



THE FOXHALL GLOBAL OUTLOOK



JANUARY 19, 2010

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Dear Paul,

Since FOXHALL CAPITAL moved back into the stock market last July, all of the FOXHALL portfolios have continued to hold large positions in cash and U.S. treasury bonds. Your specific stock market ETF holdings have done well in terms of performance, but the cash and treasuries seem to be holding back the

overall performance of your portfolios. Why don't you go 100% into the stock market? Why do you hold cash and treasuries right now when the stock market has been going up?

The answer is RISK MANAGEMENT!

The primary goal of FOXHALL CAPITAL'S investment philosophy and our OFFENSIVE-DEFENSIVE INVESTMENT STRATEGY is designed to LIMIT AND MINIMIZE ANY SIGNIFICANT LOSS IN OUR CLIENT'S INVESTMENT PORTFOLIOS—especially during historically volatile transition periods coming out of a bear market/recession.

A RECAP OF FOXHALL'S 2008 & 2009 PERFORMANCE

Our FOXHALL investment process has been extraordinarily successful over the past two years.

As you know, on January 10, 2008 our FOXHALL CAPITAL TREND RECOGNITION TECHNOLOGY™ signaled a NEW LONG-TERM BEAR MARKET/RECESSION. From January 11, 2008 to December 31, 2009, our FOXHALL GLOBAL GROWTH portfolios were approximately up +22% over the S&P 500 INDEX¹.

That is SIGNIFICANT OUTPERFORMANCE and just shows how successful the FOXHALL active investment management process has been.

As an intrinsic part of our FOXHALL OFFENSIVE-DEFENSIVE INVESTMENT STRATEGY, we are long-term investment TREND FOLLOWERS and we are always A LITTLE LATE GETTING OUT as bull market trends turn bearish AND we are also always A LITTLE LATE GETTING BACK IN when bear markets transition into bull markets.

¹ This comparison is to the S&P 500 Index (price-index only—without dividends). See full disclosure at the end of the FOXHALL GLOBAL OUTLOOK.

The stock market bottomed on March 9, 2009 and our FOXHALL CAPITAL TREND RECOGNITION TECHNOLOGY™ signaled a NEW LONG-TERM BULL MARKET on July 24, 2009.

Historically, transitions from severe bear market/recessions to new bull markets have been fraught with danger and volatility. There is often an initial sharp movement up in the stock market followed by a major correction. That has been the history of these transition periods since 1929. However, we haven't seen a correction yet this time.

If you think about it, turning around an economy the size of the United States is as difficult and slow as turning around an ocean liner.

As an integral part of the FOXHALL investment process, we immediately move back into the stock market when the original long-term trend signal occurs, but WE OFFSET THE RISK AND STOCK MARKET VOLATILITY DURING THESE TRANSITION PERIODS WITH CASH AND SAFE U.S. TREASURY BONDS.

“THE FAMOUS COLUMBIA UNIVERSITY PROFESSOR, BENJAMIN GRAHAM ONCE SAID THAT IN THE SHORT TERM THE STOCK MARKET IS LIKE A SLOT MACHINE, BUT IN THE LONG RUN IT IS A WEIGHING MACHINE.”

THE ECONOMY IS STILL STRUGGLING

The famous Columbia University professor, BENJAMIN GRAHAM once said that in the short-term the stock market is like a SLOT MACHINE, but in the long run it is a WEIGHING MACHINE.

What he meant by that is in the short-term the stock market can make all kinds of irrational moves. But in the long-term it almost ALWAYS ACCURATELY REFLECTS THE DIRECTION OF THE UNDERLYING ECONOMY.

That is the current problem with this economic transition period. THE

STOCK MARKET AND THE UNDERLYING ECONOMY ARE OUT OF SYNC.

Since the stock market bottomed on March 9, 2009 the market has had an historic run up in price, while the underlying economy is still struggling.

THERE IS NO QUESTION WE ARE ENTERING INTO A LONG-TERM BULL MARKET, but at the same time the economy is historically weak and economic growth is anemic.



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Historically, when the stock market and underlying economy are out of sync, this has almost always been A TIME FOR CAUTION. I do not believe that we will return to a new recession, but I do believe there is a better than average chance for a major stock market correction or decline of 15% or more.

RISK MANAGEMENT AND STOCK MARKET VOLATILITY

You have probably heard of the term VOLATILITY. Most investors don't really know what the word means, but basically it is simply a "MEASURE OF NERVOUSNESS" of institutional investors in the stock market. Institutional investors are big investors who can buy or sell billions of dollars worth of securities in seconds with the push of a computer key. THEY ARE THE INVESTORS THAT MOVE THE MARKET DAY IN AND DAY OUT.

Stock market volatility MEASURES THEIR NERVOUSNESS and how fast they buy and sell in and out of sectors and stocks.

Since July of 2009 we have seen stock market volatility levels higher than at any time since the 1970's. THAT FACT ALONE SHOULD BE A CAUTION SIGNAL!

HOW FOXHALL MANAGES THIS TRANSITIONAL VOLATILITY RISK

As part of our FOXHALL investment process, we look at the overall stock market volatility each month and make a MATHEMATICAL CALCULATION to determine what PERCENTAGE OF CASH AND SAFE U.S. TREASURY BONDS each portfolio must hold in order to OFFSET THE PREVIOUS MONTH'S VOLATILITY.

This is the key to our FOXHALL RISK MANAGEMENT PROCESS along with security and portfolio stop-loss triggers.

For example, our FOXHALL GLOBAL HARD ASSET/COMMODITIES portfolio and our FOXHALL PACIFIC RIM AND EMERGING MARKET'S portfolios have seen the MOST VOLATILITY and therefore FOXHALL has maintained the largest weightings in cash and U.S. treasuries in these portfolios.

While I believe over the next 5 years that commodities and Asia and Emerging Markets will have the highest performance of any asset classes in the world, AT THE MOMENT, THEY ARE ALSO THE MOST VOLATILE and to offset that volatility FOXHALL has over-weighted cash and U.S. treasuries to compensate for the stock market risk in these two portfolio strategies.

While the WORLD BANK has projected that China will grow faster and more significantly than any other stock market in the world over the next decade, its markets rose so fast last summer that many analysts now believe there may be a significant correction over the next few months. It is currently experiencing a HOUSING BUBBLE similar to our U.S. housing bubble in 2007-2008.

I do not believe the Chinese HOUSING BUBBLE will cause as much damage, in that almost all Chinese home buyers have to put up a minimum 20% down payment on their primary residence and a 40% down payment for a second home or an investment property. Also, if the Chinese government has to bail-out their own "government-owned banks" they will



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be able to do this from their significant excess reserves and not have to PRINT MONEY like we are doing in the U.S.

That all being said, IF THEIR BUBBLE DOES BURST, it will affect the Chinese stock market, AT LEAST FOR A SHORT TIME, until the government bails out their government-owned banks.

FOXHALL is watching the Chinese markets closely. They are currently only a relatively small portion of our overall FOXHALL PACIFIC RIM AND EMERGING MARKET'S portfolios. We also have an overall securities and portfolio stop-loss trigger on all our investments.

HOW THE STOCK MARKET WILL REACT OVER THE NEXT FEW MONTHS—TWO SCENARIOS

SCENARIO #1: Since 1929 the U.S. stock market has never gone up this fast without a significant correction. THIS TIME MAY BE DIFFERENT! But we at FOXHALL are not willing to risk the possibility of significant losses in our client's portfolios if we are wrong.

With the current weak economy, I lean toward the belief that at some point there will be a stock market correction and our FOXHALL RISK MANAGEMENT STRATEGIES are designed to limit significant losses by a combination of "stop-loss" triggers and continuing to hold a percentage of each portfolio in cash and U.S. treasuries based on stock market volatility.

SCENARIO #2: THIS TIME REALLY MAY BE DIFFERENT and the stock market will continue to go up and not experience any significant correction. TECHNICALLY, THIS IS A POSSIBILITY! If the stock market continues to go up, various client portfolio strategies are 70% to 90% invested in stock ETFs, so they will continue to benefit from the stock market climb. The important thing to remember is, as volatility in the stock market drops, FOXHALL will decrease its holding in cash and treasuries until portfolios are fully invested in the stock market.

CONCLUSION

Most BUY & HOLD INVESTMENT MANAGERS are fully invested in the stock market all the time. THIS MINDLESS INVESTMENT STRATEGY has devastated investor's retirement savings for over a decade.

Most average ACTIVE INVESTMENT MANAGERS are either fully in the market or fully out of the market. They don't understand that when the stock market and the underlying economy ARE NOT IN SYNC, this is a warning sign—A FLASHING YELLOW LIGHT—A TIME FOR CAUTION.

It is true, especially with BUY & HOLD investment managers, that most investment managers pay little or no attention to risk management.

THERE IS AN EASY WAY TO FIND OUT. If your investment manager DOESN'T maintain some percentage of your portfolio in cash and U.S. treasuries during this period when there is a CLEAR DISCONNECT BETWEEN THE STOCK MARKET AND THE HEALTH OF THE OVERALL ECONOMY, then it is unlikely that the investment manager includes Risk Management as an important objective in the overall portfolio management strategy!



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THE GOOD NEWS....

The good news is, over the past few weeks, volatility has seemed to moderate. THAT IS A GOOD SIGN! That means that institutional investors are expressing “LESS NERVOUSNESS” IN THE STOCK MARKET. This is often a sign that the underlying economy is stabilizing.

At FOXHALL, we watch these GLOBAL TRENDS every day. If the trends show the economy STABILIZING AND BECOMING LESS VOLATILE, we will significantly decrease our holdings in cash and U.S. treasury bonds.

BUT IF THE STOCK MARKETS CONTINUES TO EXHIBIT SIGNIFICANT VOLATILITY AND THE DISCONNECT BETWEEN THE STOCK MARKET AND UNDERLYING ECONOMY CONTINUES, CAUTION WILL REMAIN A PART OF OUR FOXHALL STRATEGY.

THAT IS HOW OUR FOXHALL INVESTMENT PROCESS WORKS. This DUAL RISK MANAGEMENT PROCESS keeps a tight overall stop-loss trigger on individual securities and the portfolio itself, while managing a MOVING PERCENTAGE of cash and U.S. treasury bonds to offset market volatility.

That is the definition of RISK MANAGEMENT.

That is the FOXHALL RISK MANAGEMENT INVESTMENT PROCESS!!!

UNTIL THEN!

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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 future performance.

Foxhall Capital Management, Inc. is a registered investment advisor with the US Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940. The “firm” is defined as the Foxhall Capital Global ETF, 401(k) and Stock Series divisions which manage a variety of ETF, 401(k) and Stock strategies in bundled fee and non-bundled fee accounts for primarily US clients. The firm was redefined as of 12/1/08 due to the creation of the 401(k) Series division. The “entity” is defined as the Foxhall Capital Global ETF Series, the 401(k) Series, the Global Stock Series and the Variable Insurance Series.

The GROWTH STRATEGY (creation date 12/31/1999) has a target equity allocation of 100%, however, the portfolio may move entirely to non-equity funds as a defensive position during major market declines or economic recession. Prior to May 1, 2006 each of the sub-advised managed accounts are counted as individual accounts and as of May 1, 2006 and later they are treated as one aggregate account.



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The S&P 500 Index with dividends (“the Index”) is a leading indicator of U.S. equities, reflecting the risk and return characteristics of the broader large cap universe on an on-going basis. The volatility of the Index may be materially different from that of the performance composite. In addition, the composite’s holdings may differ significantly from the securities that comprise the Index. The Index has not been selected to represent an appropriate benchmark to compare the composite’s performance, but rather is disclosed to allow for comparison of the composite’s performance to that of a well-known and widely recognized index. Indices are unmanaged and investors cannot invest in an index directly.

Valuations and returns are computed and stated in U.S. dollars. Net of fees returns are calculated net of management fees and transaction costs are gross of custodian fees. A complete list and description of all firm composites is available upon request.

As with any investment strategy, there is potential for profit as well as the possibility of loss.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

ETF Series Growth Strategy Sample Account Performance				
	Period	Sample Account Return	Benchmark Return (2)	Benchmark Return (3)
	01/11/08 – 12/31/09	1.05%	-16.55%	-17.91
ETF Series Growth Strategy Composite Performance				
	Period	Composite Return	Benchmark Return (2)	Benchmark Return (3)
	11/30/09 (net)	1.66%	24.05%	35.23%
	2008	-8.96%	-37.00%	-42.67%
	2007	10.20%	5.49%	13.72%
	2006	9.55%	15.80%	20.62%
	2005	4.71%	4.91%	13.90%
	2004	2.40%	10.88%	15.77%

(2) S&P 500 Index w/divs, (3) 40% Russell 3000 Total Return Index, 30% MSCI EAFE, 20% MSCI Emerging Markets, 5% CRBI Reuters Continuous Commodity Index, and 5% Rogers-VanEck Global Hard Asset Producers Composite Index