



THE FOXHALL GLOBAL OUTLOOK



AUGUST 24, 2007

PAGE - 1 -



QUESTION:

Dear Paul,

Given the recent market turmoil, is this just a typical summer pull back or has there been a fundamental change in the economy?

ANSWER:

After several days of gains earlier this week, the large swings in the market have begun to settle down as I predicted last week.

However...Expect the volatility to return periodically! The markets will not fully understand the banks' exposure to the sub-prime lending crisis until the release of third quarter reports by the hedge funds.

Once the markets have adjusted to those reports, the markets are likely to rebound and I believe we may see record highs for the DOW and S&P 500 INDEX by the end of the year.

THIS WAS A SHORT-TERM MARKET PULL-BACK CAUSED BY HEDGE FUNDS

Hedge funds sparked the most recent bout of volatility. Margin calls from banks and brokerage firms plus liquidation demands from jittery investors required the hedge fund managers to sell ...in many cases... "good stocks" to meet the cash requirements. Remember that the mortgage securities associated with the sub prime mortgages were worth little or in many cases, literally nothing because there were no buyers! So the 'forced sale' of 'good stock' drove stock prices down and resulted in a 'down market.'

BUT THE ECONOMY IS FUNDAMENTALLY SOUND

Earnings? Oh, yeah, earnings.

Remember just a month ago before the sub-prime loan crisis, the chief investment topic was good second quarter earnings. Now earnings season is wrapping up and the numbers

have stayed extremely strong.

Current corporate earnings have been exceedingly good. Until mid July, investors and analysts saw the latest round of corporate earnings as the key to the stock market's summer and the second half of 2007.

With 95% of the S&P 500 companies finished reporting for the second quarter, the median earnings growth rate is **13.5%**. That blows away STANDARD & POOR'S late-June prediction that the figure would fall to around 6% and would end the long streak of quarters with double-figure growth.

Earnings were very definitely better than we expected and the 13.5% growth rate is higher than most analysts predicted. It is only marginally below the 15% growth rate for all of 2006!

The best growth came in healthcare, with a second-quarter growth rate of 19%. Manufacturing and industry followed at 17%, and consumer staples at 16%.

Strong earnings are an indicator of a strong economy!

GLOBAL PROFITS FOR U.S. COMPANIES HAVE REALLY HELPED

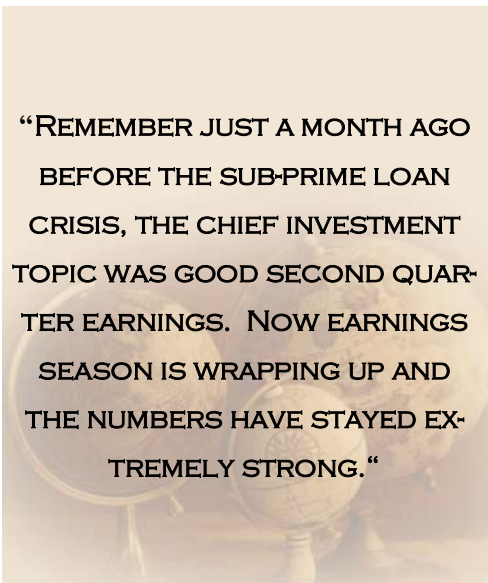
How could the analysts estimates have been so far off? While U.S. companies earned about as much as expected at home—meaning not as much as a year ago—their performance in Asia and Europe was stellar.

The weaker U.S. dollar also helped with profits because foreign earnings are translated into more dollars. You have to give American companies

credit for establishing themselves in countries growing faster than our own.

CONCLUSION

The last month of stock market ups and downs have been a wild ride, but it is simply a typical "summer pull-back" just like we have seen each summer since 2004.



"REMEMBER JUST A MONTH AGO BEFORE THE SUB-PRIME LOAN CRISIS, THE CHIEF INVESTMENT TOPIC WAS GOOD SECOND QUARTER EARNINGS. NOW EARNINGS SEASON IS WRAPPING UP AND THE NUMBERS HAVE STAYED EXTREMELY STRONG."



THE FOXHALL GLOBAL OUTLOOK

AUGUST 24, 2007

PAGE -2-

By definition, this was not even a “minor stock market correction” in that the S&P 500 INDEX did not go down 10%.

FOXHALL CAPITAL will move client portfolios to bonds or money market funds if there is a “major correction or recession,” but we did not hit our sell-triggers. We generally stay invested during seasonal market pull-backs because of the uncertainty in attempting to try to time the market during typical market pull-backs.

I expect to see continued volatility in the markets through the end of October but after that, I expect the stock market will forget this summer’s “sub-prime crisis” as fast as the market forgot the “high gas price crisis” of last summer. I expect to see stock prices MOVE ABOVE the record DOW and S&P 500 INDEX highs hit last month before the end of the year.

Dave Morton is on a well-deserved vacation this week. There has been no change in the portfolios since last week. Check Dave’s portfolio insights in next week’s Foxhall Global Outlook.

As always, feel free to share this information with your clients that might be concerned about the markets.

UNTIL NEXT WEEK...

—Paul Dietrich
dietrich@foxhallcapital.com
800-416-2053

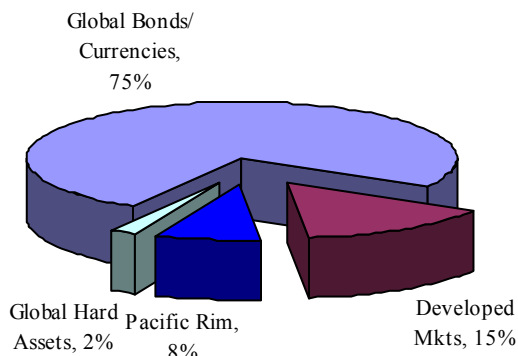




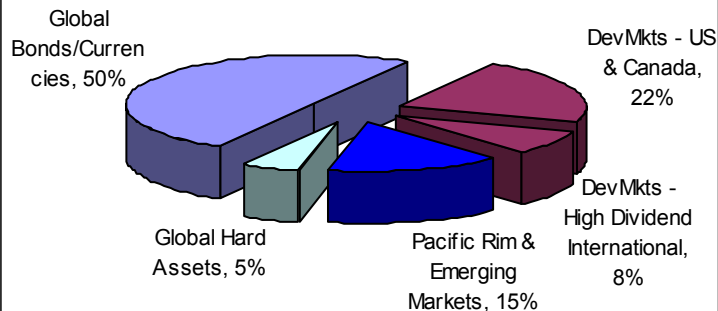
FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

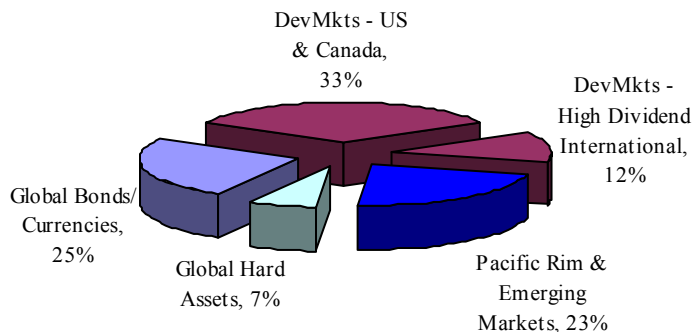
Conservative



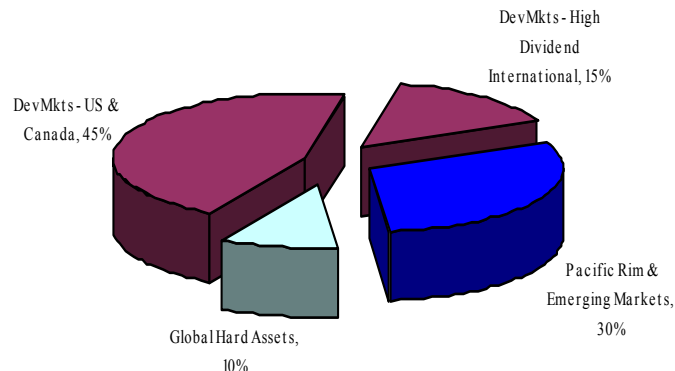
Balanced



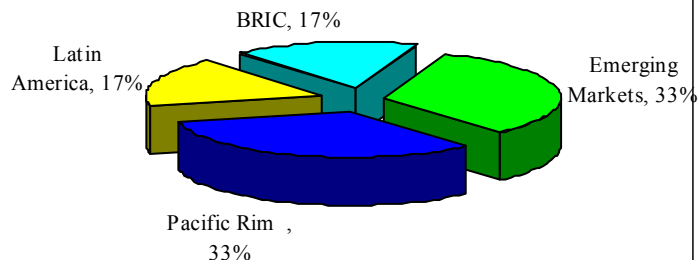
Growth & Income



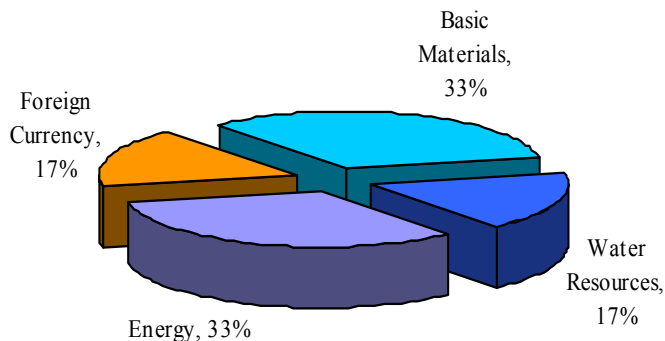
Growth



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.