



## THE FOXHALL GLOBAL OUTLOOK



MARCH 3, 2008

PAGE - 1 -



### GLOBAL FREE TRADE VS. PROTECTIONISM

Over the past six weeks, in every Asian city I visited I was asked the same question. IF A DEMOCRAT WINS THE PRESIDENCY IN NOVEMBER, WILL AMERICA ERECT TRADE BARRIERS TO STOP OUTSOURCING TO ASIA? Asian government officials, economists and stock market analysts are really worried about this possibility.

Asians are watching our elections closely and listening to the debates and their concern is that they are being "SCAPEGOATED" because America is losing manufacturing jobs to Asia.

You can see this in the Democratic debates over the issue of the NORTH AMERICAN FREE TRADE AGREEMENT, better known as NAFTA.

I have often said that U.S. companies (including their workers) and the U.S. stock market are the major beneficiaries of the global economic expansion in Asia and emerging markets like Latin America.

What Senator Clinton and Senator Obama do not understand, is that while **2.4 million** U.S. manufacturing jobs have been lost since NAFTA took effect in 1994, which is a drop of about 14%, **39 million other jobs** outside of manufacturing have been created in that same time period here in the U.S.

### IT IS TECHNOLOGY, NOT ASIA OR MEXICO

The sad part of this nonsensical debate, is that the major reason for the 2.4 million manufacturing jobs loss is productivity gains in the U.S.—not NAFTA or any other trade agreement.

It is technology, not Asia, Mexico or any other country that has caused most of that job loss.

American manufacturers have increased manufacturing output and productivity by 66% since 1993.

### UNPRECEDENTED U.S. WORKER PRODUCTIVITY

This manufacturing output increase has been unprecedented and sweeping gains in worker productivity have allowed

U.S. companies to produce more goods with fewer people.

According to USA TODAY, "Some of this has come from outsourcing the most labor-intensive parts of manufacturing, particularly to Asia. But much of it is from the use of more automated systems for assembly lines and high-tech inventory management.

Put another way, the main job killer of the past 14 years has not been the "giant sucking sound" of jobs going to Mexico, as enunciated by Ross Perot. Rather it has been that giant humming sound of machines replacing humans.

Overall, this increased productivity has led to rising living standards and made the American economy more competitive. It has also left some people behind at a cost of considerable personal pain.

The only real answer to the problem of declining employment in manufacturing lies in educating younger workers and retraining older ones. This is, to be sure, a big challenge and a tough sell politically. American schools continue to underperform, particularly in technical knowledge. And most federal retraining programs have failed.

Any other answer, however, is simply not responsive to the problem — a workforce with too many people lacking the skills to prosper in a global economy and climb into the middle class. Fixing this is both essential for the economy and vital to U.S. democracy."

I hope that common sense will eventually take hold, no matter who wins the White House in November. But by making global free trade agreements a centerpiece of the debate over the manufacturing economy is cheap pandering. The

idea only seeks to scapegoat Asia and Mexico.

In the end, protectionism will only make American companies less competitive—and then you really will see significant losses of jobs here in the U.S.

UNTIL NEXT WEEK...

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PAGE -2-

### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### FOXHALL PORTFOLIO UPDATE

We are approaching the end of a month that we began very cautiously with a very defensive portfolio stance in the developed markets and in the emerging markets, but a very bullish stance on the global hard asset category. Our holdings were positioned early in the month to profit from the weak dollar and strong commodity markets as well as for preservation of capital in high quality shorter term bonds. Thus far these have proven to be sound decisions as our portfolios have benefited from a continuation of these trends during February!

Over the next week we will be reviewing our holdings again, following the same disciplined investment process that has served us well, and then reallocating our portfolios in light of the most recent supply and demand data.

Once the process is complete we will report to you the changes made and update the pie chart allocation page for your benefit and understanding of the actions we have taken on your behalf or that of your clients.

We invite you to review the pie chart allocation illustrations at the end of this report to see visually the defensive character of our current portfolios.

Foxhall Capital believes that our disciplined investment process, with both an offensive and a defensive strategy is well suited to these uncertain economic times. While we are currently in a primarily defensive strategy regarding global stock markets, we are also positioned to benefit from the current bull market in global hard assets!

On behalf of the Foxhall Capital team, we thank you for the opportunity to continue serving you as we steer carefully through these very unusual global economic conditions.

Dave Morton

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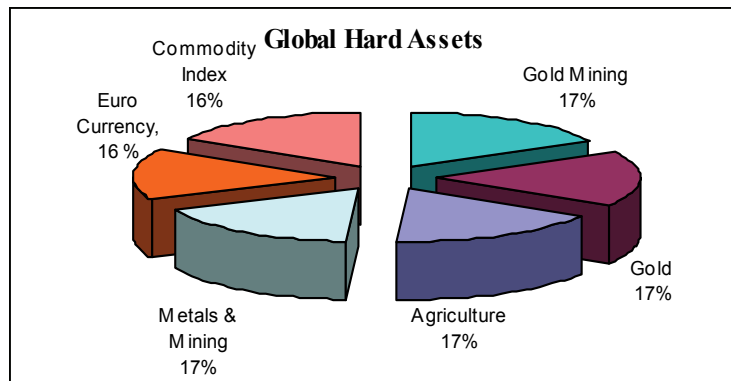
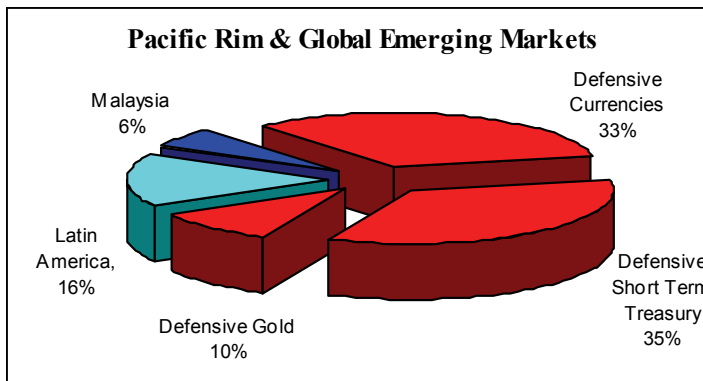
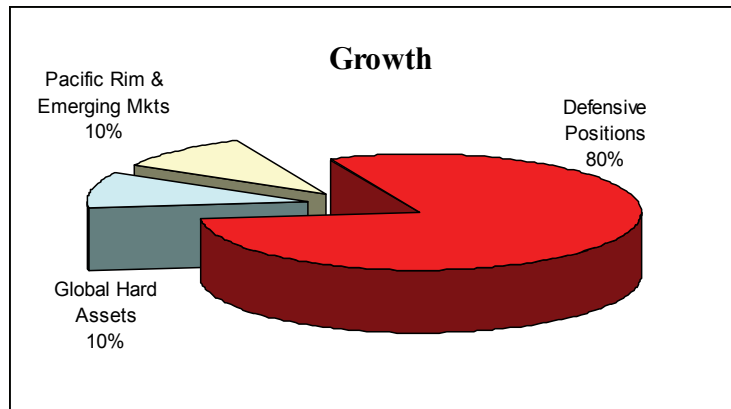
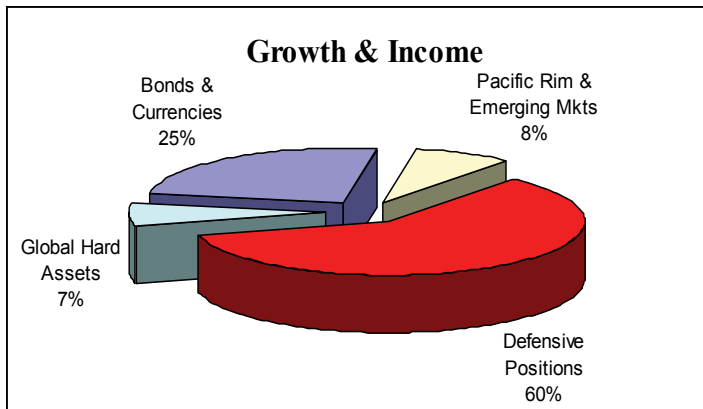
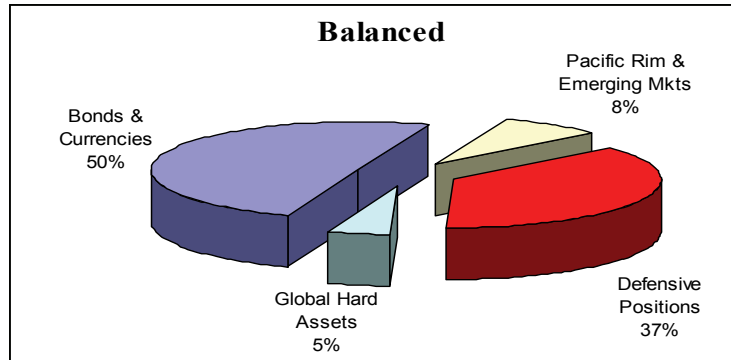
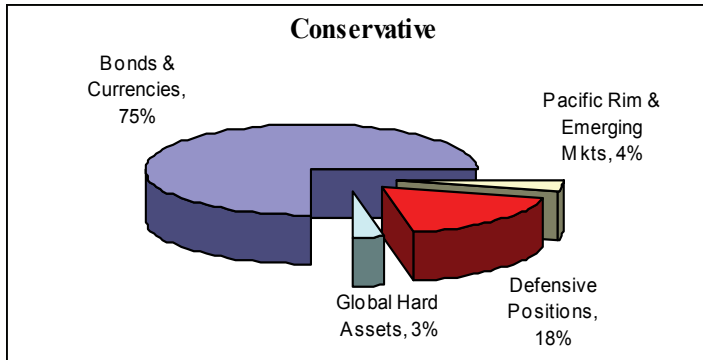


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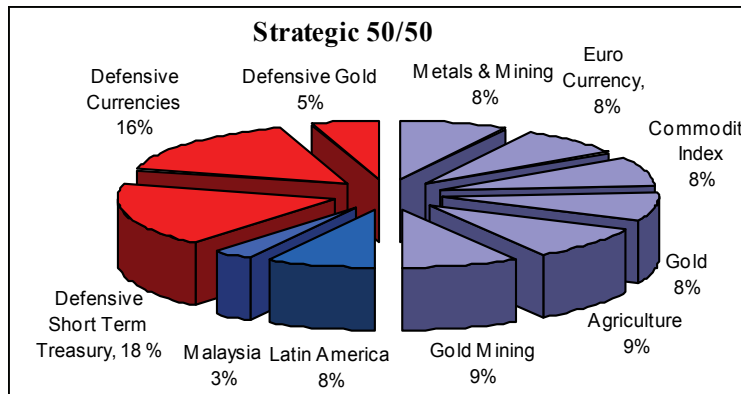
## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

MARCH 3, 2008

PAGE -3-



Emerging Markets  
Hard Assets



The allocations illustrated are model allocations, actual client allocations, 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.