



THE FOXHALL GLOBAL OUTLOOK



SEPTEMBER 19, 2007

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QUESTION:

Dear Paul,

Yesterday the Federal Reserve lowered interest rates and the stock market went up strongly. What does this mean in terms of the economy and the stock market going forward?

ANSWER:

For regular readers of the FOXHALL GLOBAL OUTLOOK, I have mentioned several times over the past six weeks that if the Federal Reserve lowered interest rates the stock market would take off. That is exactly what happened on Tuesday.

BIGGEST ONE-DAY MARKET INCREASE IN 5-YEARS

The Federal Reserve slashed its key interest rate by a half point—the first cut in over four years—and Wall Street responded enthusiastically, propelling stocks up 336 points—it was one of the biggest one-day point jumps in the last decade.

The point I have been making is that if you were “OUT OF THE MARKET” yesterday, you missed the largest single-day stock market increase in nearly five years. That is why it is so important to follow the FOXHALL global investment strategy of largely staying invested in the stock market when we are in a long-term-bull market. When the market is broadly going up, it makes no sense to try to “time the market” getting in and out during every little pull-back. These pull-backs in the market happen four or five times every year and are a natural part of the stock market cycle.

DOES THIS MEAN WE WON'T HAVE A RECESSION?

The Federal Reserve said yesterday that it would take further action if the economy weakens. That means we will not have a recession anytime soon. However, we are due for a recession sometime in the next three years if history is a guide. When that happens, and we see a major stock market correction or a bear market or recession, FOXHALL will DECISIVELY move

all of its clients to bond funds, money market funds or other defensive investments.

This is the FOXHALL “DEFENSIVE INVESTMENT STRATEGY” where FOXHALL patiently invests our client portfolios in bond funds and other defensive investments while the rest of the world watches their stock investments decline during the next bear market or recession.

WHAT DOES THIS MEAN FOR THE U.S. ECONOMY?

The U.S. economy is showing some strengths and weaknesses, and this is a major reason why all investors need to be globally diversified.

First, the housing market will continue to decline. The real estate market went through an investment bubble and the “hang-over” from that party will continue to hurt for some time to come. Also, while the economy is still growing, it is growing at a much slower rate than over the past four years and that will continue. Corporate earnings will remain good and will continue to grow (mainly due to global export growth), but at a slower rate.

On the bright side, the Federal Reserve rate decrease will make it easier for new home buyers to get a mortgage and it will lessen the pain when Adjustable Rate Mortgages (ARMs) adjust to higher rates. The new 4.75% Fed interest rate is historically low. Inflation seems in check for the time being and while the economy did not produce the increase in jobs that were expected last month, the unemployment rate stayed the same at 4.6%—again, a historically low unemployment rate.

The global economy is helping. According to the Commerce Department, last month, export growth reached its fastest pace in over three years. According to James Paulsen, the chief investment officer of Wells Capital Management, the export growth “was pretty spectacular, and it was a reminder of just how fast growth conditions are globally. Some of the consumer slowdown in this country will be off-set by trade improvement.”

“ THE POINT I HAVE BEEN MAKING IS THAT IF YOU WERE “OUT OF THE MARKET” YESTERDAY, YOU MISSED THE LARGEST SINGLE-DAY STOCK MARKET INCREASE IN NEARLY FIVE YEARS.”



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According to the World Bank, economic growth in Asia and other Emerging Markets is faster and more wide-spread than at any time in recorded World Bank history. Now that U.S. Corporations are receiving a record 44.4% of their profits from non-U.S. sales according to Standard & Poors, U.S. corporations are the primary beneficiary of the Asian and Emerging Markets economic expansion.

WHY INVESTORS NEED TO BE GLOBALLY DIVERSIFIED

After the Federal Reserve rate cut, almost all Asian and Emerging Markets exchanges went up much faster than the DOW and the S&P 500 INDEX.

Besides investing 30% of our client's equity investments in Asian and Emerging Markets, FOXHALL also invests about 10% of all equity positions in what we call "Hard Assets." Hard Assets are investments like oil, currencies, gold and other precious metals. These investment tend to move in a counter-cyclical manner to our U.S. stock market.

This week, oil hit a new record price of almost \$82 a barrel and energy funds shot up. Many economist see the oil-price increase as evidence that world oil demand and the global economy are very strong. This week gold hit a 16-month high and the dollar dropped to a record low against world currencies.

FOXHALL tries to place some of its investments in currency funds other than the U.S. dollar. Given the (1) wars in the Middle East, (2) a congress that continues to spend like drunken sailors and (3) the unlikely possibility of any tax increases (I am against tax increases), I do not know of any economist that believes the U.S. dollar is going up in any sustained manner over the next year.

In a way, the weak dollar helps our export growth by making American goods and services cheaper, but it also makes imported goods like oil much more expensive. At least by FOXHALL investing in oil and energy funds, currency funds and in other global markets, we can help make up for your high oil prices at the pump with the profits from investing in these stronger currencies and energy funds.

WHERE DO WE GO FROM HERE?

Don't be surprised if over the coming days and weeks you see some profit taking by investors. This would be normal after such a huge rise in the stock market.

I still believe we will see some volatility until the end of October. Hedge Funds will give their latest quarterly reports to investors by October 15th and at that time we will finally find out exactly how much exposure certain banks and brokerage firms had to the sub-prime mortgage crisis. Once we find out, stock market investors will come back into the market and buy back all the oversold stocks that had little exposure to the crisis. After the end of October I believe we are likely to see the stock market exceed the record levels achieved in July. We all should have a Merry Christmas.

UNTIL NEXT WEEK...

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



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PORTFOLIO COMMENTARY AND ALLOCATIONS

Last week we discussed the recent reallocations in our four diversified global strategies. This week we will look at our two concentrated strategies, the Pacific Rim & Emerging Markets and Global Hard Asset strategies:

Our disciplined quantitative ranking process identified several changes in relative strength in the Global Hard Asset category. As a result:

- We shifted away from high dividend international energy companies to diversified domestic energy companies.
- We increased our allocation to the domestic oil service industry by eliminating diversified basic materials.
- We shifted our dollar hedge position in high yielding currencies to the Canadian dollar.
- We maintained our existing oil service, water industry and steel industry holdings.

In the Pacific Rim & Emerging Markets asset category, we identified a single upgrade:

- We exited our allocation to high dividend yielding Pacific Rim stocks concentrated in well established markets such as Australia, Hong Kong, Singapore, and New Zealand, and initiated a position providing greater exposure to emerging Asian economies such as Taiwan, China, India, and Malaysia which are currently exhibiting higher relative strength.
- We continue to hold our other existing positions in the BRIC countries (Brazil, Russia, India, and China), in broad based Latin American countries, in dividend paying stocks from established Pacific Rim economies, as well as broadly diversified emerging markets from around the world.

We remain very positive in our outlook for both of these strategies, especially in light of the sharp drop in interest rates by the Federal Reserve.

-David Morton
dmorton@foxhallcapital.com
800-416-2053

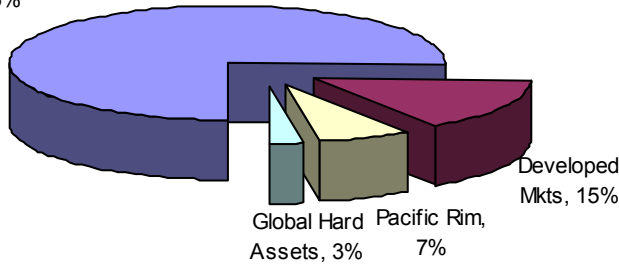


FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

Conservative

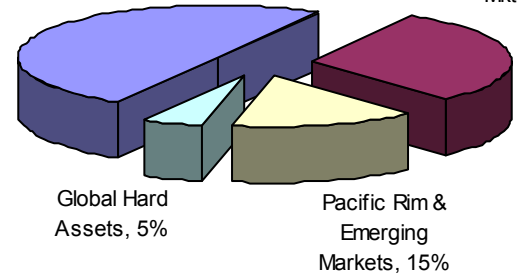
Global Bonds/
Currencies,
75%



Balanced

Global
Bonds/Curren
cies, 50%

Developed
Mkts, 30%

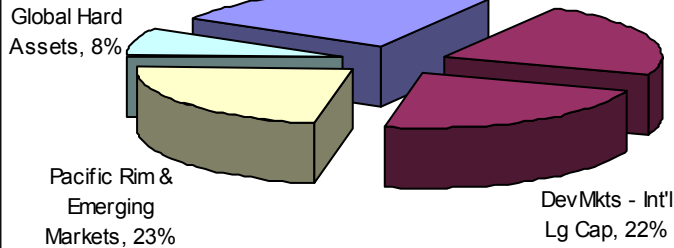


Growth & Income

Global
Bonds/Curren
cies, 25%

DevMkts - US
Growth, 22%

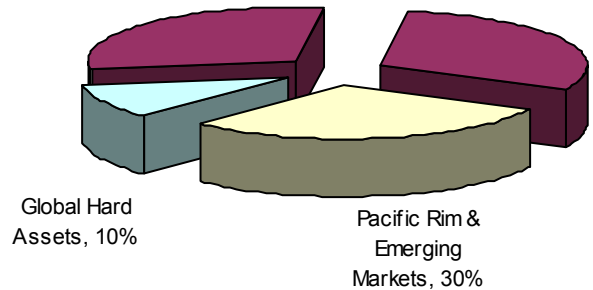
Global Hard
Assets, 8%



Growth

DevMkts - US
Growth, 30%

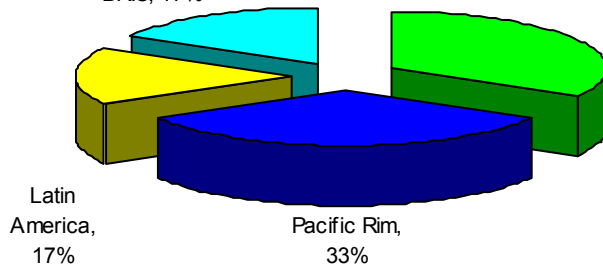
DevMkts - Int'l
Lg Cap, 30%



Pacific Rim & Global Emerging Markets

BRIC, 17%

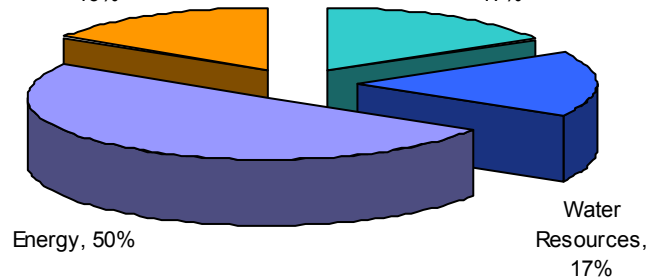
Emerging
Markets, 33%



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.