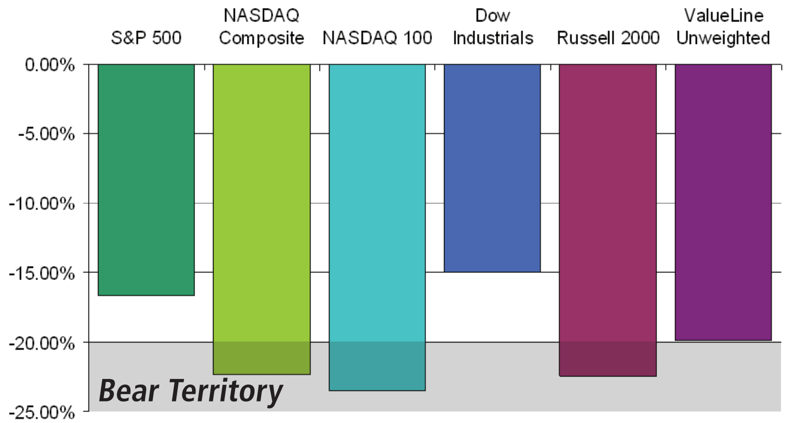
Niemann Manager Commentary
March 20, 2008: A Return to Volatility?

NIEMANN CAPITAL MANAGEMENT

Q: Don, how would you characterize 2007?

Don Niemann: It was a transition year from a bull to a bear, which is to be expected considering that the current cycle began in 02/03. This bull-to-bear transition is also in line with the uncertainty and resulting unease caused by the anticipation of the upcoming presidential election and the prospect of a change in political power in Washington. Given that the market is a forward-pricing mechanism, we're currently seeing discounting in advance of the actual event.

Are we in a Bear Market?
2007 High to March 6, 2008



The results cited above were found at www.fasttrack.net . This information has been obtained from sources we believe to be reliable, but its accuracy and completeness are not guaranteed.

As this chart illustrates, as we move deeper into 2008, we've clearly entered bear territory in the Nasdaq Composite, Nasdaq 100, Russell 2000 and the ValueLine Unweighted indices (defined as a 20% drop from a previous market high).

Q: The mortgage crisis is generating quite a lot of ink.
What are your thoughts about the recent steps taken to address this problem?

DN: Obviously, no one wants to see people lose their homes. What we're seeing is policy makers deploying some top-down mechanisms to mitigate the problem. As we mentioned in last week's Market & Allocation Update (3-13-08), on Tuesday, March 11th, the market rocketed up 4% across the board on the back of the Fed announcing it would make available $200 billion in liquidity, with the intent of stimulating lending.

The Fed is offering this credit facility to primary dealers (institutions like Washington Mutual) to allow them to re-capitalize if they choose—by trading their high grade, presently illiquid, mortgage-backed securities and bonds—for very liquid treasuries (for a period of up to 28 days). The hope is that this will serve as a confidence builder. The Fed is essentially reaffirming the "quality" of this debt—debt which was previously of limited value as a source of collateral. The Fed believes lenders will then be freed up to lend money to those in need (providing much-needed liquidity to the system).

Ultimately, their hope is to steepen the yield curve and create liquidity, so banks can rebuild their balance sheets.

Q: And how about recent steps to forestall a recession?

DN: I've continued to consider this issue, following last week's Market & Allocation Update (3-13-08). While I agree that the Fed has struggled over which evil to combat first—inflation or recession—here's my take: They're attempting to do both, which is what taking the toxic waste off the banks' balance sheets is all about. The money supply is actually contracting, because as the Fed lowers rates, the dollar declines. As a result, everyone's taking money out of the US; the impact of rate reduction lags by 6 to 9 months; and in my view, the economy is probably already OK. The market is declining because it hates the policies it sees coming out of the election year environment.

The traditional tools used to counter a recession, such as lowering interest rates and increasing the money supply, will also have the effect of further weakening the dollar and fueling speculation. As a consequence, both commodity and energy prices will likely go higher in the short-term. And foreign buyers—taking advantage of their strong currencies—will snap up US Dollar-denominated futures contracts in oil, for example, causing the price of these contracts to continue to rise, regardless of real demand.

My concern is that the efforts to control the mortgage crisis and avoid recession, in combination, could make for a poor foundation and inhibit the performance of the next market cycle.

Q: Is there a segment of the market where you see strength today?

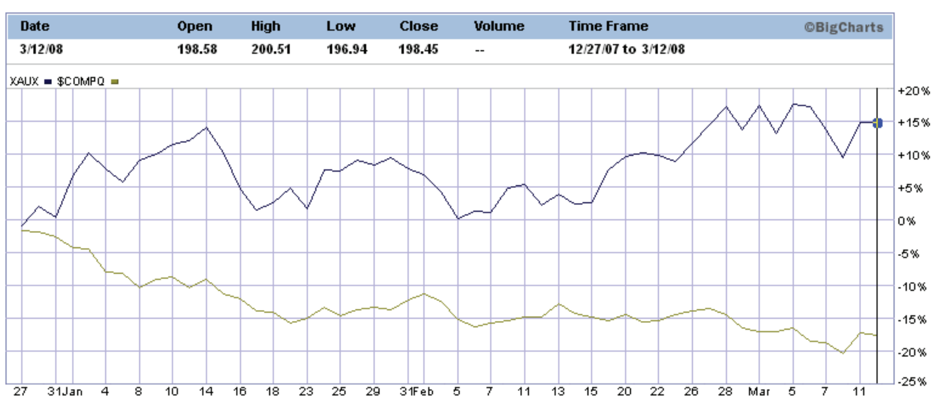
DN: Recently, I think you could say there's been a secular bull market for energy—not only energy, but basically, commodities. There's been a huge energy cycle, but I think it's really tough to determine at present if that will continue.

An example of a bull market that occurred w/in a bear trend is the comparison below which shows a weakening Nasdaq vs. a strengthening trend in precious metals during the same period.

Secular Bull within a Bear

December 27, 2007 – March 12, 2008

- *Philadelphia Stock Exchange Gold/Silver Index*
- *Nasdaq composite*



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Q: Is there a previous period in history with which you could compare our current situation?

DN: The financials (the Savings & Loans) were in even worse shape in 1990. The headlines are different but the fundamentals are the same—a real estate cycle driven to extremes by too much liquidity. Back then it was the Japanese with plenty of cash. This time the impact is more local (personal).

I remember buying a house in Santa Cruz in 1989 for $215k. Within three months the houses across the street were flying off the shelf for $260k. Two years later, nothing would sell for $185k. That was over a 30% haircut. Is it different this time?

That house I owned ultimately sold for $895k at the top of the last cycle. My friend's house across the street is on the market at $695k, again a pretty good haircut – but not much different.

My current estimation is that for both real estate and the stock market, we haven't seen the bottom yet.

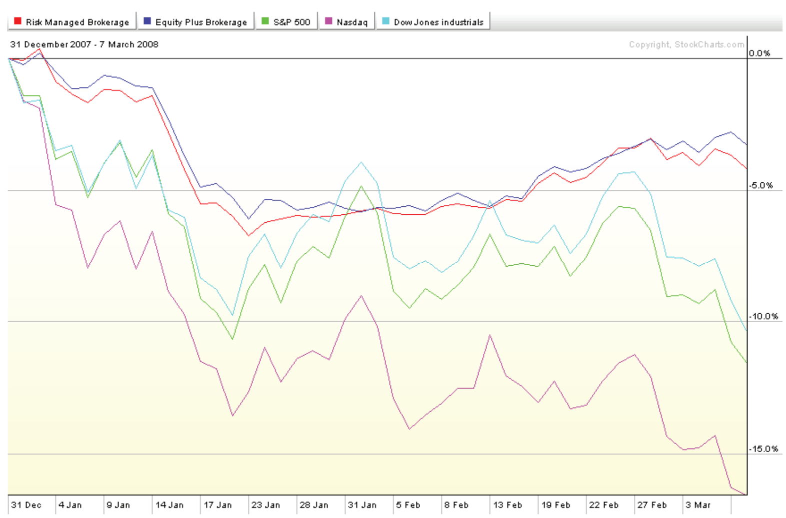
Q: Investors always seem to fight panic when there's a market downturn.
How do you think people should react to what's happening now?

DN: One of the cornerstones of our methodology and what our process is designed to do is help investors avoid catastrophic loss. With the significant volatility we've seen over the last three or four months, these are the market conditions where we really benefit our clients. Protecting our clients in these circumstances—in the tough times—is really what we get paid for.

The Benefit of Niemann Strategies

December 31, 2007 - March 7, 2008

- *Risk Managed Brokerage*
- *Equity Plus Brokerage*
- *S&P 500*
- *Nasdaq*
- *Dow Jones Industrials*



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As this chart illustrates, while the market continues its downward trend, our strategies with defensive capabilities have leveled out due to the defensive positions we've taken to protect our investors' capital.

We've been doing this for a long time and this is where our experience pays off. I think it's fair to say that our track record shows if you give us the time, the process will prove itself.

Q: History is also replete with examples of investors surrendering to their fears and abandoning the market. Would you recommend a different response?

DN: There is an old Wall Street expression that "the market climbs a wall of worry." Between the dislocations and the politics, we're building that wall right now. Soon, opportunity will knock.

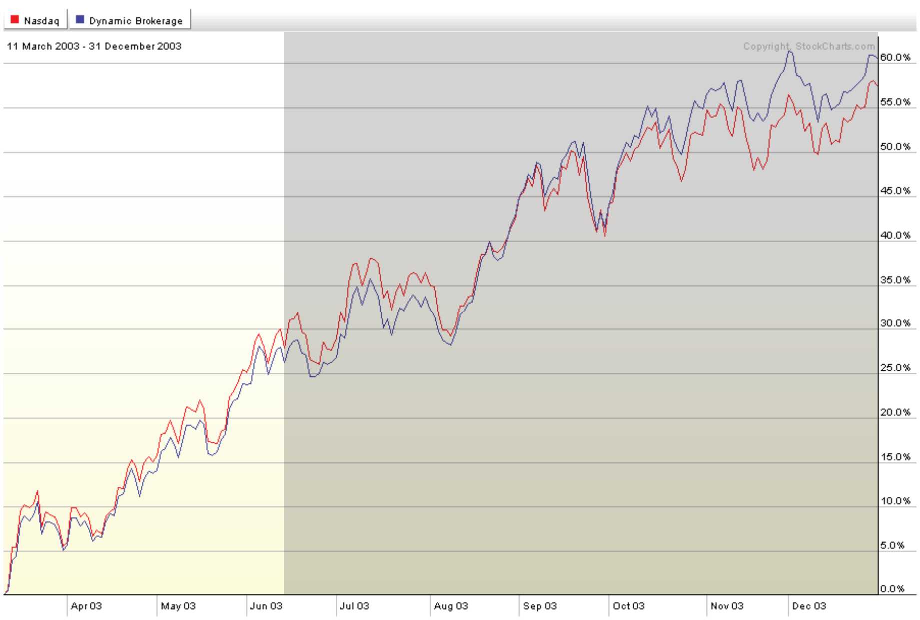
The reality is, you have to stay engaged. Our process is designed to rotate out of declining market "themes" to the next emerging leader. If the market doesn't immediately identify an emerging leader, we'll rotate you defensively to protect you in volatile times like this. But throughout the process, you're positioned to take advantage of whatever happens next. That's why you've got to stay in the game; allow the defensive mechanisms built into our strategies to cushion the downside; and be in the market to take advantage of the next cycle when it occurs.

The reason this is so important is because invariably, the market will surprise you, and you can't respond accordingly unless you're ready to strike at that specific moment in time. The most explosive part of a bull move is usually at the very beginning.

The Importance of Staying Engaged

The Recovery

- *Nasdaq*
- *Dynamic Brokerage*



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That's exactly what this chart illustrates. The '00-'02 bear market came to an end with the beginning of a recovery phase in October of 2002. The bull move picked up in March of '03 and continued strongly for the remainder of the year. But the first 90 days of this period generated 57% of the upswing shown.

By the time the folks "waiting it out" on the sidelines decide that it's safe to get back in the game, they've missed out on a significant percentage of the next upswing and they will be in chase mode for the rest of that up move.

Q: Final thoughts?

DN: We need to remember that investing is a marathon rather than a sprint. This downturn will pass and another upswing will begin (led by something we may not even know about today) just as the crushing bear cycle of ’00-’02 passed and gave way to the bull market of 2003.

Those investors who weather this bear and are engaged when the new bull emerges will be the winners of the next cycle. That’s really the heart and soul of our process—protect investors from catastrophic loss and keep them positioned to take advantage of the next opportunity.

In short, this too shall pass.

Dow Jones Industrial Average: *The Dow Jones Industrial Average is an index of 30 “blue-chip” U.S. stocks. At 100-plus years, it is the oldest continuing U.S. market index and the best-known market indicator in the world. It is called an “average” because it originally was computed by adding up stock prices and dividing by the number of stocks.*

NASDAQ Composite: *The Nasdaq Composite Index is a market capitalization price only index that tracks the performance of domestic common stocks traded on the regular Nasdaq market as well as foreign common stocks and ADRs traded on the National Market System.*

NASDAQ 100: *The NASDAQ-100 is a stock market index of 100 of the largest domestic and international non-financial companies listed on the NASDAQ stock exchange based on market capitalization. It does not contain financial companies, including investment companies. On December 1, 2004, QQQ was moved from the AMEX to the NASDAQ and given the four letter code QQQQ. It is sometimes known as the “Quad Qs”, or “Cubes”.*

Russell 2000: *The Russell 2000 consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization. The Russell 3000 is composed of the 3000 largest U.S. companies by market capitalization, representing approximately 98% of the U.S. equity market.*

S&P 500 Index fund: *The S&P 500 Index Fund is a mutual fund that keeps a portfolio of 500 stocks designed to match the S&P 500.*

Value Line un-weighted Index: *An un-weighted stock index containing 1,700 companies from the NYSE, American Stock Exchange, Nasdaq and over-the-counter market.*

The Philadelphia Stock Exchange Gold/Silver Index - *The PHLX Gold/Silver SectorSM (XAUSM) is a capitalization-weighted index composed of 16 companies involved in the gold and silver mining industry.*

All other funds shown are provided courtesy of Lipper Analytical Services and Niemann Analytics, Inc.