



## THE FOXHALL GLOBAL OUTLOOK



JULY 26, 2007

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### QUESTION:

Dear Paul,

**I keep reading that the U.S. economy is slowing, partially because of the decline in real estate. How will this effect the stock market over the next few months?**

### ANSWER:

As I am writing this commentary, it is Thursday July 26, 2007, and the DOW dropped 311 points today or about 2.26%, because of housing market fears. Just so you know, a 2.26% drop in the market is not near enough of a decline for FOXHALL to implement our "DEFENSIVE" strategy and move out of the stock market and into bonds.

The stock markets have reached record highs this month in the DOW and S&P 500 INDEXES. This is simply a short-term correction with a lot of institutional investors taking profits. Given that the summer months and September and October are always the worst months for the stock market, I see continued volatility over the next few months and then I expect the market to reach new highs later on in the year. Let me explain why.

### THE U.S. ECONOMY IS SLOWING.

Our economy will grow this year at a very low rate of only about 2%.

Compare that to the almost 12% growth in China and 7% or more growth in most developing markets.

The only reason the stock market has hit new highs recently is because U.S. companies are doing well globally. According to NBC News (July 21, 2007), the non-U.S. global economy is growing faster than at any time over the past 30 years.

According to Standard & Poor's, S&P 500 companies posted 44.2 percent of their sales outside the United States in 2006, up almost 37 percent from 2001.

U.S. economic growth has lagged and is forecast to continue lagging growth in the rest of the world.

Only those U.S. companies with higher international exposure are likely to show better earnings growth, which will result in better performance for their stocks.

### GENERAL ELECTRIC

Take GE as an example: According to their 2006 ANNUAL REPORT, 50% of all corporate revenue came from outside the U.S., but almost 75% of their profits came from global earnings, and almost half of that from emerging markets. GE earned 13% last year, but they would have earned less than 3.5% if it were not for foreign profits.

The vast majority of GE's corporate investments are now directed toward foreign markets. If GE is investing a majority of its capital in global markets, doesn't that suggest that many U.S. investors should have reasonable global market exposure as well? Global markets are where the growth is and where evidence suggests it will remain for the foreseeable future.

### THE DROP IN THE U.S. DOLLAR HELPS U.S. COMPANIES...

The U.S. dollar is grinding steadily lower and most U.S. corporations couldn't be happier.

The currency's slide is delivering a generous boost to sales and earnings for many U.S. companies, a trend most analysts see continuing.

Those deriving the greatest benefit generate a significant portion of business beyond U.S. borders where the dollar is weak. Their goods are cheaper to foreign buyers and profits generated in those markets are amplified when translated back into dollars.

The weaker dollar is certainly helping the earnings of companies with international exposure. At the end of the second quarter on June 30, the dollar was down 4 percent against a basket of major trading partner currencies compared with the prior year.



**"ACCORDING TO NBC NEWS, THE NON-U.S. GLOBAL ECONOMY IS GROWING FASTER THAN AT ANY TIME OVER THE PAST 30 YEARS."**

### BUT IT CAN HURT U.S. INVESTORS

One of the ways FOXHALL CAPITAL helps U.S. investors is by investing a portion of the Global Market Rotation Portfolios in currency funds other than U.S. dollars. When the U.S. dollar drops, these currency funds tend to increase in value.

These FOXHALL investments will help our clients keep up with the price of gasoline!

### UNTIL NEXT WEEK...

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### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### QUESTION:

Last week you highlighted some of the weak trends that investors should be avoiding. What areas are strong? I'd like to compare this list with what they currently own.

#### ANSWER:

As we consistently stress, Foxhall's approach is to identify the persistent trends evident in the world's financial markets leveraging our quantitative relative strength ranking methodology. Let's look at some of the markets that our research ranks highly.

#### EMERGING MARKETS:

Strong = Most of the world's emerging markets are strong yet few investors have exposure to the them even though they are reaping great rewards from a worldwide economic expansion.

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

Strong = The developed markets are demonstrating strength in energy, technology, and basic materials sectors. The technology-laden Nasdaq 100 Index and the multinational-laden Dow 30 Industrials Index are currently the strongest performers.

#### GLOBAL HARD ASSETS AND THE DOLLAR:

Strong = The Australian Dollar and other high yielding currencies are vastly outperforming most other currencies as effective hedges against dollar devaluation. Mirroring the U.S. markets, energy and basic materials sectors are strong around the world.

Remember, a 'relatively strong' sector or market segment is not necessarily increasing in value! It IS in favor compared to the segments that are demonstrating persistently weak trends.

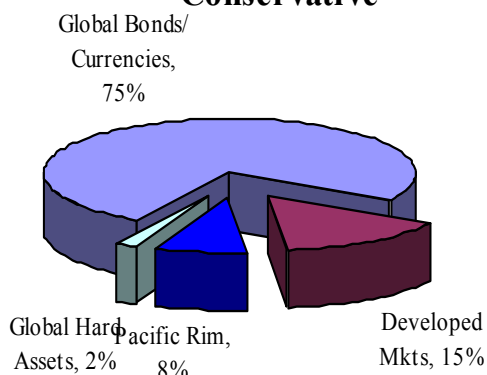
Foxhall monitors thousands of investment options continuously on behalf of you and your clients so that we will be ready to react when the leading markets change!

—David Morton  
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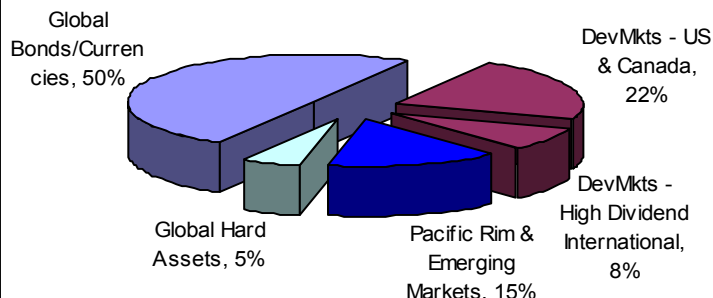
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## GLOBAL MARKET ROTATION PORTFOLIOS

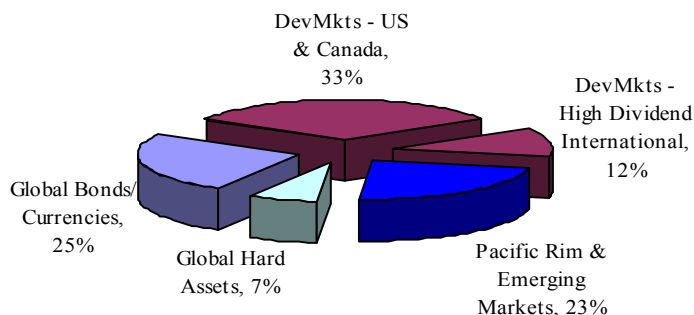
### Global Market Rotation Conservative



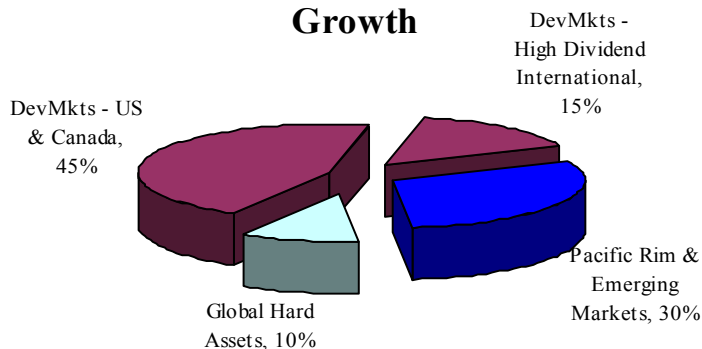
### Global Market Rotation Balanced



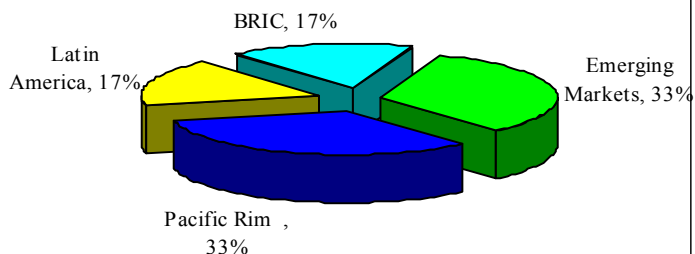
### Global Market Rotation Growth & Income



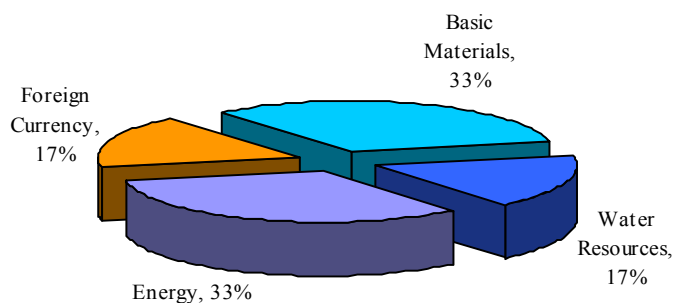
### Global Market Rotation Growth



### 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.