



THE FOXHALL GLOBAL OUTLOOK



SEPTEMBER 24, 2009

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Dear Paul,

My clients are very grateful that FOXHALL CAPITAL protected them from most of the stock market declines over the past year and a half. I know FOXHALL went from its defensive investment strategy of largely treasury bonds back into the stock market and its offensive investment strategy on July 24th,

but you missed a lot of the stock market run-up from March through July by staying in bonds. How do I explain this to my clients?

THAT IS A VERY FAIR QUESTION. FOXHALL CAPITAL invests based on a methodology and discipline known in academic circles as TREND FOLLOWING. This style of investing was used by CHARLES DOW when he founded the WALL STREET JOURNAL. It has been the subject of countless major academic studies going back decades.

STOCK MARKET TREND FOLLOWING

This investment discipline seeks to identify (1) long-term bull market trends and (2) long-term bear market trends.

Academics have long understood that there are two cycles in the stock market that recur in patterns over and over again—BULL MARKETS AND BEAR MARKETS.

TREND FOLLOWING, as an investment strategy, believes that 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.

These cycles come like the “day follows night.” They are like seasons of the year; you might not know the exact day that spring turns into summer, but sometime around late May or

June you can be sure that the “SUMMER TREND” will eventually start.

INVESTORS MUST RESPOND APPROPRIATELY TO THESE CYCLES

If you can manage and change your investment strategy appropriately to either a bull or bear market, you will almost always make money.

The basic premise of TREND FOLLOWING is that investors need to “act appropriately” depending on whether they are facing a bull market cycle or a bear market cycle.

The definition of a “BEAR MARKET” is a *prolonged period of falling stock market prices and declining economic activity*. If you know from history that the entire stock market and the economy are going to decline for, on average, 18 months to two years, you don’t have to be a TREND FOLLOWER to understand that IT MIGHT MAKE SOME SENSE TO GET OUT OF THE STOCK MARKET WHEN THE WHOLE STOCK MARKET AND ECONOMY ARE GOING DOWN FOR A SUSTAINED PERIOD OF TIME.

IT’S REALLY JUST COMMON SENSE. We all understand the seasons of the year and when its winter we wear a warm coat and when its 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.

I’VE NEVER UNDERSTOOD WHY INVESTORS DON’T HAVE THE SAME COMMON SENSE ATTITUDE TO INVESTING.

“TREND FOLLOWING, AS AN INVESTMENT STRATEGY, BELIEVES THAT UNDERSTANDING THE LONG-TERM ECONOMIC AND STOCK MARKET CYCLES IS THE SECRET TO SUCCESSFUL INVESTING.”

THE ECONOMICS OF LOSS

In the past two bear market/recessions, the stock market, as measured by the S&P 500 INDEX declined peak to trough 48% in the 2000 to 2002 bear market and almost 57% in the bear market of 2008 and 2009.

If an investor buys an index fund for, say, \$60 and it declines 50% to \$30—it will require a 100% gain for that index fund to get back to break-even at \$60.



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That is the ECONOMICS OF LOSS and over the past two years this ECONOMICS OF LOSS has decimated the retirement accounts of most average Americans.

Over the long run, the stock market has averaged a gain of about 8% a year. At 8%, it will take most investors almost 12 years for their investment portfolios to gain back that 100% to get back to even.

We HAVE NOT recovered the losses sustained by the S&P 500 INDEX from the 2000 to 2002 bear market. The NASDAQ INDEX is still about half of what it was in early 2000. We are now ending 2009—almost a decade later—and the stock market still hasn't broken even from early 2000.

I always tell my clients that the best money they will ever make is the money they DON'T LOSE in a bear market/recession.

It is because of the MATHEMATICS OF LOSS that passive investing or what is more commonly know as BUY AND HOLD investing simply doesn't work.

It just takes investors too long to recover and to make up large losses in order to break-even. History shows that most investors will be starting a new bear market cycle before they make up their losses from the last bear market/recession.

FOXHALL CAPITAL'S LONG-TERM TREND RECOGNITION TECHNOLOGY™

Our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ is based on several major academic studies completed in the 1960s and 1980's at the UNIVERSITY OF CHICAGO and several other universities.

THIS IS HOW IT HAS WORKED IN THE PAST. In 2000 the stock market peaked in March of 2000. Our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ identified that the stock market was entering into a sustained long-term bear market in July of 2000—about 3 ½ months after the March 2000 peak in the stock market.

In July of 2003, our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ identified that a new sustained long-term bull market had begun—again, about 3 ½ months after the stock market bottomed and started to rise in March of 2003.

THE 2008-2009 BEAR MARKET/RECESSION

The last bull market peaked on October 9, 2007. On January 10, 2008, (again, about 3 ½ months after the October 9th peak) our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ accurately identified that we were entering a new long-term bear market. I wrote to all of our FOXHALL clients on January 10th that we were starting to move to our FOXHALL DEFENSIVE INVESTMENT STRATEGY. By February 2008 we had moved to almost 80% bonds in our FOXHALL GROWTH PORTFOLIO. We were still approximately 80% in July and moved to 100% in September 2008.

THAT IS WHY OUR FOXHALL CLIENTS MISSED MOST OF THE SEVERE DOWNTURNS IN THE STOCK MARKET IN THE FALL OF 2008 AND THE FIRST QUARTER OF 2009.



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On July 24, 2009, our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ identified that the stock market was entering a new sustained long-term stock market trend. This time we were about 4 months late in getting back in after the March 9, 2009 stock market bottom.

THIS INVESTMENT SYSTEM CONSISTENTLY WORKS TO IDENTIFY LONG-TERM TRENDS

It is interesting how well the FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ consistently works. On January 10, 2008 the S&P 500 INDEX closed at **1420.33**. On July 24, 2009, when our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ identified the new bull market the S&P 500 INDEX closed at **979.26**. That's when FOXHALL re-entered the market.

From an S&P 500 INDEX of **1420.33** to **979.26**, that is a positive difference of **31.05%!!!**

A lot of people talk about SELLING HIGH and BUYING LOW, but the FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ actually allows clients to do just that.

WHEN DOES THE FOXHALL TECHNOLOGY DO BEST AND WHEN DOES IT DO "LESS WELL?"

FOXHALL CAPITAL does not have a crystal ball to know when the stock market hits a new high or a bear market low. WE ARE NOT STOCK MARKET TIMERS. We do not know anyone who has been able to consistently make money timing the stock market or anticipating in advance stock market movements. IT SIMPLY CAN'T BE DONE!

But academic studies have shown that technology can identify long-term bull and bear market trends in the market—unfortunately, this technology takes about 3-to-4 months AFTER THE TREND HAS BEGUN to be able to identify these long-term trends.

BULL MARKETS: So to answer the original question is, FOXHALL CAPITAL excels in clearly identified bull markets, because we implement our FOXHALL OFFENSIVE INVESTMENT STRATEGY that allows investors to be invested and fully exposed to the stock market during long-term bull markets.

BEAR MARKETS: FOXHALL does equally well during identified bear markets by switching client's portfolios into a FOXHALL DEFENSIVE INVESTMENT STRATEGY that invests their money in U.S. Government Treasury bonds and other investments that are counter-cyclical to a bear market/recession. This strategy has helped limit portfolio losses during down markets.

IN-TRANSITION MARKETS: Where FOXHALL CAPITAL does LESS WELL is during the typical 3-to-4 months that it takes to identify the beginning of a bear market and the beginning of a new bull market.

As TREND FOLLOWERS, we are typically 3-to-4 months LATE GETTING OUT to our FOXHALL DEFENSIVE STRATEGY in bear markets and 3-to-4 months LATE GETTING INTO our FOXHALL OFFENSIVE STRATEGY for bull markets.



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WHAT TO EXPECT FROM FOXHALL GOING FORWARD...

So now that FOXHALL has re-entered the stock market as of July 24th, we have just completed one of the 3-to-4 month periods that happen every few years when WE DO LESS WELL.

These periodic 3-to-4 month lagging periods are an integral part of the FOXHALL CAPITAL "PROCESS AND DISCIPLINE" that is inherent in the FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™.

MERRILL LYNCH STUDY CONFIRMS "TREND FOLLOWING" INVESTMENT STRATEGY

In a major study, MERRILL LYNCH announced on December 4, 2008, that their analysts had examined every long-term stock market decline over the past 50 years.

They compared a BUY & HOLD strategy with a "TREND FOLLOWING" strategy that stayed invested in an S&P 500 INDEX fund for **6 months after the stock market peaked** and then moving the portfolio to U.S treasuries and staying in these treasury bonds for **6 months after the stock market started to go up** into a new bull market.

The study's authors believed that this WAS NOT MARKET TIMING—because if you didn't know that the market was declining for a solid 6 months or going up for 6 months, you just weren't paying attention or reading the WALL STREET JOURNAL.

The conclusion of the study was that it was "BETTER TO BE LATE THAN EARLY" to a new bull market.

According to a January 29, 2009 USA TODAY article on the study, "the study found that, on average, investors with either cash or long-term Treasury bonds posted better returns if they only began investing in stocks six months after the bottom was in as opposed to six months before.

Patience is a virtue," says Richard Bernstein, Merrill's chief investment strategist.

Merrill's analysis found, though, that investors who joined the bull market party six months late were able to post better returns because they avoided the steep stock losses in the six months leading up to the market bottom.

Investors who bought stocks six months before market bottoms since 1957 would have enjoyed an average gain of just 22.9% two years later, vs. a gain of 26.1% for investors who hid in cash before diving into stocks six months after the trough.

Investors who sought the safety of Treasury bonds until six months after the bottom gained 33.5%.

"Calling a bottom in the market is a fruitless exercise," Bernstein says. "It has become very popular to try to time the bottom. Investors worry that missing the trough may mean missing the entire rally that follows." But that's not the case, he adds."

WE AT FOXHALL CAPITAL AGREE WITH THE MERRILL LYNCH STUDY. Our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ has CONSISTENTLY been able to identify long-term bull and bear market trends within 3-to-4 months rather than





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the 6 months of the MERRILL LYNCH study.

We strongly believe, like the MERRILL study states and that other TREND FOLLOWING academic studies confirm, that by fully participating in long-term bull markets AND MISSING OUT OF LONG-TERM BEAR MARKETS is a strategy that consistently outperforms a passive BUY& HOLD investment strategy.

HARD ASSETS COMMODITIES ENTER A NEW LONG-TERM BULL MARKET

Last week, our FOXHALL CAPITAL LONG-TERM TREND RECOGNITION TECHNOLOGY™ triggered a new long-term bull markets for global hard asset commodities like oil, gold and other natural resources.

As of Friday, investors will begin seeing various hard asset commodity ETFs and funds included in most FOXHALL portfolios.

Over the next few weeks, I will be writing about which sectors of the U.S. and global economies are going to do best and which sectors will remain flat or in a recession for the next 5 or 6 years.

I will be writing soon on the demand for global hard asset commodities. I believe this is one of the sectors that will do best in the new bull market recovery.

UNTIL THEN!

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