



THE FOXHALL GLOBAL OUTLOOK



OCTOBER 11, 2007

PAGE - 1 -



QUESTION:

Dear Paul,

This week the stock market and the Dow broke through to new record highs. But my clients are still worried about an imminent recession. What should I tell them?

ANSWER:

First, I do not believe there will be a recession either this year or next year. The overall U.S. economy and the global economy are doing too well, at the moment, and since the stock market has always tracked the overall economy in the long run, I believe that the next bear market is distant enough in the future that it is still a good time for stock market investors to be 'in the market'!

Make no mistake about it, eventually we will have a recession but that will only happen when the OVERALL economy starts to deteriorate. Even though the housing markets and high energy prices are a drag on the economy and are causing some slowing in profits and economic growth, the OVERALL economy is doing quite well right now.

This week the current bull market celebrates its fifth anniversary in style with record highs by the DJIA and S&P500. According to STANDARD & POORS RESEARCH, bull markets that live past five years have gained **13.9%** on average in their sixth year. INVESTORS WILL NOT WANT TO MISS OUT ON THAT KIND OF POTENTIAL GAIN NEXT YEAR.

BUT LIKE THE BOY SCOUTS: ALWAYS BE PREPARED — TO IMPLEMENT A DEFENSIVE STRATEGY

Historically, the U.S. has had a bear market or recession every 5 to 8 years since 1945. The average bear market/recession has lasted about two years, except the last one in 2000, 2001 and 2002 lasted almost three years. The average drop in the S&P 500 INDEX, which is a broad measure of the stock market, has been about 36%, but in the last 2000 to 2002

bear market/recession, the S&P 500 INDEX declined almost 48%.

When the next bear market/recession comes, investors need an investment manager who will decisively move their investments out of the stock market and into a DEFENSIVE INVESTMENT STRATEGY, just like we do at FOXHALL CAPITAL.

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FOXHALL DEFENSIVE INVESTMENT STRATEGY: FOXHALL has created and uses a proprietary, quantitative, global investment model that is designed to identify major stock market corrections, bear markets and recessions at an early stage. When certain "triggers" are hit, FOXHALL decisively moves client investments to bonds, money market funds or other defensive investments in order to protect our client's investment principal.

" THIS WEEK THE CURRENT BULL MARKET CELEBRATES ITS FIFTH ANNIVERSARY IN STYLE WITH RECORD HIGHS BY THE DJIA AND S&P 500. ACCORDING TO STANDARD & POORS RESEARCH, BULL MARKETS THAT LIVE PAST FIVE YEARS HAVE GAINED 13.9% ON AVERAGE IN THEIR SIXTH YEAR."

RIDING THE MARKET IN THE DIRECTION IT IS ALREADY GOING

My wife is a great horseback rider. Unfortunately, I am not so good. When I sometimes fall off a horse, my wife will counsel me (in that particular tone that wives reserve for their husbands!) by saying, "Paul, it is always easier to ride a horse in the direction THAT THE HORSE IS ALREADY GOING." I have sometimes ignored that advice to my peril.

At FOXHALL CAPITAL, we execute the discipline that is expressed in her advice and "ride the global markets" IN THE DIRECTION THAT THEY ARE ALREADY GOING!

For now, the markets are going up, so sit back and enjoy the ride!

UNTIL NEXT WEEK...

—Paul Dietrich
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THE FOXHALL GLOBAL OUTLOOK

OCTOBER 11, 2007

PAGE -2-

PORTFOLIO COMMENTARY AND ALLOCATIONS

This week we will focus on the new Strategic 50-50 Portfolio.

Before we get started you might flip to the next page and look at the pie charts revealing the holdings for the Global Hard Asset Strategy, the Pacific Rim & Emerging Markets Strategy, and the new Strategic 50-50 Portfolio.

As you will see when you do this, the 50-50 is made up of approximately 50% in the Global Hard Asset Strategy's holdings, and 50% in the Pacific Rim & Emerging Markets Strategy's holdings. It is easy to see how we came up with the name, isn't it?

Even though the 50-50 Portfolio's construction is very straightforward, we believe that in addition to the obvious convenience of getting two exciting strategies in one account, there are some less obvious benefits. Our research looked back at the hypothetical and actual track records for the individual strategies and the combined portfolio and found that the 50-50 Portfolio:

- Exhibited a lower level of volatility than either of the individual strategies, measured as Standard Deviation.
- Displayed a better risk vs. reward ratio than either of the individual strategies, measured as the Sharpe Ratio.
- Provided less cause for investor concern than either of the individual strategies, measured using the "Ulcer Index". (This study measures the depth and duration of declining periods – the times we find our stomach churning – and tells us which is likely give us a less stressful experience.)
- Recorded a smaller percentage decline from high to low than either of the individual strategies, this is referred to a "Maximum Draw Down"

After reading my comments on the new Strategic 50/50 portfolio, I trust you will be as excited as we are at Foxhall to have this new Portfolio available to you. Combining these two portfolios offers real value with lower volatility, better risk vs. reward ratio and lower investor concern as measured by the industry benchmarks described in my bullet points.

A great win-win brought to you only by Foxhall Capital!

-David Morton
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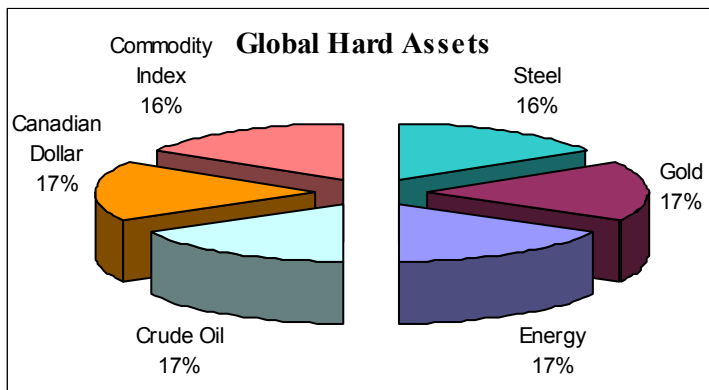
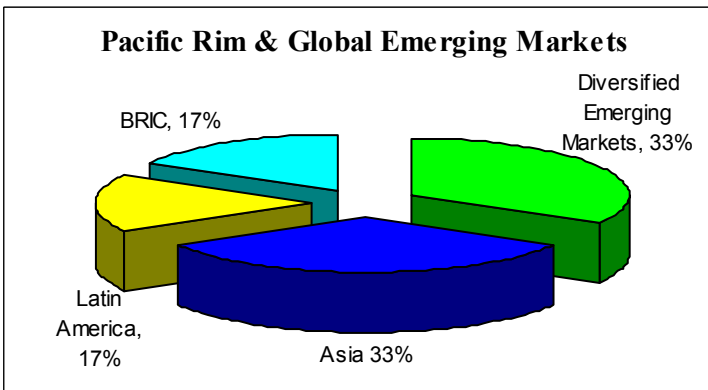
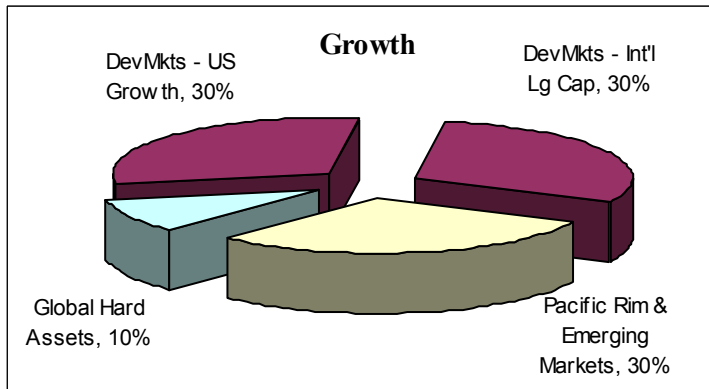
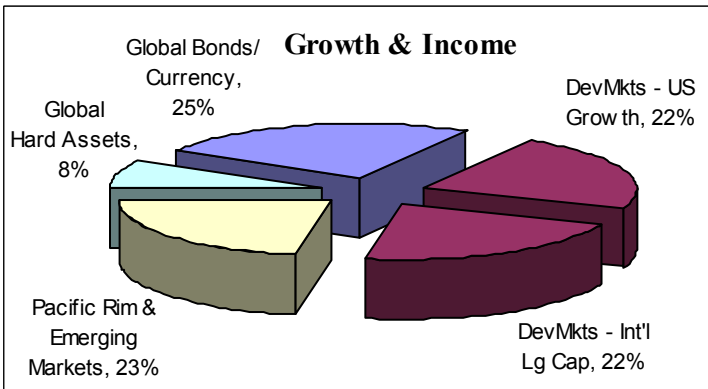
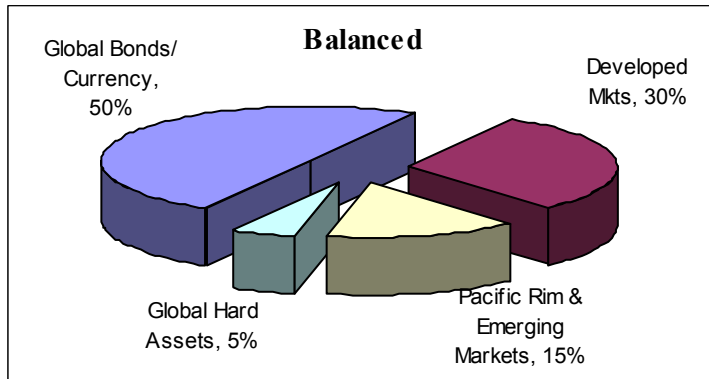
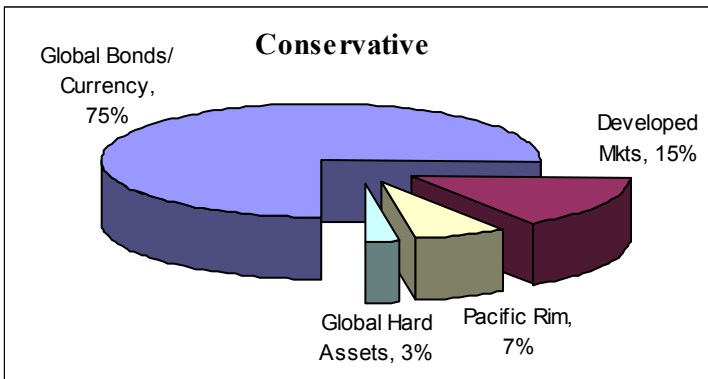


FOXHALL CAPITAL MANAGEMENT, INC.

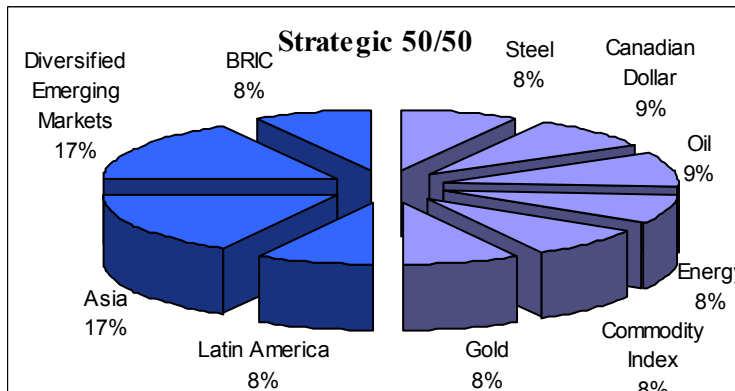
THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

OCTOBER 11, 2007

PAGE -3-



■ Emerging Markets
■ Hard



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.