



## THE FOXHALL GLOBAL OUTLOOK



JULY 18, 2007

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### QUESTION:

Dear Paul,

**For months, the business press has been saying the stock market was heading into a bear market. But during the past few trading sessions both the S&P 500 Index and the Dow Index have logged historic record highs. Why is the market going up?**

### ANSWER:

#### THE ECONOMY IS DOING WELL

As I have repeatedly talked about in my weekly newsletters, in the short run, the stock market can often be out of sync with the economy, but in the long run, the stock market always follows the broad economy. This is what determines long-term stock market trends.

In the long run, if the economy is basically doing well, the stock market goes up. If the economy is substantially slowing and going into a recession, the stock market will go down following the long-term trend in the economy. That is really all one has to know in order to do well in investing.

The rule is: FOLLOW THE LONG-TERM TREND OF THE ECONOMY. Be in the market when it is doing well. Be out of the market when the economy is substantially slowing down. It's that simple!

Right now, the economy continues to do well. It is continuing to experience steady, if not spectacular, growth. Unemployment is low. Real wages are increasing. Mortgage rates are still historically low and inflation is moderate. The housing market, while still a problem, seems to be headed for a "soft landing." All of this is good news.

#### WE MIGHT SEE PROFIT TAKING & A MAJOR CORRECTION—DON'T WORRY!

However, as we see historic highs in both the S&P 500 INDEX and the DOW INDEX, don't be surprised if there is a major correction soon as institutional investors lock in profits for the year. This is normal after a big run-up in the indexes, especially

as we head into the historically two weakest months of the year for the stock market; September and October.

DON'T WORRY ABOUT THIS! So long as the economy continues to expand, this next correction will be a temporary blip and the market will recover later in the fall. Unless there is a major change in the economy, Foxhall will remain fully invested in its current models. We only take major defensive action in client portfolios by moving fully to bonds when economic statistics and our FOXHALL computer model indicates a major change in the economy that shows we are moving into a bear market or recession.

#### WHY IS THE ECONOMY DOING SO WELL?

**LIQUIDITY:** In last Friday's (July 13, 2007) USA TODAY, they interviewed one of our FOXHALL CAPITAL board of directors, Hugh Johnson, the chairman of First Albany. Hugh commented that many Wall Street institutional investors and hedge funds currently hold an enormous amount of cash which they are now putting to work. He told USA TODAY that "there's enough money out there to drive both the economy and stocks."

**CONSUMER SPENDING:** High gas prices have yet to stop people from spending money. Better than expected June sales at Wal-Mart suggest that consumers, who drive the economy, still have money to spend.

**GLOBAL ECONOMY IS BOOMING:** While the U.S. economy is good, the global economy is spectacular, growing at 2 to 3 times the U.S. economy. Global companies in the U.S. are benefiting from this international growth.

**"IN THE SHORT RUN, THE STOCK MARKET CAN OFTEN BE OUT OF SYNC WITH THE ECONOMY, BUT IN THE LONG RUN, THE STOCK MARKET ALWAYS FOLLOWS THE BROAD ECONOMY. THIS IS WHAT DETERMINES LONG-TERM STOCK MARKET TRENDS."**

#### CONCLUSION

While we at FOXHALL CAPITAL expect a short-term correction between now and October, barring some geopolitical crisis, we expect the stock market to climb higher by the end of this year.

UNTIL NEXT WEEK...

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### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### QUESTION:

I would like to talk to my prospects about their current portfolios. Some of them are holding funds and stocks that they bought years ago for reasons they can't remember! What can I say about Foxhall in contrast to this?

#### ANSWER:

Foxhall's approach is to identify persistent trends evident in the world's financial markets, both the strong and the weak, via our quantitative relative strength ranking methodology. We believe that it is important to know objectively both what to buy **and** what to avoid!

This week we will identify for you some weak persistent trends that you can use when reviewing your prospects' portfolios to show them the benefit of having active management added to their accounts.

#### EMERGING MARKETS:

Weak = No glaring examples. In other words most of the emerging markets are strong, but few investors have exposure to the emerging markets.

#### DEVELOPED MARKETS (INCLUDING U.S. INDEXES):

Weak = US Small Cap stocks are lagging both Mid and Large Caps for the first time in years; Japan continues to be the lagging major country; and Treasury Bonds and Notes are near their worst point in years (yet remain widely held among investors). Other weak sectors to avoid include Financials, Banks, Homebuilders, Healthcare, Biotechnology and Pharmaceuticals.

#### GLOBAL HARD ASSETS AND THE DOLLAR:

Weak = US and International Real Estate (how many have ridden this sector down?); Gold and Precious Metals; US Dollar; Japanese Yen; low yielding currencies.

Remember, a 'relatively weak' sector or market segment is not necessarily declining in value! It IS out of favor compared to the segments that are demonstrating positive persistent trends.

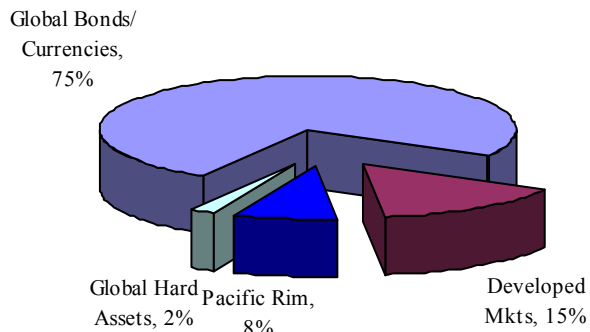
Of course, investor preferences can, and will, change without notice – which is why Foxhall monitors thousands of investment options so closely on behalf of you and your clients.

—David Morton  
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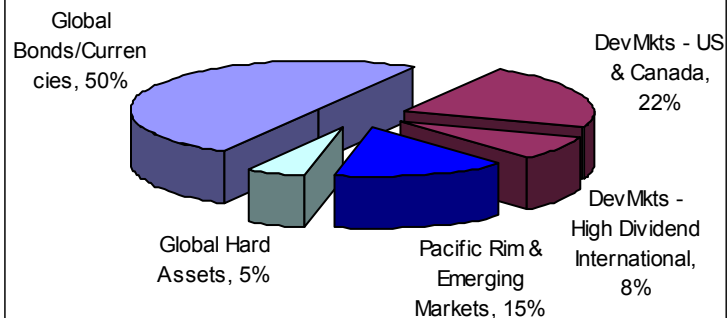
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## GLOBAL MARKET ROTATION PORTFOLIOS

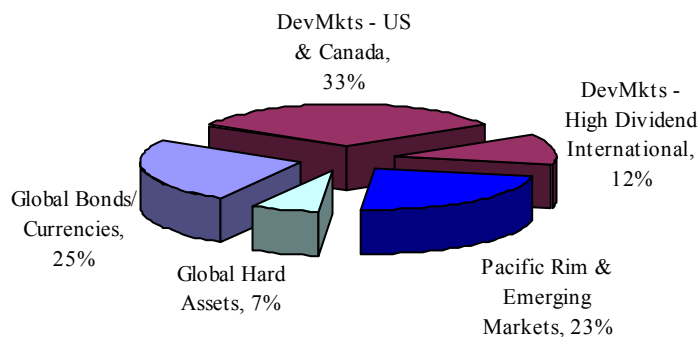
### Global Conservative Strategy



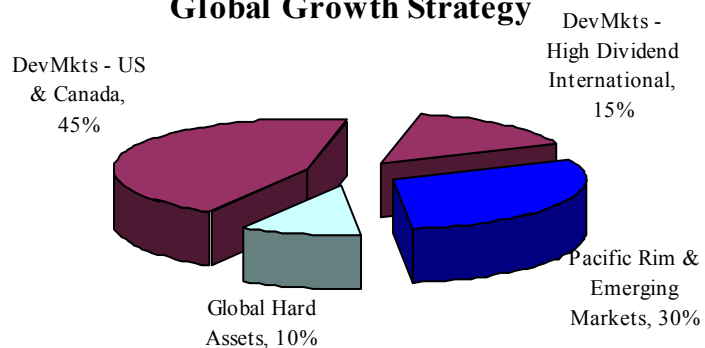
### Global Balanced Strategy



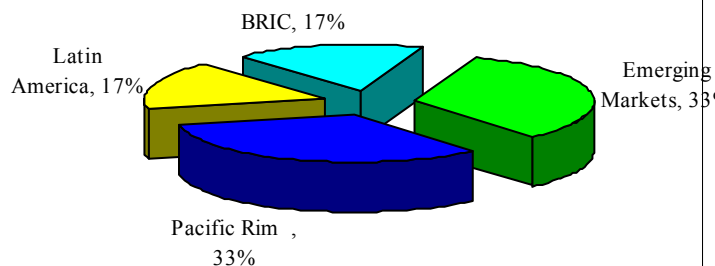
### Global Growth & Income Strategy



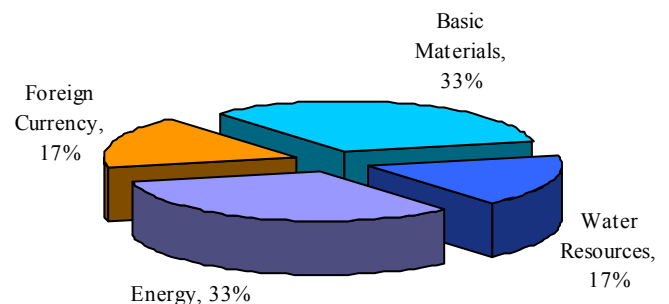
### Global Growth Strategy



### Pacific Rim & Global Emerging Markets Strategy



### Global Hard Asset Strategy



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.