



## THE FOXHALL GLOBAL OUTLOOK



JULY 31, 2007

PAGE - 1 -



### QUESTION:

Dear Paul,

**The stock market had a major downturn last week. Have you moved your portfolios to money market funds or bonds?**

### ANSWER:

The answer for now is “no.”

Last week the DOW JONES INDUSTRIAL AVERAGE ended the week with a two-day loss of more than 500 points. The steep drop was sparked by continuing worries about the health of the mortgage and corporate lending business and weakness in the housing market.

When markets are selling off it is sometimes hard to keep focused on the big picture: HOW IS THE OVERALL U.S. ECONOMY DOING? AND THE ANSWER IS FINE.

### FOCUS ON THE BIG TRENDS

One has to keep these stock market corrections in some perspective. Here is how I look at it:

**STOCK PRICES:** Even with the big sell-off last week, the S&P 500 INDEX is just about the same price as it was a month ago.

**THE OVERALL ECONOMY IS BOOMING:** More than two-thirds of the companies reporting earnings over the past few weeks have beat analyst’s estimates. Corporate earnings are much better than expected because of rising international sales. Unemployment is at an historic low and real wages are rising. We still have relatively low inflation and low mortgage rates and many people believe that the sub-prime lending crisis may cause the Federal Reserve to lower interest rates in the near future and that would cause a major rise in the stock market.

**STOCK MARKET UPS & DOWNS THIS SUMMER AND EARLY FALL:** As I mentioned in the FOXHALL GLOBAL WEEKLY report several weeks ago on July 16, 2007, I said, “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.”

**SELL-OFF STOCK MARKET CORRECTIONS ARE NORMAL IN SUMMER AND EARLY FALL:** I’ve been doing a lot of analysis since the stock market declined last week, and all of my research reveals that we’ve had a market correction every summer and fall since 2004. Last week, I believe we experienced our summer/fall 2007 correction.

Since the current bull market began in 2003, we’ve seen a fairly regular seasonal pattern that starts with big gains occurring in the fourth quarter of the year and the first half of each new year. Natural corrections seem to take place each summer and fall after the market goes up too much too quickly.

This pattern is so consistent that the size of the correction is nearly the same every year. Each year, the market tends to sell off between 7% and 9%. If you take a look back at 2004, the S&P 500 INDEX sold off 8.8% in the summer because of rising technology inventories and rising interest rates. In 2005, the S&P 500 INDEX sold off 7.6% during that period—once again because of interest rate concerns. This pattern repeated itself last summer when the S&P 500 INDEX sold off 7.7% in a sharp correction.

“WHEN MARKETS ARE SELLING OFF IT IS SOMETIMES HARD TO KEEP FOCUSED ON THE BIG PICTURE: HOW IS THE OVERALL U.S. ECONOMY DOING? AND THE ANSWER IS FINE.”

### THE BIG PICTURE

History shows that in the long-term, the stock market always follows the economy. If the economy is going down into a recession, the stock market will go down too. But when the economy is doing well, AS IT IS RIGHT NOW, the stock market will always go up over the long-term following that up-trend in the economy.

### SUMMARY

While we at FOXHALL CAPITAL expected this short-term correction between now and October, and there may be continuing volatility in the market through the end of October, but barring some geo-political crisis, we expect the stock market to climb higher by the end of this year.



## THE FOXHALL GLOBAL OUTLOOK

JULY 31, 2007

PAGE -2-

So long as the economy continues to expand, this current 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.

UNTIL NEXT WEEK...

—Paul Dietrich  
dietrich@foxhallcapital.com

### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### QUESTION:

The rise and fall of the US Dollar is constantly in the news. What makes a currency strong or weak? This would help me explain to my clients the benefits of a globally diversified strategy for their assets.

#### ANSWER:

As with all free markets, the key is supply and demand. If a country is creating more money supply than there is demand for, their currency will decline in value. If there is greater demand than supply the currency will rise.

#### SUPPLY:

To the extent that our Federal Reserve creates excess money supply beyond that required by the economy we run the risk of devaluing our dollar's buying power.

#### DEMAND:

Think about your own choice of banks—given two equally safe choices where would you put your savings? Most of us would answer “at the one that paid me the most”! It is the same for international ‘savers’, whether individuals, companies, or countries. Other factors being equal, they look for the highest return. Of course there are many factors which keep all things from being ‘equal’, such as political issues, social and legal stability, and economic outlook so there is always movement between currencies.

#### CURRENCIES AND YOUR PORTFOLIO:

Foxhall's portfolios have favored high yielding currencies such as the Australian Dollar, as well as countries with strong currencies such as Canada, whose economies are strong and evidence political and economic stability.

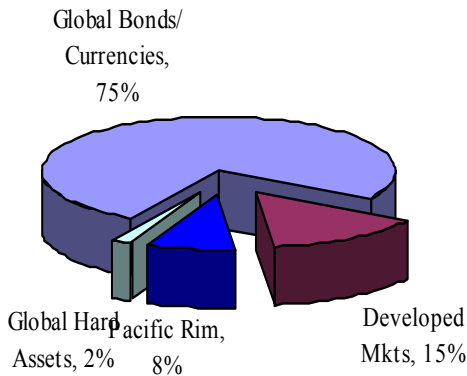
Remember, the value of a currency is only established relative to other currencies, there is no absolute 'value'. In other words it is pure “relative strength” that determines which currencies are rising.

—David Morton  
dmorton@foxhallcapital.com  
800-416-2053

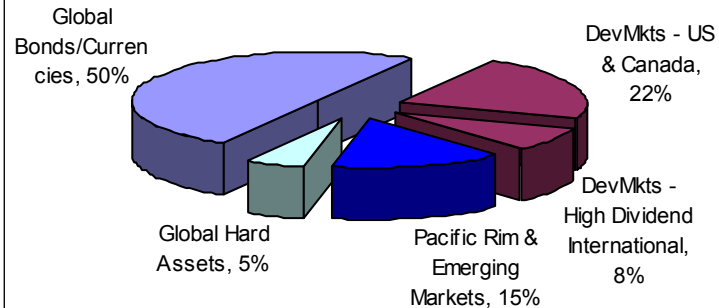
# THE FOXHALL GLOBAL OUTLOOK

## GLOBAL MARKET ROTATION PORTFOLIOS

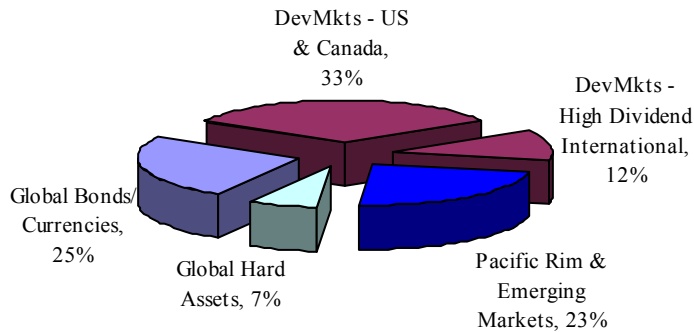
### Global Market Rotation Conservative



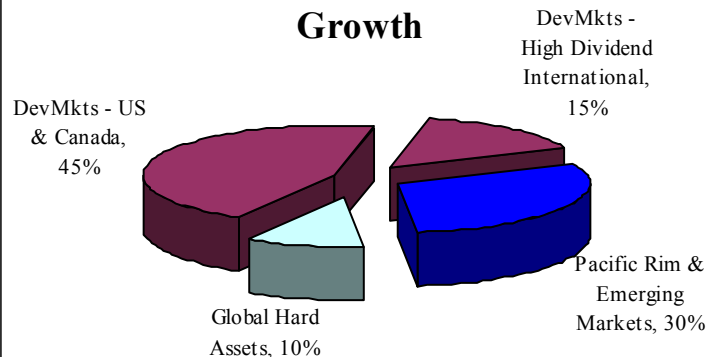
### Global Market Rotation Balanced



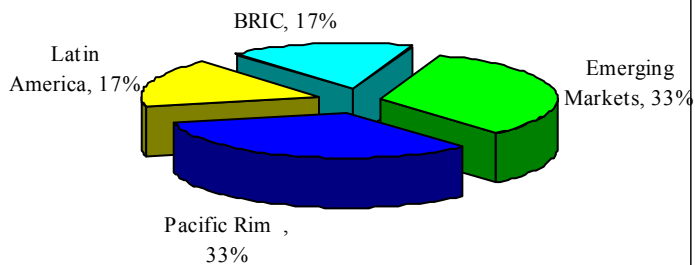
### Global Market Rotation Growth & Income



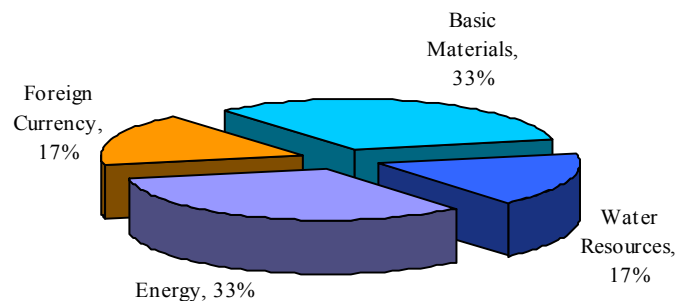
### Global Market Rotation Growth



### 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.