FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK

SEPTEMBER 28, 2007

QUESTION:

Dear Paul,

How do I explain to my clients, the difference between "ACTIVE INVESTMENT MANAGEMENT" and "BUY-AND-HOLD INVESTMENT MANAGEMENT?"

ANSWER:

An important new academic study, "SECTOR ROTATION AND MONETARY CONDITIONS," which is slated for publication in the prestigious JOURNAL OF INVESTING early next year, gives new academic confirmation to the FOXHALL investment management strategy of "active investment management."

The study was conducted by Robert Johnson, managing director of the education division of the CFA (Chartered Financial Analyst) Institute in Charlottesville, Virginia, along with co-authors C. Mitchell Conover, associate professor of finance at the University of Richmond in Virginia; Gerald Jensen, professor of finance at Northern Illinois University; and Jeffrey Mercer, professor of finance at Texas Tech University.

> " THE UPCOMING JOURNAL OF INVESTING STUDY GIVES ACADEMIC CONFIRMATION TO THE FOXHALL "OFFENSIVE / DEFENSIVE" INVESTMENT STRATEGY THAT WE HAVE USED FOR YEARS."

FOXHALL INVESTMENT STRATEGY COMPONENTS

As you know, the FOXHALL investment strategy consists of three components:

GLOBAL DIVERSIFICATION: Almost every academic study has concluded that a global investment portfolio is safer, less risky and more diversified than putting all your eggs in one basket—even if that one basket is the U.S. stock market. We have seen over the past two months just how volatile the U.S. stock market can be. Our clients gain the advantage of global diversification and exposure to the fastest growing markets in the world.

DEFENSIVE INVESTMENT STRATEGY: FOXHALL has created and uses a proprietary, methodology and discipline that identifies major stock market corrections, bear markets and recessions at an early stage. Once this computer model "trigger" is hit, FOXHALL decisively moves client investments to bonds, money market funds or other defensive investments in order to protect our client's investment principal.

OFFENSIVE INVESTMENT STRATEGY: When the stock market is going up in a long-term "bull market," FOXHALL stays invested in the stock market. Foxhall continuously monitors each of its investments and as the stock market and economies are outperforming the market at any given time. This investment technique is called "sector rotation" by investment professionals.

NEW "JOURNAL OF INVESTING" STUDY

The upcoming JOURNAL OF INVESTING study gives academic confirmation to the FOXHALL "OFFENSIVE / DEFENSIVE" investment strategy that we have used for years. The study states that as the U.S. economy changes, Federal Reserve policy changes with it. We saw that happen this month, when the Federal Reserve recognized that the economy was weakening because of the housing crisis and they cut interest rates.

This new study concludes that as the economy changes (and you can track those changes by watching changes in Federal Reserve interest rate changes) a "SECTOR ROTATION" strategy (like we use at FOXHALL CAPITAL) "could have substantially improved portfolio performance over a broad-market-index portfolio over the past 33 years" according to the study.

SECTOR ROTATION STRATEGY

The results indicate that investors would be well served to modify sector exposures during different monetary-policy environments," said co-author Robert Johnson, in a September 17, 2007 interview in INVESTMENT NEWS.

Mr. Johnson went on to say that during phases of the economic cycle, "Investors would have improved performance by placing greater emphasis on cyclical stocks during periods of Fed easing and overweighting defensive stocks during periods of Fed tightening."

"Cyclical stocks did particularly well during expansive periods," Mr. Johnson added, "returning an average of 20.27%, but fared poorly during restrictive periods, returning an average of just 2.25%. Non-cyclical stocks performed much better than cyclicals during restrictive periods, the study shows, returning 10.24%, but underperformed cyclicals during expansive periods, returning 14.65%."

THE IMPORTANCE OF "ACTIVE INVESTMENT MANAGEMENT"

These results, Mr. Johnson argued, "demonstrate that investors could improve their portfolio's performance" by increasing or decreasing exposure to certain sectors depending on the economic cycle.

This is just one more academic study debunking the old and out-dated academic presumption that a "buy-and-hold" investing is the way to invest for the long-run.

"Buy-and-hold" investing simply means investing all of your money in say an S&P 500 INDEX FUND that follows the broad stock market. The strategy requires that you hold that S&P 500 INDEX FUND at all times, even if the economy is going into a recession.

Unfortunately, the reason this strategy doesn't work is that clients remember the last "bear market" in 2000, 2001 and 2002 when the S&P 500 INDEX dropped almost 50% during that period. Currently the S&P 500 INDEX is still not back to its 2000 high price and it is now seven years later. That means after seven years, you still haven't earned back what you lost in the last "bear market."

ACTIVE RISK MANAGEMENT

Most investors would prefer to not lose most of their principal every time we have a cyclical "bear market" or recession. They would prefer an "active investment management" strategy that moves their investments to bonds, cash or other defensive investments.

That is the conclusion of this latest study and it is always nice to have a major academic study confirm that the investment principles we use at FOXHALL CAPITAL are based on a strategy that works and overtime will, as the study says, "substantially improved portfolio performance over a broad-market-index portfolio."

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

After reading Paul's discussion of "Sector Rotation" you may be wondering which areas of the market Foxhall has been overweighting and underweighting:

"Developed market" holdings are weighted toward growth and technology stocks and away from value, pharmaceutical, real estate and financial stocks in the US. Non-US holdings are weighted toward large cap and Asian (ex-Japan) stocks and away from small cap, Japanese and real estate stocks.

"Asian and emerging markets" holdings are drawing from a very strong segment, however we are overweighting the countries of Brazil, India, Hong Kong, Taiwan, Australia, and China.

"Global hard asset" holdings are also coming from a very hot segment of the market. Overweight areas are oil services, domestic energy, the steel industry, the water industry, and the Canadian dollar. Underweighted are real estate, and the US dollar.

"Non-equity" holdings are weighted toward shorter term treasuries, the high yielding Canadian dollar, and 'dollar bearish' funds; and away from high yield, and longer term corporate and government notes and bonds.

Next week we will again be conducting a comprehensive review of all our portfolios and making upgrades as our quantitative research and disciplined methodology requires.

While the comments above are for our ETF based strategies, our variable annuity and variable life accounts have been emphasizing similar themes where possible, based upon the investment options available to us. Not all contracts, even from the same company, have the full range of funds available to us as third-party managers; therefore we adapt our process to make use of the tools available.

Finally, we are excited to announce the launch of the new Foxhall Strategic 50/50 Portfolio today! The **Foxhall Capital – Strategic 50/50 Portfolio** (launched 9/28/2007) combines the Foxhall Pacific Rim & Emerging Markets Strategy with the Foxhall Global Hard Asset Strategy. The **Strategic 50-50 Portfolio** invests approximately 50% in Asian & Emerging markets funds and 50% in Global Hard Asset funds. This strategy has a target equity allocation of 100%, however, the portfolio may move entirely to non-equity funds as a defensive position during major market declines or economic recession.

This new portfolio is ready for your business today!

-David Morton
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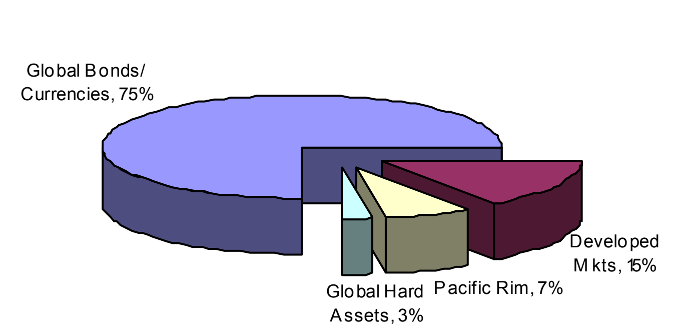
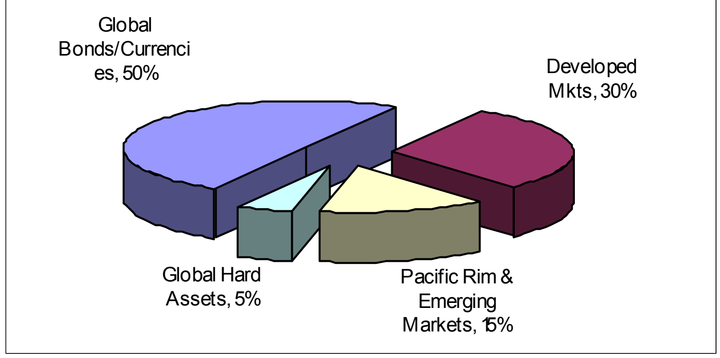
GLOBAL MARKET ROTATION PORTFOLIOS

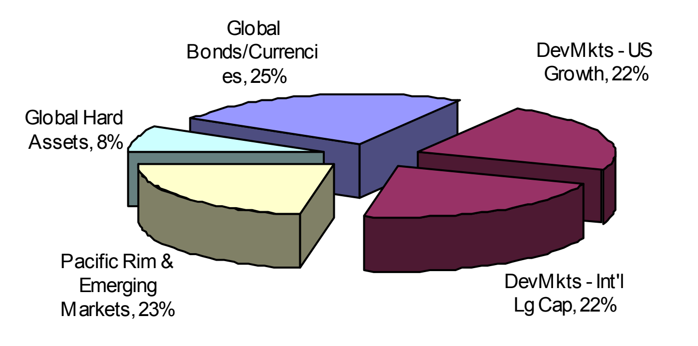
Conservative



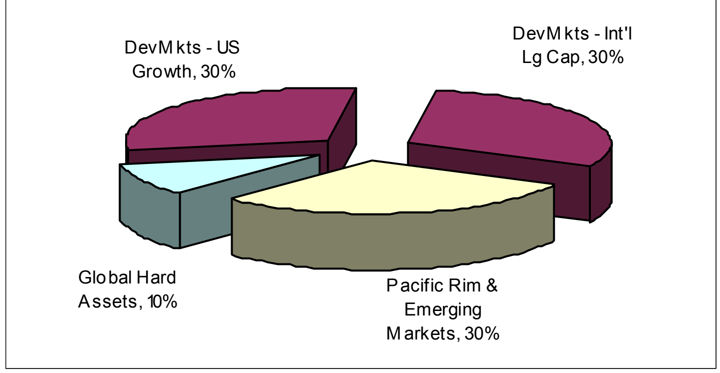
Balanced



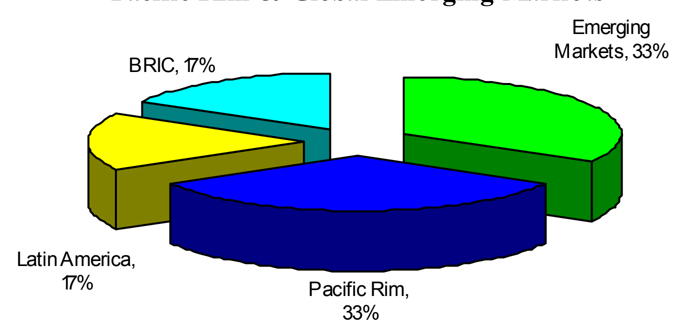
Growth & Income



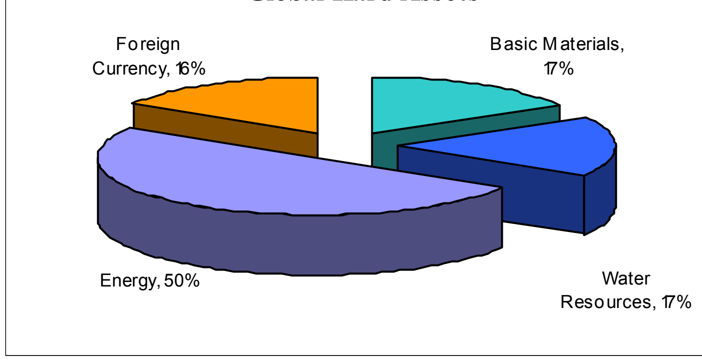
Growth



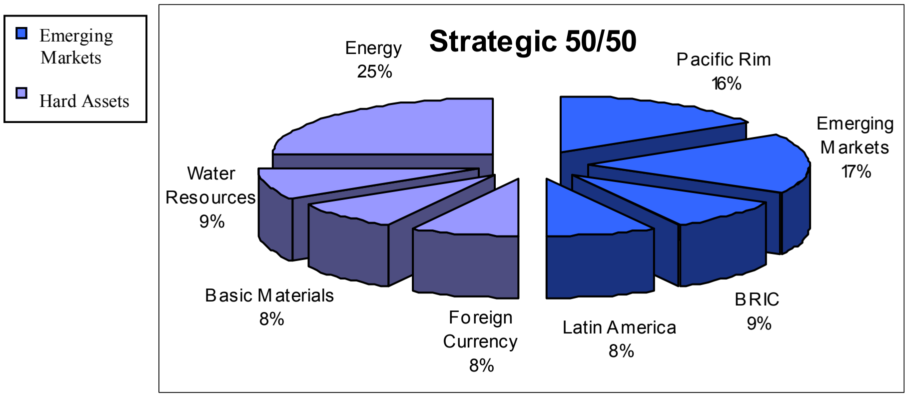
Pacific Rim & Global Emerging Markets



Global Hard Assets



Strategic 50/50



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.