



Don Niemann
President

With 20 years in the financial sector, Don Niemann has a compelling background that demonstrates his excellence in market analysis, designing methodologies and managing the complexities of buying and selling securities in a diverse marketplace. In 1991, Don founded Niemann Capital Management with the idea that a systematic and disciplined approach to risk management will provide superior returns over the long run and positively affect client retention.

Minimum Initial Investment
\$100,000

Maximum Management Fee
2.30%

Advisor Location
Capitola, CA

Number of Staff
18

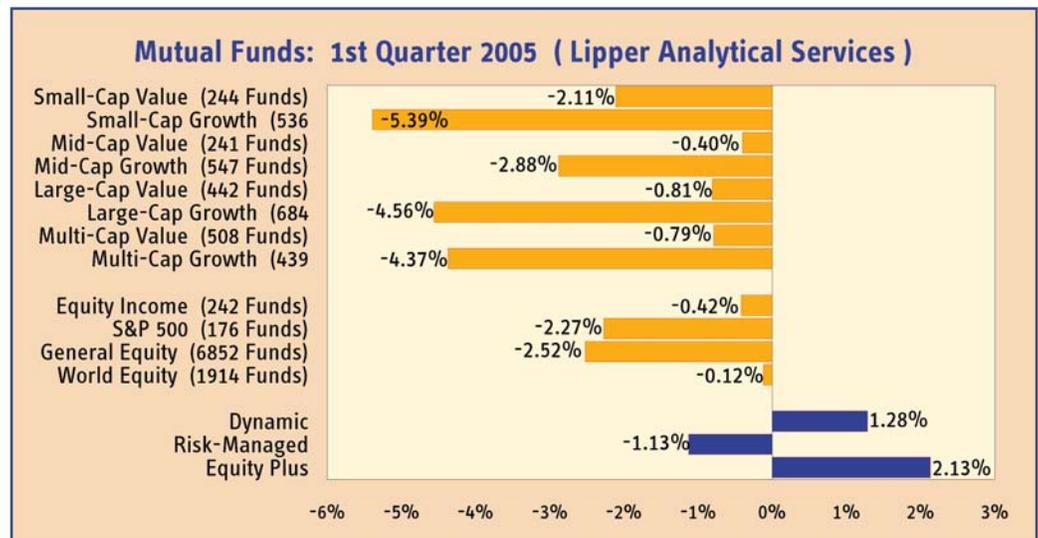
Assets Under Management
\$488 million

Was it soaring crude oil prices or fear the U.S. dollar might collapse under the weight of our trade deficit? The steady diet of rate hikes we've been Fed recently hasn't helped, or what about that hint of inflation in first quarter economic reports? Some combination of the above put a cap on that good post-election rally we were enjoying until it ended abruptly on New Year's Eve. U.S. stocks started lower right out of the gate in January, with most of the damage inflicted over the first three weeks. A mild mid-quarter rally was good enough to achieve marginal new highs in the Dow Industrials and S&P 500, but for the first time in years the Russell 2000 (a proxy for small companies) lagged the market and failed to best its previous high with the others. Markets turned lower through March so that by the end of Quarter 1, 6852 diversified U.S. equity funds tracked by Lipper limped to the close with a 2.52% average loss.

Getting More Defensive

For the first time since the spring of 2004, credit spreads are beginning to widen. High Yield and Emerging Market debt are trending down (lower prices equal higher yields) and new offerings are virtually non-existent. This might have more to do with anticipation of a downgrade in General Motors debt (to junk!) than concern over the economy near term. Yet aversion to risk has spread into stocks as well. Have you noticed the shares of cyclical companies are selling off even as they report spectacular earnings? We say if it looks like a duck and quacks like a duck, it's probably a duck. The markets are sensing another "soft-patch" on the horizon, so you will find your risk-managed accounts more defensive. Cash levels in Risk are averaging 35% or thereabouts. We expect downside in stocks should be limited since first quarter earnings are coming in better than expected, and the yield curve remains normal. Historically, it takes an "inverted" yield curve, where short-term rates are higher than longer-term, to cause a recession and even then it takes another twelve months to happen.

As you can see in the chart "Mutual Funds: 1st Quarter 2005" below, growth categories led the downside again. What was surprising was that small company growth and small value led the markets lower. It's too soon to call this a change



S&P 500 Index: The S&P 500 Index is a capitalization weighted, unmanaged group of 500 stocks as selected by the Standard & Poor's Publishing Company. They are usually the 500 largest companies in terms of market capitalization and are chosen to represent the entire market's value. The S&P 500 is used by many institutional investors as a performance benchmark representing the "stock market" return.

in trend, but considering their spectacular 5-year run along with the failure to make new highs mentioned earlier, it's at the very least an eye-opener. Niemann strategies have been trading up from small to mid-cap companies since early 2004. That trend has matured over subsequent months to the point our portfolios feature many more mid-cap than small-cap names. Value remains our style of choice, and thankfully this combination of mid-capitalization companies and value-oriented style management has fortified our strategies against the market headwinds this year—at least so far.

Third Installment of Our Strategy Reviews

Did you know that even when lucky enough to own the best mutual funds, most investors under-perform the markets over time? There are many reasons why, and most of them can be traced back to the two basic emotions of fear and greed. Frankly, this is a good thing because the herd doing the wrong thing at the wrong time creates some of our edge. What we don't like is when this happens with one of our investors. Perhaps a client loses more than anticipated in a market downturn or makes less than expected during a bull move. Expectations are missed, emotions kick in, and everyone loses.

Over the years we've learned the best way to increase the odds that everyone wins is by helping clients deepen their understanding of how our strategies work. Having the right expectation is everything. That's

why in our 3rd Quarter 2004 Review we took a closer look at the trading in our Dynamic Strategy, and last quarter we turned our attention to Risk-Managed. This time we'll focus on our most complex strategy: Equity Plus. But before we get into the nuts and bolts, let's revisit some of the key concepts underlying our management style.

Key Concepts

The "buy-sides" of Niemann strategies are strikingly similar: each driven by bottom-up, quantitative analytics that emphasize risk-adjusted performance. Simply put, this means understanding the risk/reward relationship of each investment, and how that relationship changes over time, is the foundation upon which each strategy is constructed. To do this, we crunch the numbers on over 4000 domestic and international mutual fund and variable sub-accounts every day.

Time horizon is key. When we make an investment, we're expecting to own it for at least 9 to 15 months (of course the market is the ultimate arbiter of holding periods). Not only does this time line give us a shot at long-term capital gains, over fifteen years of practical application demonstrate it to be the most profitable for our investment approach.

Separating each of our strategies and making them unique are: 1) what types of securities are used in the strategy and 2) each strategy's specific tactical policies. For example, you may remember that our Dynamic mutual fund portfolios

are charged with being fully invested on the long side of U.S. equities under all market conditions. Since Dynamic is confined to domestic equities, it performs best when U.S. markets are strong. Since tactical policies include remaining fully invested on the long side, one would expect Dynamic to be first out of the blocks when a new bull trend begins, as well as suffer the largest drawdown during a bear phase.

Equity Plus

The strategy description for Equity Plus says it is; *designed to exploit intermediate trends in global and domestic markets across the complete spectrum of asset classes. This complex strategy may be long, short and/or hedged in domestic and international equity and bond mutual funds.*

Obviously the opportunity to invest in international markets alone separates Equity Plus from our other mutual fund strategies. But on top of that, Equity Plus employs tactical policies quite differently as well: the manager has discretion to position the portfolio "net short." This means that Equity Plus could benefit from falling stock markets, but could also lose money when markets are going higher. Like Risk-Managed, the manager may be fully in cash. We can get a better idea of what all this means by taking a look at how this very flexible mix of policies played out at different points in the past. The first chart, sub-titled "dot.com Bust," is a snapshot of Equity Plus versus its benchmark and the S&P 500 index over 2002. This year is instructive because while it was the final year of a brutal bear in stocks,

we didn't make much money on the short side!

Once safely through the Sept. 11 plunge in stocks, we positioned Equity Plus in Emerging Markets in addition to the small-cap value we'd owned for some time. As you can see on the chart, the strategy was having a pretty good year going into early summer, making new highs even as the S&P 500 was well into its decline (see point 1). We had an edge: our sizable allocation to foreign markets. In fact, this turned out to be the beginning of a trend of superior performance in Equity Plus. Why? 2002 was the beginning of a three-year bear market in the \$US dollar! By investing overseas during a period of dollar weakness, U.S. investors benefit through

appreciation in foreign currencies in addition to the underlying securities themselves. This wind has been at the back of Equity Plus since the spring of 2002.

Emerging Markets or Short U.S.?

As summer approached, U.S. markets were closing in on a test of their Sept. 2001 lows (inside the rectangle labeled 2). Through the entire process our long positions remained highly rated, and we were carving out a growing lead over our benchmark. Out-performance stretched to 1000+ basis points or 10% by the time U.S. markets tested their Sept. lows (point 3 in 'Net Return over Benchmark'). This was the setup for one of the most criticized investment decisions we've

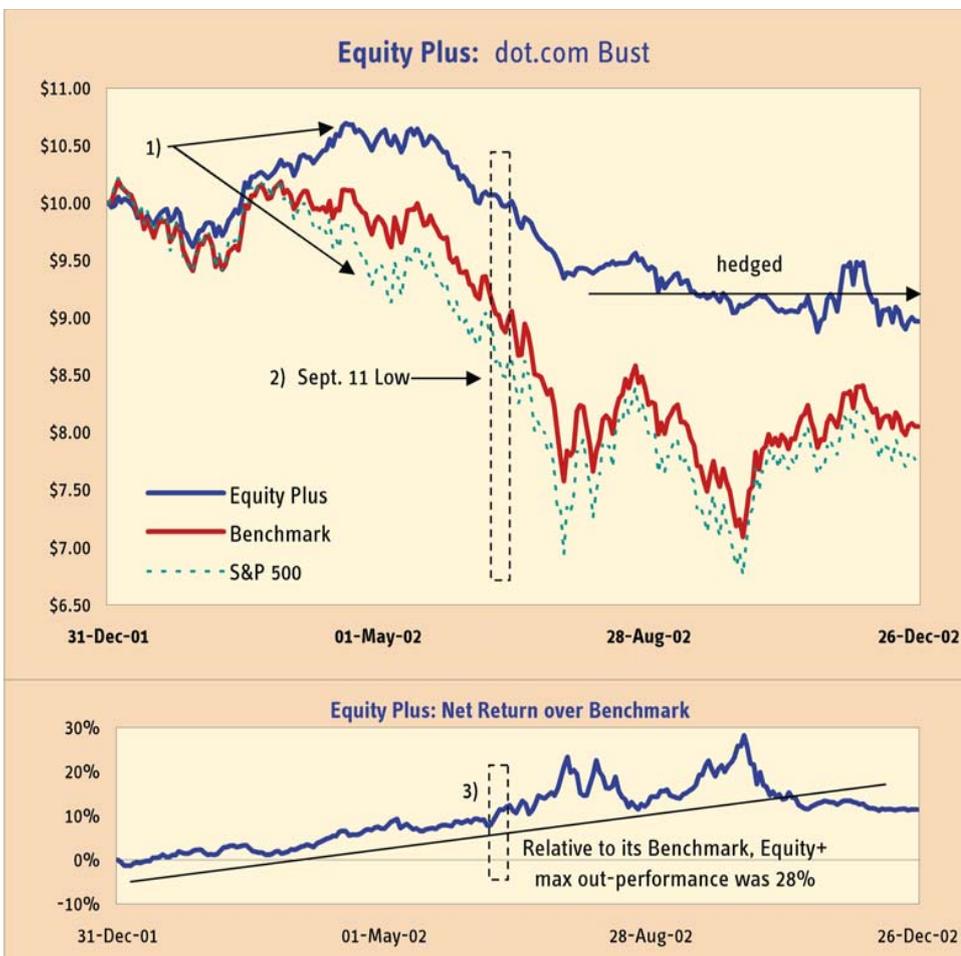
made so far at Niemann: not being net short U.S. stocks in the summer of 2002. It would have been a great call, at least for a few weeks.

Not only is this a great example of missed expectations for everyone concerned, it gets to the heart of why the Equity Plus strategy is so complex: there are a lot of moving parts! Remember, one of our objectives when positioning a new fund is to hold it for nine to fifteen months. It takes magnitude—in time or price—for the investment to prove unworthy. Point 2 played out like a normal pullback, and with a falling U.S. dollar energizing our positions, Equity Plus was performing pretty well. We expected that low to hold! Well, it didn't, and when U.S. stocks fell into their death spiral in June, equity markets around the world were sucked down with them.

As it turned out our choice to focus Equity Plus overseas rather than on short domestic stock potential in 2002 was the wrong one. As money-managers we must continue to re-evaluate the market trends of that period against the data to improve our strategies. For investors this drama is a rare glimpse into the challenges accompanying great flexibility in investment policy and scope. Still, after all was said and done, it was a better than average year. Equity Plus built up a 25%+ return over its benchmark despite the bear, and fared better yet against the S&P 500. We'll take that kind of performance any time.

Foreign Influence Is Growing

A bear market has been in force in the U.S. Dollar since 2002. Brief as



they've been, periods of counter-trend strength are instructive because of their impact on Equity Plus. One such respite is shown in our next chart subtitled "U.S. Dollar Ebb & Flow." Led by a brisk pullback in Emerging Markets, the portfolio sold off steeply as a dollar rally unfolded in the spring of 2004 (see rectangle). Had U.S. stocks not been heading south at the same time, this downturn would have shown up in bold relief. Imagine your Equity Plus account down 5% while our other strategies are up 5%! It may happen at some point because foreign influences over this strategy are growing.

Since the end of the great bull market in Japan over fifteen years ago, foreign markets (that mattered) generally have been correlated with our own. Enduring their own private bear market, Japanese consumers pulled back leaving us with the role of "engine of growth" in the world. Combined with a strong dollar policy through the 90's, opportunities for Equity Plus in foreign markets and currencies were few and far between. This won't be the case in the future if China, India and Russia live up to even half their promise.

Already China is the number 2 economy in the world and they're

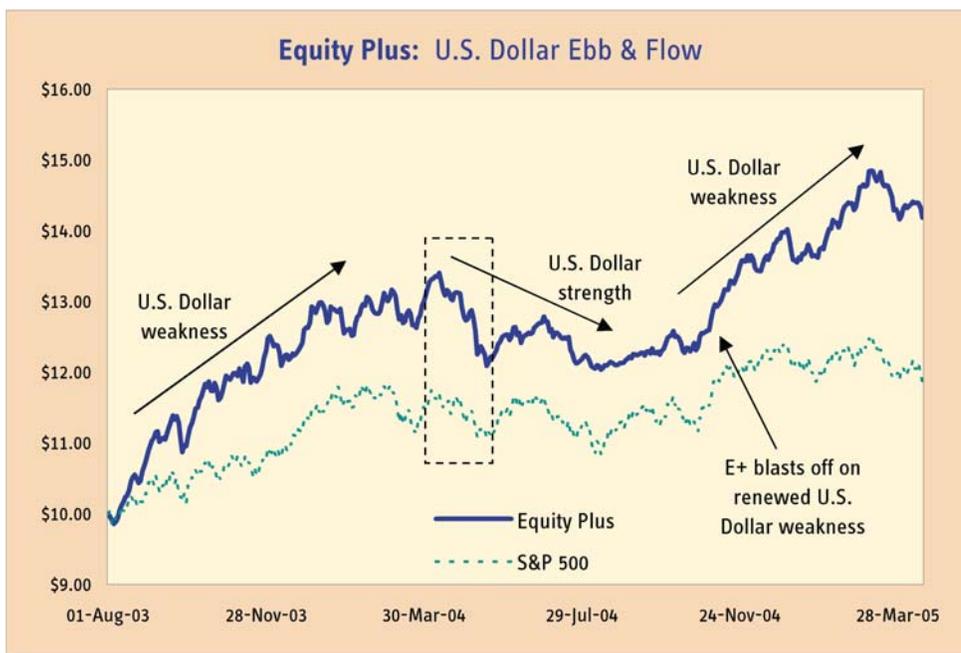
growing almost three times as fast as us. They are the second largest consumer of oil and have the second highest defense budget. 20 million people a year move into the cities looking for factory work. We have less than 18 million manufacturing jobs total. All else being equal, with over five times our population it seems likely East Asian economies and markets will shape the future. U.S. investors may experience extended periods of time when foreign markets are uncorrelated and perform better than our own.

We've barely scratched the surface of this most interesting and challenging strategy. Its complexity is growing along with a myriad of new instruments being developed by fund companies. Add an extensive tactical flexibility and you have a strategy that won't always perform as you might expect - unless you keep track of ALL its moving parts!

Thank you for your continued confidence,



Don Niemann
President, CIO
Niemann Capital Management, Inc



Call your investment advisor today for more information describing how Niemann Capital Management helps add value to clients' investments. Please refer to our website for additional performance information, www.ncm.net.

This material is written by Niemann Capital Management, Inc. and is for informational purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Any opinions expressed are those of the author and are not necessarily those of the distributing party. The material does not purport to be complete and should not be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

Past performance does not guarantee future results. Given the inherent volatility of the securities markets, it should not be assumed that investors will experience returns comparable to those shown here. Any stock market transaction can result in either profit or loss. Additionally, the performance of Niemann's profiles should also be viewed in the context of the broad market and general economic conditions prevailing during the periods covered by the performance information. Market and economic conditions could change in the future producing materially different returns. Please visit us online at www.ncm.net or call 1-800-622-1626 for current performance information or for a complete list and description of Niemann's composites.

Performance results are presented net of transaction costs and Niemann Capital Management's actual management fees. Please refer to Part II of Niemann's Form ADV for current management fee structure. Additionally, Mutual funds and variable annuities (Funds) pay various fees, all of which are disclosed in the Funds' prospectuses. Such fees are borne by shareholders and are reflected in the net asset value of each Fund. Some Funds also charge short term redemption fees and excess transaction fees (Special Fees), which are billed to shareholders at the time of the event causing the fee. All of these fees are in addition to Niemann's advisory fees. In selecting Funds in which to invest, Niemann considers the nature and size of the fees charged by the Funds. Niemann will select a Fund only if Niemann believes the Fund's performance, after all fees, will meet Niemann's performance standards. Consequently, Niemann may select Funds, which have higher or lower fees than other similar Funds, and which charge Special Fees. When deciding whether to liquidate a Fund position, Niemann will take into consideration any Special Fees which may be charged. Niemann may decide to sell a Fund position even though it will result in the client being required to pay Special Fees.

Performance results and comparative benchmarks assume reinvestment of dividends and income. All profiles and reports have been prepared solely for informational purposes, and are not an offer to buy or sell, or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. All performance figures presented, include all actual, fee-paying, fully discretionary accounts in a composite. Individual account performance may differ from the composite.

Niemann Capital Management, its affiliates or its employees may have positions in and may effect transactions in securities and instruments mentioned in these profiles and reports. Some of the investments discussed or recommended may be unsuitable for certain investors depending on their specific investment objectives and financial position. The benchmarks to which Niemann Capital Management compares its performance do not represent actual trading. Individuals cannot invest directly in an index.