



THE FOXHALL GLOBAL OUTLOOK



OCTOBER 28, 2008

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Dear Paul,

October 2008 was one of the worst months for the S&P 500 INDEX in 70 years. Do you think we are now at the bottom of this bear market?

No! That is why FOXHALL CAPITAL client accounts continue to be invested in U.S. government-backed funds and money market funds. Since our FOXHALL client accounts were invested this way, they had limited exposure to October's stock market declines.

CALLS FROM GRATEFUL CLIENTS

We have had calls from grateful clients thanking FOXHALL for "allowing them to sleep well at night knowing someone was actively looking out for their retirement investments."

Of course spotting a market bottom with precision is impossible, but I believe this bear market/recession will become worse next year in 2009.

When I was in college I had an economics professor who always said there were only two bets you could make in the stock market "WITH 100% ACCURACY".

He went on to say that "in the long-run, the stock market always follows the underlying trend of the economy. If the underlying economy is expanding and growing and company profits are generally going up, then over the long-run the stock market will be up 100% of the time.

Conversely, if the underlying economy is contracting and company profits are generally going down, then over the long-run the stock market will go down 100% of the time. In the entire history of the stock market, we have never had a bear market/recession where the stock market went up."

THE ECONOMY IS SET TO DECLINE FURTHER IN 2009!

This time will not be any different! Given the severe decline in October, there will certainly be a SHORT-TERM RECOVERY in the stock market sometime soon. This is expected, but I believe the overall stock market will decline even further in 2009.

After 9/11 in 2001, most people thought we had hit bottom and there was a strong recovery in the stock market through early 2002. Many analysts thought the worst was over and the new bull market had begun. However, the economy continued to decline and the stock market dropped in 2002 far beyond the 9/11 stock market lows.

WHAT ARE THE "SIGNALS" TO WATCH FOR?

Here are the "SIGNALS" that investors need to watch in order to know when the underlying economy has turned and is preparing for a new bull market:

SIGNAL #1: CORPORATE EARNINGS. The economy and company stock generally go down when the vast majority of corporations have year-over-year declines in earnings. That is what is happening now. Many major corporations are publicly announcing they expect their earnings to decline further in 2009. Last year the lower dollar helped exporters and Asia, and emerging markets were still booming. That helped many American corporations show some earnings growth, even while they were losing money in their

U.S. operations. Now that there is a global recession, and for the moment, a strong dollar, we anticipate profits will be down much further next year.

SIGNAL #2: THE BANKING CRISIS IS STABILIZED. The reason we are seeing such massive swings in the stock market is because investors do not know what many financial and other companies are actually worth. We know

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many companies have MORTGAGE BACKED SECURITIES on their books, but no one knows what they are really worth. Many insurance companies and other financial companies have written insurance, called CREDIT SWAPS, to guarantee the payment of these MORTGAGE BACKED SECURITIES. The companies that issued these CREDIT SWAPS don't have enough money or capital to make good on these promises. Therefore investors don't actually know whether many of these big companies are bankrupt, or near bankruptcy if they are forced to pay off these CREDIT SWAPS. The banking, insurance and financial sectors represent almost 20% of the U.S. economy. Until the stock market is comfortable that they definitively know what these companies are really worth (and what they really owe), investors will continue to see extreme volatility in the stock market. The economy simply cannot recover, if investors do not know the actual value of what 20% of the U.S. economy is actually worth.

SIGNAL #3: HOUSING FORECLOSURES: The FEDERAL RESERVE released a report saying that the "worst abuses of the subprime adjustable rate mortgages took place over the past 2 years" and that most of these "abusive mortgages" had 2-year zero percent triggers" that are just now being "adjusted." That means that most of the foreclosures we are seeing now came from "good loans." The really abusive mortgages are just now starting to hit the housing market. We can expect a huge increase in foreclosures through 2009 with the "peak in foreclosures" coming, according to the FEDERAL RESERVE in the last quarter of 2009 and the first quarter of 2010. Until foreclosures have peaked or the U.S. government provides some refinancing alternative there can be no long-term recovery of the economy.

SIGNAL #4: CREDIT CARD DEBT. Many analysts believe that credit card debt is the "next shoe to fall." Currently, there are more credit card users who are 90 days or more behind paying their credit card balances than at any time in history. Over the past month, credit card companies have been sending out millions of letters reducing consumer's credit limits. Many people thought they had \$10,000 in a credit line on their cards and now find it reduced to \$2,000. Many retail analysts believe the 2008 Christmas shopping season may be the worst in a generation. Once credit card defaults start to decline, this would be a good sign the economy is improving.

THE NEXT BULL MARKET...

Since over 70% of the U.S. economy is directly related to the financial sector, the construction and housing sector and consumer spending, these are the 4 signals to watch. When they turn, the next bull market will not be far behind.

IN THE MEANTIME—"THE FOXHALL WAY"

Perhaps the most succinct encapsulation of what FOXHALL does is this—FOXHALL identifies long-term persistent trends in the U.S. and global economic markets. We attempt to capture as much of the stock market uptrends and avoid as much of the downtrends as we can.

Executing to that objective is not as simple as it sounds, but we seem to be doing a pretty good job!



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I point this out because we continue to get calls from advisors with clients that are looking at their accounts (many at large, 'BIG NAME' brokerage firms) that have suffered huge stock market losses.

AN IRRATIONAL PROCESS

The calls bring up a "human behavior" that I find quite intriguing. Their "thinking" goes like this—because their losses are so great, investors seem to think that if they sell their current portfolio holdings (the one in which they have just lost 30%, 40%, 50%) and move it to FOXHALL, they will somehow miss the market gains when the 'trend' does finally reverse.

The first time that I heard this 'sentiment' was probably more than 20% ago! Unfortunately, they are still applying this same irrational thought process!

If that was a \$5 million dollar account (a number that I am seeing with some frequency), their 'irrational sentiment' have cost them a MILLION DOLLARS that FOXHALL would have NOT LOST!

HERE IS THE BOTTOM LINE...

- For anyone that has not put 2 + 2 together already, this economic environment represents a LONG-TERM PERSISTENT TREND—a DOWN-TREND—a RECESSION! And this RECESSION will likely run through 2009!
- FOXHALL continues to implement its DEFENSIVE INVESTMENT STRATEGY to preserve our client's capital when the economy and stock markets are declining.
- If October's stock market conditions are viewed as a proxy for the underlying economy, there is NOT any 'GOOD NEWS' on the economic front. From that, it might be reasonable to deduce that these markets, through the end of 2009, will fall more before they stabilize (even though there may be several "bear market rallies" in the interim).
- Currently, throughout all our FOXHALL research, there are NO stock market sectors showing any positive uptrend movement.
- Our experience in past 'bear markets' has shown that with this level of volatility and destabilization there will NOT BE AN IMMEDIATE TURNAROUND. It will take time for the market to settle down, level off and allow new positive momentum to emerge.
- The "thought process" that results in the position—"I have lost so much already, I might as well stick it out" (the CHARLES SCHWAB advertising suggestion) is irrational!



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- A 'nail biting' investor that is concerned about missing the next uptrend is most likely ignoring two key concepts:
 1. There IS substantial additional downside risk! Last week, STANDARD & POORS research suggested that the S&P 500 INDEX could go down to 700 in order to reach its 1930's long-term stock market trend line. THAT WOULD BE AN ALMOST 60% DROP IN THE STOCK MARKET AND MAKE THIS THE WORST BEAR MARKET/RECESSION SINCE THE GREAT DEPRESSION!
 2. Now is the time for CAPITAL PRESERVATION—not trying to figure out how to try to make money when the entire stock market is going down.

THE FOXHALL INVESTMENT PROCESS

The nature of FOXHALL'S INVESTMENT PROCESS is to identify long-term global and industry investment trends and we incrementally stage them into client portfolios as their strength moves into a long-term and persistent uptrend!

If you recall, we detailed this process in our OCTOBER 6TH SPECIAL REPORT. We outlined the stages and market segments that weakened over time and subsequently were removed from our holdings. It happened in STAGES TO DIFFERENT SECTORS and through DIFFERENT TIME FRAMES. When the market turns around, (even if there is a strong short-term bear market rally sometime soon) FOXHALL will follow this same process in re-entering the stock market!

Will FOXHALL be 'perfect'? *No!*

Will we miss some of the gains as the trends reverse? *Absolutely!*

But, without a doubt, the FOXHALL INVESTMENT PROCESS offers any investor a higher probability of avoiding losses and capturing future investment gains. Certainly more so than maintaining their existing account that is down by some alarming amount!

UNTIL NEXT TIME...

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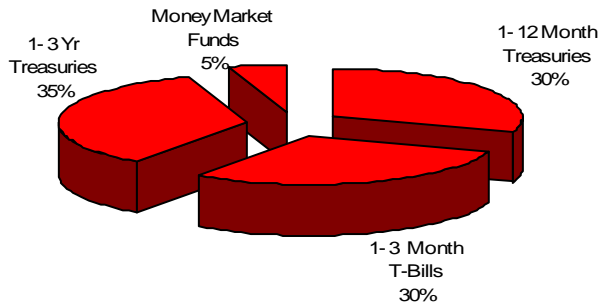
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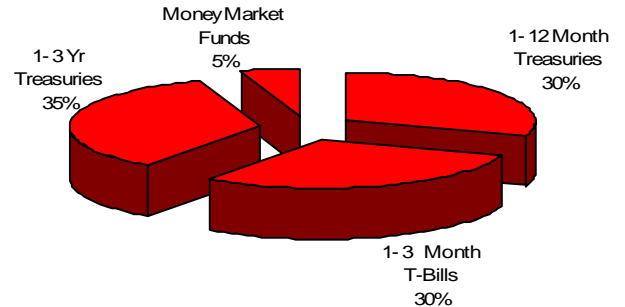
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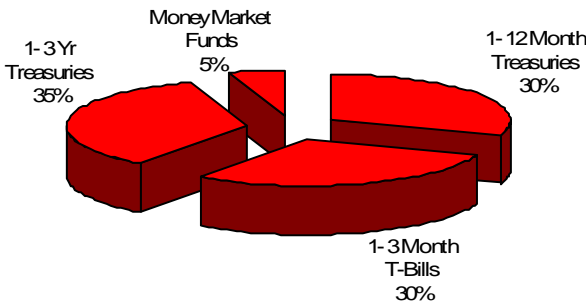
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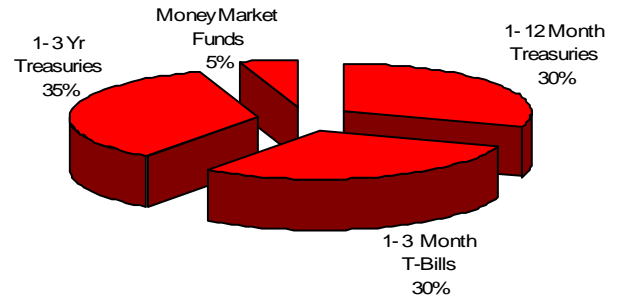
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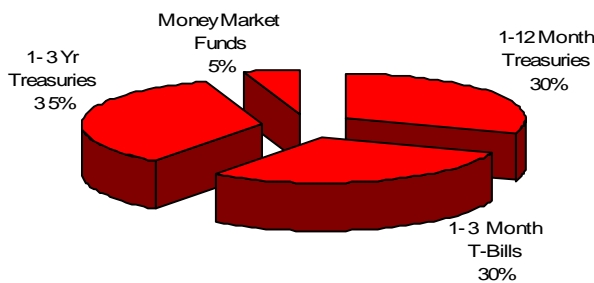
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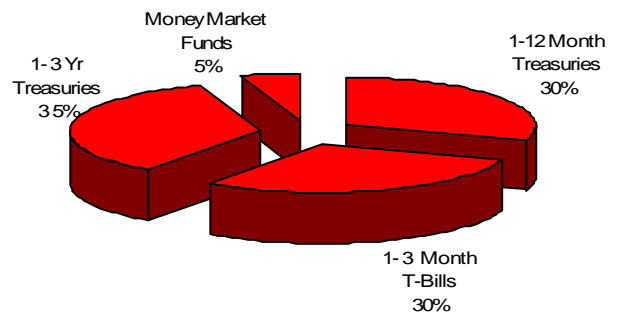
Growth



Pacific Rim & Emerging Markets

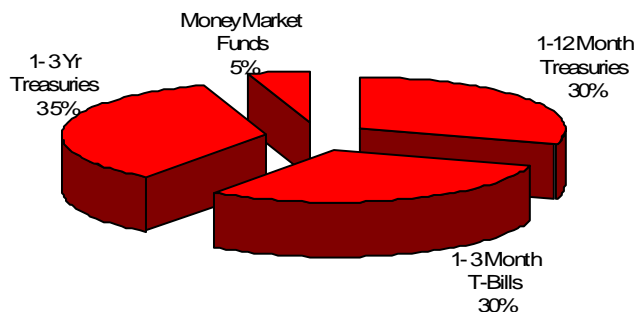


Global Hard Assets



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

Strategic 50/50



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.