



THE FOXHALL GLOBAL OUTLOOK



OCTOBER 24, 2007

PAGE - 1 -



QUESTION:

Dear Paul,

If the U.S. economy continues to slow down, will that negatively impact the growth of China and other Asian economies that manufacture and sell so many products to the U.S.? How will Asian stock markets react to a slowing U.S. economy?

ANSWER:

Remember when you were a kid and watched a magic show. The magician was always trying to get you to look somewhere else while his other “unwatched hand” was pulling a card or a coin out of your ear. Magicians call this “misdirection.”

The secret of successful investing is to stay focused and never take your eye off the only thing that really matters: the overall health of the economy.

THE U.S. ECONOMY IS STILL GROWING—BUT AT A SLOWER RATE

For several months now in this FOXHALL GLOBAL OUTLOOK report, I have been predicting stock market volatility through the end of October and then I believe we will end the year higher than we are now.

Make no mistake about it, the U.S. economy is continuing to grow, but at a much slower rate of growth than over the past few years. While the August panic now seems like ancient history, high oil prices and the housing market are still a significant drag on the economy.

HOW WILL A SLOWING U.S. ECONOMY AFFECT ASIA?

A slowing U.S. economy could cause a slowdown in manufacturing and services in Asia, but I believe this would only have a modest impact on Asia’s overall explosive growth.

The misconception of most Americans is that Asians primarily produce manufactured goods and services just for the U.S.

market. That is not true. Asia has become in many economic sectors the largest consumer in the world of many of our products.

The World Bank in its 2006 report released in March of this year stated that China, now has a “MIDDLE CLASS” measured in U.S. dollar terms that is larger than our middle class here in the U.S. You have to remember that this is a small proportion of China’s 1.3 billion population, but still, it is larger than our entire middle class WITH ALL THE ENORMOUS “BUYING POWER” THAT IMPLIES.

I have always maintained that U.S. companies and the U.S. stock market will be the major beneficiary of Asian economic expansion. Primarily because Asia’s 3 billion newly affluent consumers would be buying goods and services from U.S. companies and that is exactly what is happening.

• This week, Coca Cola announced it’s “per case” sales figures. The company declined 2% in Europe, rose a modest 1% in the U.S. and GREW 30% IN “PER CASE” SALES IN CHINA.

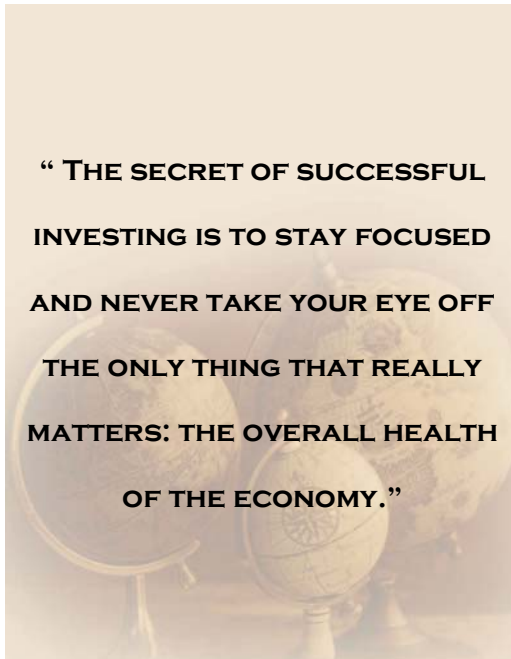
• Caterpillar announced this week that sales are expected to decline 12% in the U.S. this year and foreign sales will be up 25%. FOREIGN SALES WILL ACCOUNT FOR 60% OF THE REVENUE OF THE COMPANY.

• GM made \$176 million in China last year and lost \$1.6 billion in the U.S. GM WILL SELL OVER 1 MILLION CARS IN CHINA IN 2007.

• GE made profits of 13% in 2006. Double digit growth is always good; however, earnings were flat in the U.S., so almost all of that 13% of earnings came from non-U.S. markets.

• Wal-Mart is now the largest retailer and grocery store chain in China. Wal-Mart expects that the bulk of its future growth will come from outside the U.S. for the foreseeable future.

• 25% of all restaurant receipts in China in 2006 went to U.S. franchises like McDonalds, Kentucky Fried Chicken, Dunkin Donuts, etc.





THE FOXHALL GLOBAL OUTLOOK

OCTOBER 24, 2007

PAGE -2-

- Harley-Davidson sales in the second quarter of 2007 fell 5.5% in the U.S., but jumped almost 14% internationally.
- McDonald's, the world's largest restaurant chain, reported sales growth last week for the third quarter of 2007. Their U.S. same-store sales were up 5.1%. Their Asian same-store sales were up 11.4%—the highest in 10 years.

FOREIGN PROFITS ARE BENEFITING U.S. COMPANIES

You can see how U.S. companies are already benefiting dramatically from being able to sell their products overseas. In the 1960's, international profits of American companies comprised about 5%. STANDARD & POORS recently released a study showing that 44.4% of all 2006 corporate earnings of the companies comprising the S&P 500 INDEX came from international sales. They also stated that within the next 18 months to two years that figure could go over 50%.

This has never happened before. In the past, U.S. companies primarily relied on supplying goods and services just to the U.S. market—if they made 5% or 10% of their sales to foreign countries that was just icing on the cake. Now, foreign sales are making up nearly half or more of all earnings.

Economists are now speculating that the U.S. economy could theoretically go into a recession sometime in the future, but because of foreign sales, U.S. companies could conceivably be returning double digit earnings growth. Would that soften a future recession? What would happen to unemployment? No one knows, because this is unprecedented. My belief is it would have some, as yet unknown, beneficial effect.

Most corporations see overseas growth as a way to support their company's earnings and reward investors if parts of the U.S. economy continue to worsen. According to the WALL STREET JOURNAL, international earnings of U.S. companies grew 16.4% in the first quarter of 2007 compared with a year ago, while domestic earnings rose just 2.7%.

ASIAN ECONOMIES WILL CONTINUE TO GROW

Even though highflying Asian stock markets will inevitable go through their own stock market corrections and bear markets, Asian consumers in China and India, with their high savings rates are creating a consumer driven society that can internally support growth even if the U.S. economy goes into a future recession.

This is just one more reason why all investors should have a globally diversified investment portfolio.

UNTIL NEXT WEEK...

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THE FOXHALL GLOBAL OUTLOOK

OCTOBER 24, 2007

PAGE -3-

PORTFOLIO COMMENTARY AND ALLOCATIONS

Foxhall's Global Hard Asset Strategy (and the Strategic 50-50 Portfolio which has approximately 50% of its assets in the Hard Asset Strategy) provides investors a unique opportunity to gain exposure to asset classes tied to the consumption of natural resources and basic materials within the worldwide economy, and to the rise and fall of the US dollar.

Foxhall closely monitors the universe of exchange traded funds to stay abreast of the growing list of opportunities available. There has been a rapid expansion of new vehicles that allow us to provide broad exposure to the wide range of natural resources, as well as others that are tightly targeted to one segment within the group.

Our quantitative ranking process allows us to objectively evaluate each fund, comparing risk vs. reward. We monitor and invest in both exchange traded funds (ETFs) and exchange traded notes (ETNs). Currently we own in our accounts:

- ETFs that hold the stocks of a particular industry, such as energy or steel stocks.
- An ETF that holds a physical asset itself, such as gold.
- ETNs that provide the return of an index or commodity without physically owning them, such as a commodity index or crude oil.
- An ETF that holds a foreign currency and earns interest based on the rates available in that country, such as the Canadian dollar.

Foxhall's research process provides us the means to differentiate the many new funds and new issuers, 'separating the wheat from the chaff' on behalf of our clients. This assures us unbiased access to the best ideas present in the market today, whether from iShares, SPDRs, PowerShares, Claymore Advisors, CurrencyShares, Market Vectors, iPath ETNs, First Trust Advisors, ProShares, or others.

We hope you agree that the Global Hard Asset Strategy fits well with the current growth of the world economy and offers investors a timely opportunity to enhance and diversify their portfolios.

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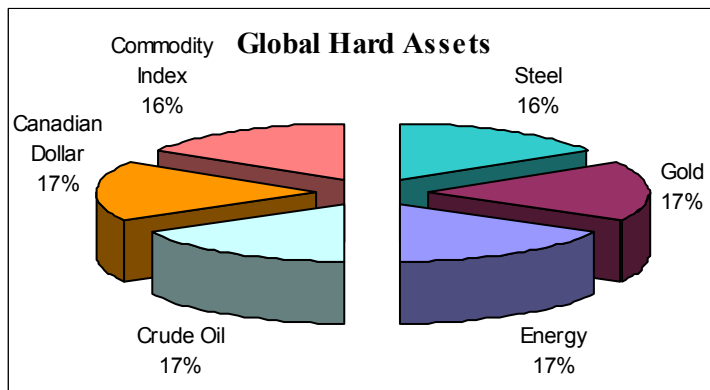
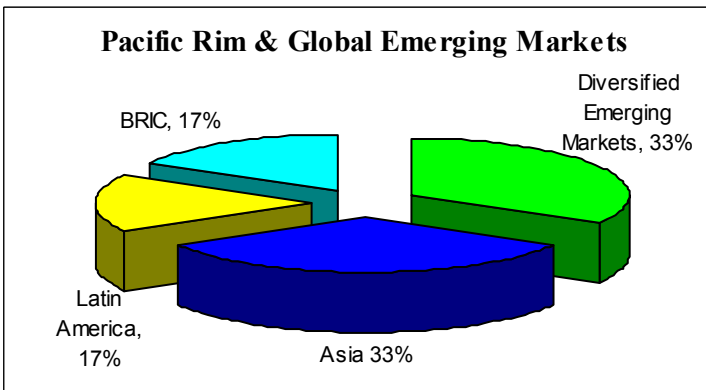
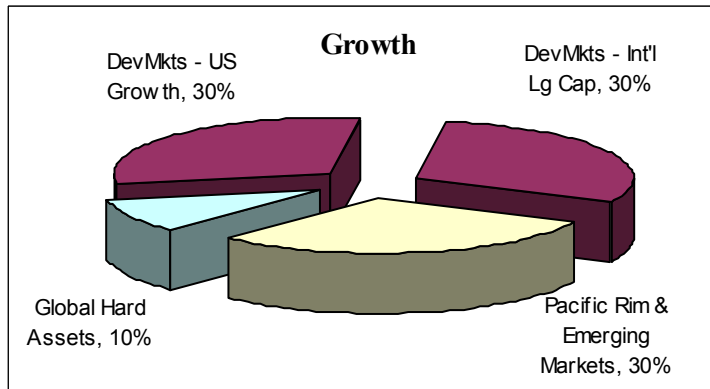
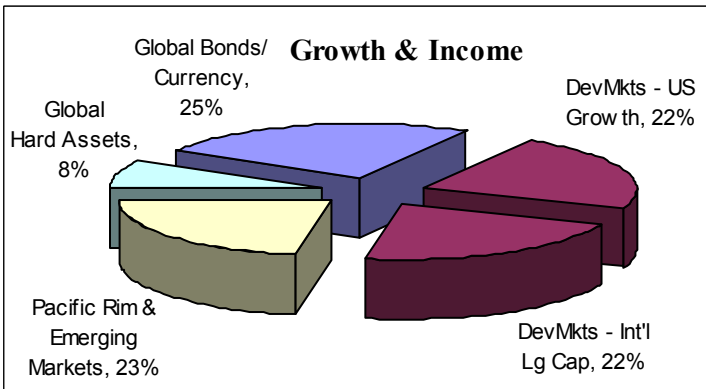
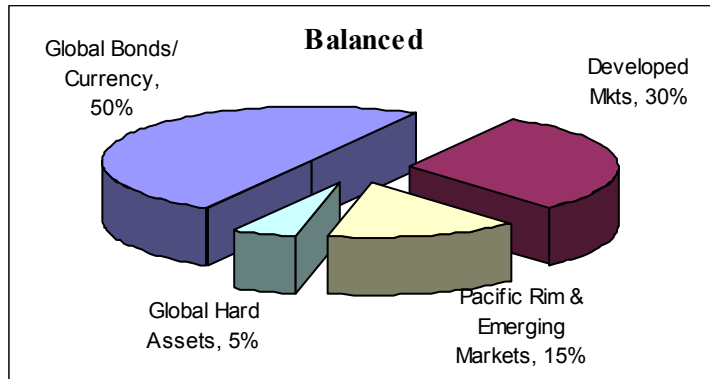
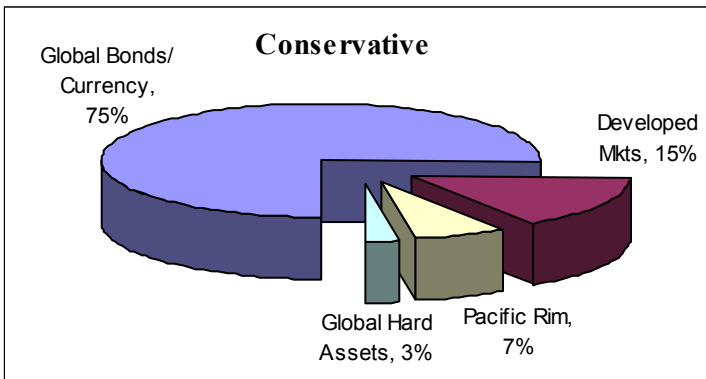


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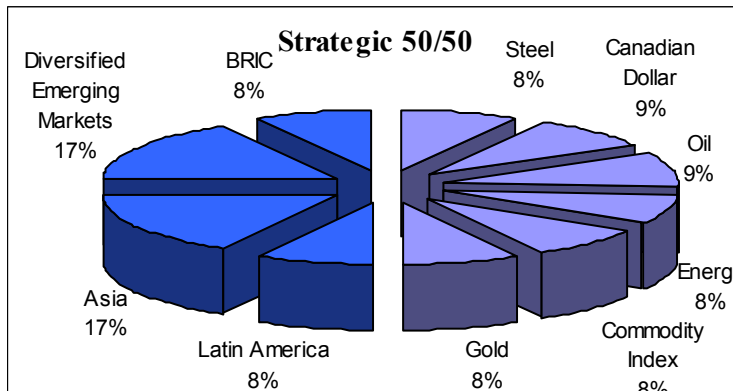
THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

OCTOBER 24, 2007

PAGE -4-



■ 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.