NIEMANN CAPITAL MANAGEMENT

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Portfolio Manager Commentary: Third Quarter 2009

CYCLICAL OR SECULAR BULL? THAT IS THE QUESTION.

As the third quarter of 2009 began, despite a strong second quarter, advisors and investors continued to question whether we were in a bear market rally or if the progress we'd witnessed in 2009 was actually the start of a new bull run. As the third quarter of 2009 came to an end, that question has now become, "Is this a Cyclical Bull Market that will end sometime sooner rather than later, or a Secular Bull Market that will take us to a new high in the stock market?"

During the third quarter rally (led by Small and Mid Caps), the structure of the market improved by leaps and bounds as the vast majority of stocks traded higher (in fact over 90% of stocks listed on the NYSE now trade above their 200 day moving average compared to 70% when the quarter began). The rally was broad-based as sectors including technology, financial, retail and precious metals all joined in. Internationally, despite recent softening in China, emerging markets continued to strengthen. Both India and the Pacific Rim countries continue to lead the way here. Also demonstrating solid recent leadership as we enter the fourth quarter is Latin America in general, specifically Brazil.

The S & P 500 gained just over 15% during the third quarter, while the DJIA rose 1265.28 points to 9712.28. On October 1st, the Wall Street Journal said, "The rally that began in early spring gained steam over the summer. The Dow Jones Industrial Average jumped 15% in the latest three months for its biggest gain since the fourth quarter of 1998 and its best third quarter since 1939."

In spite of all these positives, uncertainty continues to be in the forefront of many investors minds. Many nettlesome issues have not been clearly resolved. Earnings, while strengthening, continue to be driven by cost-cutting measures rather than top-line revenue growth. Unemployment continues to be disturbingly high. And the great unknown is the ultimate reach of governmental policy changes coming out of Washington DC. We are not only talking health care here but also the energy tax for climate change (aka Cap and Trade), and possibly most important of all, the scope of our relentless drive into debt. This is already having consequences in terms of the rapidly declining US dollar.

In our Q2 commentary, we posed three unanswered questions:

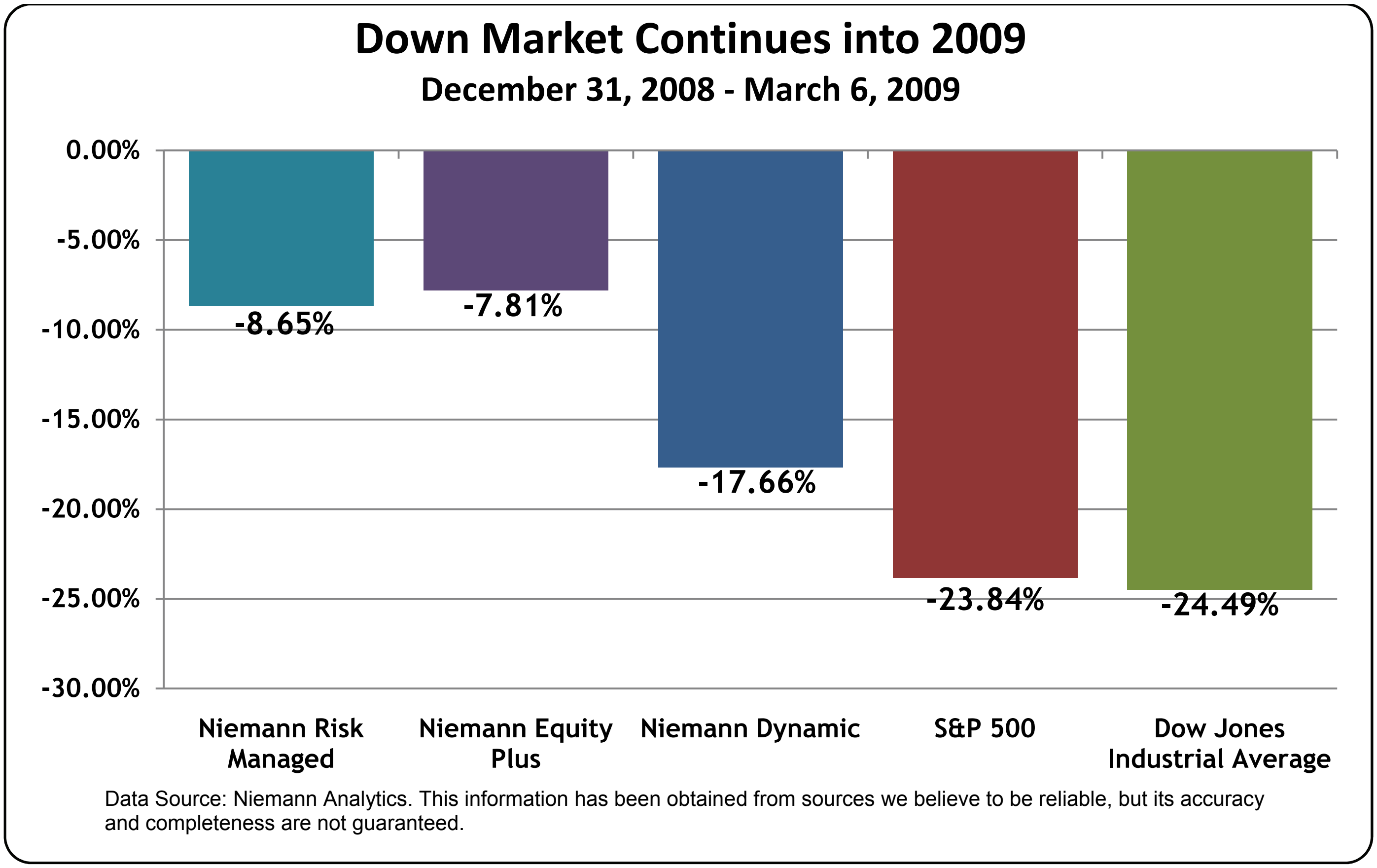
1. **Is this just a temporary stall?** Through the benefit of hindsight, we now know the answer was yes, just a temporary stall. The market continued upward, generating a very positive third quarter.

2. **Will we test market lows once again?** As yet, this hasn't occurred. As we observed in our update of 9/11/09, ". . .A move downward from here would not be unexpected. Although it never feels good, a correction of 10% would be normal. We still face

headwinds economically, and political/policy posturing continue [to affect] the markets." Just such a correction is still a very real possibility.

3. **Will the market regain its previous upward momentum and once regained, move steadily upward toward a recapturing of previous milestones?** Yes and no. The market did regain its upward momentum, but steady upward movement continues to elude us. Even after the gains of Q3, the market is still 30+% off its previous high of October 2007.

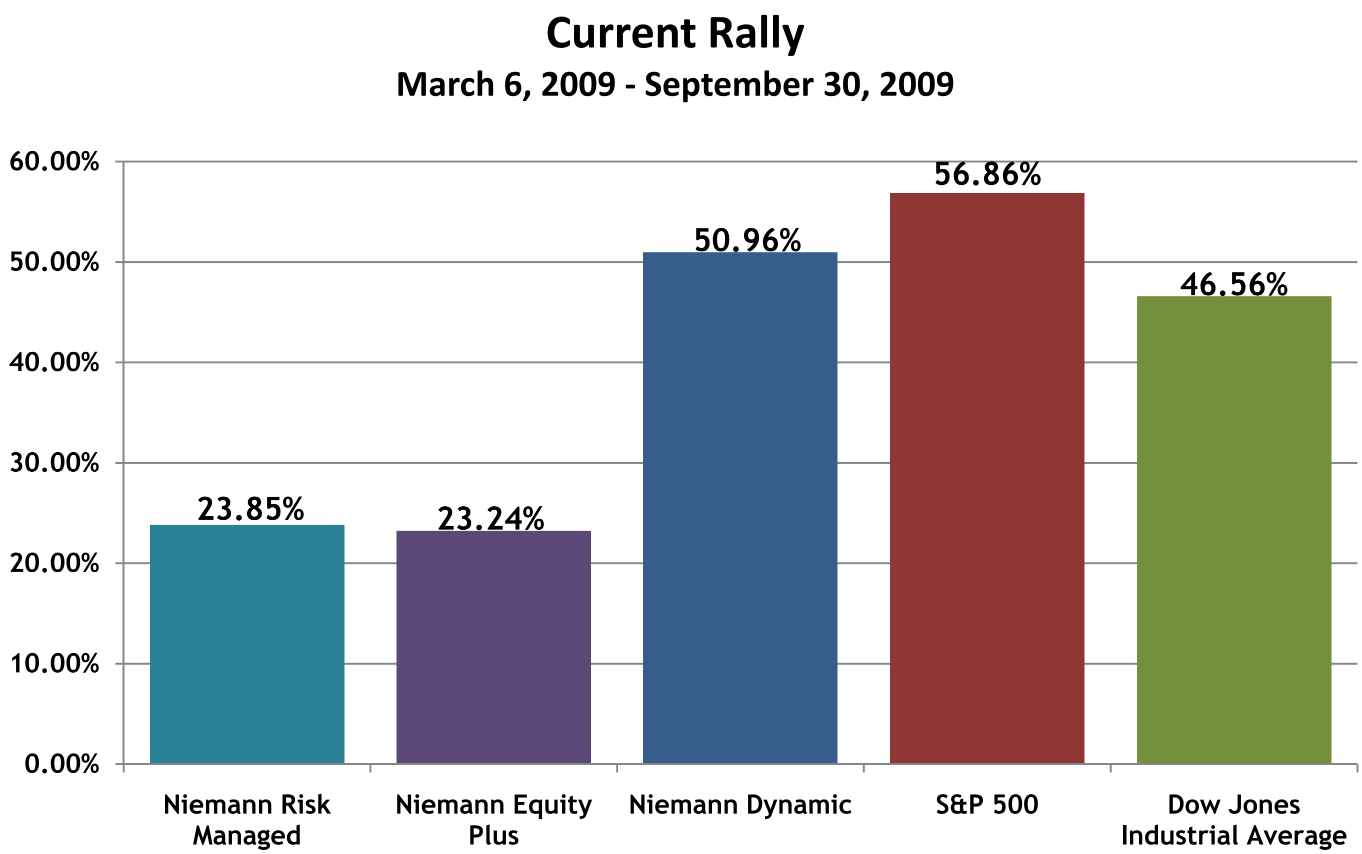
Let's take a look at what has happened thus far this year:



The Down Market: As the slide above illustrates, the market continued its downward spiral through the beginning of March. Both the Dow and S&P were down by more than 23%, while our fully invested strategy, Dynamic, was able to take advantage of a few strengthening themes, so that it was down by just over 17%. By contrast, both our Risk Managed and Equity Plus strategies were able to rotate defensively to cash during this period, which limited their decreases to just 8.65% and 7.81% respectively. Investors in Risk Managed and Equity Plus were thrilled with the small decreases in their accounts, while those investors in Dynamic questioned the validity of sticking with this strategy.

Then the rally began.

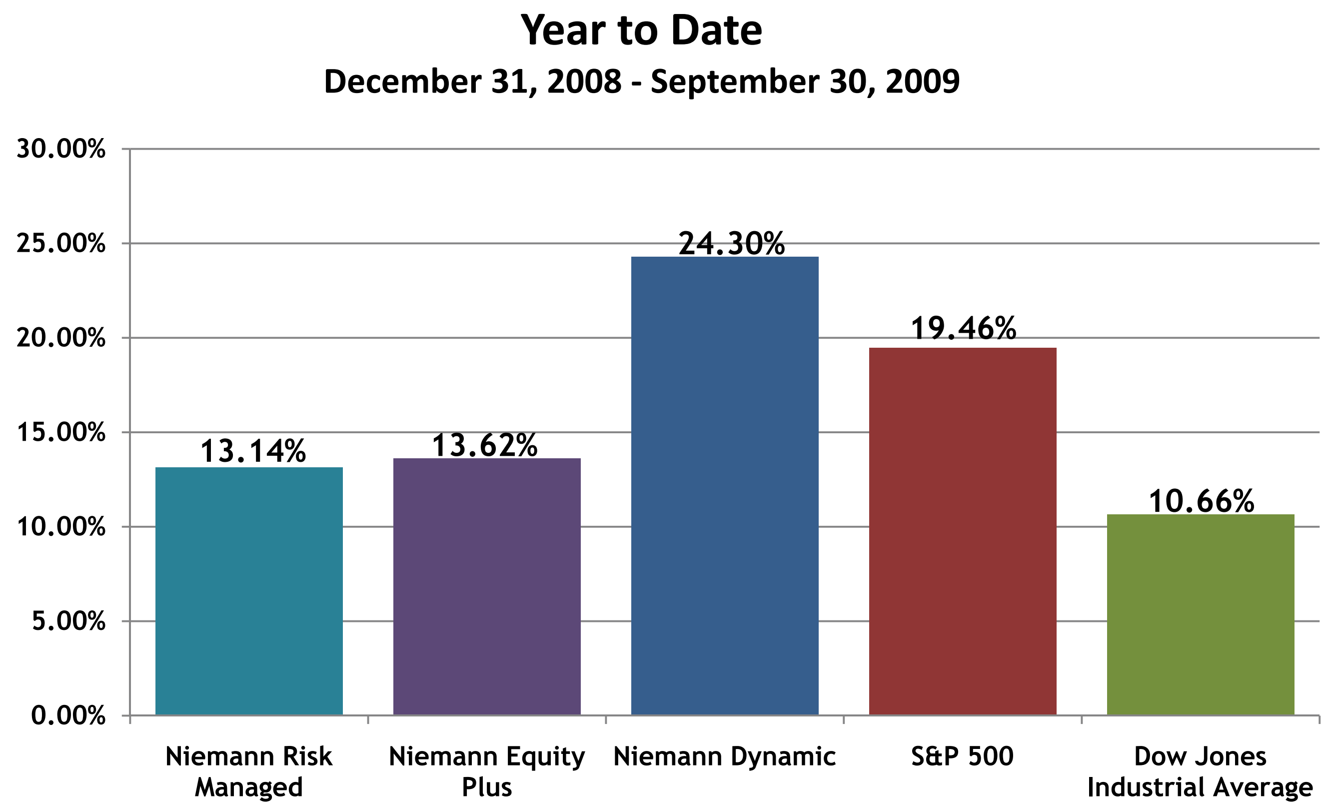
The Current Rally: From March 9th through the end of the third quarter, the market turned around (shown below). The Dow jumped over 46%. The S&P rebounded more than 56% and our Dynamic strategy, which remains fully invested in the market 100% of the time, followed the upswing by finishing the third quarter up nearly 51%. Because both Risk Managed and Equity Plus had to rotate back into the market from their highly defensive cash positions, they lagged the rebound, both up more than 23% at quarter end. All three strategies performed exactly as designed, and the perceptions of account holders also migrated with the market. All those investors holding accounts in our Dynamic strategy were extremely pleased with these results. And the investors in Risk Managed and Equity Plus may have wondered why they were lagging the market.



Data Source: Niemann Analytics. This information has been obtained from sources we believe to be reliable, but its accuracy and completeness are not guaranteed.

The Snapshot Syndrome: It's deceptively simple to come to faulty conclusions about the performance of a particular strategy and to fall victim to emotion-based decision making, by looking at a snapshot rather than taking the longer term view. Consider this: six people are placed around the oval of a racetrack and each takes a snapshot of the race from their perspective. But the only snapshot that matters is the one at the finish line. All the others prove ultimately to be moot. Accordingly, snapshots of our defensive strategies, i.e., Risk Managed and Equity Plus, as well as snapshots of our fully invested strategy, Dynamic, can be distracting, based on when the snapshot is taken. Investing for the long term requires the discipline to stay invested, stay the course and give each of the Niemann strategies the time necessary to complete a full market cycle.

In comparison with the Down Market and Rally illustrations above, let's now consider 2009, year-to-date.



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Year to Date: Looking at a snapshot of the first three quarters of 2009 (shown above) provides a better perspective on the year as well as the YTD performance of Niemann's core strategies. As Q3 came to a close, the Dow was up just under 10% for the year, while the S&P had increased 19.46%. Niemann's fully invested Dynamic strategy was outperforming the market, up 24.3%, while both Risk Managed (up 13.14%) and Equity Plus (up 13.62%) had also surpassed the Dow.

As we enter the fourth quarter, the current bull market is continuing to climb the proverbial "wall of worry" that all bull markets must contend with. Which leads to the classic question that is ever-present in investors' minds, "What happens next?"

In the face of these mixed signals, one could make the case that the choppy conditions of the recent past may continue. Indicators of a sustainable bull market have yet to appear. Even so, the market could decide to continue to move upward—or not.

One of the big debates among economists is famed-bond manager Bill Gross' prediction that we are entering a "New Normal" for the US economy (i.e., slow growth, more regulation and governmental activism, increased consumer saving which equals reduced consumer spending). These factors lend themselves to lackluster returns on US equities going forward. On the other side of the debate, many other prominent economists, including the once Perma-Bear James Grant, predict a sharp V-shaped rebound in the economy as lean, cash-rich corporations begin to spend again and credit markets resume functioning in a more orderly manner. This scenario would lend itself to the secular bull case as US equities go into a prolonged period of outperformance vs. other asset classes.

At Niemann, we never waste any energy attempting to be predictive. And rather than taking sides with either proponent of the debate, we choose to focus on the here and now and follow the evidence the market presents. As always, we will apply our standard approach to the market: execute our analytics every day, and rely on our methodology to inform us as to the appropriate responses to the market's movements—up or down.

Disclosure:
Call your investment advisor today for more information describing how Niemann Capital Management helps add value to clients' investments. Please refer to our website for additional performance information, www.ncm.net.

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The Dow Jones Industrial Average (DJIA) 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.