NIEMANN CAPITAL MANAGEMENT

Niemann Commentary: Outperformance Through Underperformance

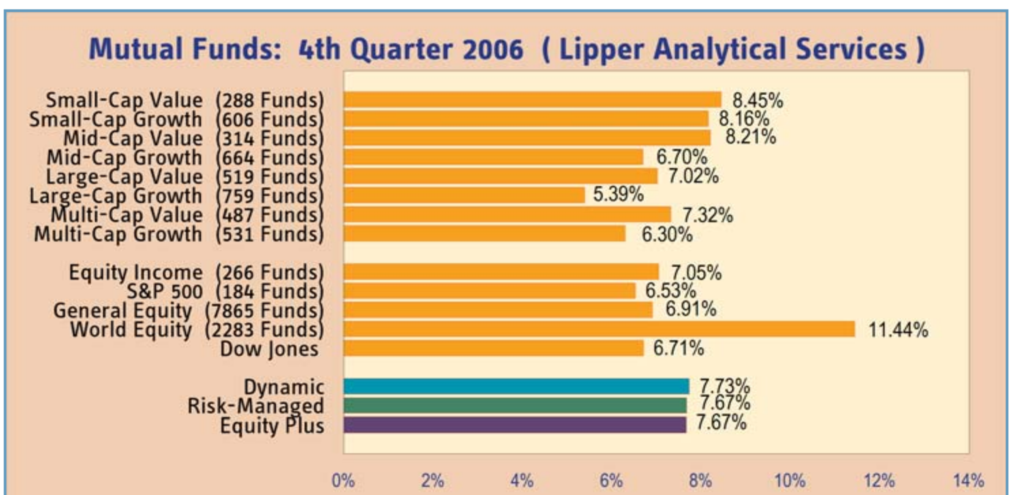
Thanks to a broad fourth quarter advance, markets around the globe established new highs for this bull market cycle and in some cases new all-time highs. One such case is the Dow Jones Industrial Average (DJIA) which finished 2006 at 12,463. Though it took the better part of six years, the Dow finally broke through its January 2000 ceiling of 11,750. Happy days are here again!

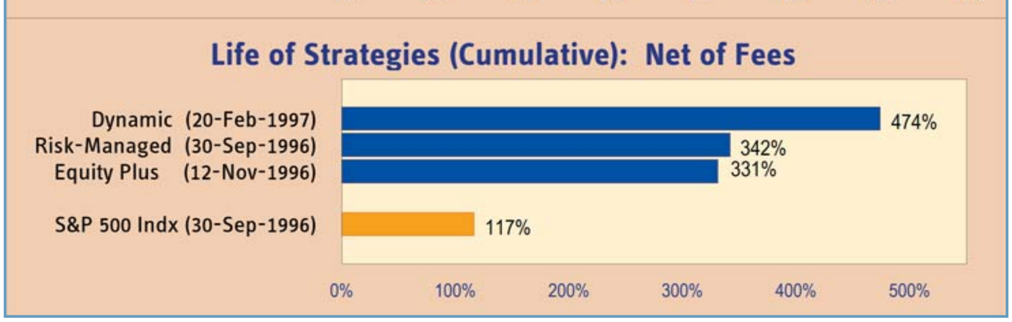
While the Dow's cumulative return of 6% over 6 years doesn't make my investing highlight reel, everything is relative. The NASDAQ closed 2006 at 2415, leaving it still down over 50% from its March 2000 peak! Even the venerable S&P 500 Index has yet to exceed its March 2000 high of 1552. Passive investors of U.S. equities have treaded water since the end of the dot.com boom and there are plenty of them with over $1.8 trillion dollars of indexed money.

Indexing vs. Active Management

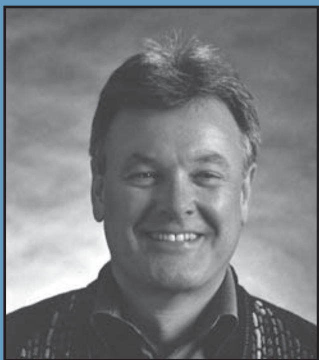
For those of you who don't know the indexing pitch, it goes something like this: "...while active investors (like Niemann!) might outperform the market over short periods of time, no one can beat the market over the long haul". John Bogle, the 'father of the index fund' according to CNBC, argues "... since the most you can expect over the long run is the market, the best way to capture its return is to buy and hold a low cost index fund".

Indexing became an obsession in the late 1990's because few active managers, including us, could keep pace with the Large-Cap Growth dominated S&P 500 Index. The Financial Research Corporation estimated 40% of all new money flowing into common stock mutualfunds went into index funds in 1999. Like all fads, reversion to the mean has been a painful process.





__Dow Jones Industrial Average__: The Dow Jones Industrial Average 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. __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.



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.

* * *

Minimum Initial Investment
$100,000

Maximum Management Fee
2.30%

Assets Under Management
Over $1 billion

Advisor Location
512 Capitola Avenue
Capitola, California

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According to Yahoo!Finance the Vanguard 500 Index fund, the 800 lb. gorilla of indexing, has only managed a cummulative return of 7.16% since the end of 2000. Morningstar's U.S. All-Cap All-Style index (which includes active funds) was only slightly better with a 7.9% cumulative return in 6 years.

Contrast those meager returns with the excellent performance of Niemann's actively managed Equity Plus, Dynamic and Risk Managed strategies. Over the identical time frame we captured 80% in Equity Plus, 76% in Dynamic and 65% percent in Risk Managed net of all fees and expenses. One would think Niemann must be "crushing the ball" to be outperforming the 'market' by such a wide margin over the years (see "Life of Strategies: Net of Fees" on the preceding page). Not so. The reality is active management by definition causes us to underperform the prevailing market theme for significant stretches in each of our portfolios.

Bogle Has it Backwards

Almost exactly opposite to Bogle's premise, it's our active style which drives our performance edge over the long term at the expense of underachieving from time to time in the short run. Skeptical? Read on.

We must start with the concept that important investment themes are spawned by changes in fundamental forces. It could be as simple as a shift in tax policy, some new invention, or a change of political reality like the mandating of ethanol in gas (the latter of which sparked a mighty bull market in corn). As appreciation for the relevance of the 'new fundamental' grows, increasing numbers of market participants reallocate capital to investments they perceive will do well. This creates a trend which can persist over time. This self-reinforcing "virtuous cycle" is the key to active management.

We see this theory in action in the chart "Growth versus Value over the Past Decade" nearby. In the nineties investors bid technology stocks to a huge premium as the notion that "the internet will change the way the world does business" became conventional wisdom. This didn't happen overnight. The last three years of the dot.com phenomina are highlighted in the box labeled "Tech Bull becomes Internet Mania". Over the first full year of our chart, the market continued to trade in lockstep while the internet theme percolated. As more investors turned their focus to technology shares, seperation begins in 1998 and the internet theme began to mature into the dot.com bubble we remember today.

Passive investors accepted the emerging mania in stride and benefitted if technology companies were already present in their strategy (the S&P 500 Index, for example, has many constituent tech companies).

True to our active style, Niemann analytics rotated client accounts towards the prevailing theme. We see this in the next chart " Dynamic vs All Growth Classes", which shows the Tech Bull box in our first chart in detail. We've added our Dynamic strategy to make our point since it's a long only strategy and remains fully invested through bull and bear markets just like these Morningstar indices.

Look closely at how Dynamic performed against each of the growth indices. Dynamic underperformed both All-Cap Growth and Large-Cap Growth for the first two years of the move! It was only in the closing months of the tech bull that Dynamic caught up with a 4 month rush to new highs as the market topped out (inside the blue dashed box). This looks like an abberation in the chart, but it's not.

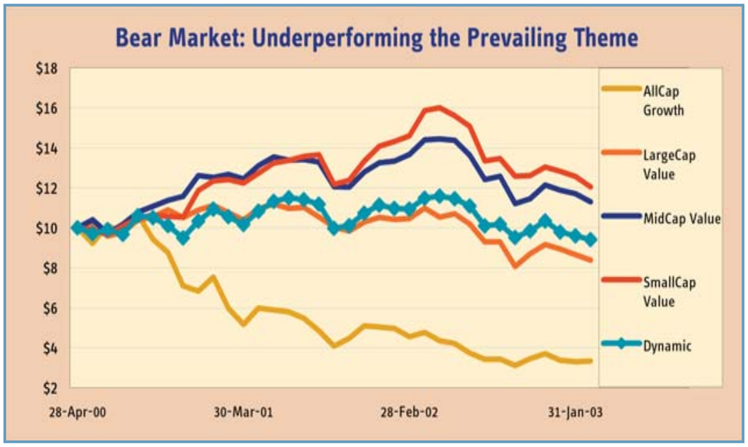
In the last four months of the chart "Dynamic vs. All Growth Classes" you can see that our Dynamic strategy caught a great rotation to Small-Cap Growth companies. This is illustrated in the adjoining chart titled "Topping Out". Even here we basically tracked the Small-Cap index. However, the difference in return between Small and Large-Cap Growth in this final blow off stage was a whopping 42%. Incredible! At the crest of the bull in March 2000, Dynamic was ahead of the All-Cap Growth Index 233% to 148% despite the fact it underperformed that index most of the preceding 3 years.

The Epic Bear

Market lore instructs us that the same stocks which lead a bull market to glory often turn into the goats of the following bear trend. The dot.com bust was no exception. Growth companies, particularly Large-Cap Growth (Oracle, Sun Microsystems, Intel, Microsoft, and the like), bore the brunt of the decline. Our next chart "Bear Market (April 2000 – February 2003)" really exposes the power of active management. Dynamic was heavily invested in growth companies going into 2000 and had we continued that posture, we would have given back all of our gains and then some.

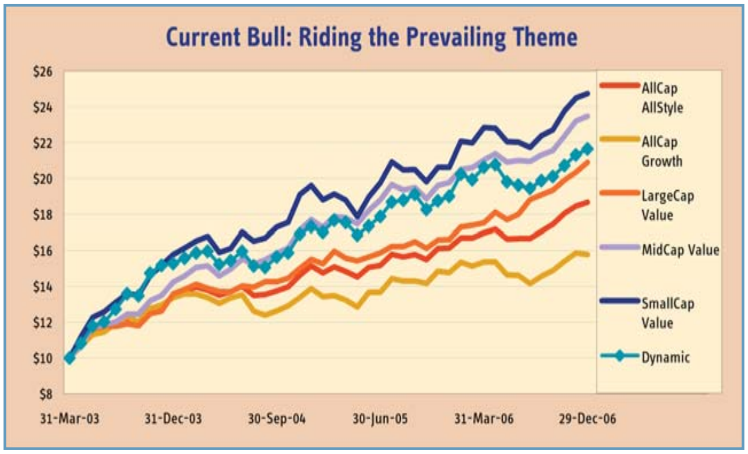
Early on in this view you can see Dynamic tracking all three categories; All-Cap All-Style, All-Cap Growth and All-Cap Value. These represent passive "indexed" strategies. However, when the bust got underway in October 2000, it didn't take our clients with it. Why? True to our active style, analytics had already uncovered the prevailing theme (which was value) and rotated Dynamic away from All-Cap All-Style and All-Cap Growth and towards All-Cap Value. Because of this, Dynamic lost only 6% over the three year bear compared to -67% in All-Cap Growth and -39% in All-Cap All-Style.

While Dynamic held up far better than any indexed strategy, it didn't hit the ball out of the park by any means. This becomes especially clear when we break value into its component capitalizations in the next view "Bear Market: Underperforming the Prevailing Theme". We did manage to pace Large-Cap Value but as you can see there was a lot of room for improvement. We underperformed our target Small- and Mid-Cap Value categories for most of the bear market.



A New Cycle Begins

After three years of what turned out to be the most destructive bear in decades, a new bull market emerges in 2003. As the trend gathers steam, active management played a key role once again. It's clear in the chart "Current Bull: Riding the Prevailing Theme" that Dynamic accounts are positioned to take advantage of the Small-Cap Value theme which led the market higher.

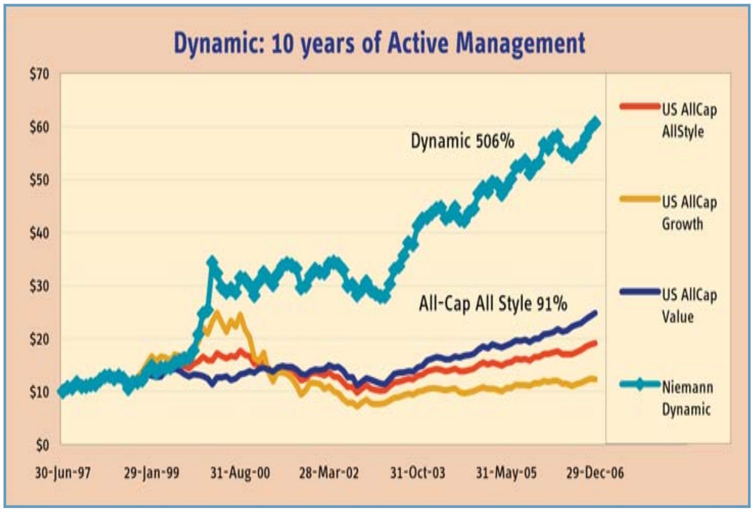


The Moral of this Story

How does one achieve investment success over the long run?

Bogle's passive "buy and hold an index" approach is no doubt lower-cost and intellectually easier to boot, if you consider holding on while being pummeled by a bear market easy, but this approach is one of hope. Hope that you didn't begin your journey in March 2000 and have only 6% to show for your effort today. Or hope that your quest doesn't end amidst a major decline like the one witnessed at the beginning of this decade.

Our active approach is much more technical and difficult to execute. By definition, active managers expect to underperform the prevailing theme. This happens because we essentially let the money flows tell us where to go. In waiting for money to flow before entering a position, or waiting for money to leave before exiting, we have no option but to lag because we aren't attempting to be predictive.



If Large Growth is the thematic leader, we will underperform. When Small Value takes over the pole position, we will underperform. This happens over and over in a full market cycle. The key is to participate in a good chunk of each thematic move and get out when a theme is over. For example, not to get stuck in Large Growth when the market takes off on a 6 year Small Value run (which is the fate suffered by Bogle's Vanguard S&P 500 Index investors). The end result is we consistently underperform the prevailing theme, but not by too much and we get out of the way of the themes that are not performing as well.

Look back at each of the sections in this review and you'll find Dynamic was lagging one index or another for most of the past 10 years, but put together those average performances and you will see our exceptional cumulative long term performance depicted in our last view "Dynamic: 10 years of Active Management".

We wish you good fortune in 2007 and thank you for your continued confidence,

Don Niemann
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.

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Performance results are presented net of transaction costs and Niemann Capital Management's actual management fees. Please refer to Part II of Niemann's Form ADV for current management fee structure. Additionally, Mutual funds and variable annuities (Funds) pay various fees, all of which are disclosed in the Funds' prospectuses. Such fees are borne by shareholders and are reflected in the net asset value of each Fund. Some Funds also charge short term redemption fees and excess transaction fees (Special Fees), which are billed to shareholders at the time of the event causing the fee. All of these fees are in addition to Niemann's advisory fees. In selecting Funds in which to invest, Niemann considers the nature and size of the fees charged by the Funds. Niemann will select a Fund only if Niemann believes the Fund's performance, after all fees, will meet Niemann's performance standards. Consequently, Niemann may select Funds, which have higher or lower fees than other similar Funds, and which charge Special Fees. When deciding whether to liquidate a Fund position, Niemann will take into consideration any Special Fees which may be charged. Niemann may decide to sell a Fund position even though it will result in the client being required to pay Special Fees.

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To request Part 2 of Niemann's current ADV Part II Section F and/or the Annual Full Disclosure Presentation, 2005 please contact Talia Wise @ 800-622-1626 or email her at talia@ncm.net. Please contact your financial advisor to request a copy of his/her current ADV Part II and/or a copy of his/her Broker/Dealer's current ADV Part II.

Dow Jones Industrial Average*: The Dow Jones Industrial Average 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.*

NASDAQ Composite*: The Nasdaq Composite Index is a market capitalization price only index that tracks the performance of domestic common stocks traded on the regular Nasdaq market as well as foreign common stocks and ADRs traded on the National Market System.*

NASDAQ 100*: The NASDAQ-100 is a stock market index of 100 of the largest domestic and international non-financial companies listed on the NASDAQ stock exchange based on market capitalization. It does not contain financial companies, including investment companies. On December 1, 2004, QQQ was moved from the AMEX to the NASDAQ and given the four letter code QQQQ. It is sometimes known as the "Quad Qs", or "Cubes".*

Russell 2000: *The Russell 2000 consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization. The Russell 3000 is composed of the 3000 largest U.S. companies by market capitalization, representing approximately 98% of the U.S. equity market.*

S&P 500 Index fund*: The S&P 500 Index Fund is a mutual fund that keeps a portfolio of 500 stocks designed to match the S&P 500.*

All other funds shown are provided courtesy of Lipper Analytical Services and Niemann Analytics, Inc.