



## THE FOXHALL GLOBAL OUTLOOK



OCTOBER 4, 2007

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### QUESTION:

Dear Paul,

You were right about the stock market going through a typical summer pull-back, since it has now bounced back to its recent record highs in July. What will the stock market do from now until the end of the year?

### ANSWER:

#### PATIENCE IS ALWAYS A VIRTUE

One of the behavioral characteristics of professional investors is an ability to resist getting caught-up in the emotions of the stock market as it reacts to the most current daily drama being spotlighted in the news!

Professionals keep their concentration focused like a laser on those specific indicators that actually drive the fundamentals of the stock market over time.

The great investor Warren Buffett has said that in the short-run, the stock market looks like a “slot machine” but in the long-run it is always a “weighing machine.”

What he means is that in the short-run, if you watch the ups and downs of the stock market everyday and you watch all the people yelling at you on cable financial television programs, the stock market’s movements make very little sense.

But when you step back and watch the cycles over time, the stock market accurately “weighs” the long-term health of the economy—ergo...a “weighing machine.”

#### ALL AN INVESTOR NEEDS TO KNOW ABOUT THE STOCK MARKET IS THIS:

**OFFENSIVE STRATEGY:** When the economy is generally healthy and the majority of the major economic indicators are rising, the stock market will go up over the long-term—so an investor should stay invested in the stock market and not hop in and out.

**DEFENSIVE STRATEGY:** When the economy is not healthy and the majority of the major economic indicators are starting to decline, the stock market will go down over the long-term—and investors need an investment manager who will decisively move their investments to bond funds, money-market funds and defensive investments.

This is the SECRET OF SUCCESSFUL INVESTING over time.

#### WHAT DOES THE REST OF THE YEAR LOOK LIKE?

There is no question that the economy is continuing to grow—but at a slower rate than over the past few years. Housing and energy prices are part of the drag on the economy.

I still think we will see continued volatility in the stock market throughout this month until we find out whether the Federal Reserve is going to lower interest rates again on October 30<sup>th</sup>. If the Federal Reserve lowers rates again, the stock market will do very well. But even if they don’t lower rates, I believe we will end the year higher than we are now—which, by the way, is near the stock market’s record highs.

#### USA TODAY REPORT

According to USA TODAY (10/1/07), “the record books show that the fourth quarter of the stock market has been a very profitable period for stocks since the early 1990s.” Bespoke Investment Group research shows that in the past 15 years, the broad U.S. stock market, as measured by the STANDARD & POOR’S 500 INDEX, has declined in value in the fourth quarter only two times! The average gain in the 13 instances where stocks have

risen in the final three months of the year: **6.3% for the quarter.**

“The fourth quarter has been a good time to be in the market,” says Paul Hickey, managing partner at Bespoke.

Hickey adds that this year should be no different, despite the fallout from a credit crunch, ongoing housing slump and rising odds of a recession. “You don’t want to bet against

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the trend,” he says.

But it's not just the seasonal tailwind that favors a year-end rally.

Bruce Bittles, chief investment strategist at R.W. Baird says that another big plus for the stock market is the fact that the Federal Reserve has stressed that it will do what is necessary to prevent the economy from falling into recession.

The Fed is credited with injecting much-needed confidence into the market when it cut its target for short-term interest rates a bigger-than-expected half-point to 4.75% on Sept. 18. That surprise move sparked a one-day rally of more than 335 points for the DOW JONES INDUSTRIALS INDEX and seemed to cement a stock market recovery.

The DOW, despite declining 8.2% from mid-July to mid-August because of uncertainty surrounding the potential losses on securities tied to sub-prime mortgages, was able to regain its footing with help from the Fed, finishing the third quarter with a gain of 3.6%. The Dow is up 11.5% in 2007. The S&P 500 is up 7.6% this year.

### GLOBAL MARKET'S PERFORMANCE

As well as the U.S. markets are doing this year, the real reason every investor should be globally diversified is that as of October 3, 2007, the non-U.S. developed markets in Europe, Japan and other developed markets, as measured by the MSCI EAFE INDEX is **up 13.44% this year** and the MSCI EMERGING MARKETS INDEX is **up 31.82% this year** and Asia as measured by the MSCI PACIFIC (excluding Japan) INDEX is **up 32.98% year -to-date**.

I THINK THAT JUST ABOUT SAYS IT ALL!

UNTIL NEXT WEEK...

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### PORTFOLIO COMMENTARY AND ALLOCATIONS

As mentioned last week, we were undertaking a comprehensive review of each of our strategies with the objective of identifying any 'upgrades' we could make to our holdings to reflect current leadership in the financial markets.

We were pleased to determine that there were no significant changes in leadership in the developed markets, emerging markets, and non-equity markets and have maintained our holdings in these areas. This reflects the persistence of investors' appetites for more of the same!

The concept of relative strength which we discuss frequently is based on just this idea: once investors gain an appetite for something, they keep accumulating it for a long while. Thus relative strength is just another way of talking about investor preferences. Right now investors prefer US growth stocks, dividend paying large cap international and Asian stocks, emerging markets stocks, high yielding currencies, and shorter term treasuries.

In the 'hard asset' allocation within two of our diversified strategies (Global Growth & Income, and Global Growth) we made one change:

- We replaced water resources with a diversified commodity index. This also allows us to gain exposure to a wider range of natural resources.

In the stand-alone Global Hard Asset Strategy we made three changes:

- We replaced water resources with a diversified commodity index. This also allows us to gain exposure to a wider range of natural resources.
- We retained our broad domestic energy company index, and replaced one of our oil services companies holdings with a fund that tracks crude oil. This broadens our energy exposure to include both energy companies and oil itself.
- We replaced our oil services equipment fund with a fund that holds gold. This gives us direct exposure to the most visible and watched element in the entire hard asset complex.
- We retained our exposure to the steel industry, and to the high yielding Canadian Dollar.

As you can see, our disciplined process allows us to identify and then act quickly to reflect current investor preferences within each of our strategies!

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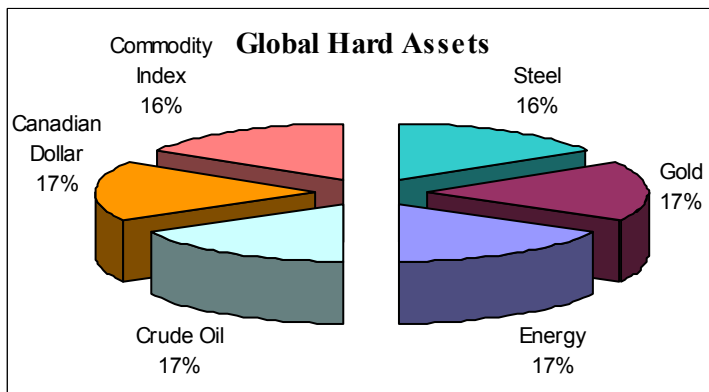
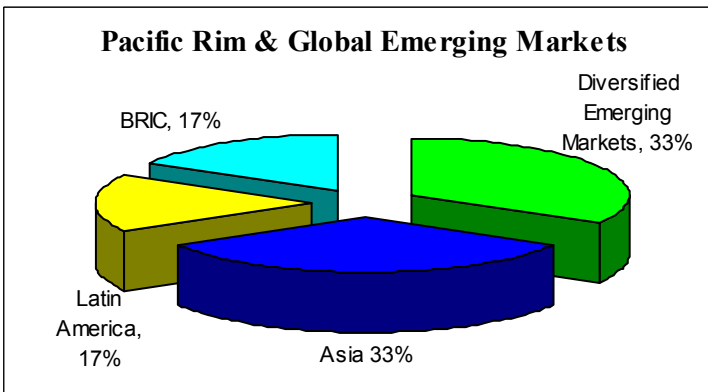
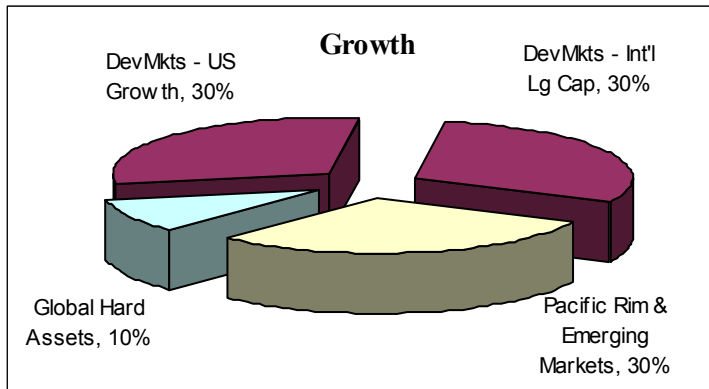
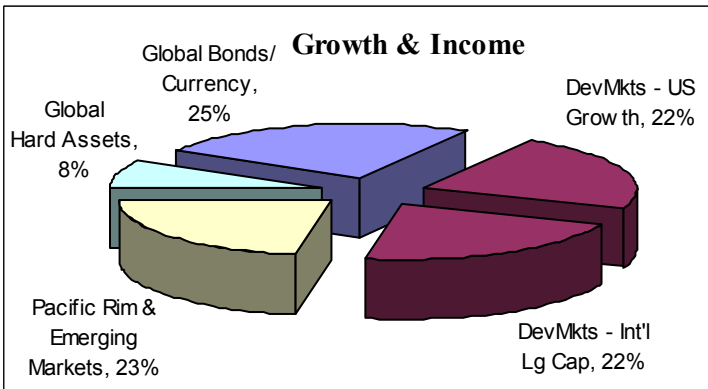
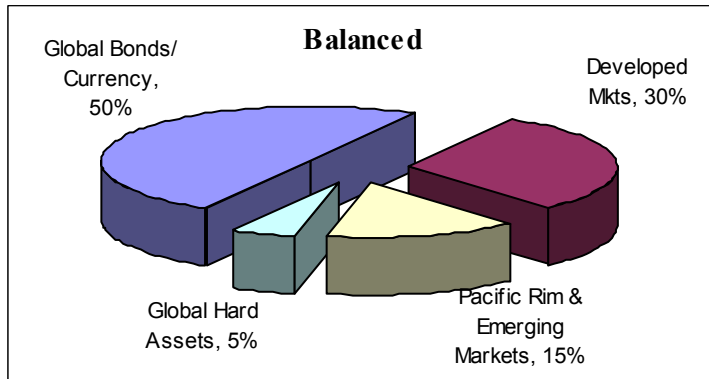
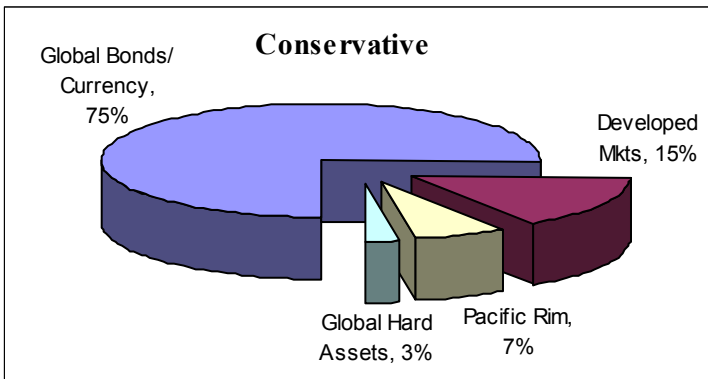


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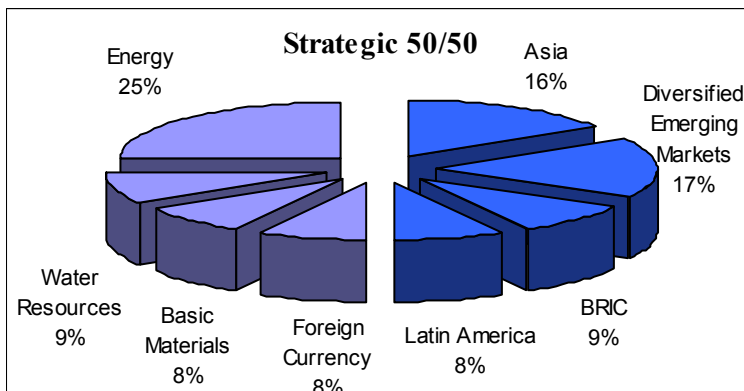
## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

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■ Emerging Markets  
■ 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.