



## THE FOXHALL GLOBAL OUTLOOK



APRIL 10, 2008

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### FOXHALL CAPITAL 2007 ANNUAL PERFORMANCE

I am pleased to provide you with FOXHALL CAPITAL's 2007 Investment Performance. For reference, the S&P 500 INDEX in 2007 was up 3.5% in price terms and, if you include dividends, it was up 5.49%.

FOXHALL CAPITAL GLOBAL ETF SERIES 2007 ANNUAL PERFORMANCE:

INVESTMENT STRATEGY	PERFORMANCE	EQUITY/BOND PERCENTAGE
GROWTH	8.88%	100%/0%
GROWTH & INCOME	5.56%	75%/25%
BALANCED	7.60%	50%/50%
CONSERVATIVE	6.14%	25%/75%
GLOBAL HARD ASSETS	21.98%	-
PACIFIC RIM & EMERGING MARKETS	20.82%	-
STRATEGIC 50/50*	6.07%	4th Quarter only

\*(Our newest strategy 4th quarter results vs. -3.33% for the S&P 500 including dividends)

### "PROLONGED & SEVERE ECONOMIC DOWNTURN"

In the last edition of the FOXHALL GLOBAL OUTLOOK, I suggested that this current bear market and recession would last for at least two more years. It now seems the FEDERAL RESERVE agrees.

At the March 18<sup>th</sup> FED meeting, their just - released board minutes stated that, because of the credit and housing market problems, the economy could face a "prolonged and severe economic downturn."

Several weeks ago, another FEDERAL RESERVE report stated that the most serious lending abuses in ADJUSTABLE RATES MORTGAGES (ARMs) took place within the last 18 months. Most of those ARMs have not yet triggered their higher rates.

DISCLOSURE: PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE. The indices are unmanaged and investors cannot invest in an index directly. PLEASE VISIT [WWW.FOXHALLCAPITAL.COM](http://WWW.FOXHALLCAPITAL.COM) FOR COMPLETE INFORMATION ON EACH INVESTMENT PORTFOLIO.

The report stated that the worst of the housing foreclosures was still to come and that most of these foreclosures would reach a peak in the second half of 2009 and the first half of 2010.

We face the prospect of seeing one story after another on the nightly network news in late 2009 and early 2010 where banks will be auctioning off foreclosed homes on the steps of local courthouses and there will be no buyers.

### IT COULD TAKE 8-TO-10 YEARS TO SELL ALL THE EXCESS HOUSING INVENTORY

Last week I had lunch with a major Miami real estate developer. He told me there were currently 20,000 unsold new condos in Miami today and another 20,000 are in some final stages of being built over the next 18 months. That is an unsold inventory of 40,000 condos.

In Miami's best years in 2005 and 2006, developers ONLY sold 5,000 condos a year. It will take developers 8-to-10 years to unload the current unsold inventory of new condos and it is the same story in many other areas of the country.

### HOUSES HAVE TRADITIONALLY NOT BEEN A GREAT INVESTMENT!

Until recently, homes have not been a great investment. Professor Robert Shiller of Yale University has a very depressing graph showing the price fluctuation of the standard American home for the last 116 years. This graph is the price of existing homes, not just new homes, adjusted for inflation.

For example (see graph 1 on page 2), had you bought a standard American home exactly 100 years ago in 1908 when prices were kind of high, you had to wait until 1946 to get your money back. That means a couple who were 25 years old in 1908 had to wait until they were 63 to break even on the purchase of their house. THAT'S 38 YEARS!

And according to Professor Shiller, people were OK with that. "Housing was something you bought because you needed it and you wanted to live in it. It was not really an investment," he told an ABC News reporter.

Even more recently, from 1953 to 1978 for 25 years housing prices went up and down within a very narrow price range.

Until the last 10 years or so, people didn't count on homes to make them rich. This concept of "homes as an investment" is very new, because over the past 10 years our homes did make us richer.



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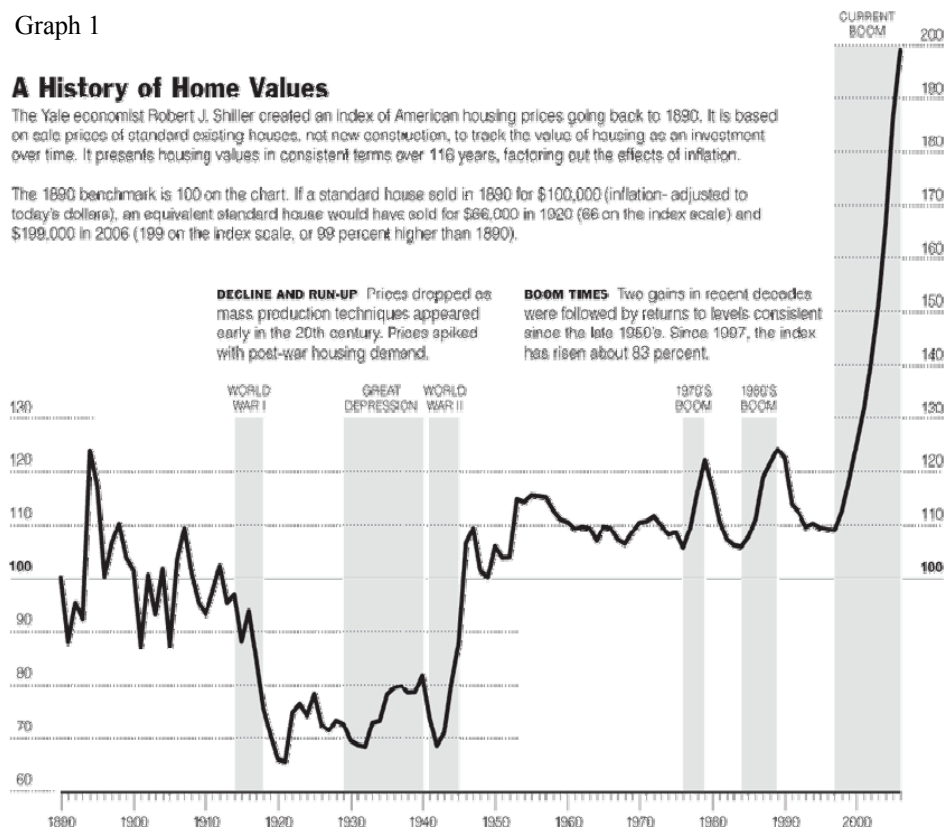
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Graph 1

### A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



Source: "Irrational Exuberance," 2nd Edition, 2006, by Robert J. Shiller

Bill Marsh/The New York Times

### WHERE DO HOUSING PRICES GO FROM HERE?

This all raises the important question, what happens now?

If you look at the graph and the historically steep climb housing prices have shot up to since 1997, is this a massive economic bubble that is in the process of deflating like tech stocks after 1999? Will prices fall all the way back to the century long middle range of the graph?

That is what happened in Japan in the early 1980's. They had a property boom and then prices fell for 15 consecutive years.

Can that happen to the U.S.? According to Professor Shiller that is a real possibility. He says, "We have a new culture now. People see homes as primarily investments. It is a very different way of looking at housing. I think it will be very volatile for a while."

### HOME PRICES DO NOT ALWAYS RISE

This graph tells us that home prices DO NOT always rise and in 116 years we have NEVER been in a situation like we are now.



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Again, according to Professor Shiller, “This is the biggest boom we have ever had. We are in completely uncharted territory here.”

### **“ALWAYS BE PREPARED”—WITH A DEFENSIVE INVESTMENT STRATEGY**

The FEDERAL RESERVE now believes the current bear market/recession will be “prolonged and severe,” and since we are also in uncharted territory because of the current banking, credit and housing crisis—with the worst of housing foreclosures yet to come according to the FEDERAL RESERVE.

Given these extremely turbulent times, it is very important that all of your investments are firmly protected to withstand anything the stock market throws at you over the next two years.

That is why we believe that a defensive investment strategy like we employ at FOXHALL CAPITAL is the best way to manage your investments in this very uncertain economic period. There are economic periods in bull markets when it pays to be a little aggressive. But not now—this is a time to be prudent and careful.

Now is the time to have all of your investments in inflation adjusted U.S. government bonds, gold, oil and other commodity funds that have historically performed well during past stock market downturns and recession. This is the time where you want to sleep well at night and not have to worry about whether the stock market is going up or down, because your investments are being actively managed in a FOXHALL DEFENSIVE INVESTMENT STRATEGY.

UNTIL NEXT WEEK...

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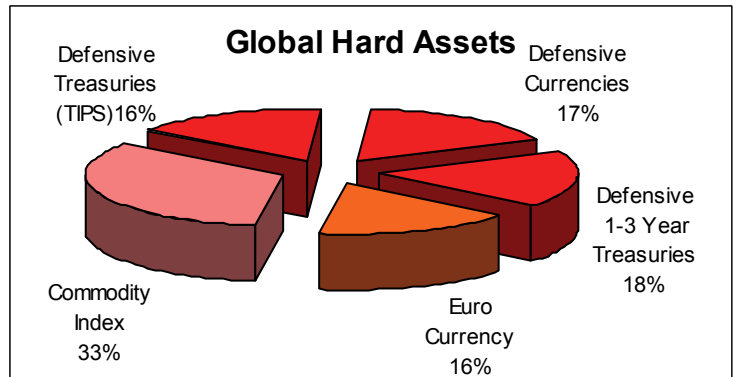
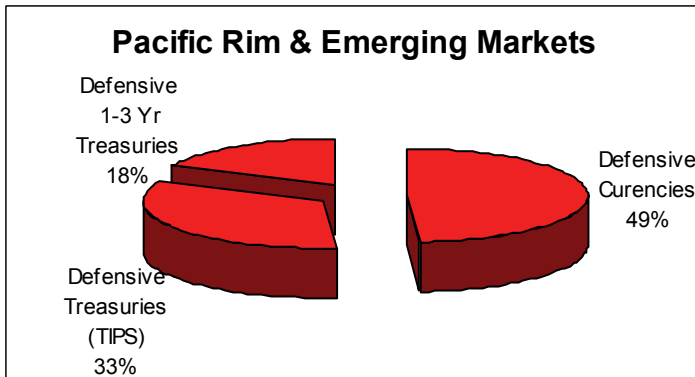
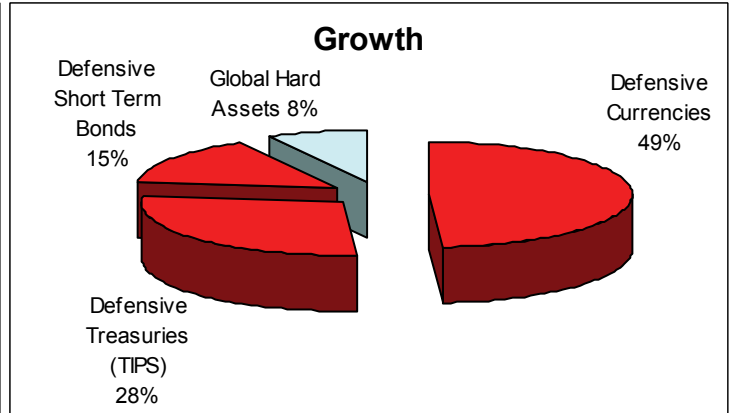
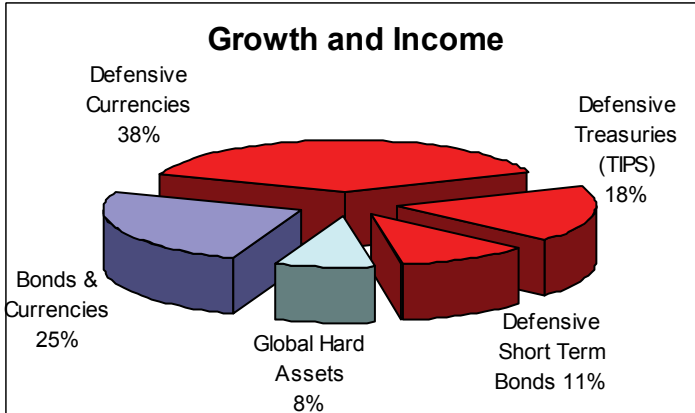
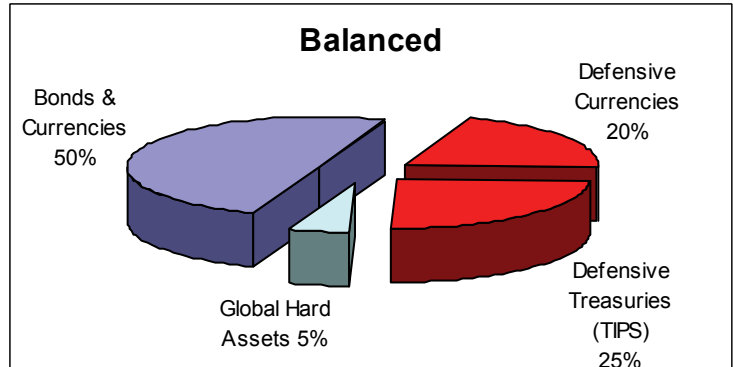
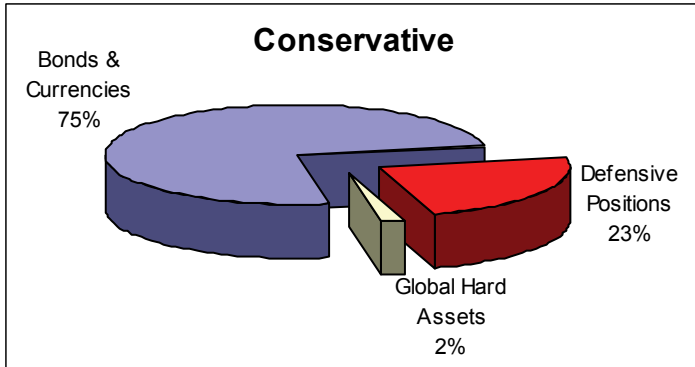
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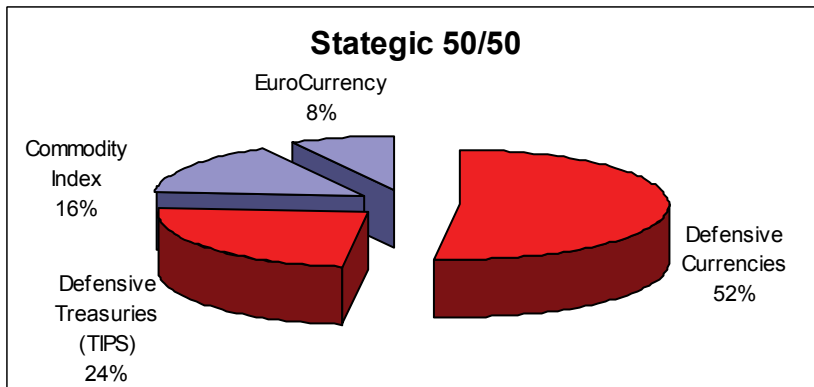
## THE FOXHALL GLOBAL OUTLOOK GLOBAL MARKET ROTATION PORTFOLIOS

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- Emerging Markets ■
- Hard Assets ■
- Defensive Position ■



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.