



## THE FOXHALL GLOBAL OUTLOOK



DECEMBER 14, 2007

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### QUESTION:

**My clients keep asking me if oil and gasoline prices are going to continue to rise. Will they ever go back down?**

### ANSWER:

In the long run, oil and gas prices will continue to go up and Americans must prepare themselves to spend a higher percentage of their household budgets in the future on gasoline, heating oil and food (more about food in another issue of this newsletter).

Oil and gas prices are being driven by two LONG-TERM INVESTING TRENDS.

### LONG-TERM INVESTING TREND #1: THE DROPPING DOLLAR

Oil is an international commodity, like gold, that is always priced throughout the world in U.S. dollars. When the dollar falls against other currencies, guess what happens to the price of oil? It goes up!

Because of the conflicts in the Middle East there is what is called a "Terrorist Premium" caused by geo-political risk that is estimated to have raised the price of oil by about 10% to 15%. But about 50% of the recent rise in oil prices over the past 5 years can be directly attributed to our dropping U.S. dollar.

### A DROPPING DOLLAR HAS SOME BENEFITS

Most Americans do not feel the consequences of a lower U.S. dollar other than in higher prices for gasoline, heating oil and food prices. It also discourages Americans from taking European vacations and drinking French wine rather than California wine—but that is not necessarily a bad thing.

Almost all Asian countries tie their currencies to the U.S. dollar. Because of that, almost every thing you buy at Wal-Mart, from computers to clothes is cheaper now than it was 5 years ago.

Also, many American jobs are tied to a lower U.S. dollar. Almost 50% of U.S. manufacturing profits come from overseas

sales, according to STANDARD AND POORS, and a lower dollar makes us more competitive than our European competitors.

Lastly, it helps our TRADE DEFICIT with China. Because the Chinese currency, called the "yuan," is both tied to the U.S. dollar and is overvalued, because of their trade deficit with the U.S. Labor unions and Democrats in Congress have been pushing the U.S. government to encourage China to re-value its currency. The Chinese have refused, knowing it would make all Chinese goods more expensive than some of their Asian neighbors.

Since the Chinese government will not re-value their currency upward, the U.S. government is doing it for them, by letting the dollar drop. The Chinese like this better, because it affects all Asian countries equally and doesn't individually force them into a competitive disadvantage with their neighbors.

### LONG-TERM INVESTMENT TREND #2: SUPPLY & DEMAND

China is now the fastest growing car market in the world, quickly being followed by India. These two countries combined have 2.3 billion people.

Both China and India have embarked on massive super highway building projects. China now has 52,000 miles of super highways—most of them built in the last 4 years.

We started building our American super highway system during the 1950's. Many economists, credit the super highway system for kicking off our post World War II economic expansion. The U.S. super highway system brought economic development to the ENTIRE United States—not just to the East Coast and West Coast.

The same will happen in China and India. In the future, every one of those highway exits will have their Wal-Marts, McDonalds and real estate developments, just like we do here in the U.S.—and consequently a lot of jobs will be created for Chinese and Indian workers.

When the American super highway system was created, Americans couldn't resist the "lure of the road." We created songs about traveling down "ROUTE 66" and the "VENTURA HIGHWAY."

**"ALMOST 50% OF U.S. MANUFACTURING PROFITS COME FROM OVERSEAS SALES, ACCORDING TO STANDARD & POORS, AND A LOWER DOLLAR MAKES US MORE COMPETITIVE THAN OUR EUROPEAN COMPETITORS."**



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Movies and Country Music celebrated the “American road trip.” The same is true in China and India. With a rising Middle Class they are buying record numbers of cars and taking to the road on their new super highways. I can hear the song now, “THE SHANGHAI TO BEIJING HIGHWAY BLUES.”

### THE GROWTH IN ASIAN AUTO SALES

Ten years ago, major Chinese roads were clogged with bicycle traffic. There were very few cars. Today, all major Chinese cities are plagued with “Los Angeles-like traffic jams,” because there are too many cars.

Ten years ago, China exported oil. Today it uses all the oil it produces and it has now become the largest importer of oil in the world after the United States.

### HERE ARE THE STUNNING STATISTICS: (SOURCE: ABC NEWS)

- For every 1000 Americans of driving age, there are 1023 cars. That is 1.023 cars per person in the U.S.
- For every 1000 people in France of driving age, there are 702 cars. That is 0.7 cars per person in France.
- For every 1000 people in Japan of driving age, there are 608 cars. That is 0.6 cars per person in Japan.
- For every 1000 people in India of driving age, there are 11 cars. That is 0.01 cars per person in India.
- For every 1000 people in China of driving age, there are 9 cars. That is 0.009 cars per person in China.

Given that both China and India are the fastest growing auto markets in the world and with a combined 2.3 billion population, if they ever catch up with the U.S. (and they eventually will), we are looking at **BILLIONS OF NEW CAR SALES** over the next two decades.

Since Europe and America combined only have a little over 600 million in population, China and India have almost 6 times our population. If they ever buy cars like we do here in the U.S., we could be looking at gasoline prices 6 times higher that they are today over the next two decades.

Just think of it—GASOLINE AT \$18 A GALLON—and that’s not factoring in inflation!

### SUMMARY

**A**t FOXHALL CAPITAL, we invest in and follow MAJOR LONG-TERM INVESTMENT TRENDS THROUGHOUT THE WORLD. In almost all of our FOXHALL CAPITAL client portfolios, we maintain a significant percentage in oil and energy funds. We also indirectly invest in Asia’s growing consumer market in automobiles. Our investment goal is





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to try to make up for some of your higher gas bills at the pump by investing in the industries and companies that are benefiting from higher oil prices.

UNTIL NEXT WEEK...

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### PORTFOLIO COMMENTARY AND ALLOCATIONS

#### Portfolio Review Leads to Significant Changes

Foxhall recently completed our monthly comprehensive review of all holdings in each strategy and have made significant changes to our portfolios as a result.

#### Relative Strength Rankings – Over 8000 Issues Objectively Compared

As you know, at Foxhall we use our quantitative methodology to objectively rank each of the 8000+ ETFs, mutual funds, and variable sub-accounts in our database from strongest to weakest. This process compares each security against all the others on multiple criteria that includes both performance and risk over multiple time frames. Our research has shown that when ranked in this manner, the highly ranked tend to continue to outperform for a period of time into the future, while the low ranked tend to continue to underperform. For example, think of how long you have been hearing of the rising price of gold, soaring crude oil, scarce basic materials, and the rapid growth of the Chinese, Indian, and Latin American stock markets, and conversely, how many reports have you heard on the weak dollar, hard hit homebuilders, and the devastating effect of sub-prime mortgage losses on many financial companies?

#### Common Sense Diversification the Foxhall Way

The insight we gain from this “relative strength” ranking process is incorporated in our portfolio selection process. At Foxhall we diversify our portfolios in areas of the market that we believe will continue outperforming, while completely avoiding areas that we believe will continue underperforming. While that may sound like basic common sense, it is actually quite different than many commonly used investment strategies that are so widely diversified that they intentionally own both the strong and the weak areas of the market at all times.

#### “Offense-Defense Line” - Initiates Defensive Steps

An additional key criterion is the ranking level of the money market fund. At Foxhall we call it our “Offense-Defense Line”, and use it to set the bar for new equity purchases. If we do not identify enough holdings ranked above our “Offense-Defense Line”, to fully invest our portfolios, we invest the remaining allocation in defensive, lower risk holdings.



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### Pacific Rim & Emerging Markets Strategy and Allocation – Now 50% Defense

This month we have exactly this situation in the Pacific Rim & Emerging Markets Strategy and allocations. We have reduced our exposure to approximately 50% equities in the Pac Rim Strategy, and down to approximately 33% of the Pac Rim allocation in the other diversified Strategies. The balance has been invested in a 1-3 yr Treasury Bond Fund as a defensive measure. Our BRIC and Latin American holdings continue to rank well and have been retained where held. In the PacRim Strategy itself we added small allocations to India, emerging Europe, and Hong Kong.

### Developed Markets Allocation – Sheds High Volatility Holdings

The Developed Markets have also weakened, as our higher volatility Nasdaq, aggressive growth, and developed Asia holdings also ranked lower than the “Offense-Defense Line”. Eligible replacements were found in lower volatility areas such as international utilities, mid-cap growth stocks, and selected large cap sectors. International large-cap high dividend paying stocks continue to rank highly and were retained.

### Fixed Income & Currency Allocation – Euro Replaces Canadian Dollar

The Canadian dollar has dropped in our rankings and has been replaced with the Euro Currency, while our 3-7 year Treasury fund still ranked highly and was retained.

### Global Hard Asset Strategy and Allocation – Welcomes Euro and Agriculture

Here the Euro has also replaced the Canadian dollar, while we have replaced our energy exploration fund with a position tied to an Agriculture Index tracking the prices of Corn, Wheat, Soybeans, Cotton, Coffee and Sugar. Existing holdings of steel industry stocks, gold, oil, and a broad commodity index continue to rank highly and were retained where held.

### Strategic 50-50 Portfolio – Reflects PacRim and Hard Asset Strategies

We continue to see a great deal of interest in this, our newest and most unique offering. The Strategic 50-50 Portfolio holds the same funds as the full PacRim and Hard Asset strategies, on an approximately 50-50 basis. Investors willing to accept higher risk but wanting more diversification have found the “50-50” a convenient way to access these two dynamic, but highly volatile, concentrated Strategies.

### Variable Life and Annuity Portfolios Use Same Methods – Turn More Defensive Too

While we gear these portfolio discussions primarily in terms of our seven ETF based strategies, we adapt the same relative strength and offense-defense methodologies to manage a large number of variable annuity and life accounts spread across many major insurance companies. Due to the high degree of variance in investment choices between companies we are not generally able to use the 60-30-10 equity allocation we use with our ETF strategies for developed markets, emerging markets, and hard assets. Nonetheless, wherever possible, clients with VA/VUL accounts see very similar holdings in their accounts and will better understand the management of their accounts by following these discussions.



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Foxhall values the trust you place in us to manage your account, we hope that these discussions give you insight into “why” we take the actions we do!

Our Best Holiday Wishes to All!

Dave Morton  
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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.

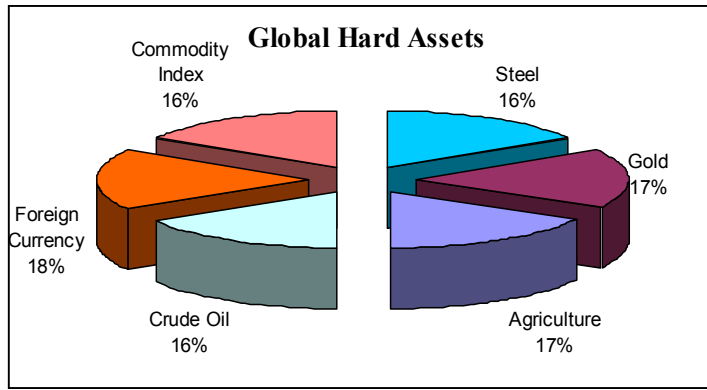
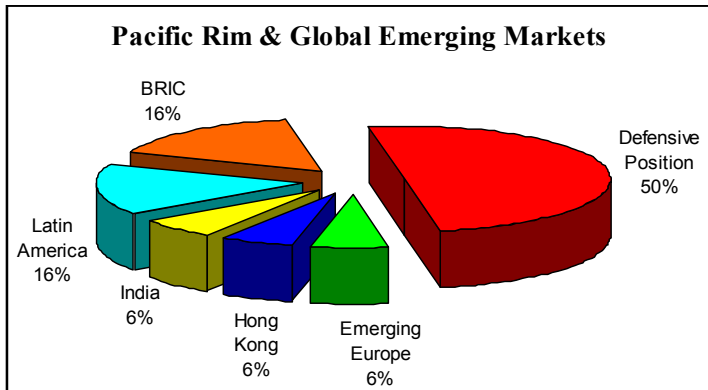
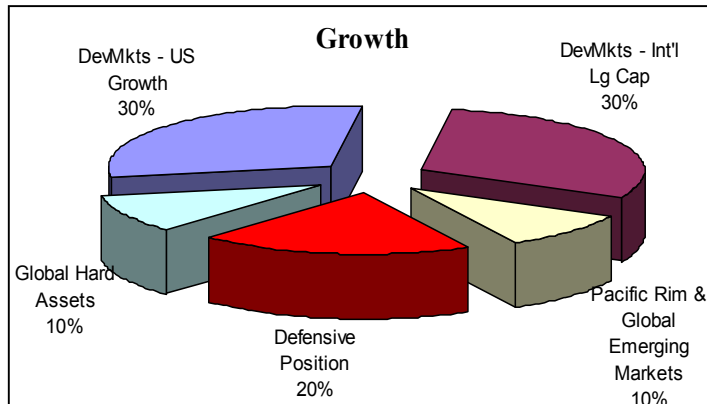
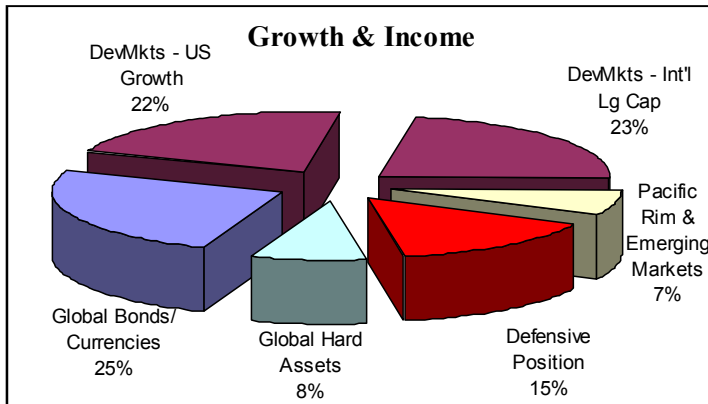
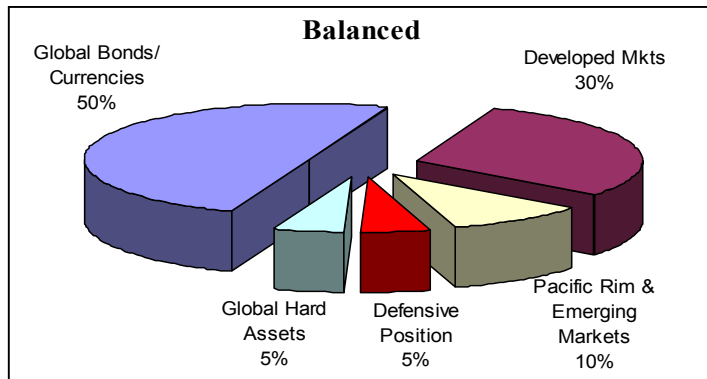
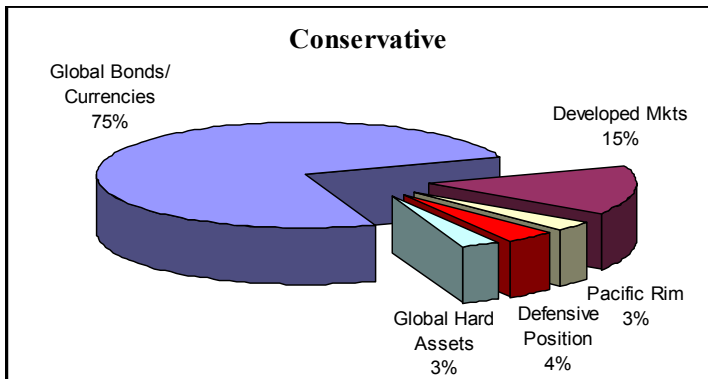


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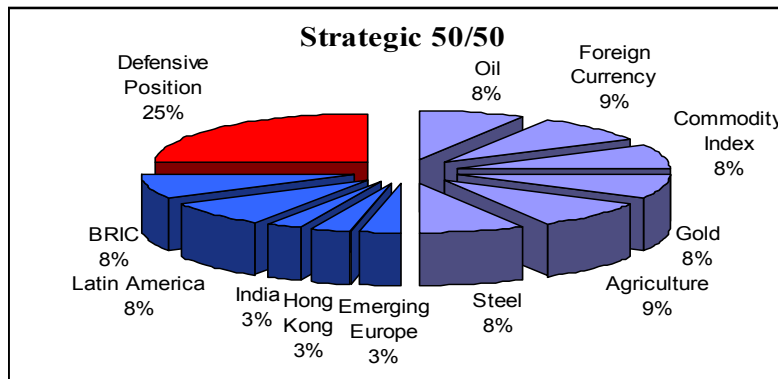
## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

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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.