NIEMANN
CAPITAL MANAGEMENT
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Portfolio Manager Commentary: Fourth Quarter 2010

2010 Year in Review

As we pause to reflect on a turbulent 2010, in this Year End Review we'd like to focus on where the rubber meets the road—specifically the adversity we encountered in the markets and the difficulty our strategies faced as a result. Has something changed in the scheme of things? Or was it simply a case of a very atypical set of circumstances akin to being hit by a hundred year flood?

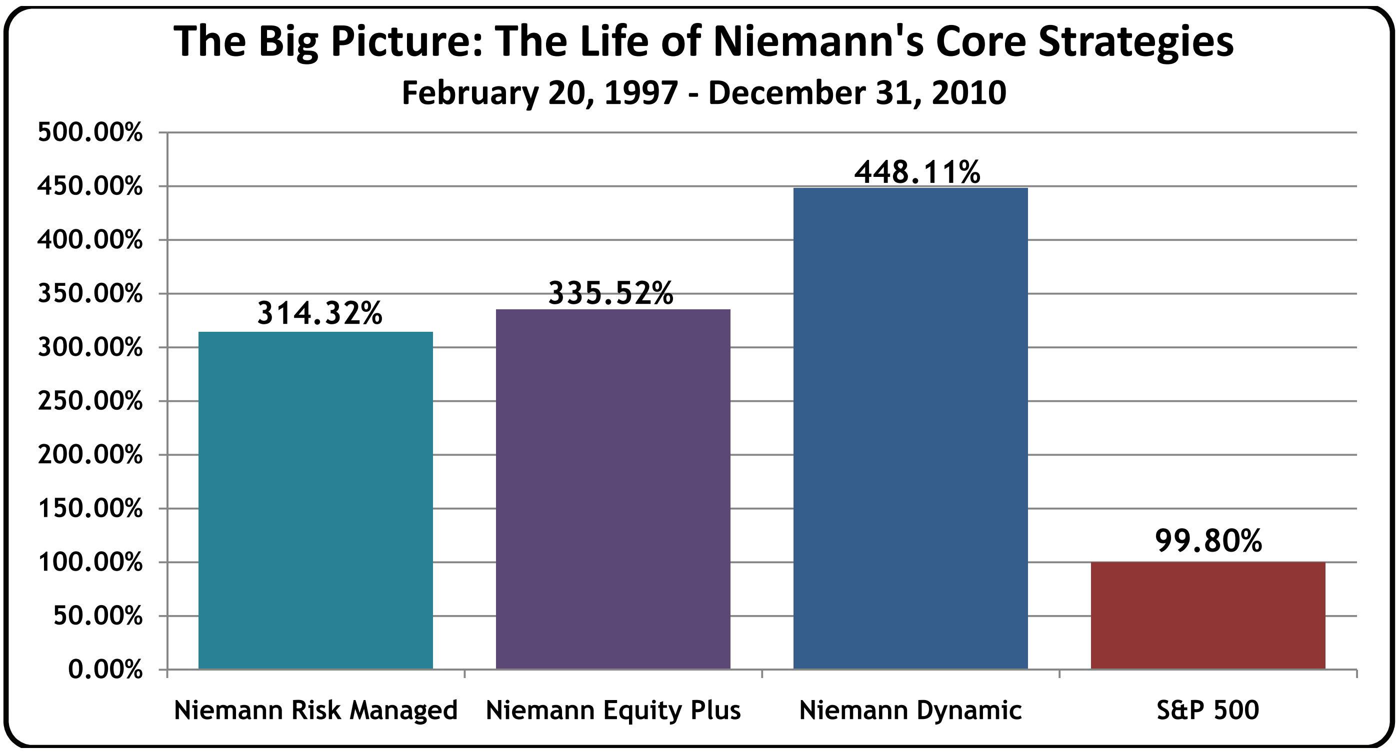
To address these issues, let's examine the following questions about our investment methodology:

1. What are the core competencies of our methodology?
2. How do these competencies add to or detract from investment performance over the long run?
3. What happened in 2010?
4. How are the strategies looking today?
5. What should we expect in 2011?

Before diving into what transpired during the course of the year, let's start with the first question posed: What are the core competencies of Niemann's investment methodology? The heart of our daily process is essentially twofold: 1) to uncover leadership and rotate toward it, and 2) take whatever action is necessary to mitigate against absolute losses in our client accounts. Both core competencies are designed to have an optimal impact on overall account performance through a complete market cycle.

What does this mean in terms of the management of your account? First, one of the advantages of our daily ranking system is that it can point us to the areas of the market that appear to be working best on a risk-adjusted basis, over various timeframes. In other words, it is designed to do a very good job of identifying trends when they exist. We believe this attribute is especially apparent in our fully invested strategy, Dynamic, as it seeks to constantly rotate toward strength. The second key advantage of our methodology involves capital preservation, i.e., the ability to guard against absolute loss. Not *relative* loss, absolute loss. We are not satisfied by losing less than the market. Instead, we try to keep losses recoverable and minimize the pain, no matter what the market is doing or how bad things get. In short, we're not willing to accept losses above and beyond a certain level. Therefore, when we see significant risk in the market, we automatically become more defensive in an effort to avoid losses that we deem irrecoverable. This focus on avoiding catastrophic loss plays a significant role in our conservative and moderate strategies, as they rotate in and out of the market in response to changing conditions and risk levels. This can be extremely valuable in any bear market (as 2008 vividly demonstrated).

Have these core competencies helped or hurt performance over time? One of the most effective evaluations of any strategy or methodology is to view it over a complete market cycle. Whether it be from market high to market high, or market low to market low, it is beneficial to view things from within the framework of a cycle because then one can see the entire picture. Everything is visible—strong business cycles, weak business cycles, bulls, bears, bubbles forming, bubbles bursting, periods of extreme optimism, periods of extreme pessimism, etc. Viewing performance through this lens can enable one to see things as they truly are—the outcome with all of the different variables and factors taken into consideration. Not only does it allow an undistorted view of true performance, but more importantly, it gives investors the confidence and ability to stay the course and thereby actually create wealth. The vast majority of investors underperform the overall equity markets by a wide margin because they make emotional investment decisions. Having the emotional fortitude to withstand the extreme events can be the key to making money over the long term. And as you can see from the chart below, since inception (which includes several different boom and bust periods), the core competencies of our methodology resulted in outsized returns for our core strategies vs. the S&P 500.



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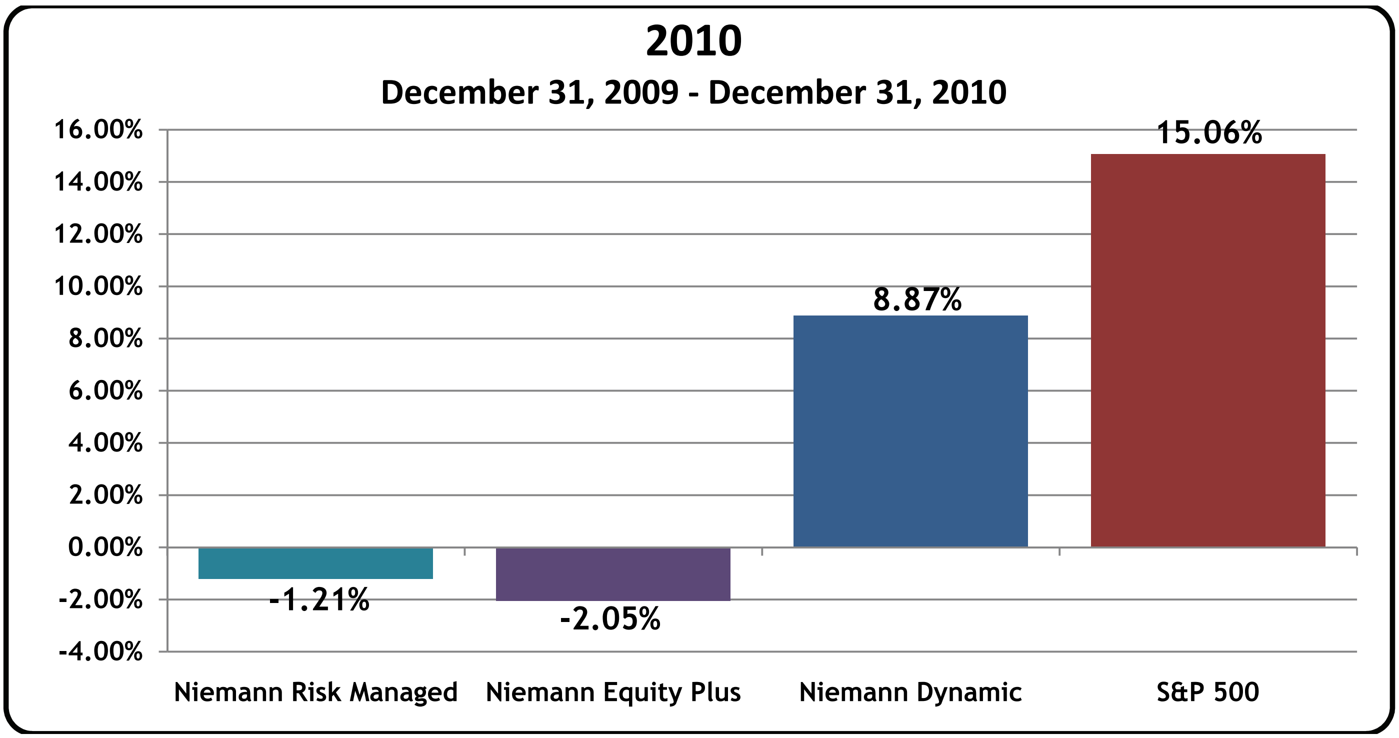
The core competencies of Niemann's investment methodology become apparent over a complete market cycle. By cutting off a good portion of the downside during two severe bear markets and capitalizing on market strength during the bull phases, Niemann's core strategies performed strongly vs. the S&P 500 since inception.

So then, what happened in 2010? What went wrong? To explain what transpired in 2010, our goal is not to make excuses for our performance or decision making, rather our goal is to educate our investors about the positive and negative aspects of our investment methodology. Hopefully our attempt to educate will challenge our investors to inform themselves about the good and bad aspects of any manager they choose to partner with.

The global financial crisis of 2008 caused many people to walk away from the market completely. Financial and healthcare reform, midterm elections and uncertainty about tax policies all helped to create a muddled picture of what was to come. The uncertainty that many people felt was palpable. The equation we observed at work unfolded something like this: Government intervention led to uncertainty. Uncertainty led to a lack of conviction and inaction. Inaction resulted in lower participation and equity outflows. No wonder then, that small business, institutions and individual investors alike sat on the sidelines as they tried to process how this unprecedented combination of events would impact their businesses, portfolios and lives. In the case of American businesses, uncertainty stunted the recovery and job creation, which led to the less decisive, more disorderly market last summer as many feared a 'double dip' recession.

As is the case after (and during) many extreme events, correlation among individual stocks, sectors, asset classes and styles shot through the roof, making it difficult to uncover strength and leadership. These conditions became so pervasive, 2010 will be remembered as the year of "Risk on, Risk off." In other words, it meant that market participants gravitated wildly between seeking risk (and the returns equities have historically produced) and avoiding any risk, at any cost (i.e. considering only "safe" investments like bonds and gold). As a consequence, only 21% of mutual fund managers outperformed the S&P 500 in 2010 (Source: Kopin Tan, Barron's, *Fast Out of the Gate, With a Roaring Crowd,* January 8, 2011).



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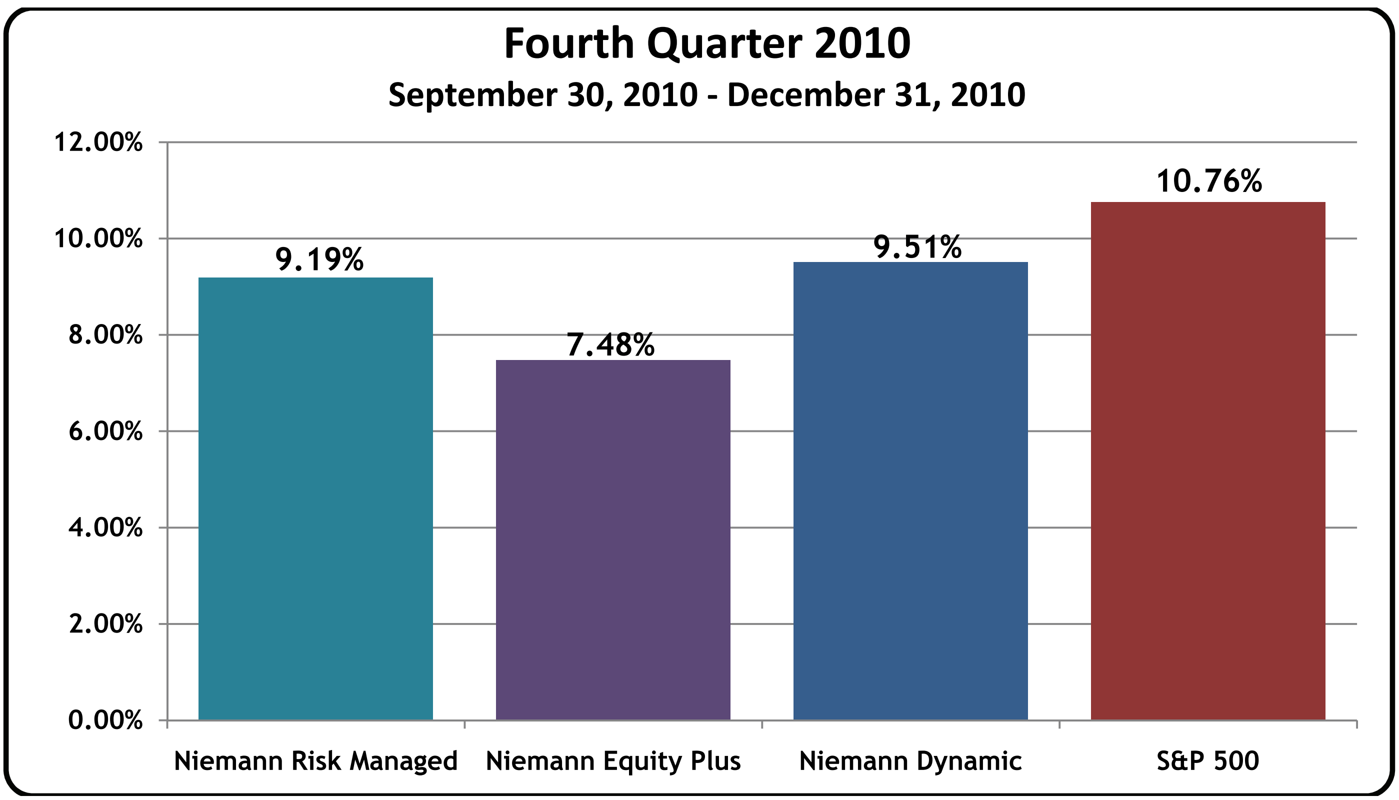
As the market continued to recalibrate after the financial crisis, investors walked away from the market. Uncertainty ruled the day. Niemann's core strategies struggled with a lack of sustained leadership as well as a few sizeable corrections.

Niemann's 2010 performance strongly suggests that "Risk on, Risk Off" is an unproductive investment backdrop for our investment approach. This fact is especially evident in the performance of our Dynamic strategy (fully invested in domestic equities). For the first time, Dynamic underperformed the S&P 500 by a notable margin over a reasonably significant time frame. Why? We didn't benefit from our rotations to the identified strength in the markets because of the persistent and elevated level of correlation among securities (all moving up and down together). Further, many of the rotations were driven by market volatility (the wide and violent trading range) rather than by sector (economic) leadership. The same was true for Niemann's conservative and moderate strategies with an added complication: The market fell enough at various points in time throughout the year to push them into large cash positions three different times in six months, making it exceptionally difficult for our strategies to gain traction (historically these moves tend to occur every 9 to 15 months which is why we look for opportunities over a 9 to 15 month time horizon).

So where do we sit now? Market conditions improved dramatically over the course of the 4th Quarter, which brought things more or less back to normal. Here's why: The mid-term elections provided the anticipation of decreased regulation and government intervention, which led to more certainty, more conviction and more participation among investors. As such, both economic and market conditions improved—all of which have contributed to a productive investment backdrop. Thus, the atypical conditions we had been dealing with throughout 2010 (and the subsequent cause of our underperformance) abated. Correlation levels dropped to more manageable levels. The market began to separate into winners and losers. Leadership emerged and as a result we identified several strong themes to take advantage of (Small and Mid Growth, Commodities, Emerging Markets, Energy and Technology). The improved conditions were reflected in our performance, which was more historically characteristic of our core strategies, as seen in the chart below.



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More normalized correlation levels in addition to strong leadership made it easier to identify trends and capture market gains during the 4th Quarter of 2010.

What can you expect going forward? As many of you reading this commentary know, we advocate setting clear and realistic expectations about the good and bad aspects of our methodology. For the first time since the founding of our company, we have endured an environment that produced the antithesis of our core competencies: A wide and volatile trading range featuring an extended period of high correlation. We were not rewarded for managing risk nor for finding strength. No one can predict whether we will experience another environment like this at some point in the future. Over time, our core competencies can allow us to overcome environments like this (see returns since inception). With that being said, we're very sympathetic for the investors who came onboard within the last two years who have not had the benefit of seeing conditions like this work themselves out yet.

Looking Forward:

As you all know we have been employing ETFs to great effect in our strategies since last summer. We are very excited to announce a vast expansion to our ETF universe. At the end of this month, clients will receive a letter from us describing our move to an expanded ETF universe on March 1, 2011. This is very exciting development and we are eager to make this change for the following reasons:

1) **MORE CHOICES—**There will be substantially more choices in each strategy's investment universe. Specifically, we will now be able to invest in hundreds of ETFs. ETFs are one of the leading innovations in financial products today, giving investors access to markets and areas of the world that have never been previously available.
2) **GREATER FOCUS—**From commodities to currencies, international and emerging markets, ETFs give us the ability to concentrate on specific areas we previously could not access through diversified mutual funds alone.
3) **INTRADAY TRADING—**By employing ETFs, Niemann will have greater freedom to trade to best advantage, i.e., at any time during the day, and multiple times per day, as we deem necessary. This flexibility also provides us with the opportunity to respond more quickly to changes in the market as they occur.
4) **LESS EXPENSIVE**—Due to their much lower expense ratios, employing ETFs will significantly decrease the overall cost of the product.

Keep an eye out for our announcement and the details contained within it at the end of January!

The Essence of our Solution:

We believe the keys to superior *long term* investment performance are twofold: keeping assets focused towards the strength of the intermediate 9 to 15 month time horizon and actively managing risk. The benefit of sticking with these core competencies is revealed by the context of a complete market cycle. During severe market declines like those of 2002 and 2008, risk of catastrophic loss was minimized as we incrementally stepped out of harm's way. When the market is healthy and leadership is strong, the benefit of identifying and rotating toward leadership can help us capture a good portion of the market's advances. Under somewhat normal circumstances this can also work very well. Under abnormal circumstances, there are specific conditions that will challenge us. We think 2010 was the year of the hundred year flood for our strategies. Will there be back to back hundred years' floods? Not impossible, but not likely either. They're called hundred years' floods for a reason. This year was one of those years where our methodology was tested by a complete lack of participation among investors; heightened uncertainty due to political maneuvering; massive amounts of government intervention and a market that was in general recalibrating from one of the most severe economic and financial crises this planet has ever witnessed. That's why it's imperative that investors view the facts through the lens of a complete market cycle. Only then are the good and the bad taken into account. Thankfully conditions have improved and our 4th quarter performance is reflective of that improvement. Having ended 2010 on a positive note, we're excited about carrying this positive momentum (and the opportunities an expanded ETF universe will afford us) into 2011. We look forward to a successful and prosperous New Year.

S&P 500 Index- Assumes reinvested dividends: 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.

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