sup>1 2</sup> \$157,608	3.97% <sup>1 2</sup> \$126,761
Beta (2001): Risk Adjusted Return:	0.61 5.59%	1.00 -18.36%	0.50 -7.20%	0.00 3.97%

1 Performance results are based on the MFS Mid-Cap Fund (-19.9% for 2001), the Vanguard Index 500 Fund (-12.0% for 2001), the Janus Worldwide Fund (-22.9% for 2001) and an average money market return of 3.97%. 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.

### 2001 BCN Advantage Signals

	Date	Market	Cash
1	01/01/2001	100%	0%
2	06/15/2001	0%	100%
3	10/03/2001	60%	40%
4	12/14/2001	100%	0%
5	12/31/2001	100%	0%
	Present	0%	100%

### 2001 Proves Two Points

We are, to say the least, extremely pleased with our 2001 performance. In the throes of a brutal bear market, we outperformed a passive buy & hold strategy by an impressive 16.46%. Even a 50% cash position did not defend you as well as the BCN advantage service. We must admit, upfront, that the events of September 11<sup>th</sup> skewed the numbers more than little. Our clients were fortunate to be in cash prior to acts that no one could predict. Yet to our credit, the June 15<sup>th</sup> alert had already proved correct several weeks prior to that day.

Here are 2 observations about the year we've just weathered:

1. The value of experience – or more specifically, the importance of learning from your mistakes – cannot be overestimated.

After nearly 2 decades of analyzing the stock market, the most important lesson I've learned is simply this: *When it comes to investing, do what makes you feel the most uncomfortable.* If we're going to let our emotions guide us – then be contrarian – and do exactly the opposite of what they tell us to do.

It's an incredibly difficult lesson to learn – and apply. In the 5 years that we've offered the BCN Advantage service to our clients, we've only failed to heed this lesson once, and the result was our 9/8/2000 decision not to exit the market. With experience, you CAN sift through the mountains of information, read and trust your indicators, and set aside the conflicting emotions when the time comes to act.

2. The value of active management – or more specifically, the importance of the BCN Advantage service – is just beginning to be appreciated.

Counting the dollars is easy: For a client who had \$100,000 invested last year, our service paid for itself for the next 30 years. No that's not a typo: simply divide \$16,460 by our \$540 annual fee. We say this not to show off, but to remind you of our value... and perhaps to encourage you to remind others.

### **What's Changed? ...the Case for Active Management**

Counting the intangibles is more difficult – but just as important: A change in investment philosophy is underway, and you're far ahead of the crowd. Active management will become as predominate in the 21<sup>st</sup> century as passive buy & hold was in the last. And the change springs from the power of information.

When “modern” portfolio theory was developed in the 1950s, only the major brokerage houses and Wall Street bankers had access to objective, accurate, timely information. In the absence of such information, it is impossible to make informed investment decisions. *The only defense is to make NO decision* – which, when you think about it – is really what passive buy & hold investing became. Unable to distinguish top performing sectors from the bottom dwellers (at least not with the lead time necessary to gain advantage) – individual investors spread their money around and hoped for the best.

What's changed (as recently as the last 10 years) and with implications just beginning to become clear – is the quality and speed of the available information. And like any other area of human endeavor, investing is no different: Information is key – and those who devote themselves to understanding that information gain substantial advantage.

### **Staying Ahead of the Crowd**

The BCN Advantage service does not involve prediction. Our crystal ball is just as cloudy as everyone else's. The key to active management is watching our market indicators carefully for changes in the trend, and then responding to the new trend QUICKLY – ahead of the crowd. We react, we do not forecast. We can spot the change – but we cannot predict when the next change will occur, how long it will last, or how far it will go.

Right now the overall trend continues to be bearish. When the markets finally do turn, the up move could be substantial – easily exceeding 30% within a few months. The primary reason for this is the tremendous amount of money that has moved to bonds – and will return to the stock market at the first signal the Fed intends to raise interest rates. That money flow will propel innovations in technology, health science, and yes... even the Internet. If history is any guide, the new leaders will be companies most of us have never heard of.

When will that happen? Impossible to say. But rest assured...we'll make every effort to keep you ahead of the crowd.

As always, we look forward with great optimism. 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.