



THE FOXHALL GLOBAL OUTLOOK



OCTOBER 24, 2011

PAGE - 1 -



THE STOCK MARKET IS STILL IN A “DANGER ZONE!”

THE STOCK MARKET IS STILL IN A “DANGER ZONE!”

Last month the stock market sustained significant losses in a severe correction because of fears of a global financial collapse due to the on-going European debt crisis. In the last two weeks the stock market is up in double-digit gains as rumors have it that Europeans have a plan to shore up their banks.

Unfortunately, the European debt crisis is far from over and any bad news over the next few weeks will most likely see stock markets go down again as fast as they recently went up.

THERE ARE NO GOOD SHORT-TERM ANSWERS

Last week I sat in on a conference call with a number of the top investment managers in the United States and the general consensus was that this was the most difficult time any of these managers could remember in trying to managing risk in their client’s investment portfolios.

These investment managers were highly skeptical that Europe’s politicians would be able to solve this debt crisis. The general consensus was that Greece would eventually default and when that happens, the stock markets would go down again.

THERE SEEM TO BE TWO SCENARIOS THAT WILL PLAY OUT. If the Europeans do not solve this crisis and Greece defaults, we could see European stock markets plunge and when that happens the United States’ stock markets will also go down.

Conversely, if the European politicians do solve this crisis, the world’s stock markets could go up very quickly.

SO HOW MUCH RISK ARE YOU WILLING TO TAKE?

My answer is that when stock markets are plunging one week and shooting up the next week, this is by definition an unstable stock market. Fear and emotion are ruling the market, NOT THOUGHTFUL ANALYSIS AND RISK MANAGEMENT.

Since this drama in Europe has not played out yet, I would rather error on the side of caution and maintain a large amount of cash and U.S. treasury bonds, even if that means that investors miss some of the emotional upswings in the market.

Eventually this European debt crisis will be solved and there will be plenty of time to get fully back into the stock market and make up some of the losses sustained during this severe correction.

But the key strategy for investors right now is to make sure there is sufficient cash and U.S. treasury bonds in your investment portfolio to ride out any severe downturn if Greece defaults over the next few months, as many analysts are predicting. If Greece doesn’t default and European politicians solve this crisis, FOXHALL will move very quickly to fully re-enter the stock market.

Right now, with all the danger and uncertainty over the possibility of a new global financial crisis, IT IS BETTER TO BE CONSERVATIVE THAN TO BE RISKING A REALLY SUBSTANTIAL LOSS OF PRINCIPAL LIKE 2008 AND 2009.

THIS IS HOW FOXHALL MANAGES RISK

There are two ways FOXHALL moves out of stocks and into cash and U.S. treasury bonds.

THE FIRST STRATEGY FOXHALL uses to move out of stocks is if FOXHALL’S two, long-term technical indicators signal the stock market is moving into a long-term bear market. Three weeks ago these two indicators breached the signal, but then immediately rallied back. We usually like to see several “confirmation days” before we definitively declare a long-term bear market. Since we haven’t been able to declare a long-term bear market, WE ARE STILL TECHNICALLY IN A SEVERE CORRECTION



THE FOXHALL GLOBAL OUTLOOK

OCTOBER 24, 2011

PAGE -2-

WITHIN A LONG-TERM BULL MARKET.

THE SECOND STRATEGY FOXHALL uses to move out of a security is if that security hits its STOP-LOSS TRIGGER. This is what has happened over the past six weeks. As STOP-LOSS TRIGGERS have been hit, we have sold out of stock, ETF and Variable Annuity sub-account positions. Most of our portfolios are now significantly in cash or U.S. treasury bonds.

When setting STOP-LOSS TRIGGERS, we look at past percentage ups and downs in the security's price fluctuations and then we set the trigger slightly outside the historical normal pattern of price fluctuations. When you set the trigger just outside the normal price fluctuations, you know when the trigger is breached that it is historically the time to sell.

WHEN WILL FOXHALL RE-ENTER THE STOCK MARKET?

THE ANSWER IS VERY CAREFULLY! Just as FOXHALL has a STOP-LOSS TRIGGER, we also have a RE-ENTRY TRIGGER.

Since the FOXHALL technical indicators have not signaled a long-term bear market, our FOXHALL RE-ENTRY TRIGGERS can move portfolios back into the stock market fairly quickly if the stock market is showing a sustained stock market uptrend.

Over the past ten days or so we have started to see an uptrend in the stock market and FOXHALL has started to carefully re-enter the stock market with a few positions last week and if the trend continues, there will be more positions bought back this week.

Clients in VARIABLE ANNUITY PORTFOLIOS may see a small delay in re-entry because many Variable Annuities have some trading restrictions. As soon as those trading restrictions are met, we will re-enter some positions in those portfolios.

However, as I mentioned earlier, FOXHALL will maintain a significant amount of cash and U.S. treasury bonds during this volatile period since there is still a great deal of risk in the market because of the European debt crisis.

IT IS IMPOSSIBLE TO TIME THE STOCK MARKET!

No one has ever been able to consistently determine when there is a stock market bottom or when there is a stock market peak. IT IS IMPOSSIBLE!

However, over the past twelve years, FOXHALL has consistently been able to manage the risk of severe losses during long-term bear markets by moving out of the stock market into cash and U.S. treasury bonds.

We also manage risk by maintaining STOP-LOSS TRIGGERS during severe corrections.

FOXHALL views these risk management tools like SHOCK ABSORBERS and AIR BAGS in a



THE FOXHALL GLOBAL OUTLOOK

OCTOBER 24, 2011

PAGE -3-

car. It doesn't mean you won't feel the bumps or the crash, but it means your portfolio will be able to survive a major crash and you will live to invest another day.

In the end, if the crash just turns out to be a small fender-bender, maybe all the risk management effort to get out of the stock market wasn't worth the effort. THE PROBLEM IS YOU NEVER KNOW THAT IN ADVANCE. FOXHALL always tries to plan for the worst-case situation and then manage risk accordingly.

One could argue that paying for car insurance was a useless expense if you never had an accident. But when there is a major accident—insurance is absolutely invaluable.

SO WHAT WILL HAPPEN NEXT?

Is the severe stock market correction over, or if Greece defaults will we have a major global financial crisis and stock market drop?

I DON'T KNOW THE ANSWER—AND NEITHER DOES ANYONE ELSE! But I do know that FOXHALL will maintain a conservative risk management strategy that will maintain a significant amount of cash and U.S. treasury bonds to manage any short-term risk over the next few months.

The good news is that since this is basically a political crisis that will be solved one way or another in the near future, when stock markets are impacted negatively by political issues, historically stock markets have sharp recoveries once the political crisis is resolved.

When that happens, FOXHALL will fully re-enter the stock market quickly.

Until then...

Patience!

—Paul Dietrich
pdietrich@foxhallcapital.com

Disclosures: 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 adviser with the U.S. 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 U.S. clients. The firm was redefined as of 12/1/08 due to the creation of the 401(k) Series division. A complete list and description of all firm composites and their compliant presentations are available upon request.