BCN ADVANTAGE: 2002 ANNUAL REPORT

January 2003	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return:	-16.21% [1 2 3]	-25.39% [1 2]	-12.07% [1 2]	1.26% [1 2]
Jan ' 97 = $100,000 [4]	$176,221	$130,951	$138,592	$128,354
Beta (2002):	0.72	1.00	0.50	0.00
Risk Adjusted Return:	-14.21%	-25.39%	-12.07%	1.26%

1 Performance results are based on the Fidelity Mid Cap Fund (-27.6% for 2002), the Vanguard Index 500 Fund (-22.2% for 2002), the Janus Worldwide Fund (-26.0% for 2002) and an average money market return of 1.26%. 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.

2002 BCN Advantage Signals

	Date	Market	Cash
1	01/01/2002	100%	0%
2	01/30/2002	0%	100%
3	03/04/2002	60%	40%
4	08/19/2002	100%	0%
5	12/31/2002	100%	0%
	Present	0%	100%

36 Months and Counting
The market has been so bad for so long, the numbers read like a history lesson: The Nasdaq fell 39.3% in 2000, 21.1% in 2001, and 31.5% in 2002. At the October 2002 bottom, the Nasdaq had imploded 78.4% from its March 2000 high, a depth and duration second only to the Dow's collapse of 89.5% from 1929-1932. To add even more perspective, only 4 times in the past 170 years have the market averages declined for three consecutive years, the last occurring from 1939-1941.

Half of the top 10 bankruptcies of all time have happened since late 2001. Behemoth energy trader Enron filed for Chapter 11 in December 2001, and was soon followed by fiber-optic firm Global Crossing and discount retailer Kmart. In January, Arthur Andersen admitted to document shredding, but by March the market began to rally, believing that incidents of corporate malfeasance and accounting fraud might be limited to Enron. Then came the SEC investigation of WorldCom, culminating in the telecom company's restatement of $3.8 billion in falsified earnings and filing for bankruptcy protection. Seeing companies collapse is one thing. But when the public saw CEOs willfully betraying investor trust, they began to lose faith in the market. From the high of 2055 on January 8th, the Nasdaq fell all the way to 1114 on October 9th.

In the face of this brutal bear market, the importance of the BCN Advantage service could not be more evident. Once again we outperformed a passive "buy & hold" strategy by a substantial margin: 9.48% in 2002. For the entire 3 year period, we have outperformed "buy & hold" by a cumulative 29.16%. For every $100,000 under BCN management from 2000-2002, that's $29,160 of losses avoided. One misstep was the March 4th decision to move

60% into the market, but we could not know the WorldCom debacle was lurking just 9 days around the corner! And to our credit, we avoided the panic selling in October because we understood the significance of the market's double-bottom.

The Fog of War

"The heightening of geopolitical tensions has only added to the marked uncertainties that have piled up over the past three years, creating formidable barriers to new investment and thus to a resumption of vigorous expansion of overall economic activity," Greenspan said in February 2003.

The problem is more than psychological. Companies have cut earnings guidance as their customers delay orders, and much of the recent U.S. economic data is bleak: First-time jobless claims continue to hold above the key 400,000 mark. Consumer confidence fell to the lowest level in a decade. Manufacturing turned negative, housing starts fell, and retail sales slid as high gasoline prices cut into consumption. Analysts caution that anything less than an optimal outcome to the war could disrupt the U.S. and possibly global economy, especially if Iraqi forces sabotage oil fields as they did in the 1991 conflict.

The Federal Reserve continues to hold interest rates at 1961 lows, contending that uncertainties caused by war with Iraq are so extreme the FMOC cannot gauge the economy's prospects. Said Greenspan: "the committee does not believe it can usefully characterize the current balance of risks."

His comments are curious, given the nearly universal consensus that the 1991 Gulf War provides a blueprint: From January 15, 1991 (on the eve of the Gulf War) until February 28, 1991 (the cease-fire), the Nasdaq gained 27%. Once again, if the war is quick, this time ousting Hussein, destroying his weapons of mass destruction, and liberating jubilant Iraqis (with few casualties), the expectations run high. But how long will the market's euphoria last, especially with quarterly earnings just around the corner? Like Greenspan, we don't know – and we are not in the business of guessing.

The Battle for Investment Survival

"Willingness and ability to hold funds uninvested while awaiting real opportunities is a key to success in the battle for investment survival," wrote Gerald Loeb, a legendary stock trader who sold most of his holdings just prior to the Crash of 1929. Loeb argued that investors should not buy until the profit possibilities greatly outweighed the risks. A major part of his analysis focused on assessing (not predicting) the prevailing market trend. And right now the overall trend continues to be bearish.

Yet, despite the looming war and dismal economic news, our confidence is growing. We believe the October 2002 lows will prove to be the bottom of this historic bear market. With thanks to Investors Business Daily, we've enclosed a chart of the 1974 Dow Jones double-bottom, with its eerie resemblance to the Nasdaq pattern in August-October 2002. We believe that panic selling and investor capitulation were clearly evidenced by the record $53 billion is stock fund outflows in July 2002. And we are encouraged that only once in the past 170 years has the Dow fallen in 4 consecutive years. The year was 1932.

Finally, let me quote the "The Longer View" (courtesy of the Cabot Market Letter): "Should a major market advance develop, it's unlikely to blossom into a runaway bull market. …All major manias are followed by long periods of consolidation, typically lasting a decade or more. …More likely now is a pattern similar to the one we experienced from 1966 through 1982, when the Dow spent 16 long years butting its head against the ceiling at 1000, in the process going through repeated cyclical bull and bear markets. ...That doesn't mean you can't make money in such an environment. It just means that buy and hold investing won't work. Nor will trusting your money to indexes. The only way to make money in one of these trading markets is to practice market timing … having the patience to sit quietly and hold cash when the market is going down, and having the courage to quickly move to an aggressively invested position when the market is going up."

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.