



THE FOXHALL GLOBAL OUTLOOK



SEPTEMBER 12, 2007

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QUESTION:

Dear Paul,

Last week U.S. unemployment started to rise. Does this mean the economy is starting to slow? Are we in danger of a recession?

ANSWER:

There was an unexpected drop in U.S. employment for August, but the decline may signal more of a short-term confidence crisis among employers than a significant economic downturn.

To be sure, the loss of 4,000 jobs for August reported last Friday—the first drop in four years—will weigh heavily in the Federal Reserve's decision on whether to lower benchmark interest rates (a move which Wall Street now considers a certainty). A loss of confidence could lead to still more job cuts and slower spending. But a timely rate cut would likely repair the damage quickly.

If the Federal Reserve does lower interest rates at its meeting on September 18th, EXPECT A BIG JUMP IN THE STOCK MARKET THAT DAY.

TAKE A DEEP BREATH

A closer look at last week's employment numbers along with other recent data suggests that, for now, companies are nervously retrenching rather than bracing for a recession, and that the underlying economy has slowed but not stalled.

Stripping out volatile government hiring figures, the latest report shows that the private sector actually **added** 24,000 jobs last month. Even the downtrodden manufacturing sector expanded in August.

A drop in government payrolls more than erased the private sector gain but economists pointed out that the biggest culprit was teachers, a segment that is vulnerable to large seasonal swings and appears likely to be revised higher next month to reflect the start of the school year.

While the employment report was weaker than expected, it is still a stretch to say the economy is now so impaired from the problems in housing and credit markets that a recession is inevitable. It helps to remember that the housing market only accounts for a total of 5% to 7% of the U.S. economy.

Even with all the media attention on the last jobs report, THE OVERALL UNEMPLOYMENT RATE STILL REMAINS AT A HISTORICALLY LOW 4.6%. Employment provides money that fuels consumer spending. Spending drives sales and sales drive corporate earnings. Earnings are a major determinant of stock prices!

TALK OF A RECESSION...

Talk of recession has heated up lately, but a flurry of recent reports have given a much more upbeat assessment of the U.S. economy, suggesting it is trudging ahead even as it grapples with the housing dilemma.

As I have pointed out in previous issues of the FOXHALL GLOBAL OUTLOOK, the Federal Reserve's Beige Book summary of economic conditions released last week indicated that housing and credit problems "have had little impact on the broader economy so far."

Moreover, other economic reports are more upbeat: In recent days, there have been several indications that the credit crisis isn't spreading to the wider economy. A survey by the INSTITUTE FOR SUPPLY MANAGEMENT indicated manufacturing continued to expand last month, for example, and both retail sales and auto sales have been stronger than expected.

...OR JUST AN ECONOMIC SLOWDOWN

To Wall Street, a softening job market is an especially troublesome sign. During good times, strong employment encourages consumption of goods and services, which supports corporate profits, making the profitable companies' shares more attractive to buy.

But according to the Wall Street Journal (9/8/07), "for now, economists generally don't think the economy will slip into

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recession, usually defined as two consecutive quarters of shrinking output, accompanied by rising unemployment and shrinking profits.”

“On only five occasions since 1985 has payroll employment shown a monthly decline outside of a recession period,” said Zoltan Pozsar, an economist at Moody’s Economy.com. “Each of those was followed by a monthly gain averaging 360,000 jobs. That suggests businesses seem to hire with a vengeance after these mid-cycle slow-downs,” Mr. Pozsar said. “A loud and clear and simple signal from the Fed” could help bring such a hiring surge about, he added.

WHEN WILL THE NEXT RECESSION BEGIN

I agree with the WALL STREET JOURNAL that we will see a slow down in the economy over the next six months, but not a recession.

However, the U.S. has had a recession every five to eight years since 1945 and we are surely due for one *sometime* within the next three years if history is a guide.

FOXHALL CAPITAL’S “RECESSION INVESTMENT STRATEGY”

FOXHALL CAPITAL’S quantitative models have historically pro-actively identified a major bear market or recession in advance. When either of those situations are identified, we will decisively shift our client’s investment portfolios to bonds, money markets or other defensive investments.

We also manage investment risk in our client’s investment portfolios by being globally diversified. While the U.S. is struggling with its housing crisis, companies in Asia and other emerging markets have little exposure to our housing problems and their economies are growing three to five times faster than our economy here in the U.S.

We also manage investment risk by keeping about 10% of our client’s equity portions of their portfolios in hard assets like oil, gold and other precious metals. Last week, the dollar dropped to a 15-year low against other major currencies and gold jumped to a 16-month high.

CONCLUSION

As we move into a period of potentially slower economic growth here in the U.S., it is even more important to be globally diversified in the faster growing economies of the world and to have a percentage of your investments in hard assets like oil, gold and other precious metals that tend to go up when the overall stock market is going down.

I don’t believe we will see a recession in the next 6 months and the portfolios are positioned to capture gains in markets around the world—but at Foxhall, we continue to monitor the indicators that historically identified recession onset and allowed us to avoid severe investment losses!

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

This week my portfolio commentary will focus on the recent portfolio reallocations. The Foxhall investment discipline keys on two processes:

- We continuously monitor our portfolios from a defensive standpoint with an eye on our long term trend indicators, watching for the onset of recessions or major market declines. This is a capital preservation process that tells us when to make major moves out of the market to preserve our client's capital.
- We also conduct a comprehensive monthly review to see if there are any 'upgrades' in portfolio holdings that need to be made based on our objective, quantitative, relative strength ranking methodology. This is a capital growth process that guides us to position our offensive allocations in the strongest segments of the market.

In our most recent review we identified shifts in the strongest segments of the 'developed markets' and that has changed our holdings in our four diversified global strategies (Conservative, Balanced, Growth & Income, and Growth):

- We increased our allocation to domestic growth stocks to approximately 50% (from broader indexes that held both growth and value stocks) and
- We shifted from Canada into dividend paying stocks from developed Pacific region markets such as Australia, Hong Kong, Singapore, and New Zealand, giving us a 25% allocation there.
- We maintained our positions in the largest 100 Nasdaq companies and in international large cap, dividend paying stocks.

As Paul explains in his Global Update, some of the economic indicators in the U.S. economy are not as robust as they have been. However, others have strengthened leaving the indication of a positive long term economic trend. Accordingly, Foxhall remains fully invested in the strongest segments of the *global* economy!

As always, snapshots of the current portfolios are included for your review and for you to share with your clients. Please call if you need clarification or additional explanation of the Foxhall investment management discipline.

-David Morton
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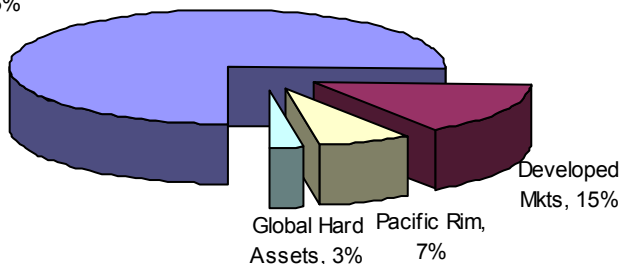


FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

Conservative

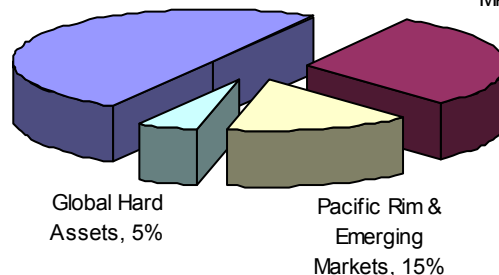
Global Bonds/
Currencies,
75%



Balanced

Global
Bonds/Curren
cies, 50%

Developed
Mkts, 30%

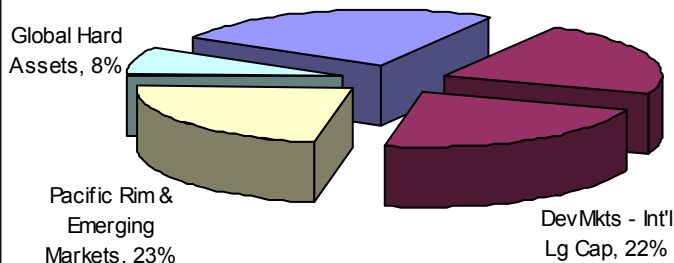


Growth & Income

Global
Bonds/Curren
cies, 25%

DevMkts - US
Growth, 22%

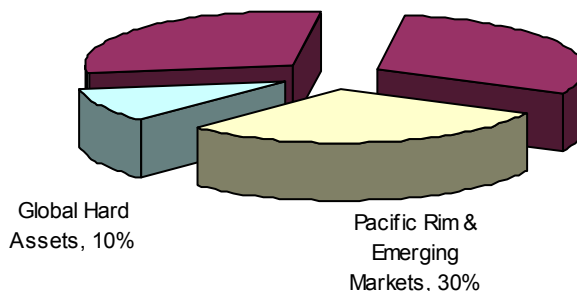
Global Hard
Assets, 8%



Growth

DevMkts - US
Growth, 30%

DevMkts - Int'l
Lg Cap, 30%



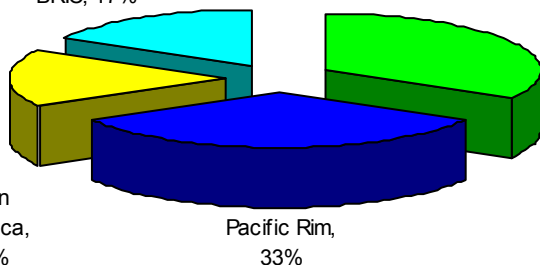
Pacific Rim & Global Emerging Markets

BRIC, 17%

Emerging
Markets, 33%

Latin
America,
17%

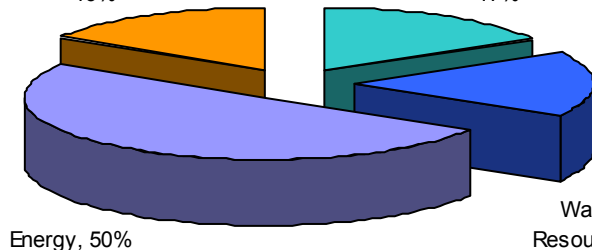
Pacific Rim,
33%



Global Hard Assets

Foreign
Currency,
16%

Basic
Materials,
17%



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.