NIEMANN CAPITAL MANAGEMENT

Don't just allocate. Rotate.®

Portfolio Manager Commentary: First Quarter 2011

The first quarter of 2011 is in the books, marking the start of our 20th year as an asset manager. And as always, we welcome the opportunity through this Quarterly Commentary to inform and educate you about the way we manage your money. Only through building your understanding of what we seek to accomplish and how we go about doing it, will you be able to capture the value we seek to deliver on your behalf.

As your money manager, there are certain fundamental goals we continuously strive to achieve. These goals are intended to define the process we follow, what we do every day and inform *you* as to how our strategies will respond under various market conditions. These goals have remained constant since the founding of our company, back in 1991, and remain the logical starting point for any discussion about our investment process.

They are to:

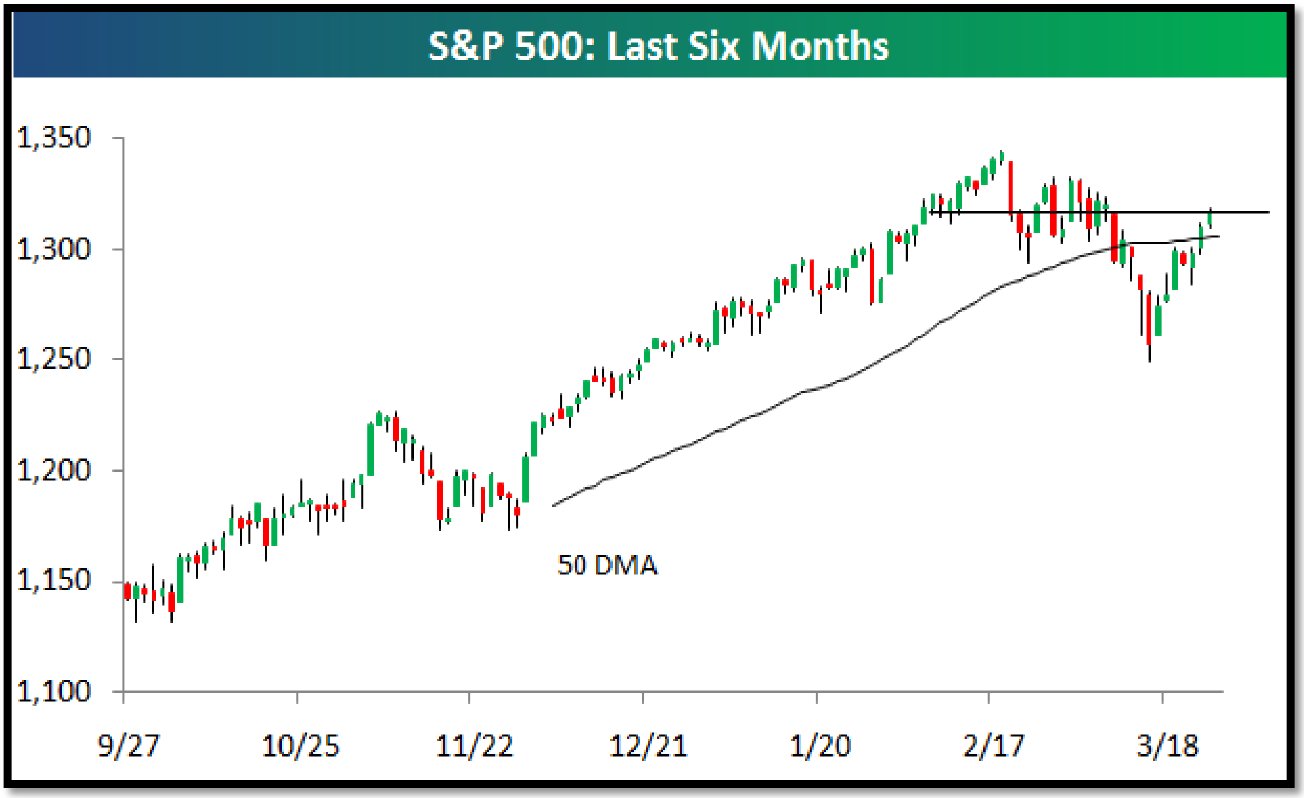
1) Avoid catastrophic loss of principal.
2) Manage risk in ALL market conditions.
3) Take advantage of opportunity when it presents itself.

To achieve these goals, our investment approach relies on three core competencies:

1) Understanding the current market environment—what we call our Market Risk Overlay.
2) Evaluating the relative merit of the asset classes available to each strategy, which we call "Dynamic Allocation."
3) Our bottom up risk adjusted scoring engines, which we run on every security we own (or consider owning), every day.

In this quarter's commentary we'll examine how these concepts governed how our strategies performed over the framework of the last 3 months.

U.S. stocks began the year on strong footing. After rising sharply off of last year's late summer lows, the S&P 500 continued its advance, rising almost 7% from early January to mid February. Fueled by strength in Energy, Industrials and Technology, the market seemed to defy gravity. The major averages spent several months trading above their 50-day moving averages; market internals reinforced a bullish bias; leadership was in gear and volatility was low.



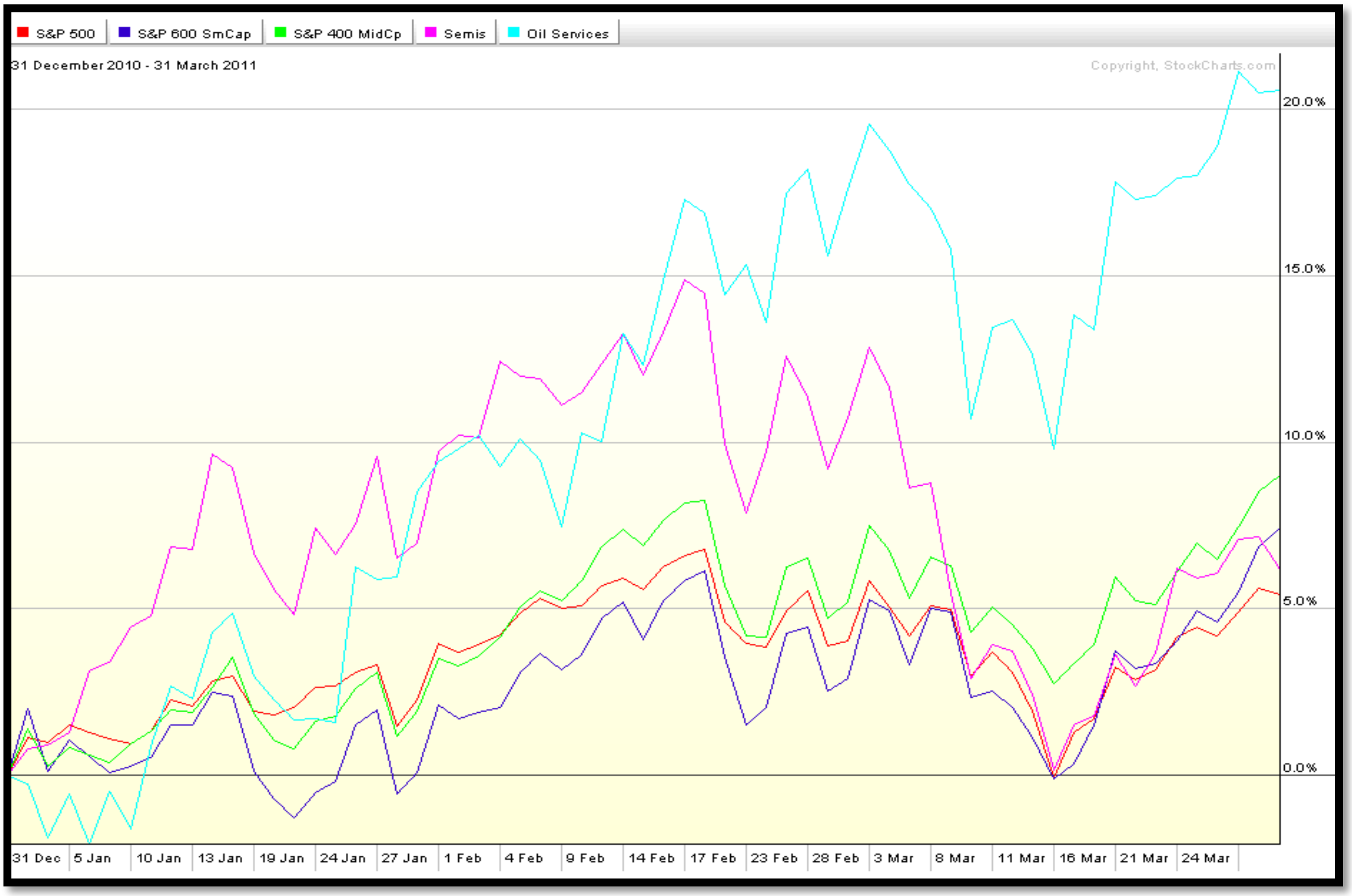
Source: Bespoke Investment Group

Several negative news headlines finally shook the markets in mid February. Rising commodity and food prices, $100+ oil, the escalation of conflict in Libya and continued instability across North Africa and the Middle East all weighed on investors. If that weren't enough, the world turned with sadness and disbelief to the catastrophic earthquake, tsunami and nuclear disasters unfolding in Japan. As speculation swirled around the number of casualties, the cost of the damage and the threat of a potential nuclear meltdown, the markets began to lose steam. After rising nearly 30% in less than 6 months, the market reached a two-year high on February 18th and began to pull back following the President's Day weekend.

Major market averages fell roughly 6-8% in 4 weeks, but underneath it all was a market that looked fairly resilient in light of several formidable obstacles. Unlike the selloff over the summer months of 2010, this time most of the components of our Market Overlay remained intact suggesting that the pullback was headline-driven and would likely be contained. We allowed cash to tick up to roughly 30% in our conservative and moderate strategies as some failing tech positions were reduced. But once markets began to regain their footing we responded by redeploying capital back into the leadership of the re-emerging trend. We don't know what the market's intentions are going forward, but at the time of this writing, the S&P 500 has recouped nearly all of the losses seen from mid-February to mid-March. Our conservative and moderate strategies each hold roughly 20% cash at present.

Our daily workflow includes analysis of asset classes and industry groups designed to uncover changes in market leadership. Through this last correction we observed a rotation away from several Technology sub-sectors in favor of expanded money flow to Energy. In response, all of our portfolios, especially our Dynamic strategies, shifted more exposure to those areas. Semiconductor positions were reduced significantly. Even though it performed well over an intermediate term basis, we were forced to exit our Japan position after natural disasters dealt a blow to the Japanese stock market. In terms of what's currently working well, Mid and Small Cap Growth have resumed their leadership roles. Energy continues to perform well on a relative basis along with select commodities.

First Quarter Leadership



Source: StockCharts.com

The chart above depicts leadership themes (Small and Mid Caps, Semiconductors and Oil Services) along with the S&P 500 during the 1st Quarter. Note how Small Caps lagged in the first half of the quarter. Also note the outperformance of Semiconductors and Oil Services and the divergence that occurred when Semiconductors broke down in mid February.

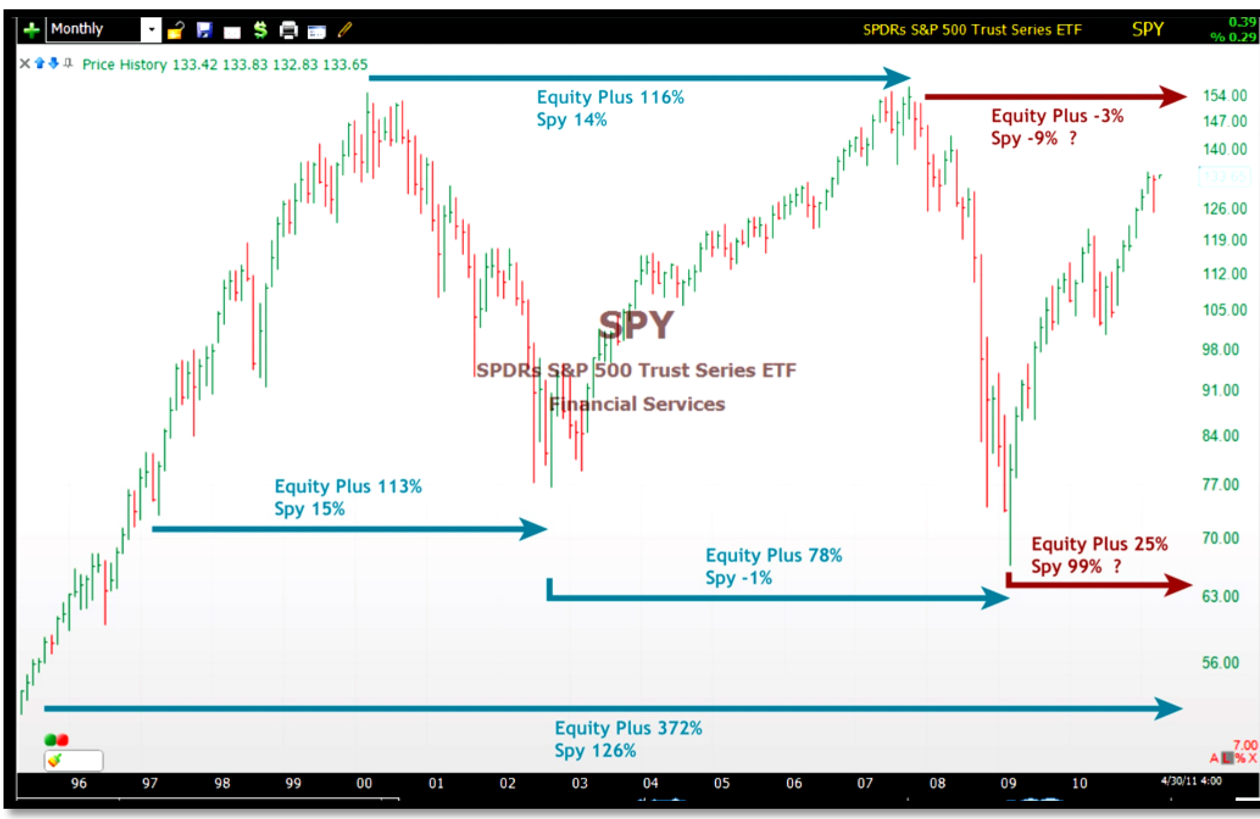
New Tools:

It's both interesting and instructive to understand how our new-found ability to use the entire universe of ETFs (as of March 1st) has already added significant value. As the market turned downward mid quarter, we were able to exit newly added semiconductor positions without jeopardizing our fund family relationships. Rather than having fund sponsors tell us when or if we could sell a position, it was our choice to exit in one day or over several as we saw fit. We were able to execute into intraday strength at price points we deemed favorable instead of taking an end-of-day price defined by the market close.

We've reduced costs significantly. Where appropriate, more expensive mutual fund positions have been exchanged into cheaper ETF alternatives, reducing the overall cost of our strategies. And our portfolios have become more focused. Rather than using a plain-vanilla Healthcare fund to take advantage of rotation toward that sector, we took advantage of a cheaper and more concentrated Small Cap Healthcare ETF like the one we own currently in various strategies. Another example – instead of using a broad-based Energy fund to capitalize on the relative strength of that sector, we were able to employ a less expensive, geographically specific ETF like the Canadian Oil play we currently own. The benefits are already beginning to show. We look forward to the day they become evident to you as well.

The last few years have been intensely challenging for investors. There is no question the scope of economic destruction handed out during The Great Bear Market surpassed anything we've previously seen. Economies and their markets have been forced to confront unprecedented political intervention (TARP, HAMP, Chrysler/GM, Obamacare) and unfortunately the hits (like Dodd-Frank) keep coming. And while it's no wonder the recovery has been subdued and tenuous, markets have survived, as evidenced in the chart below.

Where are we in the Current Cycle?



Source: Worden Bros. Please note that the S&P 500 Trust Service ETF is not the S&P 500. Please see definition in disclosure section.

Over a complete market cycle, one can see the role each of our core competencies played in the up and down stages of the journey. The red arrows depict cycles that are currently incomplete.

As hard as we try to keep our clients and advisors focused on the long term picture, we completely understand how difficult it is not to be agitated by strategy returns over the past eighteen months. But a few quarters don't tell a complete story! Instead, they offer a very nearsighted view of a big picture. Our strategies are not comfortable in some parts of the market cycle and that's why we routinely remind, refresh and reinforce the expectations we set with you. The goal that matters most to us is fulfilling the commitment we made to you, our valued client: To achieve strong absolute returns with less risk over the long run. Our objective is to keep you in the game instead of letting emotions drive you into and out of the market at inappropriate times.

Final thoughts:

An incredible 20-year bull market reached its peak in the year 2000, capping the most optimistic and rewarding period since the 60's. By 2009, markets lost more than half their value after a bear that turned out to be incredibly wealth-destroying for most investors. Over the past few quarters our strategies seem to be wandering in purgatory—not quite in hell, but not near heaven, either. The superior investor puts this all in perspective, knowing that while history may not exactly repeat, it most certainly will rhyme. Only by remaining disciplined, systematic, and true to core principles will we be able to enjoy the same rewards over the next 20 years as we have over the past.

S&P 500 Index- Assumes reinvested dividends: 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.

The SPDRs S&P 500 Trust Series ETF is a fund that, before expenses, generally corresponds to the price and yield performance of the S&P 500 Index.

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