BCN ADVANTAGE: 2009 ANNUAL REPORT

January 2010	BCN Advantage Act/Mgmt	100% Invested Buy/Hold	50% Invested Buy/Hold	100% Cash
Total Return:	53.36% [1 2 3]	40.56% [1 2]	20.40% [1 2]	0.25% [1 2]
Jan ' 97 = $100,000 [4]	$475,272	$247,773	$223,202	$152,481
Beta (2009):	0.86	1.00	0.50	0.00
Risk Adjusted Return:	71.74%	40.56%	20.40%	0.25%

1 Performance results are based on the T. Rowe Mid-Cap Growth Fund (45.5% for 2009), the Vanguard Index 500 Fund (26.5% for 2009), the Dodge & Cox International Fund (47.5% for 2009) and an average money market return of 0.25%. 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 Inc. is the registered investment advisor. Performance from January 1997 to June 1998 was provided through Quest Securities as the registered investment advisor.

2009 BCN Advantage Signals

	Date	Market	Cash
1	01/01/2009	25%	75%
2	03/23/2009	100%	0%
3	04/01/2009	100%	0%
4	07/01/2009	100%	0%
5	10/01/2009	100%	0%
6	12/31/2009	100%	0%
	Present	100%	0%

A Decade of Dubious Records

Numerous market records were set during the first decade of the new millennium, including the price of Gold: $1,217.40 December 2009, Oil: $147.27 July 2008, Gasoline: $4.114 July 2008, the Euro: $1.6038 July 2008, the DJIA: 14,165 on October 9, 2007, the S&P 500: 1,565 on October 9, 2007, and the Nasdaq: 5,049 on March 10, 2000. National median home prices reached $226,000 in August 2006. 30-year fixed mortgages (4.71% December 2009) and 10-year Treasury yields (2.06% December 2008) hit record lows.

Then there is the record of futility set by the U.S. stock markets. From the close on the last day of trading in December 1999, the DJIA declined 1,069 points (-9.3%), the S&P 500 declined 354 points (-24%), and the Nasdaq declined 1,800 points (-44%). This is the worst performance for stocks in any decade EVER – and yes, that includes the Great Depression.

For the decade, the BCN Advantage Actively Managed index enjoyed a +83% GAIN. The Buy & Hold index suffered a 9% loss. That 92% outperformance is directly attributable to tactical market timing.

Repeating Cycles of Declines and Rallies

Long-term “secular” BULL markets are easy to recognize. The most recent, from 1982 to 2000, was characterized by an unrelenting upward trend, with only occasional hiccups (like October 1987). Secular BEAR markets are not mirror opposites. Though they match bull markets in duration (typically lasting 15+ years), long-term bear markets are characterized by repeating cycles of declines and rallies. The S&P 500 suffered through 2 major DECLINES during the decade: Over the 2½ years that ended October 9, 2002, the S&P 500 lost 49%. Over the 17 months that ended March 9, 2009, the S&P 500 lost 57%. Conversely, the S&P 500 experienced 2 major RALLIES during the decade: Over the 5 years that began October 9, 2002, the S&P 500 gained +101%. From March 9, 2009 through year-end, the S&P 500 gained +65%.

It’s worth noting that the 4 worst total return years for the S&P 500 in the last 75 years took place in 1937, 1974, 2002 and 2008. In the FOLLOWING years, the S&P 500 gained +31.1% in 1938, +37.2% in 1975, +28.7% in 2003, and +26.5% in 2009. The most reliable “crystal ball” is a working knowledge of market history. How else could we anticipate (in January 2009, 8 weeks BEFORE the March bottom) “an 18 to 24 month rally that should take the indexes up 50% or more?”

Why "Double-Dip" is Unlikely

Back-to-back recessions are rare: 1980 and 1982 are the only post-WWII examples of a "true" double-dip and are attributed to Paul Volcker's much-heralded antidote to double-digit inflation: aggressive interest rate hikes. During secular BEAR markets, rallies occur because the Federal Reserve cuts interest rates and the Federal government cuts taxes or injects stimulus (or both). Markets decline when these economic supports are removed. The decade's timeline paints this picture clearly:

1999:	Fed begins series of 6 rate HIKES (6/30/1999), taking rates from 4.75% to 6.5%
2000:	DECLINE: Dot-com implosion begins
2001:	Recession begins
	Bush tax cuts
	Fed begins series of 13 rate CUTS (1/3/2001), taking rates from 6.5% to 1.0%
2003 – 2007:	RALLY
2004:	Fed begins series of 17 rate HIKES (6/30/2004), taking rates from 1.0% to 5.25%
2007 Q3:	S&P 500 earnings begin to deteriorate
	Fed begins series of 10 rate CUTS (9/18/2007) 5.25 – 0.0
2007 Q4:	DECLINE and Recession begins
2008 Q1:	Bush $600 tax rebate checks
2008 Q2:	Nasdaq briefly rallies 300 points (14%)
2008 Q4:	Stock markets collapse, S&P 500 has worst quarterly earnings EVER
	Fed cuts to zero (12/16/2008),
2009 Q1:	$700 billion TARP and $787 billion Obama stimulus plan
2009 Q2:	RALLY begins

We cannot say definitively WHEN a market decline will occur after the Fed begins raising interest rates. In 1999, it took 6 months (although hikes began with rates at 4.75%). In 2004, it took more than 3 years (but the Fed began with rates at then historic lows of 1.0%). We CAN anticipate – with a high degree of confidence – the next major decline will not begin until AFTER the Fed pushes interest rates above 4.5% OR the economic stimulus ends.

A Fed Funds rate above 4.5% is at least 2 years away. Following the 2001 recession, the Fed waited more than 2½ years to begin raising rates. As for the stimulus, according to CBO estimates only 21% of stimulus spending occurred in 2009; another 38% will come in 2010, and 22% in 2011.

What will fuel the next stage of the rally? (1) Jobs: The unemployment rate is a lagging indicator. As the recovery takes hold and people return to work, the same forces that drove the decline are thrown into reverse. (2) The Yield Curve: Through November 2009, $349 billion flowed into BOND funds (most coming from near zero-interest money markets). During the same period, investors took $4 billion OUT of stock funds. (Little wonder: 70% of investors were BEARISH at the March bottom). If the yield curve steepens – with very low short-term rates and RISING longer-term rates – billions of dollars will be forced out of bond funds.

This Rally will End in Tears

Eventually, the excesses and imbalances in capital, credit and real estate markets will work their way out, but likely NOT before we experience one more wrenching decline (20% or greater). Secular bear markets end when P/E ratios for the major indexes compress below 10. With the S&P 500 at 1115 and 2010 projected earnings at 46, the P/E ratio is currently at 24. Initial public offerings, the life-blood of young bull markets, must re-emerge: Only 12 venture capital backed companies completed an IPO in 2009, and just 18 in the past two years, the lowest total since 1974-75.

Finally, what unseen, unanticipated pitfalls could derail the current rally? (1) Lingering high unemployment – above 10%, (2) Heavy-handed regulatory reforms, (3) Tax increases, (4) Defaults on foreign national debt, and (5) Ebbing demand for U.S. Treasury debt. This last point is especially disconcerting. In 2009 ALONE, the Federal deficit was $1.42 Trillion. In October 2009, NET purchases by Foreign governments were $21 Billion (a mere $250 billion annualized). For the record, China, the largest holder of U.S. Treasury securities, maintained its holdings at $798.9 billion in October 2009.

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 Inc. 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.