# FOXHALL CAPITAL MANAGEMENT, INC.

## THE FOXHALL GLOBAL OUTLOOK



**Dear Paul,**

**We saw the DOW INDEX drop 500 points in one day this week. What is happening with the banks and how does that affect our investments?**

### FOXHALL CAPITAL CLIENTS ARE IN US GOVERNMENT-BACKED BONDS AND MONEY MARKET

First, ALL of the FOXHALL CAPITAL portfolios are almost exclusively invested in U.S. government treasury bonds and money markets. THE BONDS ARE ALL FULLY GUARANTEED BY THE U.S. GOVERNMENT. Even our FOXHALL CAPITAL individual stock and bond accounts are now fully invested in U.S. government bonds and money markets.

Given the current stock market turmoil, we hope FOXHALL CAPITAL clients are sleeping better than their neighbors since they are all largely invested in U.S. government bonds and money markets and have little or no exposure to the stock market.

> "GIVEN THE CURRENT STOCK MARKET TURMOIL, WE HOPE FOXHALL CAPITAL CLIENTS ARE SLEEPING BETTER THAN THEIR NEIGHBORS SINCE THEY ARE ALL LARGELY INVESTED IN U.S. GOVERNMENT BONDS AND MONEY MARKETS AND HAVE LITTLE OR NO EXPOSURE TO THE STOCK MARKET ."

### WHY ARE SO MANY BANKS FAILING?

Lehman Brothers. Merrill Lynch. Fannie Mae. Freddie Mac. Countrywide Financial. Bear Sterns. These are some of the oldest and biggest financial firms in America. They have either been seized, failed outright, declared bankruptcy or merged into other companies.

It was recently disclosed that, in the past 18 months, Merrill Lynch lost about 25% of ALL THE PROFITS IT MADE IN ITS 36 YEARS AS A PUBLICLY TRADED COMPANY.

There will be more bank failures!

This may be the worst banking crisis since 1929! This crisis began in the real estate market and has now emerged into a full-blown financial crisis threatening all of the global credit markets.

However, because the U.S. government has stepped in with emergency measures, we have avoided consequences that could have been much worse.

### WHAT IS THE BOTTOM LINE & WHO WILL BE AFFECTED?

The people who will most be affected are the employees of these companies. Many will lose their jobs. Shareholders in these companies will also lose most of their investments. FOXHALL CAPITAL'S portfolios have NO exposure to any financial stocks.

However, there will be some larger repercussions. In the short-term, it will be harder for people with shaky credit to get loans, particularly mortgages.

Too many banks have borrowed too much to buy high-risk investments—mainly securities backed by sub-prime mortgages, which are loans made to borrowers with poor credit.

Now banks that own those securities must write off their losses and raise fresh capital. That means fewer consumer and business loans and stricter loan standards.

For example, a $1 billion loss at a major bank could mean that as much as $10 billion is no longer available to lend.

Fewer loans mean companies will have less money to borrow to expand. Mortgages will be harder to get and home buyers will be putting up much larger down-payments. This will make it harder to sell houses. This will also cause home sales to go down and this affects the relative value of all homes.

In my next FOXHALL GLOBAL OUTLOOK I will take a more in-depth look at the housing crisis.

### IS THERE A SILVER LINING IN ANY OF THIS BAD NEWS?

Yes, a number of analysts point out that the recent failures can be a positive because the financial system finally will measure the size of its problems and work to fix them.

The fact that BANK OF AMERICA is willing to buy Merrill Lynch in what seems to be the depth of this financial crisis shows that at least one bank sees a recovery coming.

Investors still remember the "SAVINGS & LOAN CRISIS" in the 80s. We survived that crisis and the American economy will

survive this one.

Given the U.S. stock market's problems we may see an upswing in hard assets like oil, gold and other commodities.

Historically, hard asset commodities have seen an upswing in prices within 6 months after sharp stock market declines. Hard asset commodities, especially gold, have traditionally been a "SAFE HAVEN" for investors when stock markets rapidly decline.

I also believe that we may see an upswing in Asian and emerging markets within the next six months. Asian markets were overvalued going into the beginning of this year and most of these stock markets have corrected down 40% to 50% since January.

They have probably over-corrected too far down. Asian markets are the only markets in the world, other than Brazil, that are still growing and growing strongly.

China has slowed its growth from over 11% last year to a still phenomenal growth rate of a little over 9% this year. The ASIAN DEVELOPMENT BANK just announced that all of Asia's developing economies will grow a very healthy 7.6% this year and 7.8% next year. Asian stock markets are now trading at 11 times their forward price-earnings, just 5% above their worst levels in previous downturns according to Morgan Stanley.

Asian banks and governments have also been the most prudent in their lending and investment policies. They have not borrowed heavily overseas and they have minimal exposure to the credit crisis in the U.S.

According to the FINANCIAL TIMES, foreign debt held by Chinese banks as a percentage of their Gross Domestic Product (GDP) is only 2%; for India, 4% and for Brazil, 13%.

The INTERNATIONAL MONETARY FUND estimates that emerging economies will provide 80% OF GLOBAL GROWTH this year in 2007, versus less than 50% in 2000.

If hard asset commodities and Asian and emerging markets start to take off over the next six months there could be substantial gains for investors. FOXHALL CAPITAL watches these markets closely and when they start to go up we will begin investing again in these markets.

For now, FOXHALL CAPITAL is happy to sit on the sidelines with almost all of our portfolios invested in U.S government bonds and money markets.

UNTIL NEXT WEEK...

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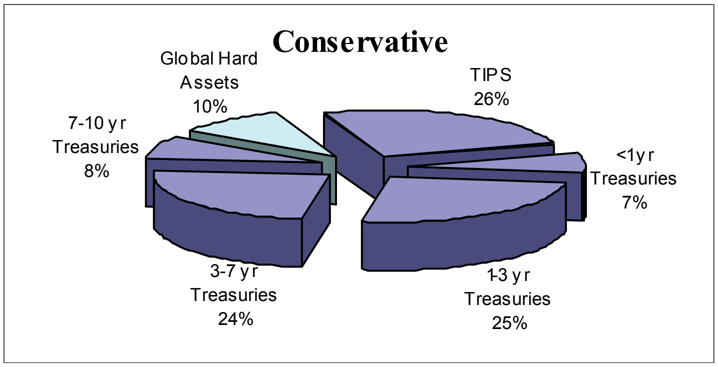
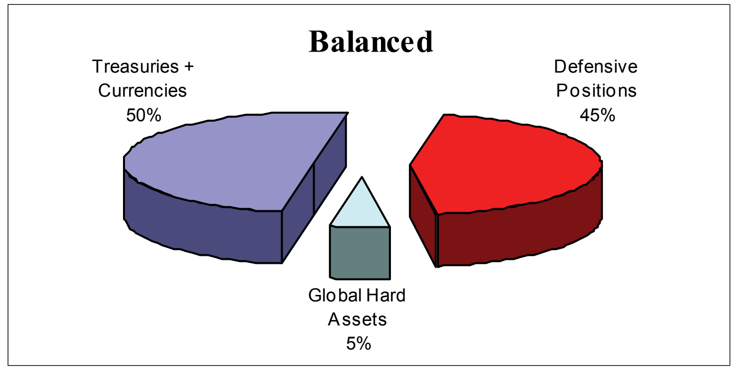
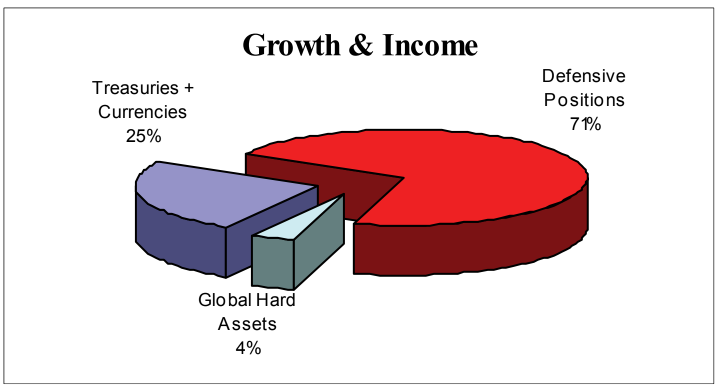
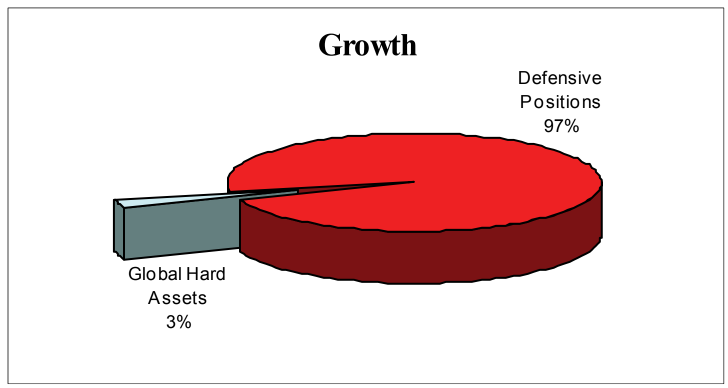
# THE FOXHALL GLOBAL OUTLOOK
## *GLOBAL ETF SERIES*

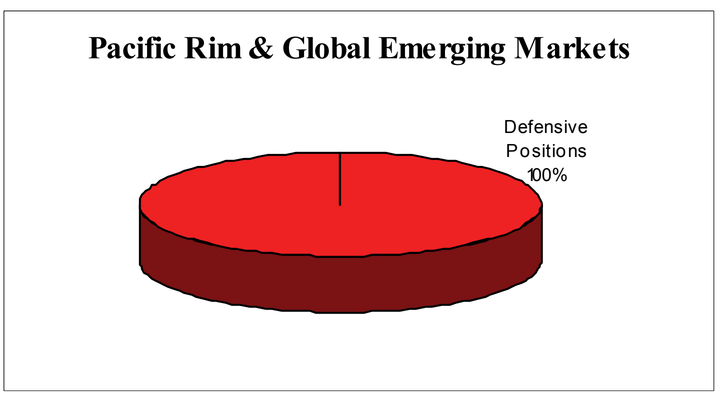


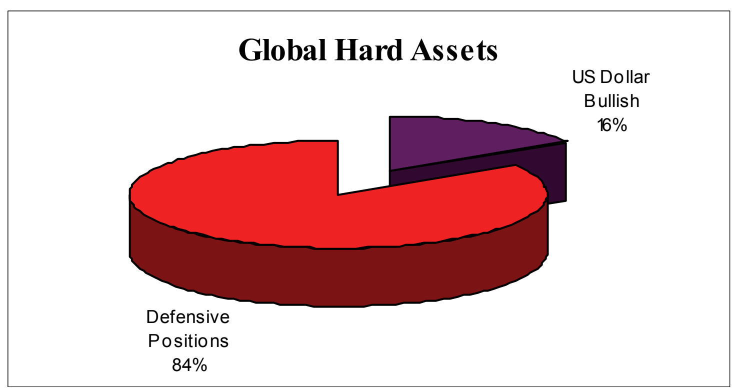


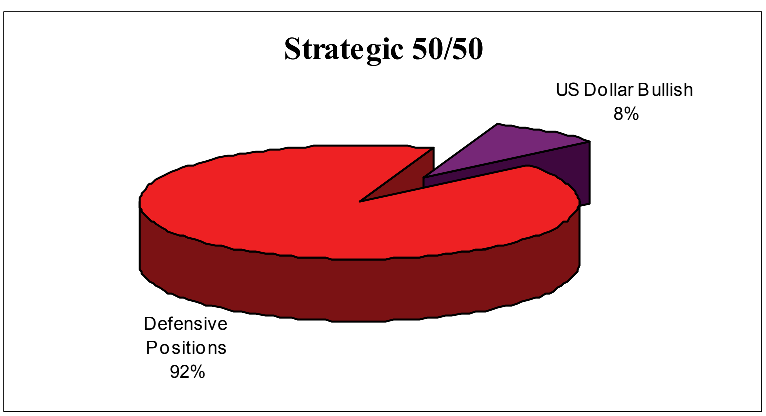




Emerging Markets
Hard Assets
Defensive Position




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.