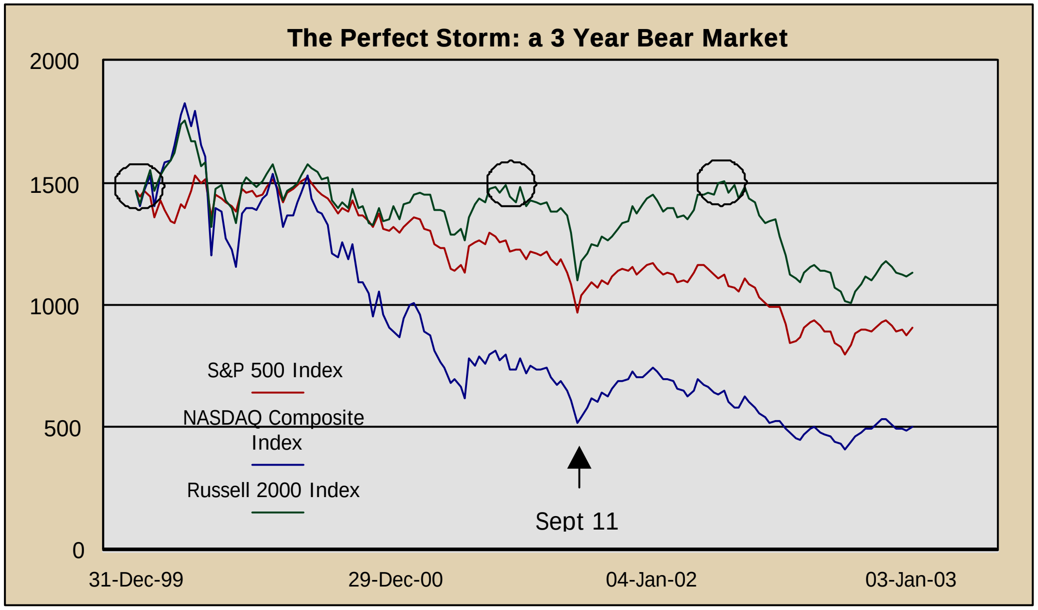
Niemann Capital Management, Inc.

Fourth Quarter 2002 Review

A title like "The Perfect Storm" is so, well, *perfect* – it was doomed to overuse from the outset. But what better way to describe the cascade of events crashing around us? At least I read the book. Once you see that trawler struggling to overcome a truly monstrous wall of water, whether in your mind's eye or on the big-screen – it stays with you. It's a glimpse into that fundamental battle of man against the natural flow of events, and a good metaphor for the challenges we face today, as investors, and as a nation. We are subject to forces we cannot control. Yet success, even survival, lies in managing the outcome of choices freely made, consciously or not. In *real politic,* as in the financial markets, benign neglect does not go unpunished. Wealth is liberated from those without the courage to act.



3 Years of Bear Market

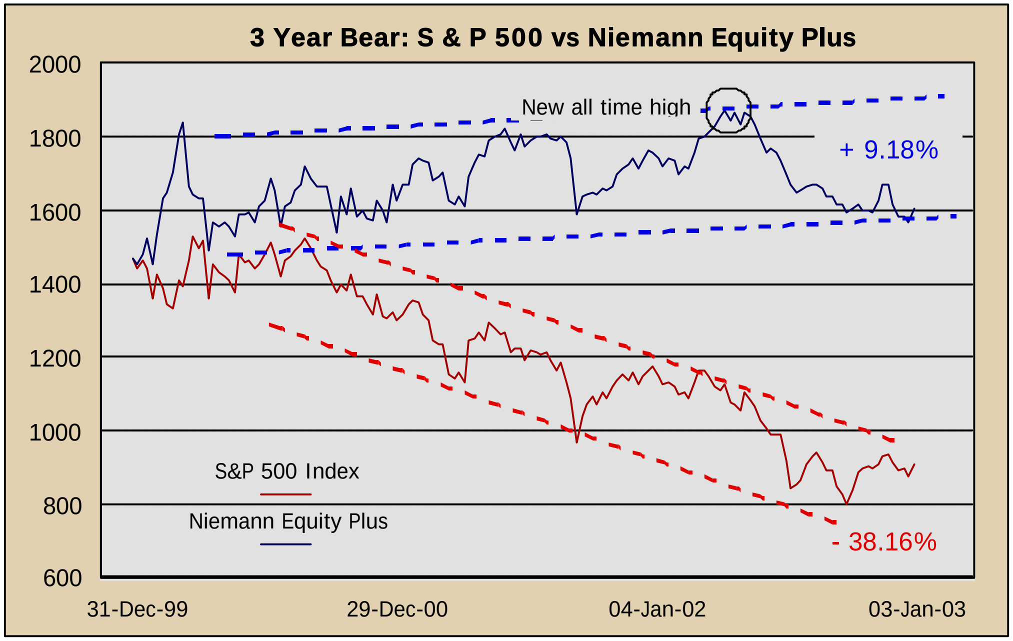
Michigan Consumer Confidence was released last week, and to no ones surprise *sentiment* is at multi-year lows. It is increasingly clear that investors have been hostage to this bear market long enough for the victims to bond with their captors. Who can blame them? We've been battling in the trenches for three long years.

This being the case, it is a good time for us to take a step back from day-to-day tactics (what we're buying, selling, and why), and try to regain some perspective on the big picture, and our overall goals. What has happened over the past three years of bear market? Have our strategies worked? To find out, in this final review of 2002, we'll look back to gauge the impact of this bear on the major indexes and our portfolios. Everyone knows the markets are down. What we want to understand is how our basic strategies: Dynamic, Risk-Managed, and Equity Plus, have held up against the longest and toughest bear market in a century.

As you can see in the first chart nearby, the bear has shredded the prices of large and small companies alike. We constructed this comparison by setting the NASDAQ Composite and Russell 2000 indexes equal with the S&P 500 index on Dec 31, 1999. These three indexes represent a broad cross-section of the US equity markets. All are down, some more than others. Dominated by the shares of technology companies, the NASDAQ Composite has lost an amazing 78% of its value from high to low! On the other hand smaller companies, as represented by the Russell 2000, have fared considerably better. While it succumbed to every general sell-off, the Russell fought its way back to even each time (circled) until the bear re-emerged last summer.

About the Following Comparisons

We're going to compare each of our strategies against the S & P 500 index from Dec. 31, 1999 through Jan 3, 2003, encapsulating the entire bear trend to date. Why choose this index? The S & P is well known by the public and used by many institutions as a benchmark. As you can see in the previous chart, its performance through the bear has been middle of the road: not the best, nor the worst. Of course each of our portfolios is reported against their appropriate benchmark in the quarterly performance profiles. Keep in mind the following comparisons are gross of management fees, net of everything else. One of the benefits expected soon from our new technology platform is "net of fees" reporting. This will mean that all Niemann performance reports will be completely net, from your personal Account Growth Summary on the web, to the "Managed Accounts and Benchmarks" and "Profile" pages covering all of our portfolios. But we're not there yet. Finally, we set the beginning value for each portfolio equal to the S & P 500 index on Dec 31, 1999 for ease of review. The graphs track weekly performance over the three-year period.

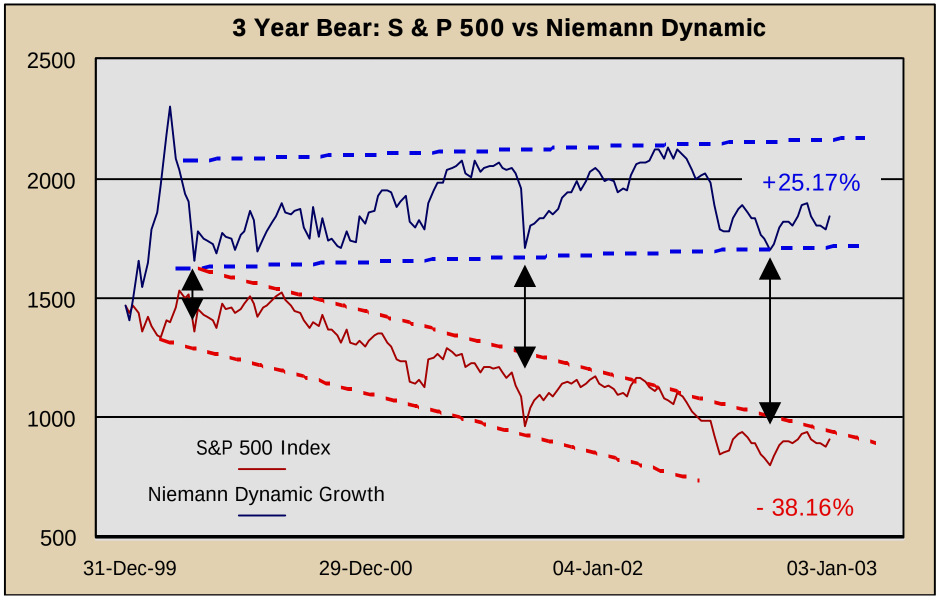


S & P 500 versus Equity Plus

Our first comparison is between the S & P 500 Index and Niemann's Equity Plus strategy. Equity Plus can invest in foreign and domestic markets, can be long and/or short, and has an objective of capital appreciation under all market conditions.

While somewhat counter-intuitive, the fact is Equity Plus continues to exhibit the lowest volatility of all our strategies, perhaps because of its greater latitude. It's interesting to note that foreign markets have played almost no role in this strategy over the past few years, with the exception of a smattering of Emerging Markets investments in early 2002. Even today, with the $US dollar rapidly depreciating against the Euro, foreign equities have not scored consistently high enough on a risk/return basis to warrant putting assets to work. We expect this to change going forward; Eastern Europe and Southeast Asia in particular hold great promise.

We continue to work hard on improving our ability to marshal short positions more effectively in this strategy. Despite this weakness, Equity Plus has fared quite well through a demanding bear market, achieving an all-time new high (circled) in 2002. Clients putting new money to work on any of the peaks have seen their downside limited, and those holding their account over the entire period have made money. We aren't aware of many equity strategies that can boast the same.



S & P 500 versus Dynamic

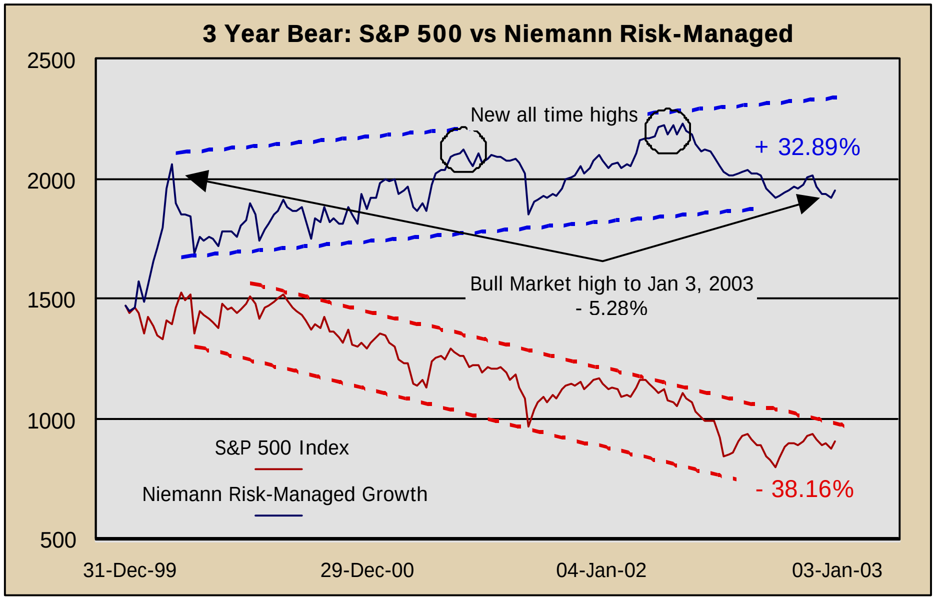
Our Dynamic Growth strategy is designed for investors seeking superior returns over the longer run. Account assets remain invested in long equity mutual funds through all market conditions, and are dynamically allocated where we think the best near term appreciation potential exists.

Frankly, we expected this strategy to be more problematic in a bear market. This is not to say account draw down (read: loss of money) when markets have plummeted in concert hasn't been breathtaking at times. Also, the application of this strategy to many of our *variable portfolios* has been challenging due to the limited number of choices available within them. Yet, overall, the dynamic strategies have blown the doors off their benchmarks, both on a risk and return basis. The Dynamic FIAG Growth strategy is shown here. The advantage of having hundreds of managers/funds to choose from is evident. Double-ended arrows point to major lows hit by the S & P 500 through the bear market, and the comparative advantage of the portfolio at those points in time. This strategy seems poised for good upside once the bear has found its final low.

S & P 500 versus Risk-Managed

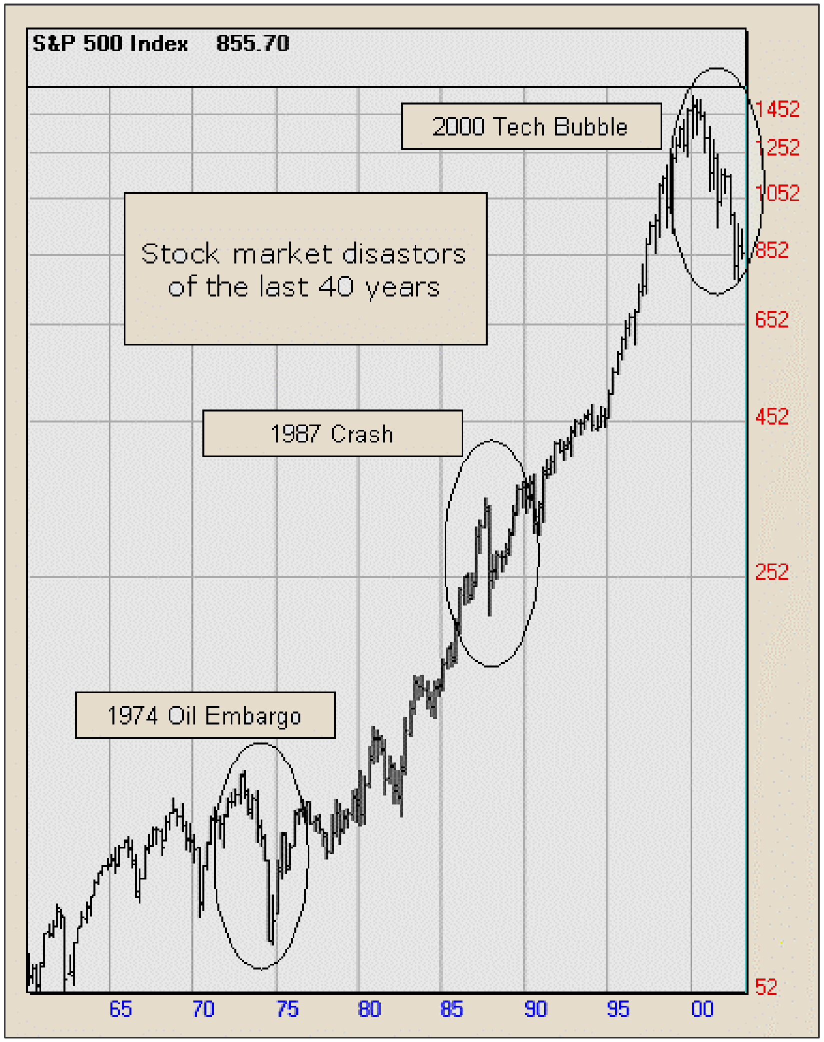
Risk-Managed Growth is our most popular strategy based on amount of assets invested. It is designed for investors who want to participate in the equity markets yet limit the risk of capital loss. This is basically the dynamic strategy with risk-management applied. We employ hedging tactics to achieve the objective and reduce portfolio turnover.

This strategy has exceeded expectations. Pictured here is our Risk-Managed FIAG Growth portfolio. Note that even those clients putting money to work on the day of the bull market high have seen their accounts go on to make higher highs in 2001 and 2002. Account draw down has remained acceptable despite the intensity of external geo-political events.



The End Game is Underway

The character of the bear changes over its life. In the early stages, there are still plenty of opportunities to make money. At the same time the bear begins, with the blow-off and exhaustion of some previous bull theme, it is also true that a host of stocks not part of that theme have languished for months or years. Money comes out of the former and into the later as investors continue to re-evaluate. This reversion to the mean is why our strategies continued to make pretty good headway all the way into 2002, even as the overall markets moved broadly lower. As the bear gets longer in the tooth, these inefficiencies get hammered out and removed - one of the signs we're in the end game of this trend.



The Bottom Line

Though it seems like a lifetime, a few short years ago a reckless bull showered money on anyone who came to the street. Now, the bear consumes our effort with little or no reward. Cycles just like this completed with the great '74 Bear Market, and the Crash of '87. As bad as each of those markets were at the time, they resolved to new high profits for those with the foresight, and fortitude, to stay the course.

The same will be true again. Committed to stocks for the long run, the superior investor accepts what cannot be changed: the ebb and flow of market cycles. We overcome, by remaining engaged, systematic, disciplined. We have the world's strongest economy as our ally.

All of us at Niemann wish you a healthy and prosperous New Year, and thank you for your continued confidence,

Don Niemann
President, CIO
Niemann Capital Management, Inc