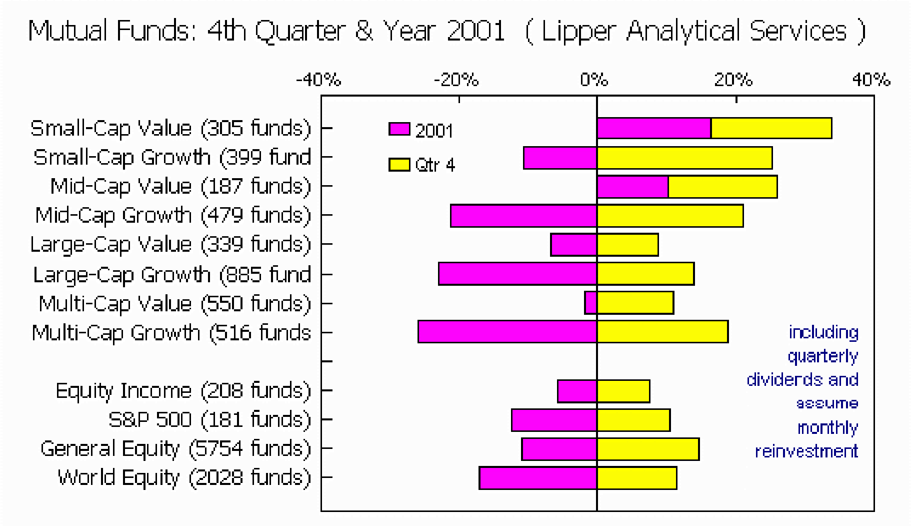
Niemann Capital Management, Inc.

Fourth Quarter 2001 Review

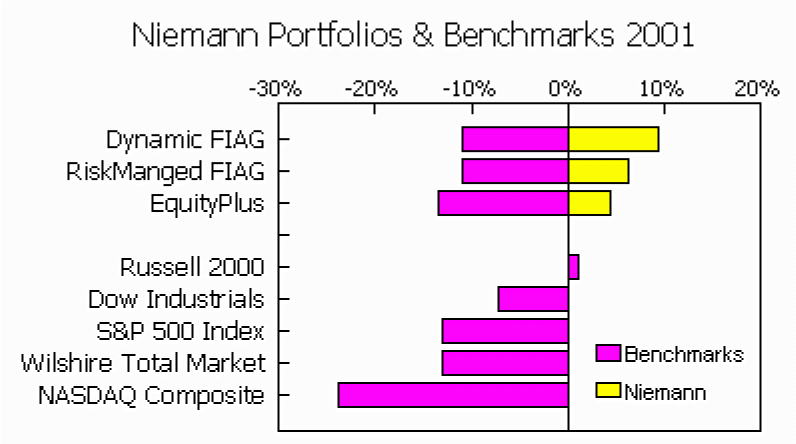
The good news is, the almost 9000 stock mutual funds tracked by Lipper gained over 14% in the 4th quarter. The bad news: even that stellar performance couldn't repair the damage done earlier in the year - the average equity fund was still down more than 13% in 2001. Large-cap growth and science/technology funds were among the hardest hit for the second year in a row, losing 22.9% and 37.5% respectively. In fact most of the darlings of the last bull market have fallen on hard times. The high-flying Janus family imploded, with the flagship Janus Fund falling 26% and Janus Twenty down over 29%. Fidelity Magellan has a negative 3-year return, as does the largest US mutual fund, the Vanguard S&P 500 Index. Overseas stock markets followed the US pattern: the quarter up 11.54%, trimming losses for the year to 17.14%. All those buy and hold experts on CNBC didn't tell us that what we were buying - and holding – was the bag.



Forgettable? You bet. As you probably have been hearing and reading *ad nauseam,* investors are in the grip of the most destructive bear market of the past 30 years. Yet in the midst of it all, our markets continue to surprise. Who would have thought in late September US stocks could have sustained a strong advance in the face of such adversity? I don't mind saying I breathed a sigh of relief to put 2001 behind us. Considering the 30%+ year-to-date losses last September, the view after Q4's rally is considerably improved.

Niemann portfolios did better.

We're pleased to report that in almost all cases Niemann portfolios performed better than both their benchmarks and widely followed stock averages over 2001. In a market where it seemed like there was no place to hide, our *analytics* uncovered some themes we were able put to work in client accounts. For the second year running, the value category outpaced growth. Those with us a few years may recall we edged toward a value focus early in 2000, keeping client accounts practically out of the growth meltdown of the past two years. Also, the year just past capped three years in which small capitalization companies have outperformed their larger counterparts. Taking these two trends into account, it should come as no surprise that small and mid-cap value funds were the engines of Niemann performance again in 2001.



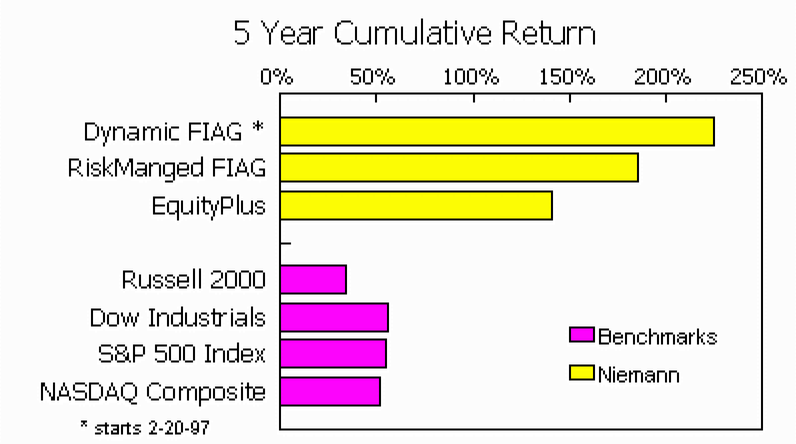
Our smaller stock focus is likely to continue. Historically, small-cap stocks perform well when the US is emerging from recession. Following the 1974 bear market, this asset class was among the best performers. And so far *analytics* are supporting this theory - most of our portfolios display a marked preference for small and mid-cap value names as of this writing.

Another profitable theme in 2001 was real estate. Real estate funds turned in a relatively good year, helping the variable-annuity and variable-life portfolios offering these investment choices. This brings up an important point about risk and return: its only going to be as good (or bad) as the investment choices available. Consider the real estate sub-accounts existing within our variable portfolios this past year (table nearby). The difference in return between American Skandia's real estate offering and the one through Nationwide was 7.01%. While this may not seem like much, it accounts for about 1/4 of the performance difference between the two risk-managed portfolios. And we're talking real estate here. The disparities can become very pronounced when comparing the more volatile growth selections. Keep in mind this is simply a one year snapshot. Going forward the roles may reverse – or *analytics* may remove real estate as one of our positions altogether.

Portfolio	2001 Return
American Skandia: AST Cohen & Steers Realty	1.44%
Manulife: Manufacturers Real Estate Securities	1.73%
Nationwide: VK LIT MS Real Estate	8.45%
Pacific Life: REIT	7.20%
Sun America: Real Estate	4.42%
John Hancock: Real Estate Equity	5.07%

When winning is not losing.

Investors, like most politicians, often get caught fighting the last war. Focus on investment return was the mantra over the last half of the 90's, and the drag on performance for those of us who attempted to manage risk was less and less tolerated as the bull raged on. As is often the case, many investors abandoned caution during the bull's sprint to the finish - just when they needed it most. Now, chastened by the bear, investors seem as risk-averse as I can remember. This is a healthy sign in the scheme of things.



Risk-conscious investors will look at the "5 Year Cumulative Return" chart nearby and run – I mean ask, "how much risk was taken to get that kind of performance?" This is the right approach (actually both running and asking will work). In surgical terms, you want to get different opinions and understand the details before going under the knife. We actually have an answer to this question, (try asking other managers!) and it's in the product profile for every portfolio we manage. Review these profiles and you'll find that the returns in this chart have as much to do with keeping losses under control as they do with finding winners.

If you had invested the day of the high	Your return thru 12-31-01
Dynamic FIAG (March 9, 2000)	-12.27%
Risk Managed FIAG (March 10, 2000)	0.10%
Equity Plus (March 9, 2000)	-5.28%
S&P 500 (March 24, 2000)	-24.84%
NASDAQ Composite (March 10, 2000)	-61.37%
Russell 2000 (March 10, 2000)	-19.11%
Dow Industrials (January 14, 2000)	-14.51%

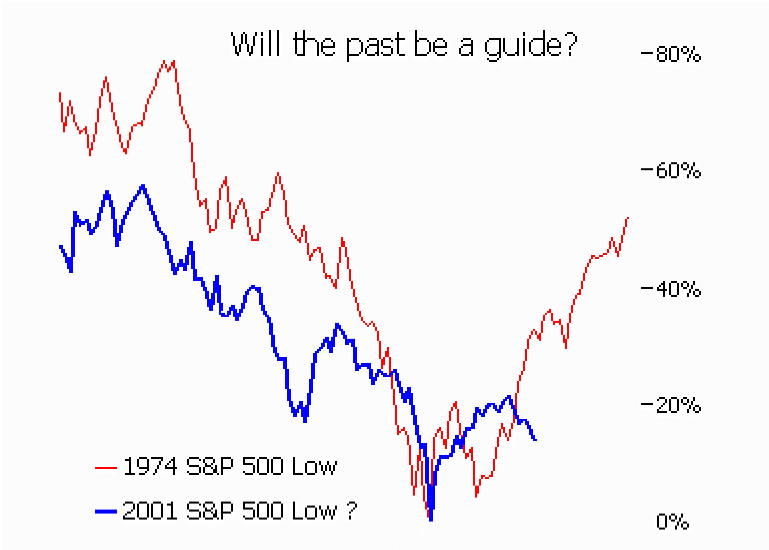
Another interesting way to think about and measure risk is to compare the returns of various investments from a previous market peak. This is particularly appropriate when the chief objective of managing risk is to have more money available when the next bull trend unfolds. The table nearby compares the cumulative returns of Niemann's FIAG portfolios (management fees not included) with the popular market averages from their bull market highs in 2000 through the end of 2001. Note: the all time high of the risk-managed portfolio was made on June 5, 2001 and it is down 3.55% from that level. Clearly all of these numbers were down even more at the September lows, but the point is active risk management pays off over the long run. We have considerably more of our assets intact than an investor in any or all of the indexes.

Thoughts on Equity Plus.

Why wasn't *Equity Plus* our best performer in 2001, since this portfolio can go short and thereby profit by a market decline? Frankly, this was my expectation (though I'm not arguing with the fact it beat the S&P 500 by 17%). Its just you'd think *EPlus* would be the big winner. Looking back, perhaps we should have been more aggressive on the short side last summer. At the time we were making money in our long positions, and potential long candidates were relatively easy to uncover. So, with the Fed aggressively cutting rates, we chose to position for the end of the bear trend going into September 11, and thus were not short for that event. Once it took place, *risk on the short side was very high.* In hindsight, staying cautiously long since the attack proved a good choice.

The bottom line.

The question on most investor minds: Has the bear market run its course? There are persuasive arguments on both sides. The bulls say: 1) Interest rates are low, helping borrowers. 2) Falling energy prices are a tax cut in themselves. 3) Plenty of cash on the sidelines will go to stocks for lack of an alternative (especially if they keep going up). And 4) there is no question the Fed is pumping money into the system. Historically, our markets have always moved up on this powerful cocktail.



On the other hand the bears submit that stocks have already priced in earnings that may not be achieved until much later. They point out that near term the markets face substantial structural challenges (like the Enron accounting issue) not to mention continuing event risk.

What do we think? Stocks have run up over the past few months, anticipating an earnings recovery this year. Our expectation is that stocks will generally be range bound (trade sideways) until evidence emerges that US economic growth has resumed. Again, that's *simply what we think*. One key to our continued success over the years is not getting too caught up in anticipating the direction of the economy, or even the markets for that matter.

After all it's not about being right; it's about making money.

Thanks for your continued confidence,

Don Niemann
President
Niemann Capital Management, Inc