THE FOXHALL GLOBAL OUTLOOK

Dear Paul,

I have a client who wants to move his retirement accounts to Foxhall Capital. Do you have a concise explanation of both your investment philosophy and an explanation as to how you specifically pick the investments for your client's Foxhall portfolios?

THE FOXHALL CAPITAL INVESTMENT STRATEGY

Years ago, one of my college professors in economics said understanding the economy and the stock market is not "rocket science" or "brain surgery." He said it was simply understanding the long-term bull and bear cycles of the economy and stock market—and then acting appropriately.

It's really just common sense. We all understand the seasons of the year and when it is winter we wear a warm coat and when it is summer we wear a tee shirt.

Farmers plant in the spring, harvest in the fall and let their fields go fallow over the winter. Farmers follow the seasonal patterns and do whatever is appropriate depending on the seasonal cycle.

BULL & BEAR MARKET CYCLES

Understanding the long-term economic and stock market cycles is the secret to successful investing.

Since 1945, the U.S. has had a bull market on average for 5 to 8 years, followed by a bear market/recession that has lasted an average of 18 months to a little over 2 years.

So roughly every 7 to 10 years there are only two investment cycles; one 5 to 8 year bull market, followed by an 18 month to 2 year bear market/recession. If you can manage and change your investment strategy appropriate to either a bull or bear market, you will almost always make money.

> "THE SECRET TO SUCCESSFUL INVESTING IS UNDERSTANDING (1) WHETHER WE ARE IN A BULL OR BEAR MARKET ECONOMIC CYCLE AND (2) HAVING AN APPROPRIATE INVESTMENT STRATEGY BASED ON THESE TWO VERY DIFFERENT CYCLES."

FIRST, HOW DO YOU KNOW WHETHER YOU ARE IN A BULL OR BEAR MARKET?

America's most successful investor, Warren Buffett once said, "If the economy does well over a long period, markets will do well over a long period. In the short run, the market's a voting machine and sometimes people vote very unintelligently. In the long run, it's a weighing machine and the weight of business and how it does is what affects values over time."

A number of academic studies have concluded that in the short-term, over a few months, the stock market often can go up or down for no discernable reason for short periods of time.

However, those same studies concluded that over the long-term, meaning at least 12 months, the stock market always reflects the underlying economy. The studies have shown that over any 12 month period when the economy is expanding, unemployment is going down, corporate profits are increasing and consumer spending is rising, we have always had an up-trending bull stock market.

Conversely, over any 12 month period when the economy was contracting, unemployment was going up, corporate profits were slowing and consumers were not spending, the stock market has always declined into a bear market.

WHAT SIGNALS AN EXPANDING OR CONTRACTING ECONOMY?

Since over any 12 month period the stock market will reflect the underlying economy, the key to a successful investment strategy is to know when the economy is expanding and doing well or is contracting and going into a recession.

This is not always easy. It sometimes takes the U.S. government months or years to accurately tell us the state of the economy on any particular date. For instance, the government announced in November of 2008, that the U.S. economy was in a recession starting in December of 2007. That crucial bit of information came to us almost a year after the recession began. That's not very helpful!

Luckily, the stock market itself is a "leading economic indicator." Foxhall's primary stock market indicator used for indentifying bull market and bear market long-term trends has been a broadly accurate indicator since the Great Depression.

Though nothing can predict with any accuracy the absolute bottom or top of a long-term stock market trend or cycle. But the proprietary FOXHALL technical indicator, which follows the long-term trends of the stock market, can usually determine a long-term directional change within a few months after it happens.

For example, the stock market peaked in March of 2000 and FOXHALL'S proprietary indicator signaled a bear market recession in July of 2000, about 3 months after the peak. In March of 2003 the new bull market started and the FOXHALL indicator signaled a new bull market in July of 2003, again, about 3 months after the stock market started its new bull market climb.

In October of 2007, the stock market started a slow decline and the FOXHALL indicator signaled a new bear market/recession on January 10, 2008. That day FOXHALL sent an email and letter to all of our clients telling them of the signal change and that FOXHALL was now moving into its DEFENSIVE INVESTMENT STRATEGY for all client accounts.

About every two weeks FOXHALL publishes its GLOBAL OUTLOOK, where it regularly updates clients as to whether the signals indicate that the U.S. economy and stock market are in a long-term bull or bear market cycle and whether FOXHALL is implementing its OFFENSIVE or DEFENSIVE investment strategies. Anyone can view these GLOBAL OUTLOOK on our website at www.foxhallcapital.com.

OFFENSIVE OR DEFENSIVE INVESTMENT STRATEGIES

The secret to successful investing is understanding (1) whether we are in a bull or bear market economic cycle and (2) having an appropriate investment strategy based on these two very different cycles.

I hate to use sports analogies, but everyone knows that you need BOTH a great OFFENSIVE team AND a great DEFENSIVE team to win a football game—and you can't win WITHOUT BOTH.

OFFENSIVE INVESTMENT STRATEGY: It makes some intuitive sense to me that since we have these cyclical 5 to 8 year bull markets that you want to have an OFFENSIVE INVESTMENT STRATEGY when the stock market is going up over those 5 to 8 years. An OFFENSIVE INVESTMENT STRATEGY means that you want to be heavily invested in the stock market during that period of time.

This is just like a farmer planting in the spring. Being fully invested in the stock market is how you make money in a long-term bull market. When the overall economy is expanding, corporate profits are up, unemployment is going down and consumers are increasing their spending, this is the time to take a little risk and when the whole market is going up, this is the time to be heavily invested in stocks and make money.

DEFENSIVE INVESTMENT STRATEGY: Conversely, when we are entering one of the cyclical 18 months to 2 year bear market/recessions, you want an investment manager that will decisively move your investments into a DEFENSIVE INVESTMENT STRATEGY. A DEFENSIVE INVESTMENT STRATEGY is designed to conserve and protect your investment principal.

A DEFENSIVE INVESTMENT STRATEGY is basically moving your investment portfolio into

U.S. government treasury bonds, money market funds, gold funds and other defensive investments that run counter-cyclical to the stock market.

When the entire economy is contracting, corporate profits are going down, unemployment is going up and consumers are slowing their spending, THIS IS A TIME TO CONSERVE your retirement wealth and capital. THIS IS NOT A TIME TO TAKE RISKS.

When the whole stock market is going down, this is not a time to even try to make money. Even the smartest mutual fund managers in the world lose money in bear market/recessions—you are probably not smarter than them—so don't even try to make money in a bear market.

The key to investment success in a bear market/recession IS TO NOT LOSE MONEY! Even if you are making little or no interest on your U.S. treasury bonds and money market funds—that is better than losing 30% to 50% of you retirement investments in a severe bear market downtrend.

This is a time for CAPITAL PRESERVATION. This is the equivalent of a farmer letting his farmland lie fallow for the winter after the harvest. THIS IS A TIME FOR PATIENCE.

That is what I mean by choosing an appropriate investment strategy for each economic cycle.

Just as one always has to be "IN TUNE" with nature, it also helps if your investments are appropriately "IN TUNE" with the natural trends and periodic cycles of the economy and stock market.

Our basic "MANTRA" is "make money in bull markets and aggressively (and patiently) preserve investment capital in bear market/recessions."

HOW DOES FOXHALL CAPITAL SPECIFICALLY MANAGE INVESTMENTS

We manage money at FOXHALL CAPITAL in a straight-forward way where we simply try to follow the long-term persistent trends in the stock market and underlying economy by identifying first whether the stock market is indicating economic expansion or contraction as reflected in its long term trend. Then, we apply our FOXHALL DEFENSIVE or OFFENSIVE investment strategy appropriate to the cycle.

FOXHALL OFFENSIVE INVESTMENT STRATEGY

FOXHALL has a disciplined method of selecting investments when we are implementing our OFFENSIVE INVESTMENT STRATEGY. We compare and rank all available EXCHANGE TRADED FUNDS (ETFs) from strongest to weakest on a weighted basis over the past one month, three months, six months, and twelve months. (ETFs are similar to mutual funds except they typically have lower fees, are more tax efficient, and provide more trading flexibility.)

When implementing the FOXHALL OFFENSIVE INVESTMENT STRATEGY we first identify those ETFs that have outperformed other ETFs in their category in our rankings. We then select a diversified portfolio from that list.

Guess what, if you are only investing in ETFs that have outperformed on a weighted

basis over the past one month, three months, six months and twelve months—there is a pretty good chance that your investment portfolio will also outperform the S&P 500 INDEX in any bull market cycle.

FOXHALL DEFENSIVE INVESTMENT STRATEGY

But the important question is how does FOXHALL implement its DEFENSIVE INVESTMENT STRATEGY?

I live on a horse farm in Middleburg Virginia and one of our farm workers comes to work each day wearing both a big leather belt around his waist AND a pair of suspenders. I guess if you never want your pants to fall down his wardrobe strategy makes a lot of sense.

Well, at FOXHALL CAPITAL we also try to implement MULTIPLE "BELT & SUSPENDERS" risk management investment strategies to try to limit any significant loss of our client's principal.

Our "GAME PLAN" consists of THREE distinct but coordinated strategies.

FIRST, if our proprietary FOXHALL technical indicators have signaled that we are entering into a major bear market just as it did on January 10th, 2008, we decisively try to cut any losses and move our client's portfolios to U.S. government treasury bonds, money market funds, gold funds and other defensive investments that are counter-cyclical to the stock market.

We do this by again using the same process that we used to select Exchange Traded Funds while in our OFFENSIVE INVESTMENT STRATEGY. However, this is when our discipline of requiring a fund to rank above a money market fund is crucial in protecting our client's assets. If an ETF is NOT out-performing cash, I'm not sure I want to own it. Why would you want to own any investment underperforming cash?

This is a great way to determine the overall direction of the stock market, because when all of a sudden, our computer program starts indicating that a number of our holdings are just starting to underperform cash, it almost always means that the stock market is broadly going down.

As those ETFs start underperforming cash, that is one of our FOXHALL SIGNALS to start selling and cutting our losses quickly.

Our SECOND strategy is that when we buy an ETF, we look at the historical volatility of that security and we place an internal "stop-loss" on that ETF at a downside price that is outside of its normal range of volatility.

Internal "stop-losses" are also good tools for determining when to sell an investment that is having its own unique industry problems. Remember real estate's fast decline in late 2007 and oil's very quick decline in June of 2008.

The THIRD and most important strategy that FOXHALL uses to limit risk in our client's investments is that all of our portfolios are GLOBALLY DIVERSIFIED.

Many academic studies have shown that globally diversified investment portfolios are MORE CONSERVATIVE AND LESS VOLATILE than an investment portfolio only made up of U.S. companies.

As an investment manager, FOXHALL also tries to off-set any damage caused by any government's policies. That is one really good reason why your portfolio, over the long-term, should be GLOBALLY DIVERSIFIED into investments that have earnings in currencies other than dollars and in regions of the world that are growing two to three times faster than the U.S. economy, like parts of Asia and the Pacific Rim.

It should be clearly stated that there is no "perfect investment system"—if there were,—everyone would be using it.

However, I firmly believe that an ACTIVELY MANAGED INVESTMENT STRATEGY that has an (1) OFFENSIVE INVESTMENT STRATEGY when the economy and stock market are broadly going up in one of its cyclical 5 to 8 year bull markets and is heavily invested in a globally diversified portfolio of equity ETFs that are outperforming other ETFs across multiple periods and then, (2) when the stock market signals a major bear market, a DEFENSIVE INVESTMENT STRATEGY is decisively implemented where losses are cut quickly and the portfolio is moved to U.S. government treasury bonds, money market funds, gold funds or other defensive investments that are counter-cyclical to the stock market.

I believe, that is an investment discipline that can produce better than average investment results over the long-run—and more importantly allow investors to sleep well each night—even in a major bear market.

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.