



## THE FOXHALL GLOBAL OUTLOOK



JANUARY 22, 2008

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### GREETINGS FROM HONG KONG!

As all of you know, FOXHALL CAPITAL officially announced at the end of trading on Thursday, January 10, 2008, our FOXHALL CAPITAL LONG-TERM STOCK MARKET DIRECTION INDICATOR triggered a DEFENSIVE STRATEGY which means we are now entering a BEAR MARKET.

### FOXHALL'S TIMING WAS PRETTY MUCH ON TARGET!

If you have been watching the world stock markets over the past few months and particularly the last 10 days, our FOXHALL CAPITAL LONG-TERM STOCK MARKET DIRECTION INDICATOR identified the Bear Market just before it began a massive decline.

After our move to the FOXHALL DEFENSIVE STRATEGY, your client's might have noticed that FOXHALL sold most of their U.S. diversified stock funds and general equity funds. Those positions were replaced by bond funds, global bond funds, gold and precious metal funds, plus utility funds. THESE ARE THE INVESTMENTS THAT TEND TO GO UP DURING BEAR MARKETS AND RECESSIONS.

### A MAJORITY OF ETF AND VA/VUL HOLDINGS ARE NOW DEFENSIVE

EXCEPT FOR THE HARD ASSET STRATEGY, CLIENT ACCOUNTS HOLD HIGH LEVELS OF CASH AND BONDS, AS WELL AS DEFENSIVE ASSET CLASSES SUCH AS HARD ASSETS, ENERGY, AND UTILITIES.

INDIVIDUAL STOCK ACCOUNTS HAVE ALSO REDUCED STOCK MARKET EXPOSURE AND INCREASED DEFENSIVE HOLDINGS SUCH AS CASH, BONDS, AND CURRENCIES.

IT IS VERY IMPORTANT THAT YOU COMMUNICATE THIS TO YOUR CLIENTS!

We also continue to hold significant positions in utilities. Utilities are government regulated and are really "QUASI-BONDS"—they are generally considered some of the best and safest stocks.

While they do fluctuate in large stock market turndowns, they tend to come back quickly. They also pay "higher-than bond" dividends. So while their stock prices do fluctuate; they almost always do better than bonds in a bear market or recession. I don't believe it will be any different this time.

### ASIA & PACIFIC RIM HOLDINGS

We have continued to hold our PACIFIC RIM AND EMERGING MARKETS funds for the present.

As I stated in our last newsletter, "I believe if the U.S. goes into a recession that will also slow down Asian and emerging markets economies. As soon as we see those regional markets start to decline, we will move those positions into defensive investments like bonds, gold and utilities."

This week we have seen very large declines in Asian markets, as I feared. However, these Asian and emerging market declines were largely in reaction to the big drops on Wall Street.

I gave a speech on Monday at a meeting held at the HONG KONG STOCK EXCHANGE to a group of stock market analysts and economists covering Asia.

All of them agreed that a slow-down in the U.S. economy would have some impact on Asia, but not as much as most average investors assume.

The facts are that China, India and the rest of Asia have changed and THEIR GROWING MIDDLE CLASS has become Asia's primary engine of growth.

The U.S. represents a little more than 16% of all of China's exports. So a weaker U.S. economy will have some impact but not enough to drive the Asian economies into a recession. The WORLD BANK has predicted China's growth will slow in 2008 from almost 11.9% to a little over 9%.

9% GROWTH IS STILL IMPRESSIVE! That is almost 3 times faster than the U.S. grew last year.

Robert Lin, associate director for STANDARD & POOR'S ASIA EQUITY RESEARCH in Hong Kong said he expected the Asian

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stock market downturn to last for a few weeks, but he then said, "We think it's close to the bottom, but it's just an issue of how long the market will bottom out."

Last AUGUST 16, 2007, the Asian stock markets dropped dramatically with China posting a 9% decline over a few days. That Asian stock market drop was called here in Hong Kong, a "SYMPATHY DROP" with the U.S. However, within weeks after that drop, the Asian markets had rebounded and then went on to last year's record performance.

Most of the analysts at my speech in Hong Kong agreed that this was another "SYMPATHY DROP" and had nothing to do with Asian economic fundamentals.

I believe there will be a significant rally in Asian and emerging markets over the next month and at that time FOXHALL CAPITAL will determine whether to decrease our already reduced holdings in Asian and emerging markets based on the expected U.S. slowdown.

### **HARD ASSET STRATEGY**

**O**ur HARD ASSET STRATEGY continues to be the best performing FOXHALL equity investment strategy. Our current portfolio holdings for this strategy consist of a commodity index fund, a gold fund, an oil fund, two agriculture funds, and a Euro currency fund as a hedge against the declining dollar.

While the individual commodity stocks in these commodity funds tend to decline in any sharp stock market downturn like we have seen over the past two weeks, they almost always rebound very quickly.

These are the asset classes that have historically made money in bear markets and recessions. THESE ARE CLASSIC DEFENSIVE INVESTMENTS MINUS BONDS.

### **BREAKING NEWS: THE FEDERAL RESERVE CUT RATES BY .75% THIS MORNING!**

**T**he Federal Reserve had already indicated that it would significantly cut interest rates to re-start the American economy when it met at the end of December, so this is a large but also widely expected move. Will there be further cuts forthcoming and will they be enough to do the job? Only time will tell.

However, as expected, the Fed's move did jumpstart the market off of its over-night lows this morning, and I believe there should be a rally in the stock market, especially in Asian and emerging markets funds, coming after this Federal Reserve rate cut.

### **ASIAN TRIP UPDATE: SOUTH KOREA**

**T**he past two weeks have been very busy—even without all the stock market turmoil.

I have visited with analysts and economists in Seoul, South Korea. In Beijing, China I





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met with several top government officials and I also visited the very busy WORLD FINANCIAL GROUP offices there. In Shanghai, China I met with several analysts and planners and visited two auto factories. I also spoke to a group of stock market analysts at a meeting held at the SHANGHAI STOCK EXCHANGE. In Hong Kong I met with more analysts and bankers and again spoke at a meeting held at the HONG KONG STOCK EXCHANGE for analysts and economists.

I will give you a brief update on my trips to each city over the next few weeks.

直到下個星期 (UNTIL NEXT WEEK...)

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Disclosure: The opinions and portfolio information provided in the Foxhall Global Outlook are subject to change at any time, and are not to be construed as advice for any individual nor as an offer or solicitation of an offer for purchase or sale of any security. Client accounts may differ from model allocations due to many reasons. All investment strategies offer the potential for loss as well as gain. Individuals should consult with their financial professional to determine an investment strategy appropriate for their objectives, risk level, and time horizon prior to investing. Past performance is not a guarantee of similar future performance.

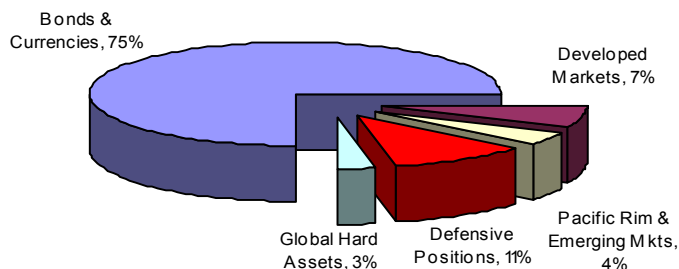


## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

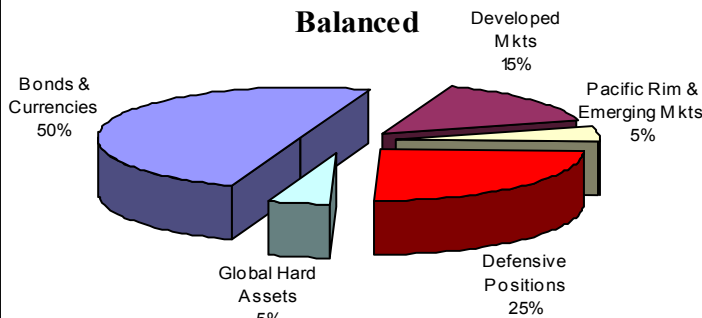
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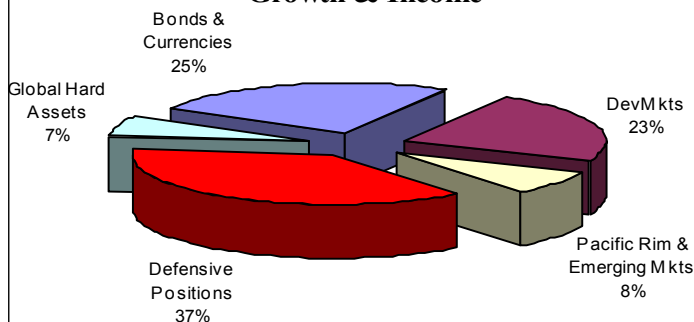
### Conservative



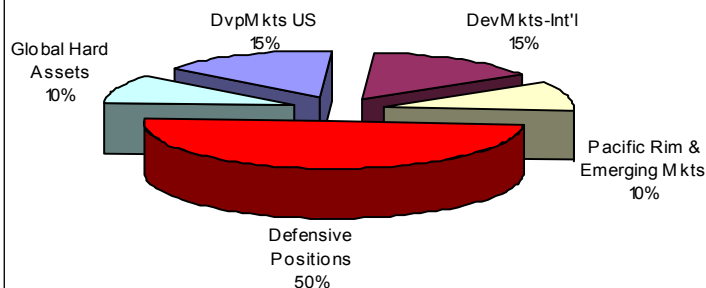
### Balanced



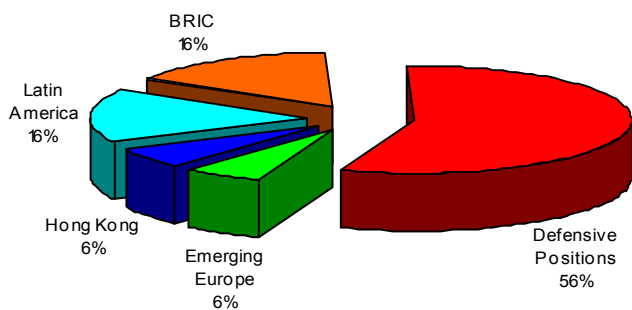
### Growth & Income



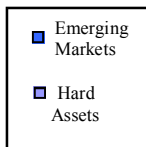
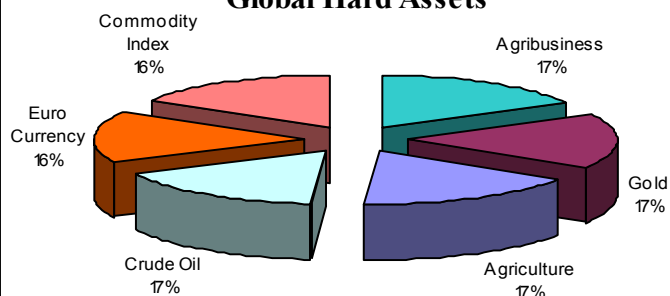
### Growth



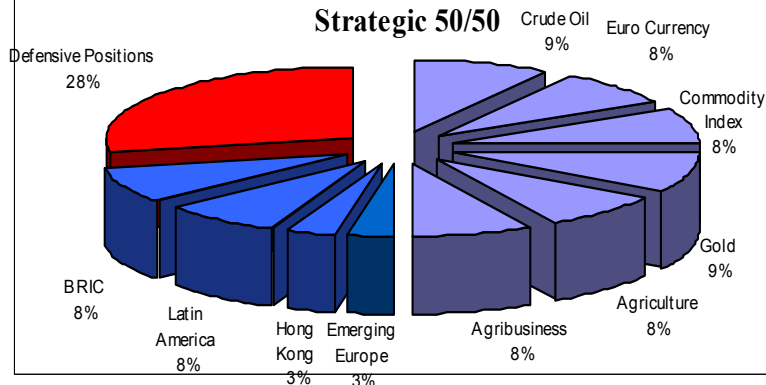
### Pacific Rim & Global Emerging Markets



### Global Hard Assets



### Strategic 50/50



The allocations illustrated are model allocations, actual client accounts could vary due to many factors. Variable annuity/variable life accounts will vary significantly due to the availability of investment options in each contract. All allocations may change without notice.