



THE FOXHALL GLOBAL OUTLOOK



NOVEMBER 5, 2007

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QUESTION:

Dear Paul,

Last Thursday the DOW JONES INDEX dropped more than 362 points or 2.6%, its fourth-worst trading day of the year. Should this be a cause of concern?

ANSWER:

No, this drop was largely the reaction of big institutional investors to the financial services sector, which makes up a large percentage of the DOW. As the WALL STREET JOURNAL said, they were punishing big banks and brokerage firms like Citigroup, Bank of America, Merrill Lynch, Smith Barney and Bear Stearns. These big banks and brokerage firms have been widely criticized in the press for lending billions of dollars to hedge funds on margin who were re-lending money to mortgage companies who were pushing loans to some people who had no jobs, no credit and no prospect of every paying them back.

As far as I am concerned, these big banks and brokerage firms richly deserve all the punishment their stock prices are taking. This is the free market at its best; the market punishes the stock of companies who have behaved badly!

Unfortunately, everyone should expect further losses by these big banks and brokerage companies. When they announce further losses, they will negatively impact the stock market that day because of their heavy weightings in stock indexes. Expect more volatility in these stocks.

WHERE DOES THE STOCK MARKET GO FROM HERE?

As I have said in the past, in the long run, the stock market always follows the economy. If the economy is growing, the stock market will continue to go up. If the economy is declining, the stock market will go down.

There is no doubt that high oil prices, higher food prices and the

declining housing markets are slowing down economic growth.

However, the good news is job growth beat all expectations in October. The Labor Department reported last week that employers added 166,000 positions to their payrolls last month, the best reading since the spring and twice what economists had expected.

While many Wall Street analysts have been concerned that growth will slow in the coming months, the strong jobs report was the latest sign that it hasn't happened yet. The government also said last week that the economy grew at a 3.9% annual rate in the third quarter. This too exceeded all expectations.

The report was taken as evidence that while industries tied to housing continue to contract, a wide range of service businesses are expanding fast enough to more than make up for those losses.

“ IT USUALLY TAKES FOUR TO SIX MONTHS FOR AN ECONOMY TO CHANGE FROM A GROWING EXPANDING ECONOMY TO A DECLINING ECONOMY. BASED ON THE STRONG JOB GROWTH STATISTICS AND THE HIGHER THAN EXPECTED ECONOMIC GROWTH IN THE LAST QUARTER, THE ECONOMY SHOULD CONTINUE TO EXPAND OVER THE NEXT FOUR TO SIX MONTHS.”

As the housing market continues to decline, economists consider the labor market an even more important economic forecaster than usual. Even if Americans become less wealthy as their homes lose value, they will keep spending money if businesses keep expanding and hiring. Consumer spending is still the economy's main driver.

IT IS CLEAR THAT BUSINESSES ARE STILL HIRING AND YOU CAN'T HAVE A RECESSION WITHOUT LOST JOBS.

In addition to creating more jobs, companies offered higher pay. The average wage for non-supervisory workers rose 0.2% from September, to \$17.58 per hour, a 3.8% rise over the past year.

It usually takes four to six months for an economy to change from a growing expanding economy to a declining economy. Based on the strong job growth statistics and the higher than expected economic growth in the last quarter, the economy should continue to expand over the next four to six months. Because of this, I believe the stock market will be higher through the end of this year and the first quarter of 2008.



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HARD ASSETS PROVIDE A CUSHION WHEN STOCK MARKETS DROP.

As you know, FOXHALL CAPITAL believes that a percentage of all portfolios should be invested in hard assets like gold, precious metals, oil, steel, and other hard commodities that tend to go up during a stock market melt-down.

Last Thursday and Friday was a good example of how this works. Following the DOW JONES INDUSTRIAL AVERAGE INDEX'S fall of 362 points on Thursday, gold, which usually rises in uncertain times, rose sharply on Friday morning to close above \$800 an ounce for the first time since 1980.

This is just another illustration of how the FOXHALL CAPITAL global investment strategy provides an extra level of diversification of risk that is rarely found.

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

During our comprehensive review of our ETF portfolios this month we found that nearly all of our holdings had done well and were continuing as market leaders in their categories!

We did find one position that had fallen in our quantitative ranking to the point where it needed to be replaced and the portfolios upgraded. We sold out of our diversified domestic large cap energy stock ETF and replaced it with a fund that is focused more narrowly in domestic energy exploration & production stocks in our Growth & Income, Growth, Global Hard Asset, and Strategic 50-50 Portfolio. In our Conservative and Balanced accounts we replaced it with a broadly diversified commodity index.

As is reported daily by the media, we have seen a rise in delinquencies on mortgages made to lower credit quality borrowers. The Wall Street Journal indicated Friday that approximately 20% of these "subprime" loans are now at least 60 days behind. Not surprisingly the stocks of financial companies with exposure to losses have been pummeled as each new revelation is made.

HOW DOES FOXHALL DEAL WITH THESE KINDS OF UNFOLDING ECONOMIC ISSUES?

Foxhall uses a sophisticated quantitative research process that objectively ranks our vast universe of funds and ETFs from strongest to weakest. In short it reveals what the collective preferences of investors are at any given point. Due to many economic factors investors choose each day to buy or retain certain stocks and industries and to sell or avoid others. These preferences tend to persist for lengthy periods our research shows. While we may not immediately understand why investor behavior changes, we can accurately observe when it does change. It is often not until some time passes that we fully understand why.



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As an example, earlier this year we noticed that the rank of the Nasdaq 100 stock index was strengthening while the rank of the S&P 500 stock index was weakening. Although both indexes declined during early to mid-August as credit problems came to light, once the bottom was reached on the 16th of August, the Nasdaq 100 is up over 19 pct while the S&P 500 is up just over 7 pct. Why the big difference? If we look at the individual stocks and sectors in both indexes we see a stark contrast: the Nasdaq 100 contains only the 100 largest non-financial stocks listed on the Nasdaq exchange, and some of its biggest holdings are in rapidly growing technology companies like Google, Apple, Microsoft, and Cisco. The S&P 500 on the other hand holds a very diversified list of 500 of the largest companies in America, including many of the largest banks and financial institutions with sub-prime woes! So now we understand! Investors were moving away from the financial sector and were embracing the high growth tech sector and it played out in the relative return between the indexes being quite different.

Foxhall uses market intelligence like this to respond quickly to the ever changing global economic landscape with a disciplined plan of action on behalf of our clients.

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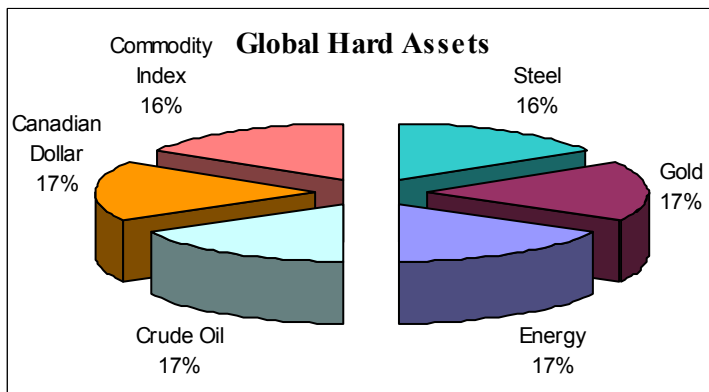
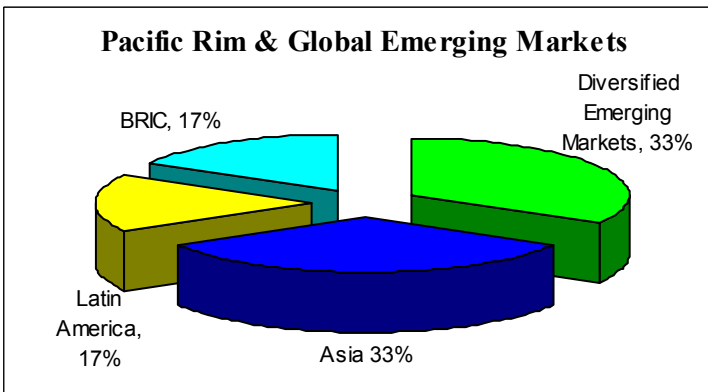
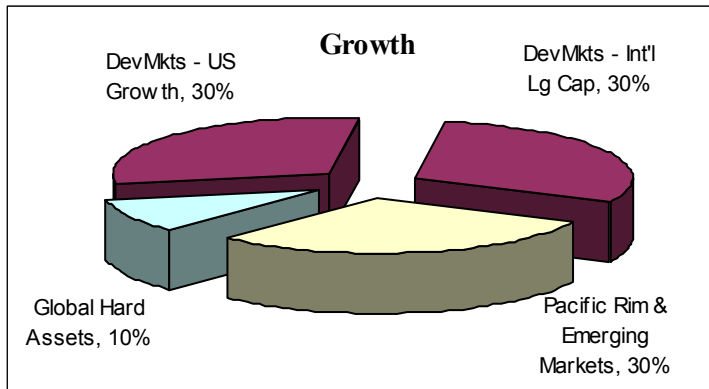
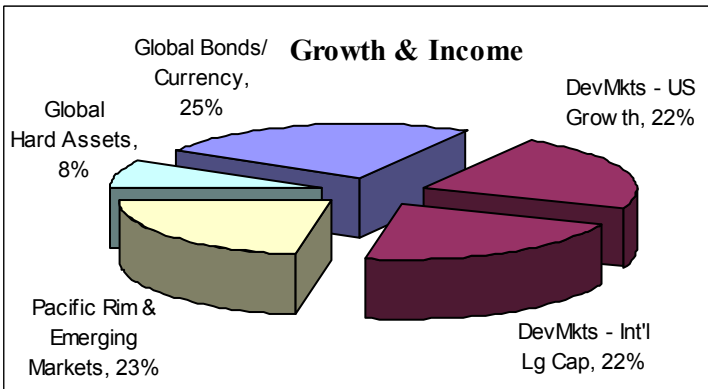
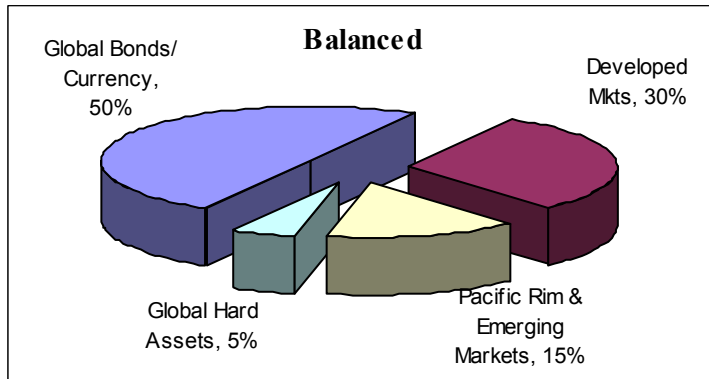
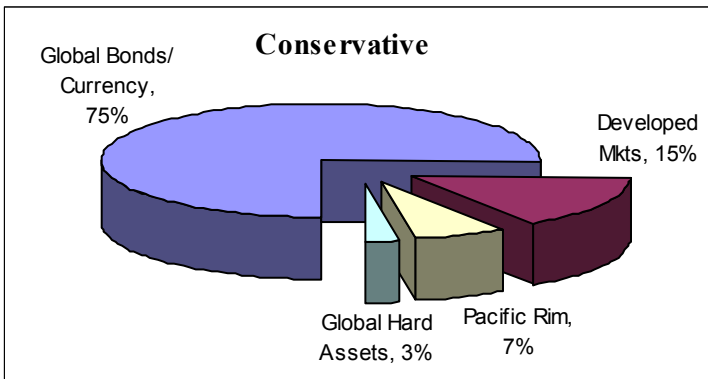


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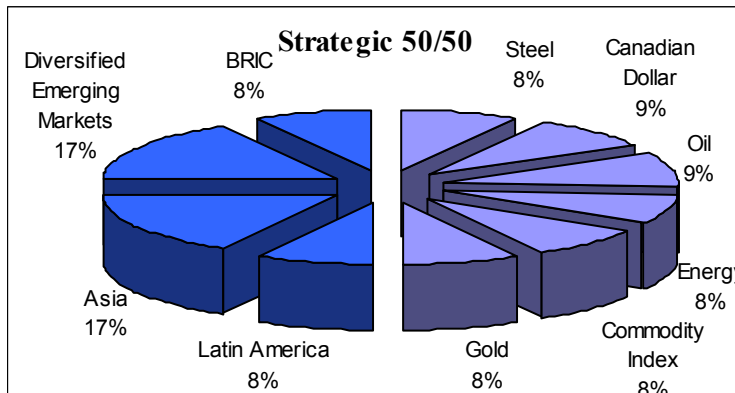
THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

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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.