NIEMANN
CAPITAL MANAGEMENT

FOURTH QUARTER 2004 - 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.

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Minimum Initial Investment
$100,000

Maximum Management Fee
2.30%

Advisor Location
Capitola, CA

Number of Staff
18

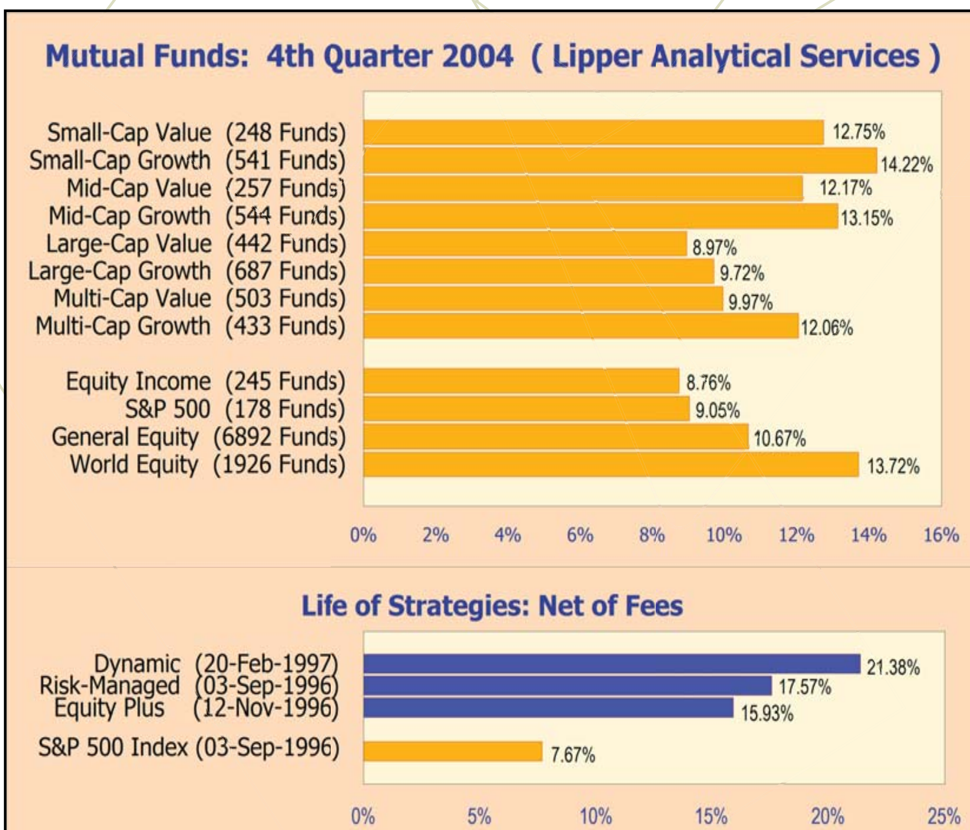
Assets Under Management
$463 million

A powerful 10.67% fourth quarter rally (based on 6892 U.S. diversified equity funds analyzed by Lipper) relieved at least some of the angst created over the first nine months of 2004. What a difference an election makes! As seen in the chart "Mutual Funds: 4th Quarter 2004," below, the upside was broad and resolute with every category sporting at least high single digit returns. World markets responded with a sterling 13.72% average three-month return. Growth companies edged out their value-oriented counterparts for best performance over the quarter, but continue to lag badly in the big picture. Small company shares outperformed larger ones–as they have for five years running.

It comes as no surprise that the buzz on the street so far in 2005 echoes last year at this time: an impending market rotation from small to large and value to growth. We're not convinced. As the old saying goes, "Wall Street is paved on the graves of men who were right too soon." Speaking of old sayings, whoever first conceived the centuries old Chinese curse, *may you live in interesting times,* must have been picturing a year like 2004.

Protecting the Public

Readers of these Reviews have suffered through more than one diatribe on recent scandals in our industry. Why is it that innocent bystanders always end up picking up the tab? The most optimistic answer I can think of is chalking it up to the law of unintended consequences. When politicians finally buck up to "protect the public," of course their many cures would turn out to be worse than the disease. Now that the regulatory dust is beginning to settle, the only thing left to figure out is how bad we ended up getting fleeced.



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.

Some of the levies are obvious: new redemption fees and holding periods on investments. Others are less so: sub-account closures, trading restrictions, regulatory burdens and the like. We've beaten this drum to death over the years but the facts remain: fewer choices lack of ability to adjust to market conditions and penalties for doing so are drags on performance. These are a "tax on return" and have touched all our strategies. Clients owning the products of companies imposing the most onerous changes have paid the dearest price.

It's important to understand that many of the changes spawned by U.S. regulatory agencies are actually guidelines and therefore implemented in different ways by individual companies. Some companies like Phoenix and Pacific Life have changed nothing, while others like Nationwide and Skandia changed almost everything. Our responses are company specific and focused on one main consideration: in light of whatever changes a particular company imposed, does our strategy still make sense? In some cases the answer is no and in those cases we are closing the strategy altogether. We have closed our Nationwide Best Of America, Future, and Exclusive Risk Managed strategies for just this reason. Imagine not only having to get permission from sub-account managers, but also having to *mail* our requests to Nationwide a week in advance in order to buy or sell. Forget effectively managing risk under such conditions!

Some companies are developing alternatives that make continuing our strategies viable with some re-engineering of our methodology. Last year Skandia incorporated an expansive selection of "ProFund" sub-accounts offered without fees and trading restrictions. Nationwide has a similar product using Rydex. Our new Rydex/ProFund strategies will act differently than our other variable strategies (because the investment mix contains primarily sector and index related sub-accounts) but they should be no less effective over a complete market cycle.

Lest you think investors are the only ones paying the price, like all advisors registered with the U.S. Securities and Exchange Commission, Niemann now finds itself spending tens of thousands of dollars to comply with a host of new regulations. Do they add any value to our investment process? No. Will they guarantee that the crooks won't find a new way to game the system? No. Multiply us by the thousands of mutual fund companies and financial advisors like us and imagine the loss of productivity and resources! Money far better spent on the investment process itself. Thank your congressman.

Despite all the crosscurrents, we posted a solid year in 2004. Top honors went to FIAG Dynamic with a 13.33% return net of fees, and all three of our Mutual Fund strategies continue to blow away the competition (annualized returns, net of fees), see accompanying chart.

Mutual Fund Strategies	Life of Strategy	S&P 500 Index	NASDAQ Composite	Russell 2000 Index
Dynamic (Feb 20, 1997)	21.38%	5.38%	8.07%	7.55%
Risk-Managed (Sep 03, 1996)	17.57%	7.67%	11.20%	8.38%
Equity Plus (Nov 11, 1996)	15.93%	6.43%	9.15%	8.08%

Lose the Emotion

Has this ever happened to you? You own a stock and after awhile it's not working out as you expected. You hang in there because the news seems OK and if it would just rally a few bucks you could get out unharmed. Over time it gets more painful to look at the price and you know you're going to have to come to grips with a sizable loss. The shares continue to sink. At some point, self-preservation kicks in – you're not going to ride that pony into the dust - so you unload the stock, which begins a serious rally the very next day.

This is one of Mr. Market's more famous tutorials. Every hands-on investor who manages money has a similar tale to tell. The superior investor learns from the experience. My particular "take-away" was the realization that large losses are borne from emotion. "If I can just get even I'll get out." "If I hold a little longer the market will turn." "The earnings were great, the stock has to respond!" Investors (like you) who employ outside managers like Niemann are not immune from such thoughts! Emotional responses to practical problems will lead to ruin. The best defense against an attack of emotion when things go wrong is to plan for adversity in advance. Expectation is everything. In the case of buying stock: knowing how much you are willing to risk before even purchasing the shares is how you manage the emotional downside of a losing position. As the owner of a "managed account," having "realistic expectations" about how your account is going to perform through different parts of a market cycle is key to your success. Through a deeper understanding of how our strategies actually work, you gain the confidence and level of comfort necessary to see them through to success. In last quarter's Review, we looked at Niemann's Dynamic strategy. Now lets do the same with Risk Managed.

Inside Risk Managed Growth

Risk Managed strategies have two core objectives: to achieve an equity-like (market) return over a complete market cycle while trying to limit the potential for absolute loss. Another way to think of this might be, "...try to capture the return of the benchmark over the years without the pain of losing half your money when the inevitable bear market happens." Let's begin by reviewing the chart "Risk Managed: Final Year of the Bear," below. This is a one-year comparison of our Risk Managed mutual fund strategy against its benchmark and the S&P 500 Index. Just below it is another graph labeled "Risk: Net Return over Benchmark." Here we are tracking the difference between the return of our managed accounts (net of fees) and their strategy benchmark. Note the S&P 500 Index and the Risk benchmark track fairly close.

We started this evaluation in May 2002–the beginning of the end of the last bear. As you can see, the final 16-week plunge carried the S&P 500 down nearly 30%, while Risk Managed held up remarkably well through the chaos. How is it that this strategy posted less than half the losses of its benchmark and the S&P 500 during such a destructive phase of the bear market?

As with Dynamic (and Equity Plus for that matter), our "bottom-up" quantitative fund selection process gets much of the credit. Since we're focusing managed accounts in those investments we think offer the best potential return based on the risk we're willing to assume, we naturally tend to be in more defensive positions when the markets are in conflict or a pronounced bear phase. But good stock-picking alone wasn't nearly enough to save us from that bear!

Paying the Risk Premium

Increasing our cash position is the best defense our Risk Managed strategy has against absolute loss, and we held high levels of cash through this period. You can see where we began to apply the brakes in June of '02, and we increased our cash position as the market continued to fall. This decision to raise cash is what we euphemistically call "Paying the Risk Premium." It's insurance against a falling market. Why call it a premium? Often times the market rebounds after we raise some cash (sound familiar?), and those positions we've sold don't participate in the rebound. The sharp market rally off the Sept '02 lows is just such a case.

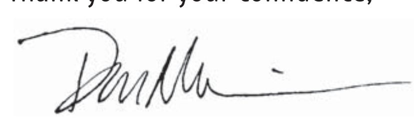
The "premium" is paid in the form of lower upside performance. Twice in 2004, in May and July, we raised cash levels in this strategy significantly - accounting for the 3% difference in performance between Dynamic and Risk by the end of 2004. But just like insurance, its great to have when you need it and such was the case through the summer of 2002!

The final chart above, "Risk Managed: Then Add the Bull," enlarges our perspective to include the subsequent bull trend through the end of 2004. Has Risk Managed achieved its objectives: an equity-like (market) return over a market cycle while trying to limit the potential for absolute loss? Not only has this strategy outperformed its benchmark and the S&P 500 Index net of fees, it did so while sidestepping most of the staggering losses of a historic bear market.

As good as this looks, take a moment to imagine how you might have felt having made an investment in this strategy on May 15, 2002. You lost money immediately! By the end of the year you would have lost a little more than 15% of your money. Sure the "markets" lost more, but would that have made a significant difference in how you felt? This is where having the right expectations (and remembering them!) comes in. Our objective is to achieve a market return over a complete market cycle. We can't control when you invest and it probably wouldn't matter in the long run if we could. Our objectives are achieved through systematic and disciplined application of investment policies - day in and day out. It's about the process. Those investors who forgot, gave up, and pulled out after that year of turbulence were left to watch a great market rally over the following two years.

All of us at Niemann wish you a healthy and prosperous New Year!

Thank you for your confidence,



Don Niemann
President, CIO
Niemann Capital Management, Inc

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.

To request Part 2 of Niemann's current ADV Part II Section F and/or the Annual Full Disclosure Presentation, 2003 please contact Talia Wise @ 800-622-1626 or email her at talia@ncm.net.