



THE FOXHALL GLOBAL OUTLOOK



NOVEMBER 28, 2007

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QUESTION:

Stock market analysts continue to focus on high oil prices and the bad loans made by big banks and big brokerage companies in the sub-prime lending scandal. How is the rest of the economy doing?

ANSWER:

Make no mistake about it the economy is growing at a slower rate now than it has over the past five years.

The recent stock market “pull-backs” in August and during the past few weeks reflect a stock market that is simply “adjusting” from a “GROWTH BULL MARKET” to a “SLOWER GROWING BULL MARKET.” This is very normal at this stage of the bull market cycle.

However, the rest of the economy is doing well and many stock market analysts seem to overstate the importance of high oil prices and the banking crisis.

HERE ARE THE FACTS:

HIGH OIL PRICES: I have never believed that high oil prices will force Americans to conserve gasoline. While Americans complain about high oil prices, we continue to increase our consumption at record rates according to the AMERICAN AUTOMOBILE ASSOCIATION.

Europeans have been paying the equivalent of \$5 to \$6 a gallon of gasoline for years and they too continue to increase their consumption.

No one is cutting back and given the explosive growth in car sales and gasoline consumption in China, India and the rest of Asia, expect oil prices to continue higher for the foreseeable future.

Currently, oil and gasoline make up about 5% of U.S. household expenses. If gasoline goes up to \$4 a gallon, this would increase household energy expenditures by a little over 1%. This would affect some consumer spending, but it wouldn't be a disaster.

BIG BANKS & BROKERAGE FIRMS: The individual stock of many big banks and brokerage firms will continue to fall as their losses continue in 2008 for bad lending practices associated with the sub-prime loan scandal.

However, you have to put everything into perspective. Lending outside of the housing market seems to be little affected. Consumer debt (credit cards, auto and personal loans) is growing at a normal 5% annual rate. Business investment in new machinery, software and buildings also seems to be barely affected according to economist Robert J. Samuelson.

While the big banks and brokerage firms have sustained sub-prime losses in the billions of dollars, they are still small compared with the financial system's total capital. Brian Bethune of the economic forecasting firm, GLOBAL INSIGHT, believes that the financial sector has lost about \$50 billion. By contrast, stockholder equity in U.S. banks alone exceed

\$1 trillion. Even if these banks lose tens of billions more over the next few years, it won't affect the banking systems stability. But their individual stock prices will continue to suffer.

THE GOOD NEWS: U.S. exports of manufactured goods and agricultural commodities are at record rates do to a lower dollar and heavy buying from China, India and the rest of Asia. Unemployment is low, real wages are up, mortgage rates are low and the Federal Reserve has said it would make sure that adequate credit was available to businesses and credit worthy individual borrowers.

STOCK MARKET OUTLOOK THROUGH THE FIRST QUARTER OF 2008

I personally believe, barring some major geo-political event, that we will see higher stock market prices through the end of the first quarter of 2008.

However, if the stock market should enter a bear market, based on our FOXHALL CAPITAL QUANTITATIVE TECHNICAL TRIGGERS, we will decisively move all of our portfolios to a DEFENSIVE STRATEGY. (See last week's FOXHALL GLOBAL

“THE RECENT STOCK MARKET “PULL-BACKS” IN AUGUST AND DURING THE PAST FEW WEEKS REFLECT A STOCK MARKET THAT IS SIMPLY “ADJUSTING” FROM A “GROWTH BULL MARKET” TO A “SLOWER GROWING BULL MARKET.” THIS IS VERY NORMAL AT THIS STAGE OF THE BULL MARKET CYCLE.”



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CAPITAL TECHNICAL INDICATORS that determine whether we are entering into a bear market or recession.)

NEW PORTFOLIO ADJUSTMENTS

I also wanted to let you know that your clients may notice some changes in their portfolios over the next two weeks as we adjust our portfolios allocations to reflect a slower growing U.S. economy.

UNTIL NEXT WEEK...

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Disclosure: The opinions and portfolio information provided in the Foxhall Global Outlook are subject to change at any time, and are not to be construed as advice for any individual nor as an offer or solicitation of an offer for purchase or sale of any security. Client accounts may differ from model allocations due to many reasons. All investment strategies offer the potential for loss as well as gain. Individuals should consult with their financial professional to determine an investment strategy appropriate for their objectives, risk level, and time horizon prior to investing. Past performance is not a guarantee of similar future performance.

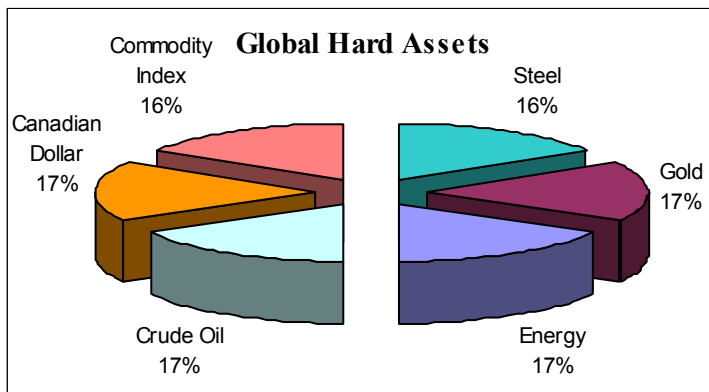
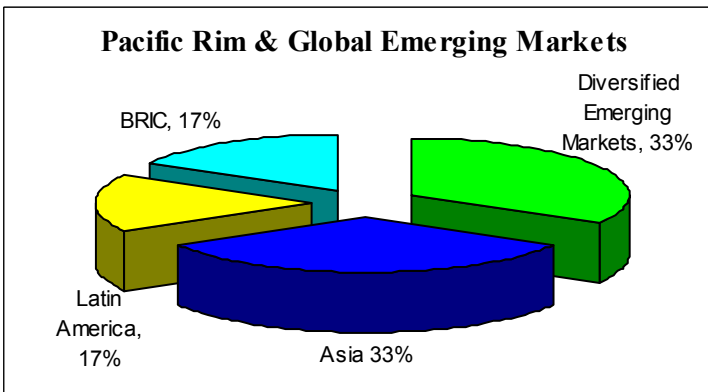
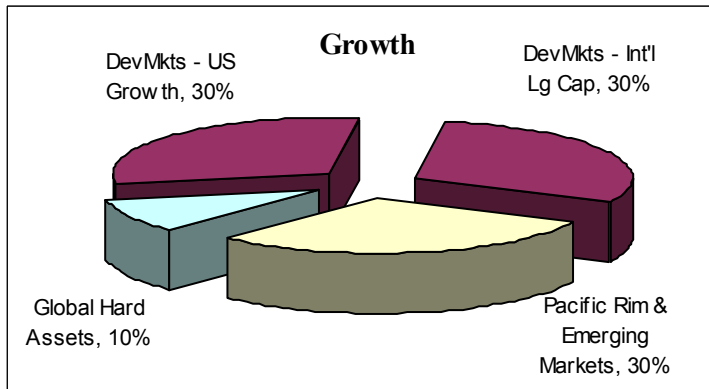
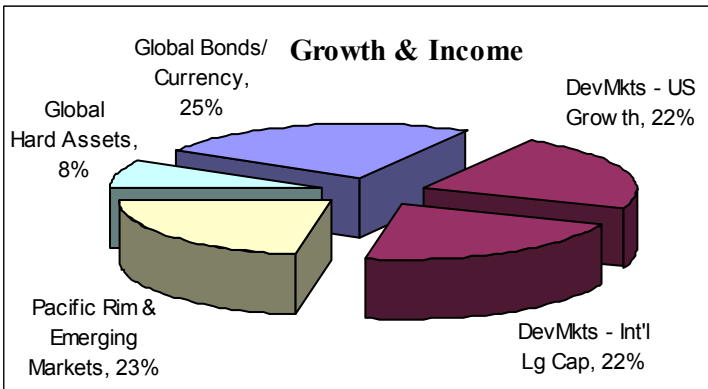
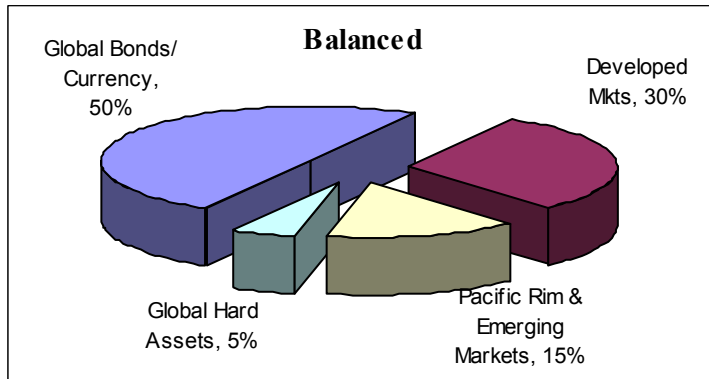
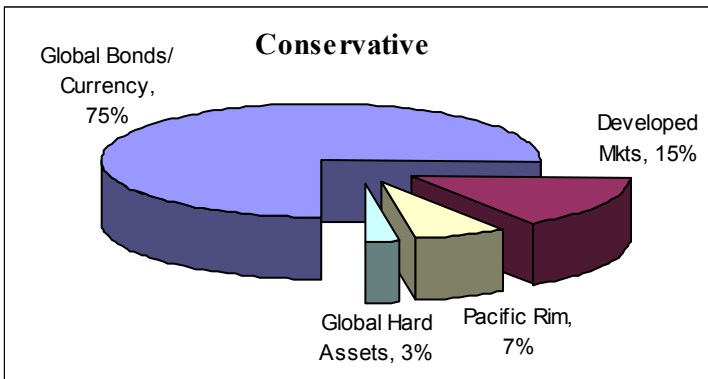


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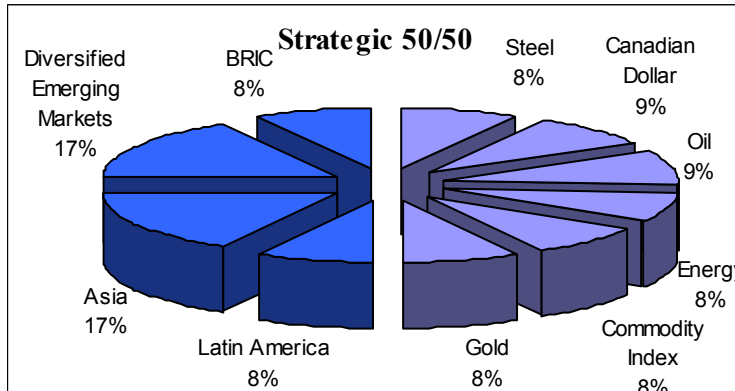
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■ Emerging Markets
■ Hard Assets



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.