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.

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Minimum Initial Investment
$100,000

Maximum Management Fee
2.30%

Advisor Location
Capitola, CA

Number of Staff
29

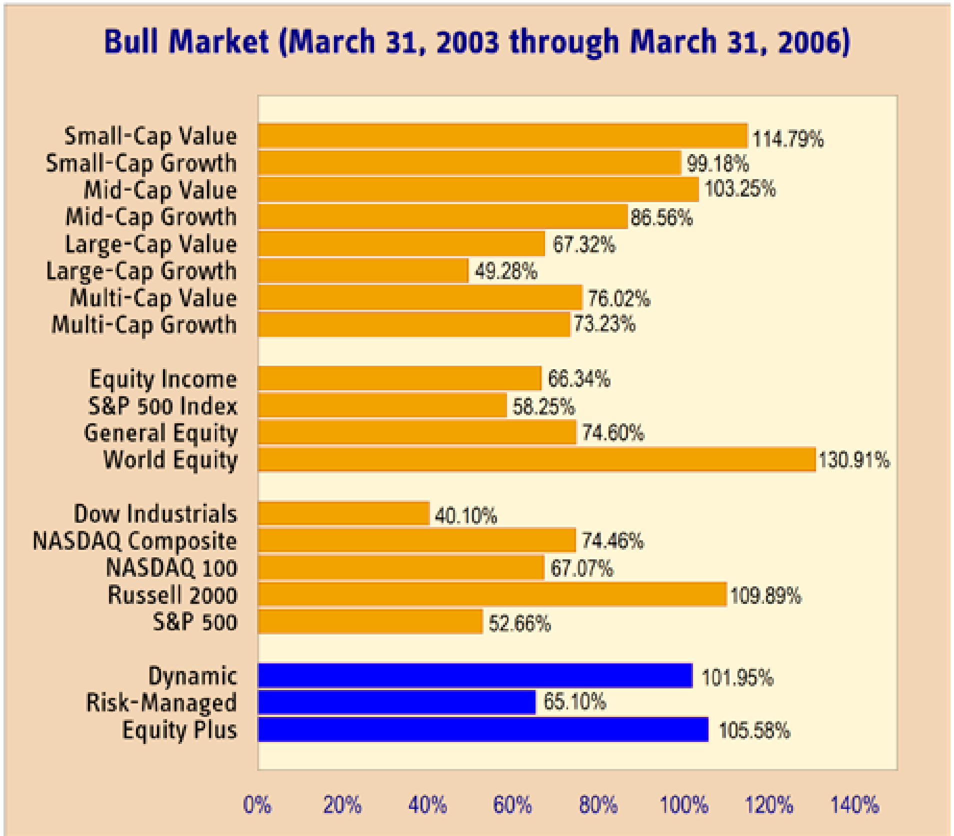
Assets Under Management
$835 million

Warren Buffett quipped, "In the business world, the rearview mirror is always clearer than the windshield". It's an apt observation when attempting to navigate stock markets around the world this year. In hindsight it looks as if April and May could have marked important highs in our 3 year old equity bull market. We say April and May because the NASDAQ reached its high in April, while the de facto leadership of the bull, the Russell 2000 (small companies), International, and Emerging Markets found their peaks in May. Since that time, there has been blood on the floors of some bourses where after the recent rally double digit losses prevail: Russell 2000 -14%, Brazil -16%, Japan -16%, Taiwan -14%, Germany -12%, Egypt -35%, NASDAQ 100 (technology stocks) -18% as of this writing.

Despite such sharp declines, it's too soon to call the bull finished. Political events unfolding around the world may be skewing the internal dynamics (breadth, buying-power, etc.) of various markets, making it hard to get a good read. Whether or not we're at the end of the trend, the recent sell-off does serve up a good excuse for a "performance checkup" - a look back over the previous bull (so far) to see how our strategies have fared. To this end you'll find the chart **Bull Market - March 31, 2003 through March 31, 2006**, below.

Reality Check

Take a moment to review the performance of the various asset classes and categories in the chart and you will confirm what you've seen in your account(s) over the past few years: small/mid cap stocks and foreign markets (world equity) have led the bull market. One also sees that the "value" orientation trumps "growth" in every class.



Please find a definition for each index on the back of this commentary, beneath the disclosure.

Growth stocks continue to unwind from the delirious levels to which the great technology bull market of the 90's drove their prices. Anyone still holding the Ciscos (CSCO), Sun Microsystems (SUNW), Intels (INTC), General Electrics (GE) and Microsofts (MSFT) of the world have endured 6 years of losses and mediocrity which don't appear to be ending anytime soon. The NASDAQ 100, a proxy for technology companies, is leading markets lower this year.

Now that we've reviewed the benchmarks, let's do a reality check on how each of Niemann's core strategies fared over this period. Have they achieved their objectives? What went right... and wrong? We think our strategies performed quite well, but then we might be biased! Following are some thoughts on the good, the bad, and the ugly for each.

Dynamic: Dynamic strategies are designed to achieve a superior return compared to their benchmarks over a complete market cycle. Risk is higher because investment return is emphasized over capital preservation. Dynamic has done very well so far. We give an A- to Dynamic which has doubled client money after fees over the three years through March 31, 2006! This strategy roughly equalled the best performing Russell 2000, almost doubled the S&P 500, and beat the Dow by 2½ times.

Here is our read on Dynamic:

• The Good: Pacing the leadership through the bull phase of a market cycle is the "best case" scenario, and we are very pleased with the performance of this strategy.

• The Bad: Dynamic really cranks when firm and defined leadership exists in the market. About the only ideas working these days are Utilities and REITs (with large value a distant third). This is not very inspiring near term.

• The Ugly: We'd rate the three year bull party overall as average, and now the Fed seems bent on taking away the punchbowl.

Risk Managed: Risk Managed strategies are crafted for investors who want to participate in domestic equities, but with reduced potential for significant loss of principal. To protect capital, managers seek to hedge and/or employ higher money market positions as markets fall into disrepair. Checking the upside of the current cycle we find Risk Managed clocking a 65% return after fees, besting the the S&P 500's 58%. We give this strategy a C+, however, as it has underperformed its custom benchmark over the past 12 months.

More thoughts on Risk Managed:

• The Good: Markets appear tired after three years of upside and Risk Managed strategies are pretty well positioned for market turbulence. While a bit of a rocky ride, Risk Managed is trading about 9% off its all time high which is right in line with expectations when this portfolio goes from fully invested to a cash/hedged allocation.

• The (not too) Bad: 65% net returns in three years is nothing to sneeze at, but at the same time we see Risk Managed as only doing OK. The bull trend itself was mediocre, and on top of that we have the legacy of September 11 affecting this strategy the most: a continuing war against terror which spawns event risk from time to time. While risk of terror has been present for decades (remember the oil embargo in the 70's?), our markets didn't take it personally until it became personal. One needs to look no further than the price of a barrel of oil to realize terror is a real factor these days. While markets are resisting the urge to completely panic when something goes wrong, political events continue to compel our Risk Managed strategies to cut positions more often since 9/11. Paying this "risk premium" without harvesting the anticipated downside shaves percentage points off relative return.

• The Ugly: We are currently in a phase of elevated event risk which may be skewing the internals of various markets, making it harder to get an accurate picture of the market environment. If the markets maintain current levels and then blast off upon resolution of current political turmoil, we will have little to show for the investment. We're cash heavy and will have paid another premium.

Equity Plus: Equity Plus has our most ambitious mandate: achieve capital appreciation under all market conditions. It turned out conditions were pretty good over the last three years and particularly over the past 18 months for Equity Plus as international markets really kicked into gear.

Equity Plus was our best performing core strategy with over 105% return after fees which earns it an A-.

• The Good: International markets have taken a leadership positon over the past couple of years, which fits well with this strategy. Equity Plus has the potential to hit a home run by shorting markets as they sell off.

• The Bad: The opportunity to hit a home run comes with the potential to strike out swinging on a sudden market advance. Question, "What's worse: the risk of losing money when the market goes up, OR not making money when the markets fall?" You might be surprised by some people's answer.

• The Ugly: Our international positions provided little diversification of risk since they fell faster and harder than our domestic positions when the markets corrected this spring. Everything collapsed at once. What happened to non-correlation? The air pocket hit by Emerging Markets in May reminds me of technology in 2000. That said, in the big picture the jury is still out on the health of the international trend.

Some Recent FAQs

Whenever markets succumb to the forces of correction and consolidation, questions surface about how our different strategies handle the ensuing volatility. Here are some thoughts from frequently asked questions in recent weeks:

• Why does Niemann keep referring to a Complete Market Cycle? Isn't this just a dodge for losing money?

It's a fact that some clients make investments within days or weeks of a market top and end up losing money right out of the gate. Should the high turn out to be a significant one, everyone concerned with the account will be looking at those losses for some time. The unavoidable reality is that markets go up and down and the timing of an investment can make a significant difference in the outcome over the short run.

The point of focusing on a Complete Market Cycle is that it includes bull and bear phases. Only when you've been through both the ups and the downs will you be equipped to evalute how your strategy works - given all the fast balls and curve balls Mr. Market sends our way. Some clients were lucky enough to place money with us on March 31, 2003, but they still can't evaluate the strength of our strategies having endured no significant market down turn since their account inception. Once these clients reach the bottom of the next bear phase (whenever that happens), their cycle will be complete and a top-down evaluation of the strategies makes sense.

The same must be said for those who invested with us at the highs in 2000. A market cycle for this group will be complete when the current bull reaches its highest high (even if it's lower than the high in 2000). Clients will then have lived with their strategies through a major bear market and the bull phase of the following cycle. By the way, don't feel sorry for this group because they already know the outcome of their untimely investments! Since every Niemann strategy achieved all time new highs over 18 months ago – an evaluation of their cycle will turn out to be very favorable.

• Why are some Dynamic portfolios performing better than their Risk Managed counterparts even after the markets declined?

Risk Managed strategies can be a little counter-intuitive. Remember that these strategies try to limit the potential for out-sized loss of principal as opposed to losing less as bull trends correct off a high. When a market correction begins, Risk Managed is usually fully invested just like Dynamic and so falls right along with it in the early stages. Should the correction become more aggravated (like the one we're in currently), the long exposure of Risk Managed continues to get chopped back through hedging and the selling off of failing positions. Unlike Risk Managed, the more aggressive Dynamic strategies simply replace any sales with new potential leaders. Risk Managed continues to push towards market neutral as the correction widens so that by the time these strategies are 10% or so off their highs, the brakes are usually well engaged. Should the downtrend accelerate, Risk Managed is protected against "out-sized loss of principal". But if a market rally unfolds, Risk Managed is under-invested and lags the new upswing in its early stages. This is the process we refer to as "paying the risk premium".

There is another, more subtle force at work as well. Take another look at the chart **Bull Market - March 31, 2003 through March 31, 2006** and note that even the worst performing groups have advanced at a double digit yearly clip. Early in a bull trend you can practically throw a dart at the Wall Street Journal and make money. Such is the vigor of youth! Being positioned in market leaders that continue to advance even as the overall market takes a breather, leads to shallow corrections in the early days of the bull. The consequence is that our Risk Managed strategies remain more invested as the next upswing begins. Risk Managed typically outperforms significantly through the first two-thirds of a bull cycle.

As the bull ages, the market begins to "narrow". Fewer groups of stocks are driving the trend higher. In an older bull more stocks fall when markets pull back and leaders begin to fail as well. Corrections within our Risk Managed strategies are deeper and we are more often forced to sell failing positions as they fall from leadership roles. The consequence is that as bulls mature we find ourselves with larger cash positions after a market squall subsides and the trend tries to reassert itself.

Currently markets appear to be in the late stage of a bull cycle. This DOESN'T MEAN significant downside is ahead! Markets could end up meandering their way through a corrective phase. The point is Risk Managed strategies put capital preservation ahead of account appreciation. At some point the insurance pays off as the bear phase of the cycle unfolds.

• If you thought Emerging Markets were headed for a fall, why didn't you get out of the way?

This is a great question and cuts to the heart of how our "sell side" works. We don't anticipate the end of the trend - we adjust to trends as they unfold. Exiting a great position because you think a trend is finished kills long term performance. We could have called Emerging Markets "done" two or three times over the past few years, and frankly they may not be over yet. Why are we mostly out now? This correction has been violent enough to destroy the ranking position of most of these funds. The bottom up process took us out.

The same applies to the buy side. Fifteen years ago national media was filled with stories about the "Savings & Loan" disaster. Negative headlines abounded on for months and all the while our buy screens were jammed with S&L names. It was clear the smart money was buying the banks. Then government stepped in with the biggest bail out ever, and those positions turned out to be golden.

The Moral: Markets are often counterintuitive; it's best to let them prove themselves.

Thank you for your continued confidence,

Don Niemann
President, CIO
Niemann Capital Management, Inc

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.*
All other funds shown are provided courtesy of Lipper Analytical Services.