Niemann Capital Management, Inc.

Fourth Quarter 2000 Review

Valued Clients,

It gets darkest just before dawn the saying goes - which is good news for growth investors since it doesn't get much blacker than the final three months of 2000. Fortunately small and mid cap value stocks did some heavy lifting in client accounts, helping keep damage to a minimum.

While the news backdrop is poor: economy slowing, layoffs, profits down - parts of the equity markets are OK. Good blocking, tackling and otherwise solid fundamentals should allow the opportunity to gain a yard or two.

Which is good enough for now.

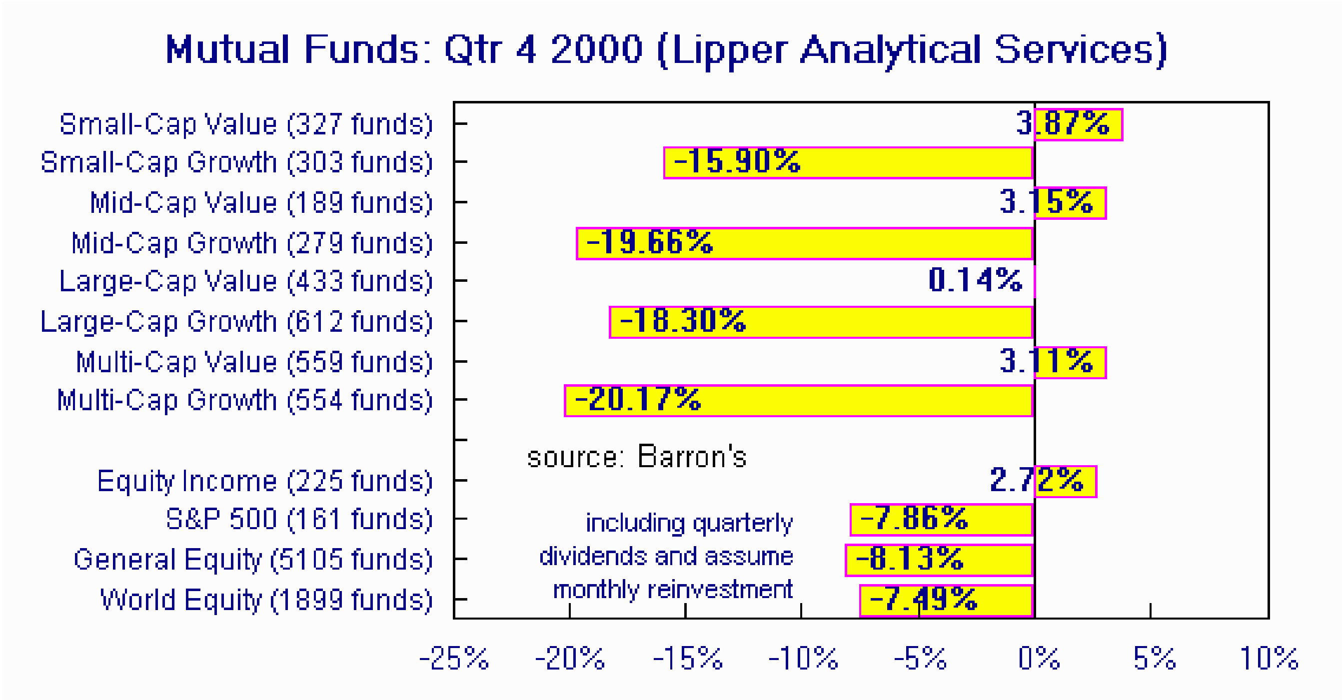
All of us at Niemann wish you a happy and prosperous New Year, and ***thanks for your continued confidence,***

Don Niemann
President
Niemann Capital Management, Inc.

Melting the Golden Idols

February 10, 2001

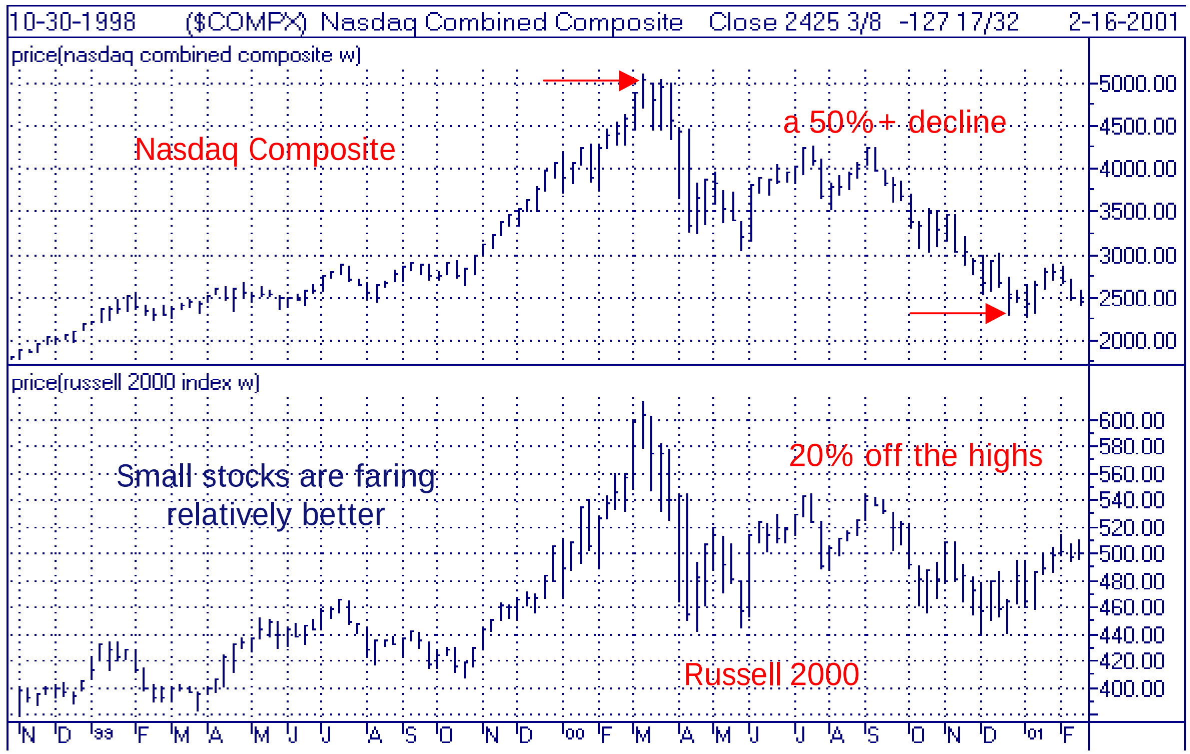
Growth *meant* loss in the fourth quarter 2000. A bear trend in the Nasdaq stock market emerged in earnest - hacking 32% off the composite value of this group of growth stocks over the final three months of the year. There was nowhere to hide. This bear destroyed everything in its path including *golden idols* Cisco, Oracle, Sun Microsystems, *et al*. The only ray of sunshine fell upon value investors, who managed to scratch out a living you see in the *Lipper* mutual fund breakout below.



2000 was a challenging year for equity investors, although overall, we're pleased with the performance of out portfolios. A timely rotation towards the *value* and *"garp" (growth at a reasonable price) styles* earlier in the year saved considerable anxiety and money as the Nasdaq plunged. Tactical shifts towards mid-and small-cap groups, as well as placing the bulk of our dollars domestically, helped us grind out profits in those portfolios where good small/mid cap value choices were available.

We worked hard to *manage risk*, and were mostly successful in keeping account volatility in check. Portfolio draw downs (absolute loss of value from account high to low) were higher than the last major bear trend in 1998 - but well within expectations considering the violent and nasty break in stock prces lead by the Nasdaq. Those opening new accounts with us around what turned out to be the top of the equity markets last spring have had a less memorable experience, but the good news is the worst of this bear market should be behind us.

Market fundamentals are improving. Yes, the economy is slowing down - some believe to a screeching halt - but this is old news. Greenspan's interest rate hikes over the past 18 months were supposed to slow the economy, and - well - mission accomplished. What's "*news*" is the Fed's adoption of an easing bias, starting with a 1/2 percent rate cut in January. Fed policy is no longer a headwind, and the advantage of a declining interest rate environment can't be over-emphasized.

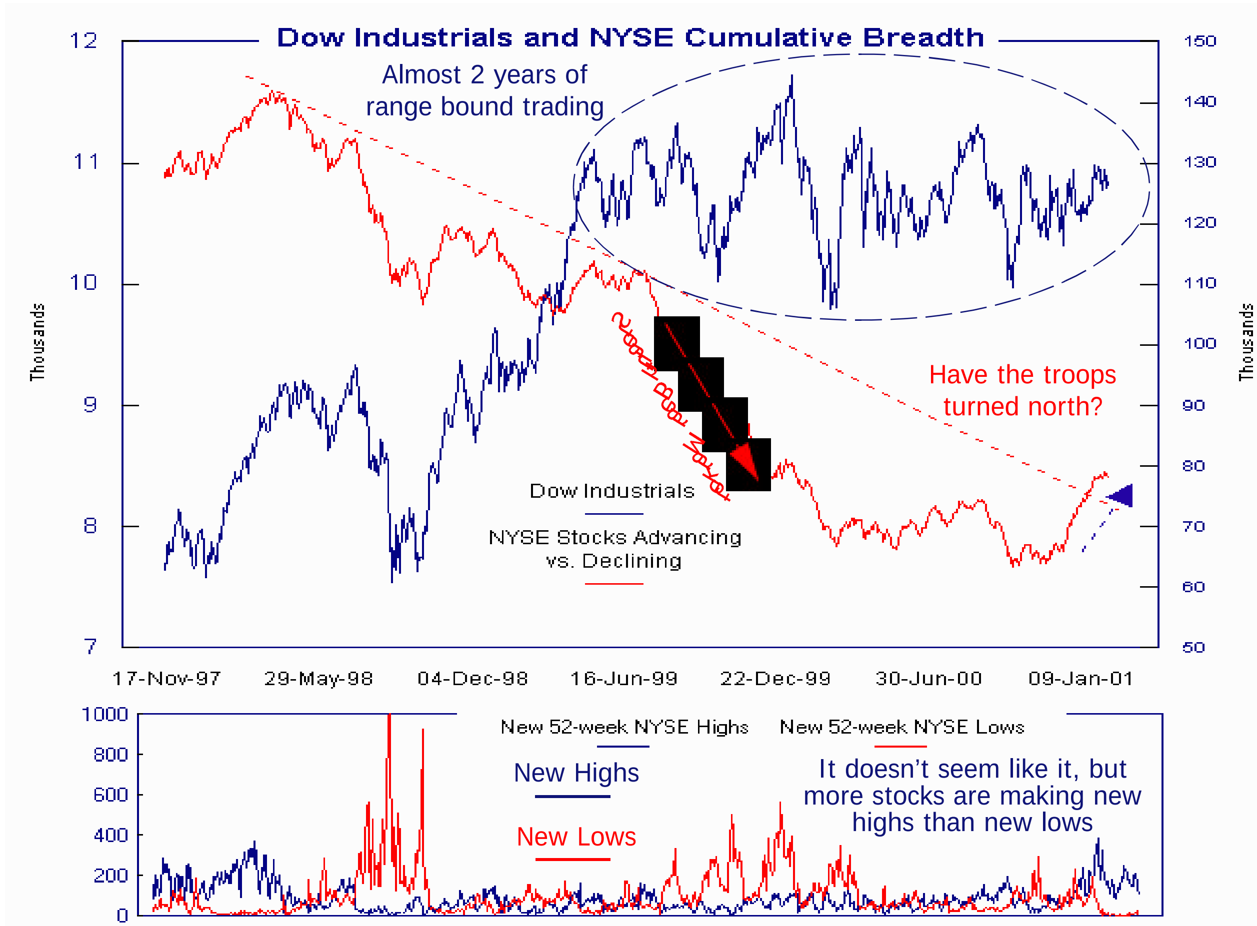


Stocks should benefit from pending legislation. Federal tax receipts are currently growing twice as fast as income - exerting an increasingly destructive impact on the economy. Fortunately, there appears to be bi-partisan support for income-tax reform and across the board rate reduction. These positive changes will incent business and individuals alike to *take risk*, improving confidence and the economic outlook.

Stealth Bull Market

Back in 1999 we wrote often in these Quarterly Reviews about the "stealth bear market" that was raging in the old economy brick and mortar companies. We pointed to negative NYSE cumulative breadth and the robust list of stocks making new 52-week price lows as evidence. Investors who ignored these warning signs paid a price.

Now the opposite may be true. As the Nasdaq flirts with new 52 week lows, *more stocks* of the NYSE are advancing each day than declining by a wide margin. As technology stocks fall on reduced earnings reports, the number of companies making new price highs on the NYSE far surpasses those making new lows. The small company oriented Russell 2000 (see previous page) is outperforming for the first time in recent memory



Bottom Line

We may not be totally out of the woods, but the new game is afoot. I'm thinking of 1988, another year in which the value style played well. Stocks "crashed" in '87, so '88 was filled with *aftershocks*(sudden, brief collapses), which dissipated as confidence was restored. This is the action we might expect. There is a mountain of money on the sidelines awaiting some sort of all clear signal (like it <u>*ever*</u> is clear). Higher prices will force these dollars into the market. Confidence is still the indicator to watch.