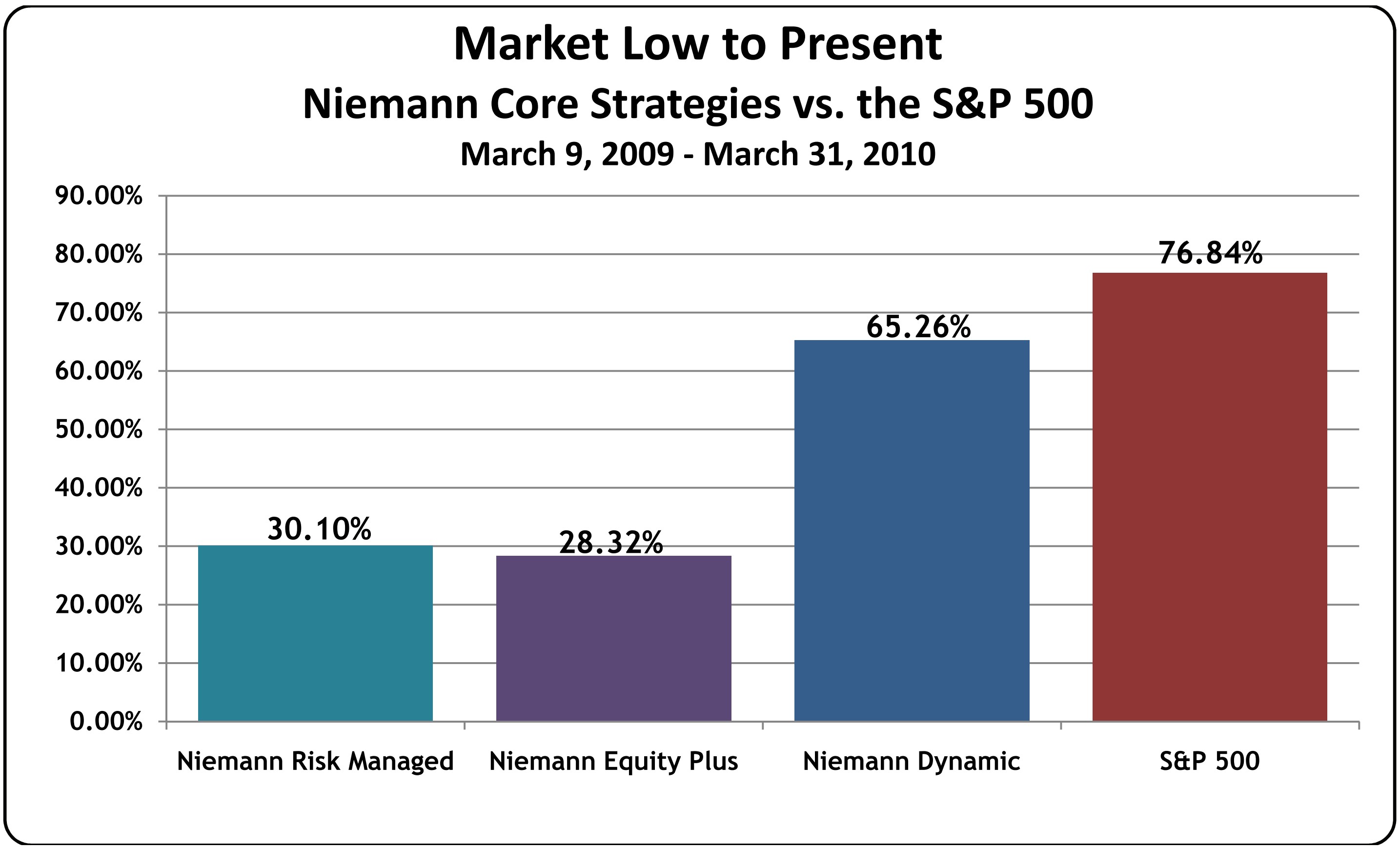
Portfolio Manager Commentary:
First Quarter 2010

No Shortage of Distractions

Virtually everywhere we look, the investors' world is filled to overflowing with distractions, malfunctions and worry, worry, worry. Economically we're recovering but we're still climbing out of the hole we dug ourselves into. Unemployment is at its highest level in more than 25 years. Sweeping policy changes related to health care and government spending have increased anxiety about higher taxes and inflation. Fueled by problems in Greece, Italy and Portugal, Europe is experiencing its own economic crisis of confidence. Oil prices are again, inexorably on the rise. Wars in Afghanistan and Iraq continue to drain government coffers, deepening the national debt and defying resolution. It's no wonder investor confidence continues to wane.



To date, there've been a whole lot of stops and starts. Despite being up over 76% since the low of March 09, the market's progress to this point has been difficult on both advisors and investors. It has been very challenging to reconcile adequately managing risk versus participating fully in the uptrend. This delicate balancing act continues.

Economics and the implications of government policy aren't the only things on investors' minds. With the sting of 2008 still fresh in people's memory, the current market environment is a challenging one for many to navigate. Because of this, money continues to flow out of cash into so-called "safe havens" like bonds. Evidence of this can be seen in historically light trading activity characterized by volume. But despite the lack of retail participation, by the end of the quarter the S&P 500 has advanced over 76% in just over a year. The market has continued to quietly grind upward in spite of the popular (and valid) argument that it should have corrected significantly by now.

TOO AFRAID TO DO THE RIGHT THING

All these cross currents and mixed messages aren't helping the individual investor. Many are paralyzed by the idea that if they get in now, the market may correct shortly thereafter. But the question still lingers in the back of their minds—what if the market continues to move higher? Despite the significant gains of the last 12 months, many retail investors are stuck on the sidelines as though their feet were set in cement. It's as though they've become fossilized by their fear. Following the run up we've seen, logic would suggest that at a minimum, investors could rightly feel the positive, reinforcing effects of a bit of optimism—even if it's guarded. Yet the inability of a very significant percentage of investors to even countenance a move back into the market clearly indicates how badly investors were burned during the 2008 downturn. The intriguing conundrum we're faced with is the apparent emotional disconnect between the negative mindset of many investors versus the market's actual resurgence.

Ultimately, the rationale for overcoming emotion remains axiomatic: To regain losses from a downturn and achieve long-term growth, investors must be exposed to the equity markets. In short, the longer their fears keep them trapped on the sidelines, the further behind the market rebound they fall.

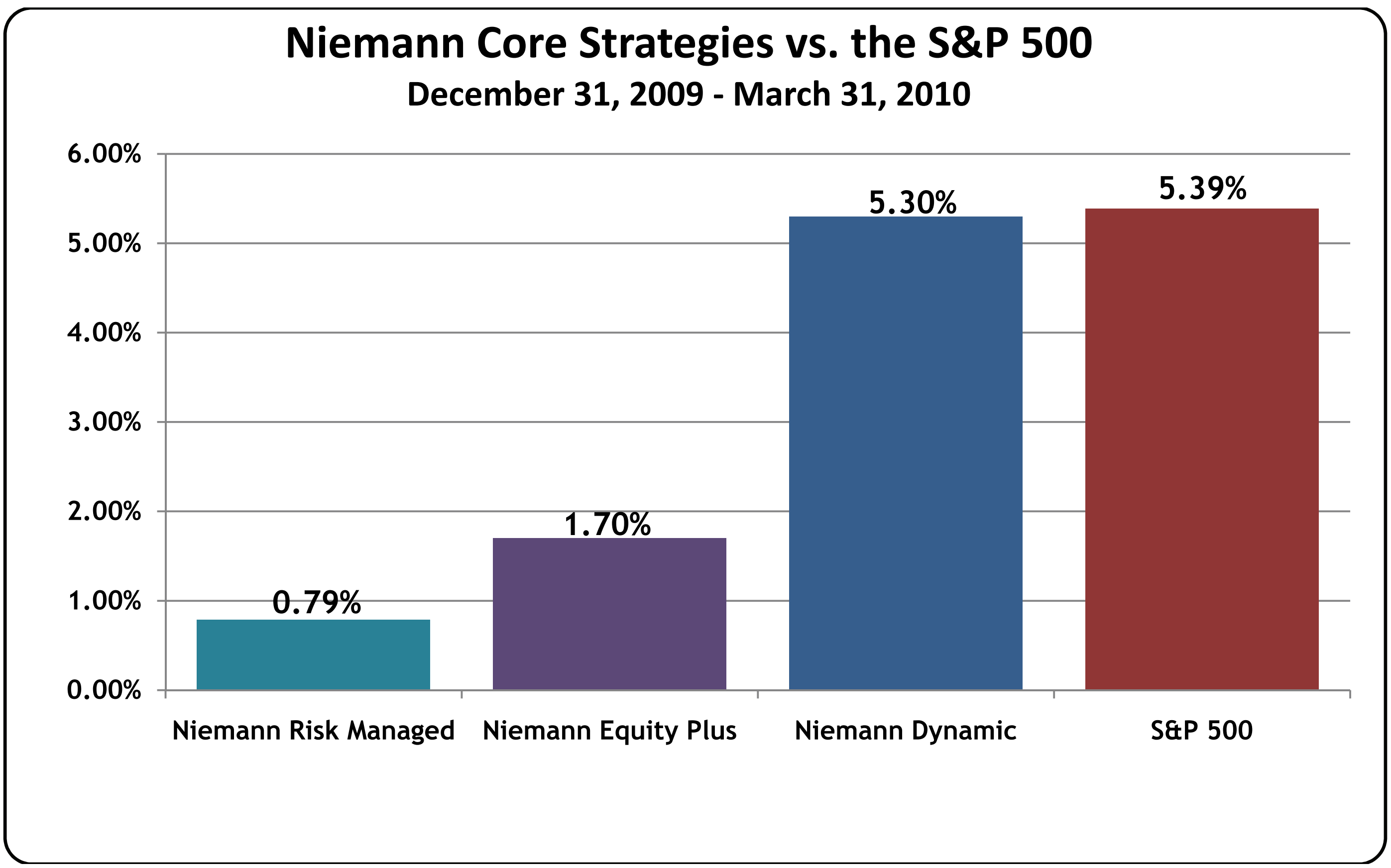
Interestingly, there's anxiety everywhere: those folks in the market are anxious and those investors still on the sidelines are immobilized by the same emotion. And Niemann clients are not immune.

But that doesn't have to be the case. The advantage of our conservative and moderate strategies is their ability to protect capital while still providing investors with a pathway back into the market. For example, Risk Managed and Equity Plus are specifically designed to rotate defensively to cash in the event of a market-wide downturn. And that's exactly how they performed as the bear came to a close. While the S&P fell an additional 24% from 12/31/08 through 3/9/09, Risk Managed was down just under 9% and Equity Plus was down just over 8%. Thus, by limiting downside loss, both of these strategies were well-positioned to recover those losses.

FIRST QUARTER RECAP

The uncertainty that everyone has struggled with over the last year continued into Q1, 2010. The environment is challenging, the times are very trying, yet there's no clear-cut indication that the intermediate, upward market trend has ended. Some would argue that there's actually more strength in the market that most people would recognize, yet the delicate balancing act of managing risk versus participating in the uptrend continues to generate stress. Everyone's still waiting for the other shoe to drop.

With the current market environment in mind, let's take a look at how Niemann's three core strategies performed during the first quarter. Risk Managed and Equity Plus both rotated defensively in late January. As always, this conservative response was made to most effectively manage risk. As a result, both strategies lagged the market. As we learned in 2008 and 2009, you can't have superior downside protection and expect 110% of the upside. You simply can't have it both ways. Dynamic on the other hand, which remains fully invested at all times, continued to track the market over the course of the quarter.



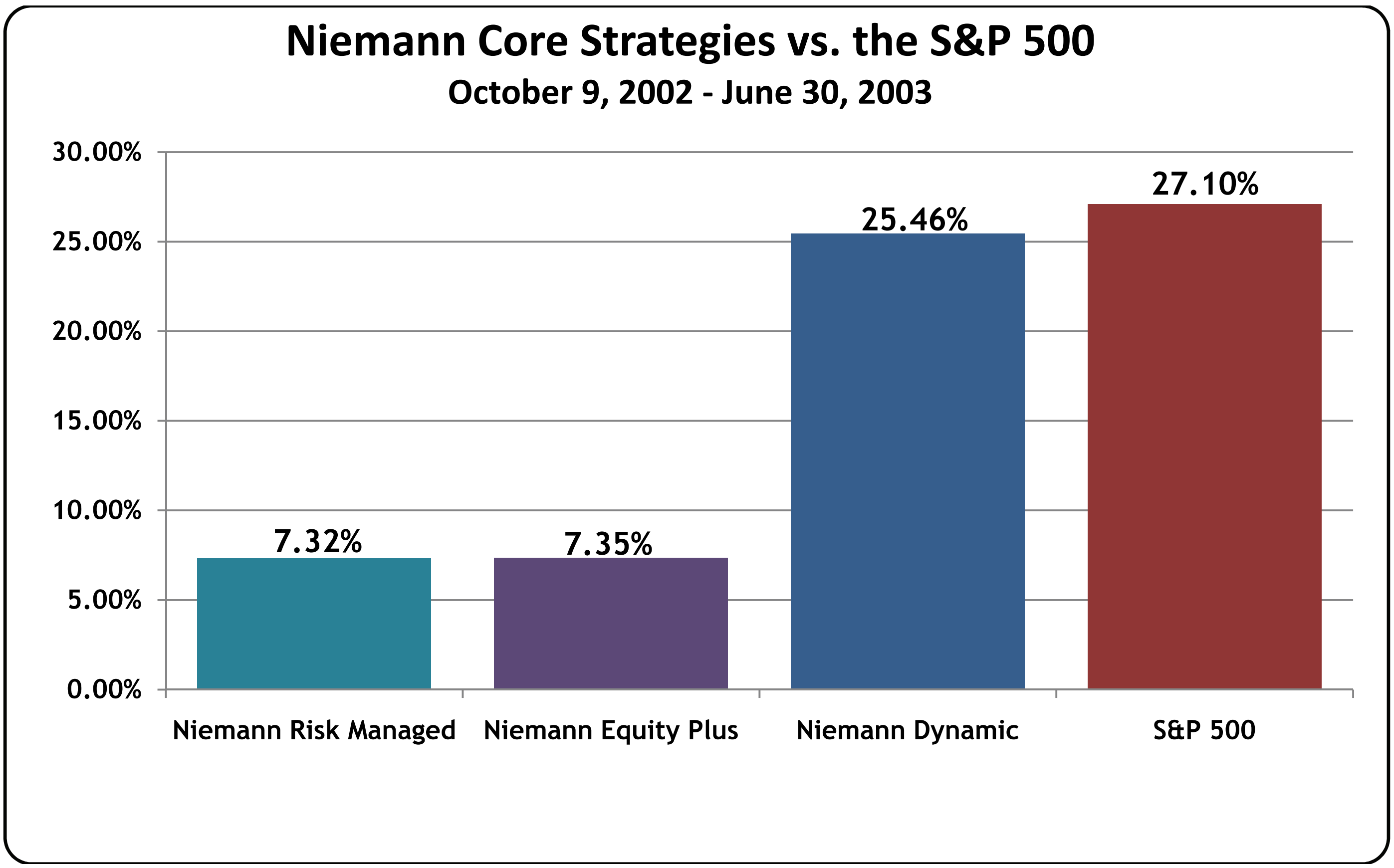
Some investors in Risk Managed and Equity Plus, especially those who are new to Niemann, may perceive this short-term underperformance as an indication of a longer-term problem. In actuality, short-term underperformance is to be expected, based upon how the two strategies are designed to function (i.e., preserving capital as their primary objective). By contrast, Dynamic investors are obviously keeping pace with the market.

PATIENCE IS CRITICAL

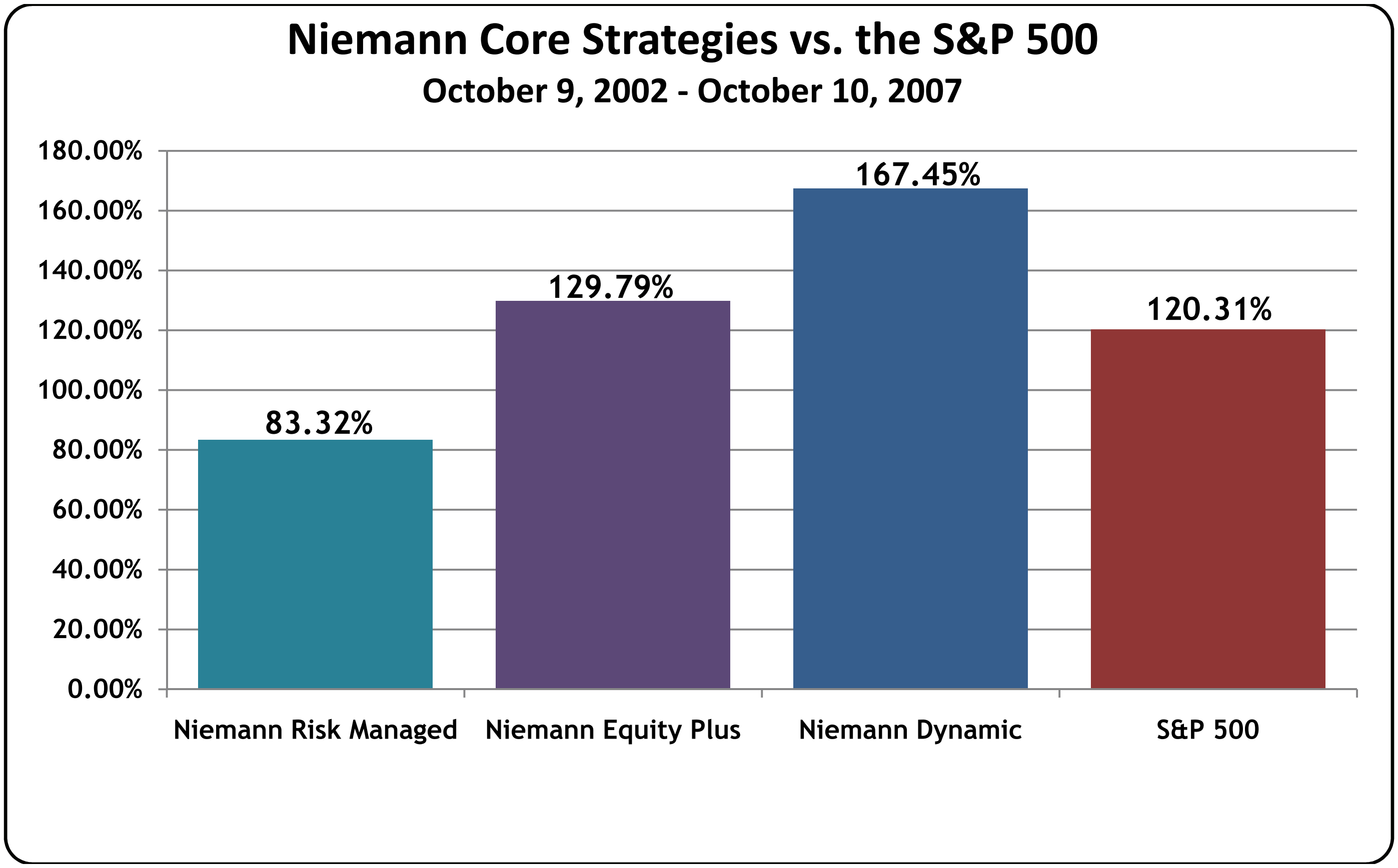
The foundation for patience is confidence. All of the economic distractions detailed above have combined to undermine investor confidence on a variety of levels. Nagging questions about the long-term solidity and stability of the financial system only fuel investors' worries. At times, it seems the decibel level of the background noise surrounding the markets has become deafening. And so, patience based on confidence has become an increasingly rare commodity.

What complicates the situation further is that at the end of any given quarter, no one ever knows "the end of the story." Will the market continue upward? Will a new bear begin?

Consider the following lesson that history teaches:



This chart, which illustrates the period immediately following the 00-02 bear market, from October 9, 2002 through June 30, 2003, is strikingly similar to the market low to present chart featured at the beginning of this commentary. But as we've just observed, it doesn't tell the whole story. Thus, it's particularly revealing to see the ultimate outcome of this particular uptrend…



This chart, from Oct. 10, 2002 through Oct. 10, 2007, shows the 02-07 bull run in its entirety. Note that both Dynamic and Equity Plus outperformed the market, while Risk Managed (our most conservative strategy), ran true to its objective: first to protect capital and second to capture 70-80% of an uptrend.

In the face of worry, uncertainty, distraction and discomfort, the challenge all investors face is to stay engaged and stay invested. We continue to believe history has shown that by remaining confident and patient, Niemann investors have ultimately benefitted. That's why our belief in our methodology has never wavered. And we appreciate your continuing confidence in us.

Disclosure:

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