NIEMANN
CAPITAL MANAGEMENT

THIRD QUARTER 2006 - REVIEW

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%

Number of Staff
30

Assets Under Management
$900 million

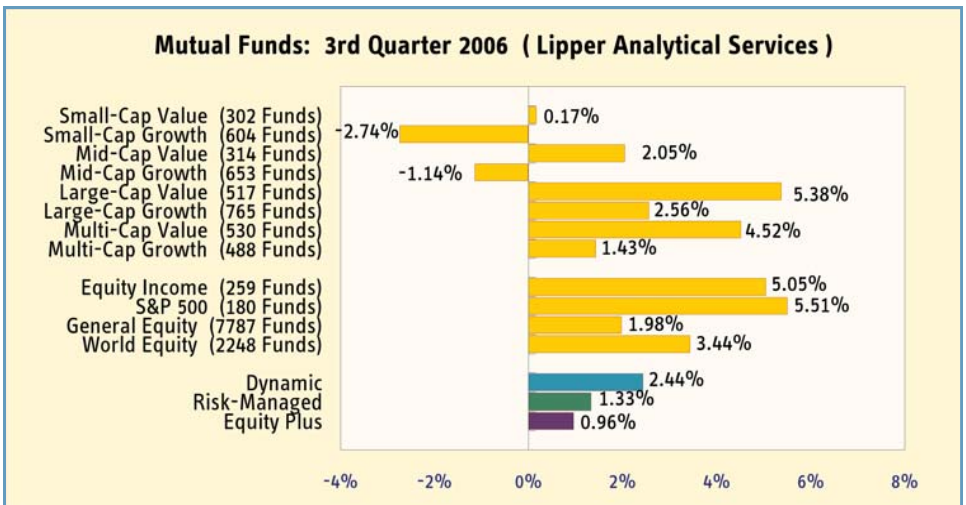
Advisor Location
512 Capitola Avenue
Capitola, California

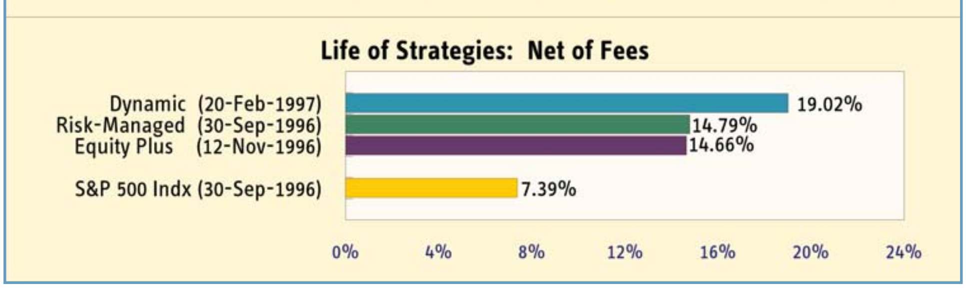
www.ncm.net
1.800.622.1626

Despite a spirited run over the final few sessions of 3rd Quarter 2006, the Dow Jones Industrial Average (DJIA) fell just shy of breaking into new high ground, a shortcoming that would be remedied immediately. In fact, we are trading at "all time new highs" in the Dow right now. We are not surprised if you missed it. While the event was not completely lost on the popular (non-financial) press, coverage of the Dow's new record highs does not hold a candle to those halcyon days when the NASDAQ leapt through 3, 4, and then 5 thousand in less than six months. The Dow hardly gets a mention by comparison. Perhaps the notion is *once burnt, twice shy* for the media folk who were so enamored with the technology stocks they covered the last time around. There is no cause for cheer now with the NASDAQ trading at less than half its previous peak. Maybe they are having a hard time figuring out who's on first. Quick, can you name five Dow stocks? Besides, who owns Dow stocks anyway? Actually, we do, but more about that later.

An old market adage says that when the Dow takes on the leadership role, the stock market is being "led by the generals." These generals are very large companies. In fact, the majority of the total value of U.S. stock markets resides in the 30 companies making up the DJIA. The question is, can we make money in these stocks? Even though Dow Jones & Company added the likes of Microsoft and Intel to their Average in 2000, the Industrials still do not have the luster of a growth index and tend to be predominately owned by value investors. The answer is yes, we will have the potential to make money in these stocks, but doing so is not likely to be terribly exciting.

Check out the Large Cap push in the chart titled "Mutual Funds: 3rd Quarter 2006" on this page, where S&P 500 Index and Large Cap Value led all categories. This





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.

performance came as somewhat of a surprise. Large Cap stocks have tried to claim the "yellow jersey" for a couple of years, but this new attempt is the best yet and continues to gather momentum. Perhaps the long heralded rotation is finally upon us.

Orphaned!

To call our Risk Managed strategies unloved in recent months may be an understatement. I have no reason to argue with the sentiment; my money is invested there right along with yours. In gauging comments, particularly those of newer associates and clients, it is apparent that some misconceptions exist. Even if you do not own a Risk Managed strategy account, taking a few minutes to read this piece will prove productive, if only to get you thinking about how your investments really work. The superior investor keeps in mind that no matter how sophisticated or successful, every strategy gives up something to achieve its purpose. Certain questions must always be raised: What can go wrong? What is the worst-case scenario? Defining risk is about understanding what can go wrong. Only then can a decision be made whether the potential upside is worth the price.

When boiled down, the main concern is one we have heard for every strategy, though at different times and for different reasons. After 25 years, I still worry as much as our most worried client about achieving our goals. When markets are up, are we making enough? When markets are down, are we losing too much? These days the angst is focused on our Risk Managed strategies. The concern is that Risk Managed is just not as good as it used to be for two reasons: (1) recent returns are lagging the market and (2) when markets sell off, Risk Managed seems to fall along with everything else.

I am the first to agree that the returns of some Risk Managed strategies have been pedestrian for a couple of years. What surprises me is how anyone would believe that this was unexpected.

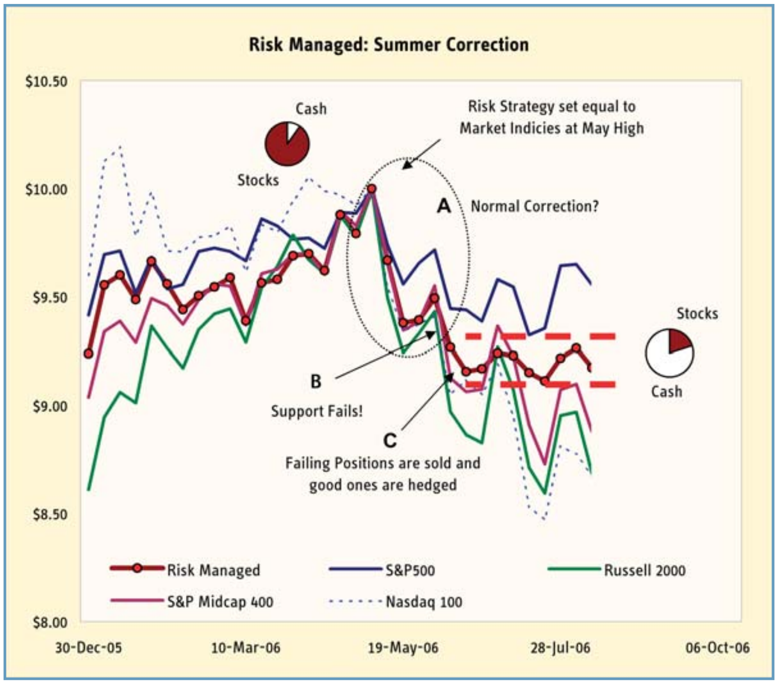
For the most part, the unexciting performance of our Risk Managed strategies is a function of the current market's trading range. What is most important to understand is that the potential for a stretch of subpar returns is exactly what Risk Managed strategies are designed to "give up" in order to achieve its greater goal of avoiding catastrophic loss.

For Risk Managed: The Best Offense is a Good Defense

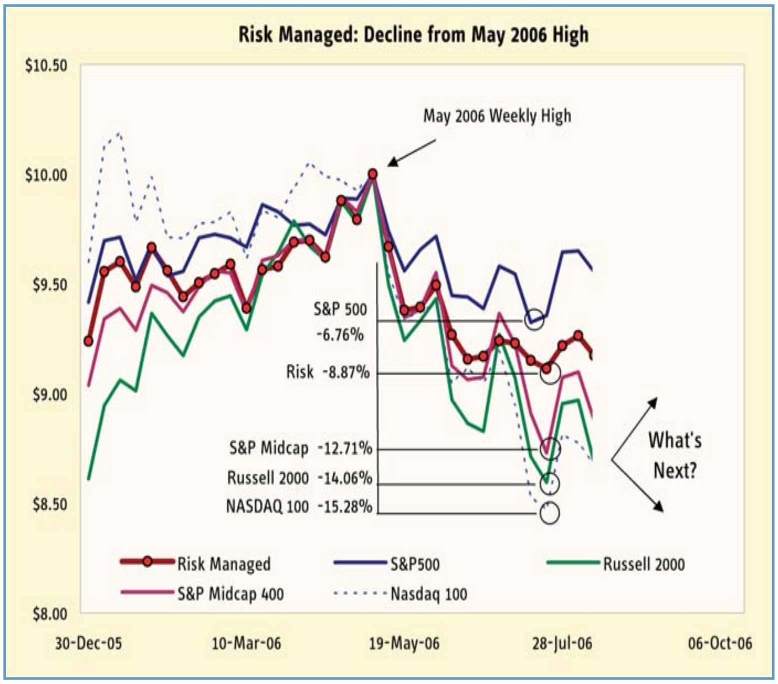
Other than an unforeseen event like 9/11, the worst-case scenario for our Risk Managed strategies is a market that trades up and down through a 10% to 12% range accompanied by rotations in leadership. What makes these conditions so toxic? They work in direct conflict with the rules that govern these strategies. These rules, first and foremost, work to protect account assets from catastrophic loss, and second, when conditions stabilize, find market leadership and get invested. Navigating through a range-bound market, even while making higher highs and lows, has the potential to get Risk Managed strategies invested into leadership near the highs and backed out of the market near the lows. While these same conditions might be terrific for our other strategies, they are not good for Risk Managed. To examine this concept more, we have constructed some charts of last summer's correction. To make it easier to track performance, we set our Risk Managed Mutual Fund strategy equal to a group of market indicies at the 2006 weekly high in May.

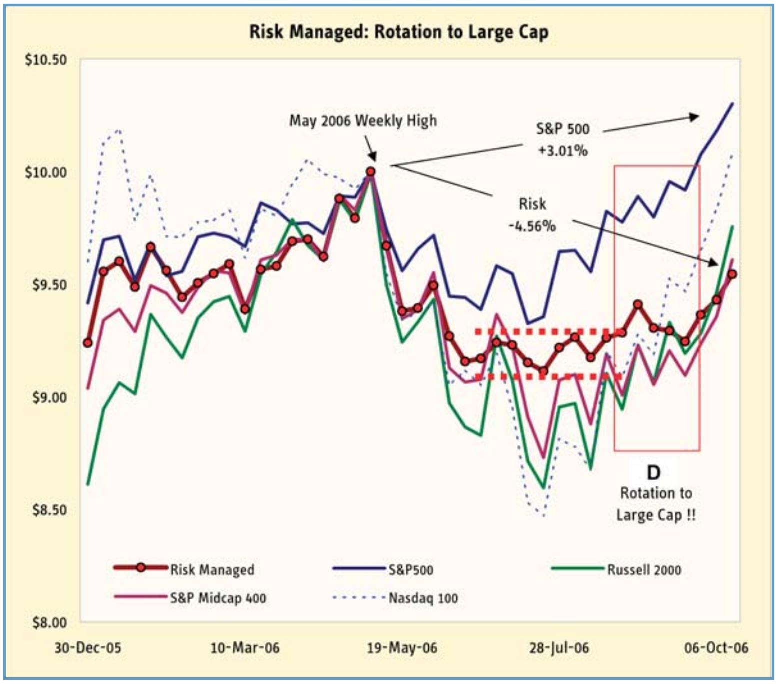
Like it or Not, it's "As Advertised"

Our Risk Managed strategies were almost fully invested during the highs of last spring. As always, our strategies are concentrated in market leadership, and as expected, they will sell off along with the market when it corrects.



Such was the case in May 2006. Our Risk Managed Mutual Fund strategy, for example, was focused in the Mid-Cap value category with heavy doses of Real Estate, Energy and Natural Resource companies. In the chart titled "Risk Managed: Summer Correction" on the preceding page, the circled area labeled "A" depicts the first phase of the market's decline, a relatively sharp sell off of about 7% over two weeks. Note that Risk Managed fell in lock step with the S&P Mid Cap 400 index, just as expected given how it was positioned.





Market setbacks are a way of life. This one, although a little steep, was typical. After the initial two-week selling spree, stocks began to gin up. Up to this point, our Risk Managed Mutual Fund had lost 5-6% from its high, but if the market holds and a rally unfolds, all would be well. Risk Managed would rally along with everything else, as it did in weeks 3 and 4. Hopes of a renewed uptrend, however, were dashed at point "B" when a strong wave of selling erupted. Sellers took control of the market and there was no way to know how bad the damage would be. With Risk Managed down 7-8% from its high, there was little choice but to apply the brakes.

Starting with the breakdown at "B" and continuing though the parallel lines marked at "C," we cut exposure by selling off positions that were failing and hedging those that continued to score well. You can visually measure the impact of this process as our Risk Managed Mutual Fund startegy stabilized in July while the market broke to new lows. The damage is documented in the chart titled "Risk Managed: Decline from May 2006 High" on the left.

With the brakes on, Risk Managed strategies are always confronted by a proverbial fork in the road. Either they save our bacon as stocks continue to decline, or they subject us to underperformance if a new bull leg develops. You already know the outcome, but this time there was a twist – not only did the market find support a few percentage points below our risk control threshhold, but once the new rally took shape, it became clear that leadership had changed. Refer to the chart titled "Risk Managed: Rotation to Large Cap" and you will see the Large Cap and Mega Cap stocks of the S&P 500 and NASDAQ 100 are leaving Small Caps and Mid Caps in the dust. We are on this new trend. Our Risk Managed strategies are back to almost fully invested and making some dough, but the damage is done. In the time it took us to access the trend and uncover its leadership, our Risk Managed strategies had already lost a few points to their benchmarks.

Putting it in Perspective

You make the call: Did our Risk Managed strategies perform as expected?

Personally, I think that even the 15% decline in the NASDAQ last summer did not seem catastrophic and neither does the recent loss we experienced in our Risk Managed strategies.

Our Risk Managed strategies did perform as expected. Consider these two points:

• The reason to invest in our Risk Managed strategies is to guard against the potential that a normal correction turns into a bear market, making a 10% problem into a 30% train wreck.

• We pay a price for this protection when a setback is steep enough to get us out, but not bad enough for the market to fall past us. The market will then move up without us at the beginning of its new leg as we wait for trends to prove themselves before rotating back in.

This script is nothing new. It has played out dozens of times during the almost sixteen years we have had our Risk Managed strategies deployed. What is making it unpleasant now is that we have been through this routine three times in the last three years without the benefit of a bear market to show the benefits of our Risk Managed strategies. Someday, this too will change.

Indeed, had stocks continued last summer's decline, my bet is that our Risk Managed strategies would not be the topic of this commentary. More likely we would be defending our Dynamic strategy and why its fully invested mandate makes a breakaway bear market a real handful, but that is a story for another day.

Today, we encourage you to put our Risk Managed strategies into perspective and understand that we are in the middle of a market cycle. Take another look at our Risk Managed Mutual Fund in "Life of Strategies: Net of Fees" on the first page of this commentary.

If this chart does not put things back into perspective, consider this thought from legendary investor Jesse Livermore: "The market does not beat them. They beat themselves, because though they have brains they cannot sit tight."

Thank you for your continued confidence,

Don Niemann
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 and Niemann Analytics, Inc.