Niemann News

All of us at Niemann Capital Management wish you a very Happy New Year! Thank you for your continued confidence, trust and patience...we're convinced it's about to pay off! We have exciting news as we optimistically begin 2012!

In a Nutshell

As you may remember from our recent commentaries, we've been laser focused on enhancing our investment process to address the volatile, news driven markets we've encountered over the past couple of years and improve our performance.

Our Challenge

How to stop the bleeding and pain as a result of getting whipsawed in and out of the current market by using our time proven risk management process without sacrificing that very same risk management which has protected us so well in bear markets and produced positive returns over the years.

The Results

We have enhanced our view and use of risk management; one that would not only have improved the Niemann experience for our clients and advisors over the past two years, but also kept the long term track record intact, if not improving it in some strategies.

Our Process

Going back to our inception, we've always used specific pricing metrics (50 and 200 day moving averages for example) to inform us when to cut our losses in order to get out of the way of severe bear markets. While these metrics worked very well historically for most of the past twenty years, they have not worked recently. In fact, these metrics have become increasingly erratic and lopsided in their readings during the last 18 months, so we are now including other volatility metrics to address today's market environment more effectively.

Additionally, we've have augmented our security selection process by organizing our investment universe into specific, discrete groups (domestic equity in one group, foreign equity in another, fixed income in its own group, etc). Applying our quantitative analytics to these groups allows quicker recognition of money flows and interaction between various asset classes providing a more nimble and efficient allocation and trading management.

What else can we you look forward to in 2012?

We're excited to introduce two new products designed to perform differently from our other strategies while filling specific needs within our investment line up.

Introducing Risk Managed Global Emerging Market Sectors (GEMS)

A burgeoning middle class and explosive GDP growth make emerging markets an attractive growth opportunity for many investors, especially compared to the forecasted growth rates of overleveraged developed economies. The problem that many people face when investing in emerging markets is the incredible volatility and severe losses suffered in certain scenarios. Risk Managed GEMS is truly unique in that it gives investors access to specific emerging market sectors with the added benefit of risk management and downside protection in adverse market conditions.

Introducing Tactical Global Bond Strategy

Based on numerous requests from our advisors and clients, we're also very excited to announce the offering of our Tactical Global Bond Strategy. The strategy will rotate among maturity lengths of all time frames, U.S. Treasuries, investment grade corporates, high yield corporates and numerous international fixed income securities.

For more information, please find the enclosed Niemann Portfolio Manager Commentary for Q4, 2011 or visit the Niemann Blog (http://blog.ncm.net) where you will find market updates, information on key industry topics, articles of interest and more. You can also access and follow us on Twitter, Facebook and LinkedIn via the blog.

Should you have any questions or wish to discuss in more detail, please feel free to contact your advisor or call us at 877.643.6222.

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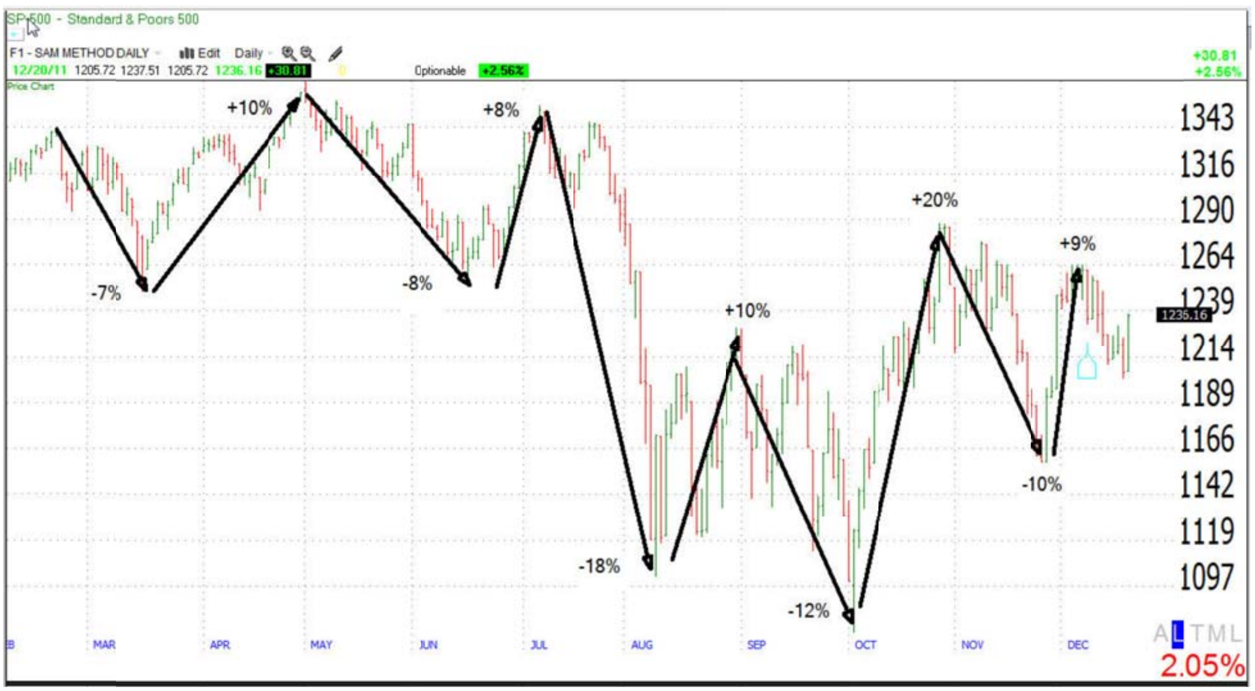
Don't just allocate. Rotate.®

Portfolio Manager Commentary: Fourth Quarter 2011

Year in Review

2011 was characterized by violent swings and sharp reversals – for that reason it's no wonder a majority of money managers (77% as of November 30, 2011 according to Bank of America Merrill Lynch) underperformed the S&P 500. A once in a lifetime financial collapse across all asset classes followed by acute uncertainty and a perceived dependence on governments to save the day have created an environment where markets are swinging up and down by large amounts based largely on the latest headline.



Source: Worden Bros, 12/20/2011

Adding to the mix, asset classes and sectors are exhibiting historically high correlations. Due to this abnormally high correlation, we were not rewarded for our trend following and security selection as we have in past years. Good headline, then bad headline, the conflicting information causing investors to embrace risk and then suddenly shun it. This good/bad reaction promotes less conviction and participation in the market as retail investors have shied away as reflected by historically low trading volume. Company fundamentals have become secondary to the latest news.

A tactical manager focused on the intermediate trend, like us, has been hurt by these violent swings and quick reversals since the moves down were big enough to put us in risk management mode, while the swings up were not big enough to adequately cash in on once the trend confirmed. In other words, we were getting whipped in and out of the market and our positions, paying a price with each market swing. It felt like death by a thousand tiny cuts.

Why would Niemann be able to do any better next year than we did last year?

After a year and a half of ongoing, rigorous testing and analysis, we have some new tools in our box which happily make a positive difference! And along the way we witnessed a few Eureka moments (it works!) like the creation of our new allocation manager (more on this later). But it was identifying the one key challenge – the tactical trading driven by risk management – that was the most satisfying and potentially rewarding.

A Better Approach to Managing Risk

What are we trying to accomplish when managing risk? The same key objectives our firm was founded on back in 1991 remain a logical starting point for any discussion about our investment process. Our core philosophy is unchanged:

1) **Avoid catastrophic loss of principal.**
2) **Manage risk in ALL market conditions.**
3) **Take advantage of opportunity when it presents itself.**

For us, managing risk is primarily about controlling the potential for absolute loss of capital. An investor who loses 50% of their capital must achieve a 100% return just to break even! So for our conservative and moderate strategies (Risk Managed, Risk Managed Sector and Equity Plus), it's continuously been about minimizing losses.

To do this, we've historically employed tactics around price trends to determine the entry and exit points for our investments. In essence, the current price structure (of IBM for example) is a reflection of the market community's views of its fundamentals. As such, it harbors certain traits of predictability which we have leveraged over the years to great benefit. These kinds of relationships have broken down since the financial crisis of 2008 as company specific, industry group and even sovereign fundamentals give way to (often conflicting) public policy mandates.

And so the epiphany……If the price trends and structures have lost their predictive power in the current market environment, what other ways or metrics can we use to inform our risk management decisions?

Starting immediately, we will be including other metrics centered on volatility to address today's market environment better. By setting our theoretical "stop losses" (how much we are willing to lose on any one position) around the range in which something is trading (instead of around its moving average for example), we will no longer be repeatedly forced in and out of the market and our positions as we have the last two years.

Additionally, in our Equity Plus strategy, you will see a diminished use of inverse funds. Inverse funds have obvious value in severe bear markets but in the erratic ranges we've been trading in, we have not been satisfied with the role they've played in our portfolios. Until we are satisfied, they will play a very limited role in our portfolios going forward.

While all of this sounds pretty simple, it's taken a good deal of time and effort to develop these enhancements and validate the results with what we believe to be positive improvements. In fact, we believe these enhancements will account for today's market volatility and provide better opportunity for positive results. And we continue to stay to true to our core philosophy of avoiding catastrophic loss of capital which is very important to us as a firm.

The key enhancement takeaway— Our strategies are now more effective in the current risk on/risk off environment we've seen over the last 2 years while maintaining a similar risk profile and *without jeopardizing the potential for the returns and profitability we've provided our clients over the years.* Our risk management tools are now more **"all-weather."**

	Equity Plus			Enhanced Equity Plus	
	net of fees %	growth of:		net of fees %	growth of:
		$1,000.00			$1,000.00
2002	-11.1%	$889.35		-12.7%	$872.58
2003	44.0%	$1,280.56		23.2%	$1,075.34
2004	11.0%	$1,421.93		17.9%	$1,268.27
2005	14.0%	$1,620.65		18.3%	$1,500.64
2006	13.5%	$1,839.60		23.5%	$1,853.45
2007	7.9%	$1,984.96		18.5%	$2,196.81
2008	-11.4%	$1,758.37		-18.8%	$1,783.93
2009	15.8%	$2,036.96		32.2%	$2,357.89
2010	-2.1%	$1,994.54		9.7%	$2,586.80
2011	-16.8%	$1,658.59		-5.5%	$2,444.25

Data Provider: Niemann Analytics. See additional disclosure that follows for more information regarding backtested data.

Other performance factors going forward

Understanding why our strategies were struggling required not only testing and analysis of the way we manage risk but also in the way we evaluate our investment universe. For example, the Equity Plus strategy built its track record by being in the right place at the right time. The analytic process was fairly straightforward. The strategy could invest in any combination of international, domestic, bonds, stocks, short and long funds.

A Eureka Moment!

By separating ETFs and funds into discrete, homogenous collections by "type" (domestic in one universe, international in another, Fixed Income in its own universe, etc.) we believe this change markedly accelerates our ability to effectively manage the underlying securities, focusing on their different trading characteristics - fixed income choices are less volatile than the equity choices, commodities are often times negatively correlated, etc. By creating discrete collections, we believe this allows us to see the change in money flow faster. As such, we can observe more clearly the relationships between asset classes and sectors and can apply our analytics to the unique characteristics of each security type.

By layering in metrics focused on volatility into our risk management process, and by organizing our investment universe into homogenous collections, we are prepared to manage risk more effectively in today's volatile environment while more clearly delineating and understanding the relationships between the different asset classes and sectors within our investment universe.

What part of the Niemann process will stay the same?

The majority of our daily work will stay exactly the same. We are providing enhanced analytics, not changed analytics. We will continue to rank the securities we have access to based on risk and return. We will still conduct our daily analysis of overall market health. We will continue to monitor risk in all market conditions and work actively to avoid catastrophic loss of capital. We are simply expanding the list of inputs as enhancements used to inform us of when we need to move out of the market. And in our Dynamic strategies, in higher risk market environments, we are accelerating what our system would have done anyway – rotating portfolio assets more quickly to lower risk securities when market health begins to deteriorate.

Conclusion

The past two years have been extremely difficult for tactical managers in general and more importantly, disappointing for us, our advisors and investors. We've deconstructed and tested every aspect of our investment process to adapt to this strange new market reality and hopefully adjust to quick reversals and extremely high levels of internal market correlation- all of the things that have plagued our performance recently. Through our rigorous efforts, we feel we've discovered valuable ways to enhance and refine what we're doing.

More importantly, we believe these changes stay true to our original philosophy and methodology developed over 20 years ago. Our long term track record stands as a testament to the work we have done and we feel these new enhancements position us, and our clients, to experience success for the next 20 years.

Our new products will address a broader market allowing investors to access emerging markets and fixed income in a tactical, risk managed fashion. With our improved and enhanced investment methodology and new products designed to perform differently, we're very optimistic that 2012 is a year where we will again add significant value.

Here is to a happy, healthy and prosperous 2012!

Don Niemann
Chief Investment Officer

Visit us at **http://blog.ncm.net** to find methodology updates, market and key industry information, articles of interest and more!

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.

These backtested performance results are intended to show the backtested performance of the Niemann Capital Management Incorporated ("NCM") Equity Plus strategy. The backtested results do not represent actual trading and do not reflect the effect of material economic and market factors on NCM's decision-making had it actually traded any securities using this strategy during the identified periods.

While such performance reflects the deduction of an annual management fee of 2.3% to reflect NCM's fees and the trading expenses that NCM would incur, it does not reflect the asset base pricing custodian fee. Therefore, actual results likely would have been lower than those shown.

NCM believes that the backtested performance was generated using an investment philosophy and methodology that it expects to use in the future, but future investments will be made under different economic conditions and in actual securities. The backtested performance does not reflect performance in different economic cycles. The information given is historic and backtested and does not indicate actual past or future performance.

NCM believes that the comparison of the backtested performance to any benchmark is inappropriate because an actual client portfolio will not be as diversified as those benchmarks and will incur expenses not reflected by the benchmarks. Due to the differences among various indices and actual client portfolios, NCM believes that the backtested results are not comparable to any such portfolio. NCM is not aware of any index that would be so comparable.

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