



## THE FOXHALL GLOBAL OUTLOOK



AUGUST 9, 2007

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### QUESTION:

Dear Paul,

**I keep reading that the sub-prime mortgage loan crisis will negatively impact the economy and eventually the U.S. stock market. Is that true?**

### ANSWER:

The answer is no!

As I have been saying for weeks this is a typical “summer correction” similar to other corrections we have had in each of the past four years during the summer and early fall. I do expect to see continued volatility in the stock markets through October, but after that I expect the market to reach new highs.

### THE SUB-PRIME LOAN CRISIS

Stocks have endured a volatile few weeks as some investors are concerned that bad sub-prime loans, those made to borrowers with poor or no credit and sometimes with no job and often with no-money down. Quite frankly, I think it is a very good thing that these types of loans have been stopped.

The truth of the matter is the sub-prime loan market is an extremely small percentage of a very small portion of the U.S. economy.

The Federal Reserve's failure to lower interest rates this past Tuesday was seen by many investors as a sign the Federal Reserve did not believe this crisis would have more than a very modest impact on the economy.

### WHAT SECTORS OF THE STOCK MARKET WILL BE AFFECTED?

Ultimately, this correction is good for the economy and the stock market. Bankers and hedge fund managers may not agree, but the recent sell-off in financial markets is good news.

It may, at least, have brought people to their senses. For the past few years, too much money has been lent too cheaply and too easily to too many people, whether it was speculators trying to make a fast buck in vacation homes or highly leveraged hedge funds financing their latest multi-billion dollar takeover.

The good news is that the reckless practices that have become the norm in corporate lending along with the sub-prime loans to people incapable of paying them off are quickly being abandoned. As investors, like FOXHALL CAPITAL, who steer clear of riskier debt, the takeover bids that have pumped up many high-flying stocks on Wall Street will be curtailed and the most debt laden, highly leveraged hedge funds will find it impossible to raise funds.

### MOST STOCKS ARE UNAFFECTED

Few major U.S. corporations will be affected by this credit crisis. First, creditworthy borrowers still have access to debt, although at a higher price. Secondly, most corporations don't have to borrow. Cash on hand at most corporations is at an historic high. The 1000 largest corporations in America are flush with cash and have been for the past five years. Most companies have been funding capital spending from their cash and most dividend paying stocks have cash covering those dividends for over a year.

Other potential victims like Asian and Emerging Markets bonds and shares are far better off than they were during the financial crisis in the late 1990's. They have restructured their borrowing and often have built up vast coffers of foreign-exchange reserves.

The average American consumers will be fine so long as the U.S. economy and the global economy continue to do well and unemployment stays near its current historic lows. If people have a job they will keep spending and paying off their mortgage.

### WHAT ABOUT THE BANKS?

Some investors worry about the banks that lent money to hedge funds that have exposure to sub-prime loans.

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America's commercial bank's balance sheets look very solid in that they bought back \$58 billion-worth of their own shares in the past year, suggesting they have capital to spare. Although many bank's share went down over the past few weeks, analysts are still forecasting higher profits over the next year.

### CONCLUSION

The good news is that the housing and debt markets are not that big a part of the U.S. economy, or of job creation. The U.S. and global economy are still going strong and will continue to grow strongly over the next year.

As I have continued to stress, this is a healthy correction and FOXHALL CAPITAL is still largely fully invested in the US and international stock markets. We will continue to monitor the markets closely to identify new leaders as they emerge and adjust portfolios accordingly.

The sub-prime loan crisis is just one more reason why your client's should always have a globally diversified portfolio to offset the periodic "bubbles" we always seem to create here in the U.S.

UNTIL NEXT WEEK...

—Paul Dietrich  
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### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### QUESTION:

Foxhall believes the world economy remains strong, and that we are experiencing a normal correction. Does that mean my clients' account holdings will remain unchanged?

#### ANSWER:

Expect change! As the markets constantly adjust to new information and events, Foxhall continually monitors both current and potential investment opportunities through our proprietary relative strength ranking system. Portfolio changes are an important element of the service we provide. What this means is that Foxhall will make changes as necessary along the way to as we seek the 'bull market somewhere in the world'.

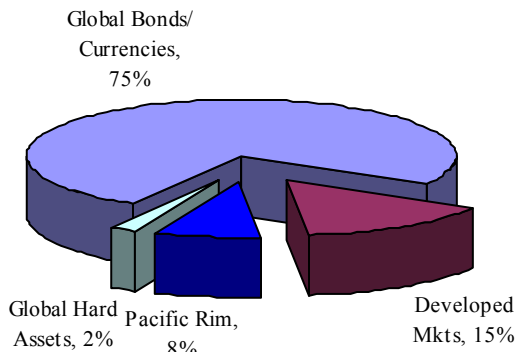
—David Morton  
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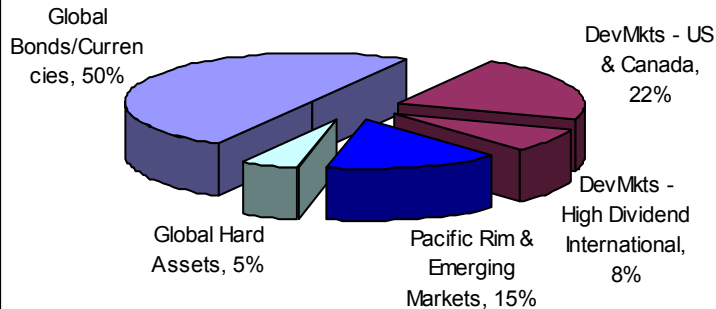
# FOXHALL CAPITAL MANAGEMENT, INC.

## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

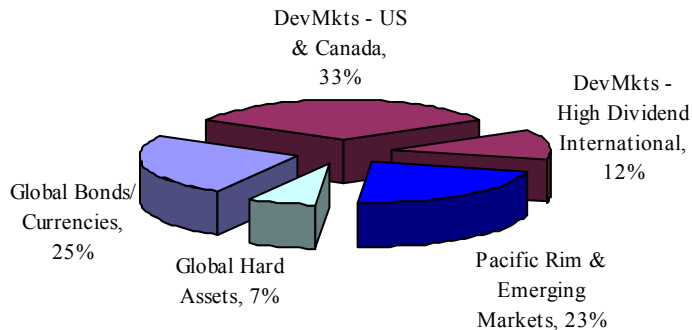
### Conservative



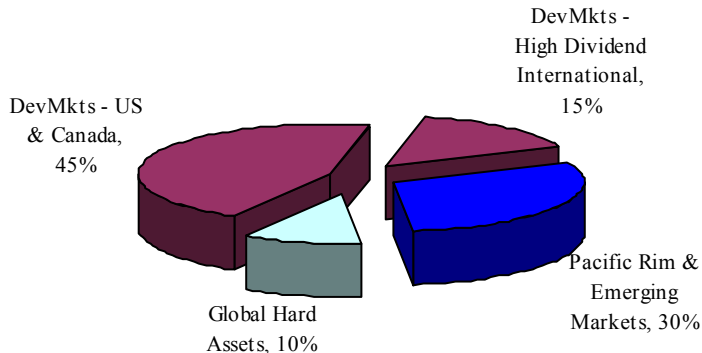
### Balanced



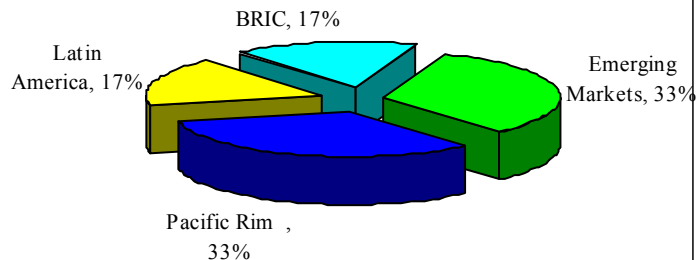
### Growth & Income



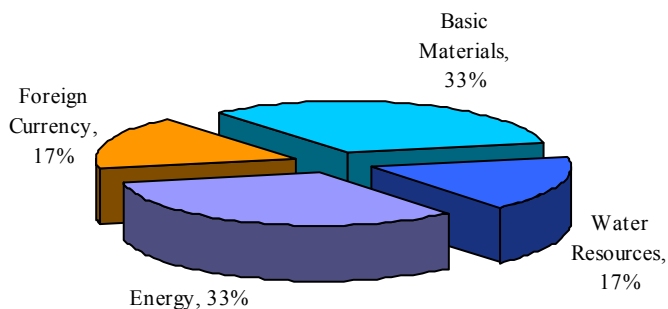
### Growth



### Pacific Rim & Emerging Markets



### Global Hard Assets



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.