



THE FOXHALL GLOBAL OUTLOOK



NOVEMBER 2, 2009

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DEAR PAUL,

You said in your last Foxhall Global Outlook that this economic recovery would be different than previous bull markets. Why is that and which investments will do well and which investments should we avoid?

As I have said before, this is going to be a unique and uneven recovery. Last week we saw days when the stock market went up in triple digits and then the next day dropped in triple digits.

This is not uncommon during the transition from a recession to a new long-term bull market.

In my July 24, 2009 FOXHALL GLOBAL OUTLOOK, I said, *“between now and the end of the year the stock market is going to have some wide swings both positive and negative and this is completely normal when we are transitioning from a bear market to a bull market.”*

Given the fast run-up in the stock market since March of this year, if history is any precedent, there will probably be a stock market correction sometime in the future. And yes, this would be perfectly normal at the beginning of a bull market.

I also talked about a possible stock market pull-back in the September 4, 2009 FOXHALL GLOBAL OUTLOOK. I also explained what we would do if there was a serious stock market correction. This is what I said:

While I do not believe we will see a “DOUBLE-DIP RECESSION,” it is our job as RISK MANAGERS to make sure our clients are protected if the unthinkable or merely unexpected happens. That’s our job.

THIS IS WHAT FOXHALL DOES TO PROTECT CLIENT PORTFOLIOS IN A WORST CASE SCENARIO. If a client was invested this past week, we look at the entire client portfolio and if that portfolio drops 5%, it hits our “STOP-LOSS” and the day after that drop FOXHALL will move the entire portfolio back to U.S. treasury bonds.

That exact scenario happened in early June. The EMERGING MARKETS segment signaled an entry point in May. In June, there was a significant pull back and our “STOP-LOSS” kicked in to minimize the loss and keep the volatility low.

I will state again, at FOXHALL CAPITAL we consider our NUMBER 1 PRIMARY GOAL in managing our client’s retirement investments to be RISK MANAGEMENT—before everything else. PERIOD!

I think everyone should know how we will manage our client’s portfolios in a worse case scenario.

NOW BACK TO THE QUESTION...

Everyone is asking the same question, what will the new U.S. bull market look like? And what will the U.S. and global economy look like during this next bull market—and most importantly, WHERE ARE THE BEST INVESTMENT OPPORTUNITIES?

I believe the next bull market will be very different from any other bull market we have seen in modern history!

“...WHAT WILL THE U.S. AND GLOBAL ECONOMY LOOK LIKE DURING THIS NEXT BULL MARKET – AND MOST IMPORTANTLY, WHERE ARE THE BEST INVESTMENT OPPORTUNITIES?”

No one, of course, has a crystal ball, but based on trends that are already emerging, this is what I, and many other analysts, believe will happen.

There will be many U.S. companies and industries that will boom like never before as beneficiaries of the global economic expansion that will be centered in Asia and other emerging markets.

Global U.S. multi-nationals will increase their international market shares and profits worldwide. Coca Cola recently announced that 80% of all its sales now came from outside the U.S.

U.S. oil companies, energy and mining and commodity companies will also boom, as will agriculture and agricultural service companies.

Heavy equipment manufacturers and any companies that benefit from infrastructure expansion here in the U.S. and around the world will also post substantial gains.

In next week’s FOXHALL GLOBAL OUTLOOK, I will identify a number of other industries that will also boom over the next 5 years.



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I will tell you specifically which sectors, industries and regions of the world WILL BE THE MOST LIKELY TO BE PROFITABLE INVESTMENTS OVER THE NEXT 5 TO 8 YEARS OF THIS NEW BULL MARKET—**AND WHICH ONES WILL NOT BE GOOD INVESTMENTS!**

But before we start looking toward the future let's look, for a moment, at where we have been, **where we are**, and where we are going.

LET'S FACE IT—THE EFFECTS OF THIS PAST RECESSION HAVE BEEN DEVASTATING

There can be no doubt during the past two years that this bear market/recession has cost millions of jobs across almost all industries, generated massive losses in wealth among millions of U.S. homeowners, brought key industries—notably autos and financial services—to their knees, and it has wreaked havoc on the income statements and balance sheets of business everywhere.

The stock market, as measured by the S&P 500 INDEX, fell by almost 57% from its peak on October 9, 2007 to the bottom this past March 9, 2009, producing major damage to millions of 401K's and other retirement accounts in the process. This was definitely the worst stock market drop since 1937.

Most people have heard about the marvels of "COMPOUNDING" when the stock market goes up. But it is a seldom discussed harsh reality that *negative compounding* has decimated most investment portfolios.

The facts are, with the S&P 500 INDEX having gone down by 57% the stock market now has to GO UP OVER 130% JUST IN ORDER TO BREAK EVEN TO WHERE IT WAS BACK ON OCTOBER 9, 2007.

Even though the stock market has seen a remarkable run-up over the past few months, it is likely to take years to recover the high we reached on October 9, 2007. **THE EGREGIOUS POWER OF NEGATIVE COMPOUNDING SHOULD NOT BE OVERLOOKED!**

This past recession has been such a traumatic event in the lives of so many investors, that it will likely dominate investment decision-making for years to come.

Even after the recent stock market rally, most people have lost over a decade of their retirement earnings. **SOME ANALYSTS ARE CALLING IT THE "LOST DECADE."**

HOW CAN WE BE IN A BULL MARKET WITH UNEMPLOYMENT STILL GOING UP?

There are even a number of people who now question whether the recession is really over. **THEY ASK HOW WE CAN HAVE A BULL MARKET WHEN SO MANY PEOPLE ARE STILL UNEMPLOYED.**

And that's a fair question.

The answer is that the stock market has long been considered a LEADING ECONOMIC INDICATOR. That means the stock market normally begins to turn up well before the economy, as a whole, recovers.



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But unemployment is usually a “LAGGING ECONOMIC INDICATOR” and bull markets do not start with more jobs. In each of the past four recoveries from bear market recessions, overall output, like manufacturing, increased inventory and profits turned up first and only then did employment start to improve. Payrolls turned up one quarter after the 1973-1975 recession hit bottom, three-quarters following the 1981-1982 (which hit an unemployment high of 10.2%), and three quarters following the 1990-1991 downturn, and seven quarters after the 2001 slump. Many economists believe the overall economy must start growing at a 2.5% to 3.0% rate BEFORE unemployment will start going down.

Another factor is manufacturers are only at about 68% of their operating capacity. That means they can manufacture and make profits for a long-time before they have to hire any new workers.

BUT MAKE NO MISTAKE ABOUT IT, THE RECOVERY HAS STARTED!

Almost all economists agree the recession is now over and the consensus is that the U.S. Economy will grow at least 3% in the second half of 2009.

It is also not just a U.S. recovery—but a global recovery. We are seeing real signs of recovery in Europe, Asia and Emerging Markets.

Home sales have started to inch up from a very low base, even though foreclosures continue to increase each month and home prices nationwide may still have a bit further to fall.

Banks are once again raising capital and according to the Federal Reserve, there may be no need to expand the Treasury Department’s \$700 billion TARP PROGRAM—or for a further extension of the big toxic asset buy-back program of those subprime mortgage-backed securities.

Recent corporate earnings have exceeded analysts’ estimates, sales have been increasing and manufacturing has turned up for the first time in a year and a half—suggesting a broad, stronger-than-expected recovery. These are many of the elements that economists look for in a recovery. As companies eventually boost their production, they will start increasing their payrolls sometime later next year.

BUT THE BAD NEWS IS THAT MANY SPECIFIC U.S. COMPANIES AND INDUSTRIES WILL BE IN A RECESSION FOR ANOTHER 5 TO 8 YEARS.

At this moment in history, U.S. consumers are going through a radical change! There has been a FUNDAMENTAL RESTRUCTURING OF CONSUMER BUYING HABITS during this recession that will not end as this new bull market returns.

LET ME JUST SAY THIS DIRECTLY — FOR THE PAST 25 YEARS, AMERICA HAS BEEN ON A “CRACK CREDIT HABIT.” AND NOW WE ARE GOING THROUGH “REHAB.”

Americans are for the first time in recent memory saving money and voluntarily paying down their credit cards. The U.S. savings rate went to its highest level over the past few months—a level we haven’t seen since 1953. I believe many people are still afraid of losing their jobs and they are socking away money for a “rainy day.” And this





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trend will continue, even as people feel the effects of the new recovery.

Instead of spending like they use to, many consumers are also voluntarily paying down their credit cards. And as they pay down their credit cards the credit card companies are sending them letters pulling back their credit limits.

In the future, even if Americans want to go out and party like it was 2007, they won't have the easy credit they had before. They will have less money available on their credit cards and they will NOT be able to use their house again as an on-going "piggy bank."

In 2007, U.S. consumer spending made up 70% of the U.S. economy. Let's be honest with ourselves, 70% is a completely unsustainable rate of spending and, in the end, really unhealthy for the economy. We have to have a better balance in the U.S. economy with consumers saving more and spending less.

Over the past two years, consumers have lost about \$13 trillion in wealth in the housing and stock market declines.

UNFORTUNATELY, BUSINESSES THAT RELIED ON "EASY CREDIT" WILL BE IN FOR A LONG RECESSION!

THE BAD NEWS IS—over the past 25-years, the business plans of many U.S. industries have been based on consumers' access to very easy credit. That time is now over and many of those businesses have failed and many more will fail over the next few years.

Their business plans will now be unsustainable without easy credit and many of these companies and industries and their employees will suffer greatly in the future.

For example, I have seen in many parts of the country HOME DEPOT'S built right across the mall from a LOWE'S. THAT DOESN'T MAKE ANY SENSE!

You used to be able to go into any major mall and there were 3 or 4 big box stores like CIRCUIT CITY and BEST BUY all selling the same HD TV's and other electronic equipment. Some of those companies have already gone bankrupt and many more will be out of business in the next few years.

Remember all the 0% financing for cars and how everyone traded in their old car every two or three years for a new one. Well, many consumers have now realized that a new car will actually last 5, 10—even 15 years before you need a new one.

The auto industry, and all associated industries, will continue to struggle over the next few years, as will every company and industry whose business plan relied on cheap and easy credit.

I also believe that the U.S. commercial and residential real estate industry and the U.S. construction industry in general will be in a recession for at least the next 5 to 8 years as will all the industries that supply these companies with services and materials.

Many U.S. companies and entire sectors will be going through a very painful shakeout



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over the next few years as consumers go through REHAB and recover from their “CRACK CREDIT HABIT.”

The good news is that many economists believe that this fundamental restructuring of consumer buying habits and the corporate shake-out in many of these industries can be compared to a forest fire clearing out the dead brush and making room for new and healthier growth. And also as a much needed catalyst to get Americans to rethink their unsustainable habits on spending, saving, leverage and risk taking.

WHICH INDUSTRIES WILL UNDERPERFORM OVER THE NEXT FEW YEARS?

OK, I promised to tell you which industries I believe will boom and which industries will be an investment bust over the next 5 years.

If you listen to the economists and analysts on the cable financial news programs, it seems that most of them agree that, AT LEAST HERE IN THE U.S., we will see a lackluster U.S. growth rate AND MEDIOCRE STOCK MARKET RETURNS over the next 5 years.

BUT THAT IS ONLY HALF RIGHT. The truth is, if one studies the detailed company and industry analyst reports, about one-half of all the sectors and industries in the U.S. will be booming because of their global focus, while the other half of the sectors, mainly focused on U.S. consumers, will trend flat or remain in a recession for several more years.

This has happened before. If you look at 1997 to 2000, which was one of the steepest and best bull markets in history, all of the stock market's growth was primarily in two sectors—TECHNOLOGY AND TELECOM. If you look at the rest of the S&P 500 INDEX during that period it was relatively flat except for those two sectors.

This time, most analysts believe that about half the sectors in the S&P 500 INDEX will do well and the other half will underperform.

Based on long-term trends and using elements of FOXHALL CAPITAL'S TREND RECOGNITION TECHNOLOGY™ here are the sectors, industries and regions of the world that I believe will underperform over the next few years. Next week, I will identify those sectors, industries and regions of the world that should outperform in this new bull market.

BUT FIRST, HERE ARE THE INVESTMENTS I BELIEVE YOU SHOULD STAY AWAY FROM. THEY ARE PROJECTED TO UNDERPERFORM OVER THE NEXT 5 YEARS.

Stay away from risky assets such as U.S. commercial real estate, U.S. residential real estate, the auto industry and the industries that manufacture or provide services to these industries.

Other industries that are projected to underperform are many consumer discretionary companies that relied on discretionary spending or corporate expense accounts, like up-scale restaurants and any company selling luxury goods. Even if people can afford these luxury goods in the future, flaunting your wealth now is considered very bad taste.



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Note that ANY of these categories might make short lived advances but the global economic picture does not suggest that they will display persistent growth.

In next week's Foxhall Global Outlook I will tell you which investments should do best in this recovery and why.

UNTIL THEN!

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