



THE FOXHALL GLOBAL OUTLOOK



AUGUST 29, 2007

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QUESTION:

Dear Paul,

The stock market seems to have calmed down this past week. Do you think that will continue? What should I tell my clients?

ANSWER:

The market had its most stable week in a month last week. The DOW JONES INDEX rose back above 13,300 and finished up 2.29% for the week, the S&P 500 INDEX rose 2.31%, and the NASDAQ added 2.86%.

TWO PRINCIPLES FOR INVESTMENT SUCCESS

Robert Hagin, the former University of Pennsylvania Wharton School of Finance professor taught that there are really only two principles that someone needs to know and understand in order to be a successful investor.

INVESTMENT PRINCIPLE #1: History shows that in the long-term, THE STOCK MARKET ALWAYS FOLLOWS THE ECONOMY. If the overall underlying economy is deteriorating into a recession, the stock market will decline broadly and perhaps demonstrate significant corrections. But when the overall economy is doing well, AS IT IS RIGHT NOW, the stock market will FOLLOW THAT "Bullish" TREND!

HERE ARE THE FACTS: Despite all the focus on a small percentage—about 3%—of all mortgages that may default over the next few years and the losses to some banks and hedge funds that should not have made those loans in the first place, the overall economy is doing very well. 30-year fixed-rate mortgages dropped last week to the low rates we saw three months ago. We have record low unemployment and a global economic boom in Asia and other parts of the world that is providing a record 44.4% of all profits to major U.S. companies.

In economic news last week, the Commerce Department said new-home sales rose 2.8% in July, after falling 4% in June.

A second report showed that factory orders for long-term, big-ticket durable goods — those expected to last at least three years — jumped 5.9% in July, the biggest increase in 10 months.

So remember what Professor Hagin taught: when the overall economy is doing well, don't try to time the market getting in and out during every market pull-back. Since the S&P 500 INDEX did not go down 10%, which it had to do to be considered a minor stock market correction, what we have seen over the past month has been a typical summer pull-back like we have seen in the late summer months over the past four years. Next year we will wonder why everyone got so excited over a mortgage default percentage that is a fraction of the mortgage defaults that the U.S. economy experienced after the savings and loan scandal in the 1980's where over 1000 savings and loans went bankrupt.

INVESTMENT PRINCIPLE #2: When the overall economy starts to deteriorate, IMMEDIATELY CUT YOUR LOSSES AND INVEST IN BONDS OR MONEY MARKET FUNDS (CASH), and stay invested in these defensive investments until the bear market or recession is over and the overall economy begins to improve.

These are time-tested, commonsense investment "truths" that have served successful investors since the beginning of organized stock markets. HOWEVER, YOU WOULD BE SURPRISED HOW FEW INVESTORS FOLLOW THIS ADVICE.

These are the principals we live by at FOXHALL CAPITAL. We don't try to time or jump in and out of the stock market every time there is a short-term pull back.

At FOXHALL CAPITAL, WE ONLY EXIT THE STOCK MARKET and move our client's investments to cash or bonds when our proprietary FOXHALL SELL-TRIGGERS tell us that the underlying economy is starting to deteriorate and the economy is moving into a bear market recession.

THE BOTTOM LINE: Your clients only care about one thing. They want to know that their investment manager is going to aggressively protect their investment principal in a

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bear market or recession so that they don't experience the losses they sustained in 2000, 2001 and 2002. THAT IS THE BOTTOM LINE. They really don't want to be bouncing in and out of the market during every little pull-back in the market. They simply want to know that someone is watching their portfolio every day and watching the U.S. and global economy every day and when those economies starts to deteriorate, that their principal will be protected.

THE BOTTOM LINE: What your clients want from an investment manager...

1. They want to know that someone is watching their portfolio every day.
2. They want their investment principal PROTECTED in case of a bear market or recession so that they don't experience losses similar to those suffered by investors in 2000, 2001 and 2002.
3. They don't want to be bouncing in and out of the market during every little pull-back in the market.

THAT IS EXACTLY WHAT WE DO AT FOXHALL CAPITAL!

WHERE IS THE STOCK MARKET GOING FROM HERE?

Despite the Federal Reserves assurances that credit will be available to the creditworthy, worries about tightening credit haven't disappeared .

As I have said for the past few weeks, the stock markets will remain volatile and we could see more up and down swings until the end of October when we will finally find out just how much exposure banks and brokerage firms have from lending to hedge funds that were financing the sub-prime loans. Once that uncertainty is taken out of the equation, I believe the stock market will settle down and start moving up again.

While I don't believe the Federal Reserve will lower interest rates at their September 18th meeting, many other analysts believe they will. If the Federal Reserve does lower interest rates, that would cause a substantial jump in the stock market. We'll all have to wait and see. I want to make sure all FOXHALL clients are positioned to take advantage of that move if it does happen.

ECONOMIC FORECAST FOR 2007 AND EARLY 2008

Here is my economic forecast through the end of this year and early 2008.

FIRST, I DO NOT BELIEVE THAT THE ECONOMIC 'SOFT PATCH' CAUSED BY THE SUB-PRIME LOAN CRISIS IS A FORERUNNER OF A RECESSION. Our primary FOXHALL computer model does not indicate that we are entering into a recession or major bear market.

In early 2008, we should see a pickup of economic growth, in part because of the probable bottoming out in the housing down cycle and a restoration of some stability to the global energy markets. I also expect the Federal Reserve to provide a bit more support in the form of a reduction in borrowing costs in early 2008, or if they surprise me, as early as next month.

As for consumer spending, high debt levels and slowing payroll growth may hold retailing to a mild uptrend, at best, next year. Finally the capital goods market and commercial construction may do well, but will just be steady rather than explosive. STANDARD AND POORS predicts U.S. GDP growth of 2.5% next year, which would still be somewhere



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below the long-term trend of the U.S. economy. The good news is that Asia and emerging markets will continue to grow two to four times faster than the U.S. and that will help major U.S. corporate profits.

SUMMARY

I believe the recent stock market pull-back will be over in the next eight weeks or so. After that, I believe the stock market could push through those July record highs and end the year solidly in the plus column.

As always, feel free to share the above FOXHALL GLOBAL OUTLOOK information with your clients that might be concerned about the recent volatility in the stock market.

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

QUESTION:

With all the market news and turmoil over the past month or so, how have investors changed their behavior?

ANSWER:

The strong stay strong and the weak stay weak! The results we are seeing at present are consistent with our research over the years.

Here are a couple of examples:

The Nasdaq 100 Index was identified as one of the very strongest indexes, by our quantitative ranking process, before the turmoil began and remains there today. The Nasdaq 100, which is made up of the 100 largest non-financial stocks traded on the Nasdaq, was ranked in the top decile before the subprime furor and remains there now.

Compare that with the Russell 2000 index, which is comprised of the smallest 2000 stocks in the Russell 3000 index. This index was in the lower third of our rankings before the turmoil and remains there after the turmoil.

Conclusion: even in the midst of dramatic market events, investors continue to want to own the largest 100 Nasdaq stocks more than they want to own the 2000 smallest stocks. This is a clear example of what Foxhall means by *relative strength*.

Translation: Investors change their preferences slowly, therefore it pays to stay with the strong and avoid the weak even in the midst of market mayhem!

This knowledge guides Foxhall's decision making process as we seek that 'bull market somewhere in the world'!

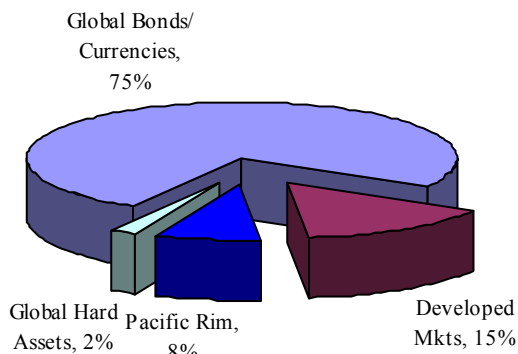
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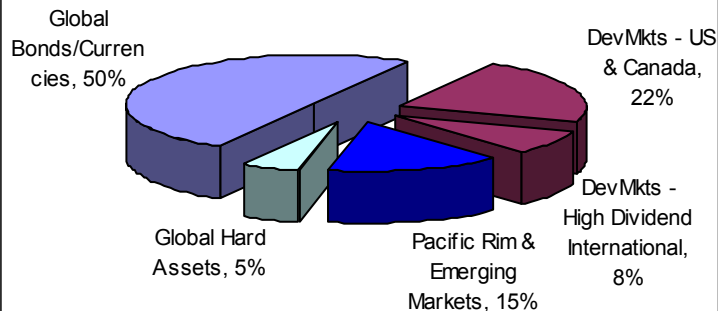
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THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

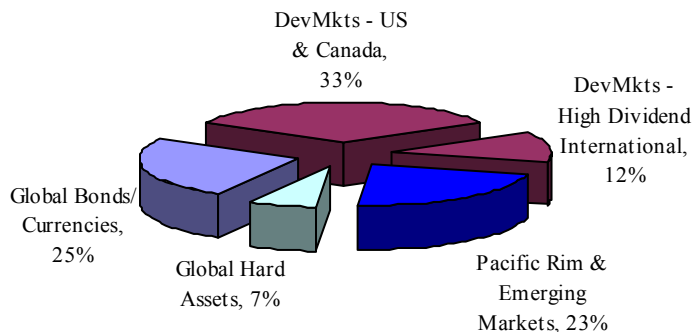
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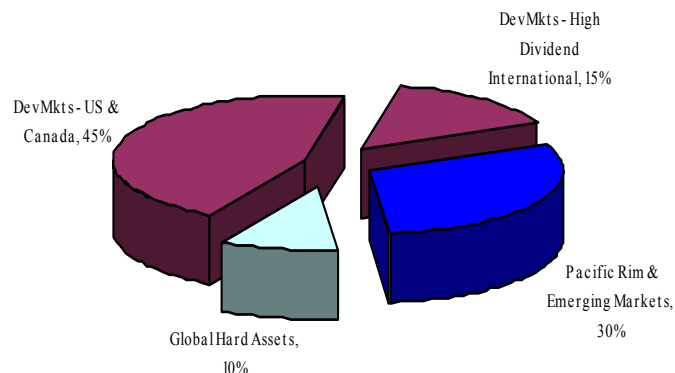
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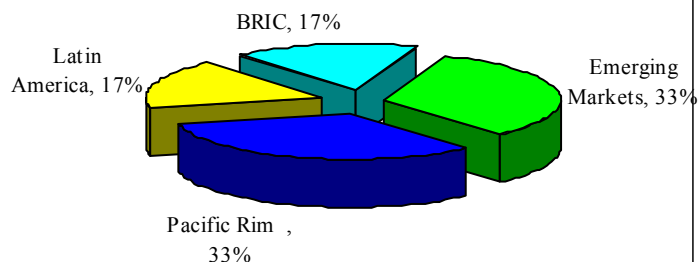
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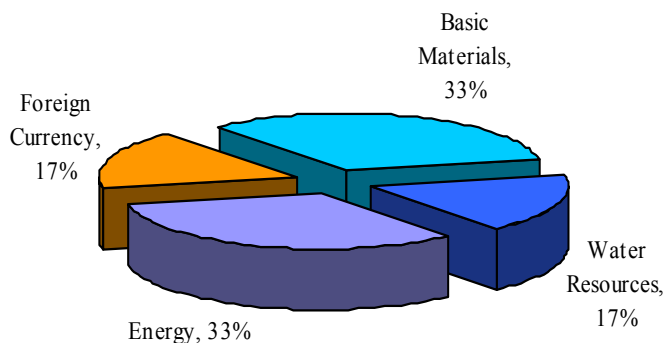
Growth



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.