FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK

QUESTION:

Dear Paul,

Given the recent turmoil in the U.S. stock markets because of the sub-prime mortgage scandals, how much should an investor diversify their investment portfolios outside of the United States?

ANSWER:

THE RISK OF JUST INVESTING IN THE U.S.

The impact of the so-called "sub-prime mortgage crisis" on the U.S. stock market—remember that sub-prime lending is a very *tiny* piece of the overall economy—serves to remind us that investing in a *single* country heightens the volatility and risk EVEN when that one country is the United States!

This is why almost every academic study points out that global diversification is the secret to managing risk in any investment portfolio.

Heidi Hu, *CFA, Principal, Managing Director, Director of Fixed Income at Transamerica Investment Management* told a large gathering of investment professionals in Las Vegas last Spring that "The larger the universe one is investing in, the greater the opportunity for returns. A large universe also dampens volatility."

> " THE MOST RECENT DOWNTURN HIGHLIGHTS HOW THERE CAN BE BIG DIFFERENCES AMONG NON-U.S. COUNTRIES. FUNDS HEAVILY WEIGHTED IN ASIA HELD UP BETTER THAN THOSE WITH BIG EXPOSURES TO EUROPE, AND, INDEED, EVEN BETTER THAN MANY FOCUSED IN THE U.S.."

WHAT PERCENTAGE SHOULD BE INVESTED OVERSEAS?

According to the WALL STREET JOURNAL (9/1/2007), "a commonly cited statistic is that U.S. stocks comprise roughly 50% of the total value of the world's stock markets."

Asset-allocation experts look at the question in terms of the amount of international holdings that provide the maximum amount of diversification. Since most of the world's economies are growing faster than the U.S., a 50%—50% allocation would not be out of line.

However, views differ; Vanguard's research advises clients that they should all have "at least" 20% invested internationally.

AllianceBernstein Holdings' Thomas Fontaine recommends that their clients "have a minimum" of 30% of their holdings in non-U.S. stocks. "At that level, you have a portfolio with less risk and with modestly higher expected returns."

GLOBAL DIVERSIFICATION

Again, the WALL STREET JOURNAL stressed, "it is important to diversify around the entire globe. The most recent downturn highlights how there can be big differences among non-U.S. countries. Funds heavily weighted in Asia held up better than those with big exposures to Europe, and, indeed, even better than many focused in the U.S."

According to research from OppenheimerFunds, developed markets outside the U.S. still offer a 13% discount when compared on a price-to-earnings basis with the S&P 500 Index.

International markets are still "cheap on a long-term basis," says Kurt Wolfgrueber, chief investment officer at Oppenheimer.

FOXHALL CAPITAL GLOBAL DIVERSIFICATION

At FOXHALL CAPITAL, we look at global diversification a little differently and with a broader view of the world's investment risks.

Our current global asset allocation for our FOXHALL GROWTH STRATEGY is 60% is allocated to "developed markets" in the U.S., Europe and Japan with about two-thirds of that allocation to the U.S. Approximately 30% is allocated to the fastest growing economies in the world in Asia and other emerging markets.

We then balance global risk by allocating 10% to global "hard assets" like oil, real estate, gold and other precious metals. These commodities often run counter cyclical to the world's stock markets. These commodity investments often rise when stock markets decline. They provide a small

Foxhall Capital Management, Inc.

The Foxhall Global Outlook

amount of insurance given all the political and economic risks in our world today.

CONCLUSION

As they say, "there are no guarantees in life other than death and taxes." However, I believe that the Foxhall Capital strategy of global diversification, coupled with our commitment to *decisively* move our client's investment portfolios to bonds or money market funds in order to protect their investment capital when there is a major stock market correction, bear market or recession. At Foxhall Capital, we are convinced that this is the best risk management methodology in any investment strategy available today.

Until next week...

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

Portfolio Commentary and Allocations

Dave Morton and the Foxhall team are currently realigning the portfolios as of the publishing time of the Foxhall Global Outlook. Next week's edition will include Dave's full commentary and the new portfolio allocations.