



## THE FOXHALL GLOBAL OUTLOOK



DECEMBER 28 2011

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### IT HAS BEEN A TOUGH YEAR! WHERE DO WE GO FROM HERE?

As we near the end of this year, it is a time for reflection. What did we do right and what did we do wrong over the past year?

WHY DID WE MAKE MISTAKES AND HOW DO WE AVOID THEM IN THE FUTURE.

Whenever I give speeches I always try to explain that, "FOXHALL is always a little bit late getting out of a BEAR MARKET and always a little bit late getting back in." I always mention the history of our technical signals in that they usually take 3 to 4 months AFTER A BULL MARKET HIGH to signal that we are entering into a LONG-TERM BEAR MARKET and, conversely, they almost always take 3 to 4 months AFTER A BEAR MARKET BOTTOM to signal that a LONG-TERM BULL MARKET is beginning. That is how the system has worked in the past.

Our FOXHALL system is designed to identify LONG-TERM BEAR MARKETS and then move portfolios to cash and patiently wait out the bear market until our signals tell us that we are re-entering a LONG-TERM BULL MARKET.

During this current stock market cycle, the system worked, as it should. HOWEVER, THE RESULTS IN TERMS OF SHORT-TERM PERFORMANCE LEFT A LOT TO BE DESIRED.

Part of the problem is that the stock market has just been a volatile, roller-coaster ride this year. It has not given any clear signals.

As we end the year, the stock market is set to end up just about where we started—essentially flat!

This is what a chart of the S&P 500 INDEX has looked like from this past May to right before Christmas.



Our FOXHALL DEFENSIVE TECHNICAL SIGNALS have been flashing "A CAUTIOUS YELLOW" since mid-July, but every time the market hits our LONG-TERM BEAR MARKET SIGNAL the stock market then bounces back up again.

FOXHALL started to add more cash to client portfolios in late August and we went 100% to cash and U.S. government treasury bonds when the stock market bottomed in early October. Historically, when this type of market bottom has occurred in the past, this has signaled a severe bear market and I feared we could see a drop of another 25% to 30% in the stock market. Perhaps I was too cautious!

THAT DID NOT HAPPEN. As you can see by the chart above, as soon as the market hit bottom, the stock market rallied up over 13% in the next couple of weeks.

Unfortunately, our system is not perfect and FOXHALL was left in cash during this two-week spurt in the stock market.

**Foxhall has not been able to recover from THAT ONE MISTAKE during the year and I want to apologize to all of our FOXHALL clients for missing that brief recovery. That one event will cause our FOXHALL performance to lag the stock market indexes this year.**

**EVEN IF AN INVESTMENT STRATEGY DOESN'T WORK EVERY TIME—RISK MANAGEMENT IS STILL IMPORTANT!**

One of the reasons clients hire FOXHALL is to manage risk. IT DOESN'T MEAN WE WILL ALWAYS BE RIGHT, but it does mean we try to ERR ON THE SIDE OF CAUTION.



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Historically, this usually works to the client's benefit, but in October of this year, our stop-loss triggers were slowly getting us out of the market and then when it hit bottom, the market shot up over 13% in less than two weeks. That is just the way things work sometimes. We are human and unfortunately, we don't have a crystal ball.

However, I do believe that once this current correction is over and there is a sustained upward trend in the stock market that OUR FOXHALL PROCESS COULD OUTPERFORM THE STOCK MARKET GOING UP AND I HOPE THIS WILL HELP MITIGATE RECENT PORTFOLIO DECLINES.

### **WHY SHOULD AN INVESTOR HIRE AN INVESTMENT MANAGER?**

The short answer is, RISK MANAGEMENT!

I get that question a lot, especially when the stock market is shooting down, then up and then sideways—and no one is making any money.

In the long run, PERFORMANCE is very important. The goal of all investment managers is to increase a client's capital over any 5-to-10 year period. BUT DURING THAT PROCESS, AN EQUALLY IMPORTANT TASK IS TO PROTECT CLIENTS FROM CATASTROPHIC LOSSES ALONG THE WAY. That is what RISK MANAGEMENT is all about.

### **RISK MANAGEMENT VS. GAMBLING AS AN INVESTMENT STRATEGY**

AN INVESTOR BASICALLY HAS TWO CHOICES. He can hire and pay a fee to an investment manager to cautiously manage the inherent risk of investing in the stock market, or an investor can take his chances in the stock market and "buy and hold" one of many available large cap growth funds or S&P 500 INDEX FUNDS.

The underlying fees associated with many mutual funds and index funds are often similar to the full fees charged by professional investment managers—except with most mutual funds, THERE IS LITTLE OR NO RISK MANAGEMENT. You take your chances with the stock market.

I often think of buy-and-hold investing as driving a car without brakes, seat belt or airbag. There is nothing there to save you if the stock market is careening off a cliff like investors experienced in 2000 to 2002 and again in 2008-2009.

People forget that the stock market dropped, peak to trough, from 2000 to 2002 by 49% and in 2008 and 2009 the stock market dropped 57% before it started to recover.

If a security drops from \$60 to \$30—that is a 50% loss. But in order to get back to break-even from \$30 to \$60, that security must go up over 100%.

Over the past 50 years, the average stock market gain has been about 7% to 8% per year. It will take over 12 years for that stock to go up 100% to just get back to breakeven.

This is why RISK MANAGEMENT is so vitally important in an overall investment strategy.

Had you invested in an S&P 500 INDEX fund 12 years ago on January 1, 2000, on December 20, 2011—



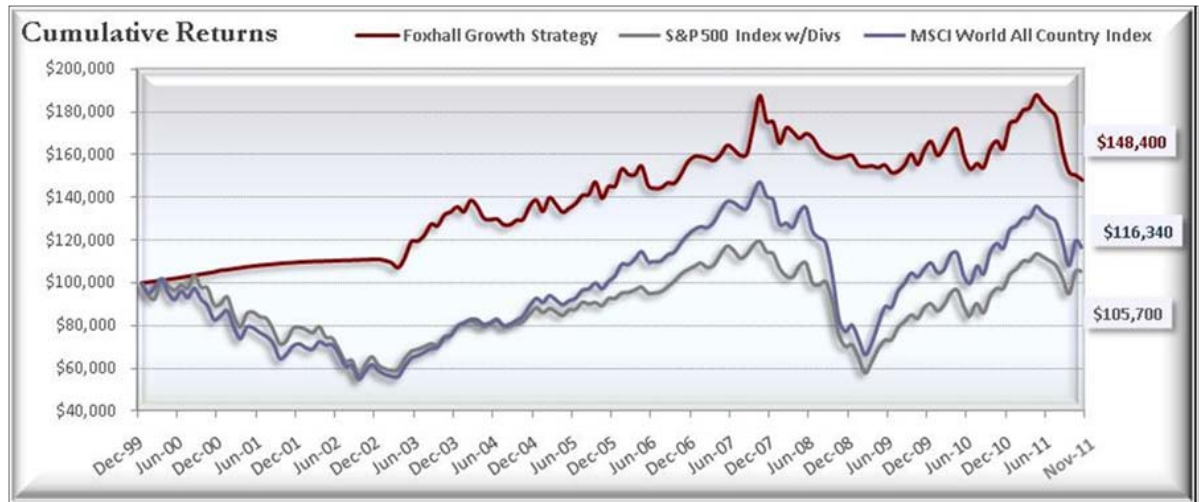
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you would have lost almost 15% of your investments over that 12-year period.

Contrast that with the FOXHALL investment strategy that focuses on RISK MANAGEMENT. Here is almost 12 years of Foxhall's performance from January 2000 to November 30, 2011.



While FOXHALL hasn't always outperformed the S&P 500 INDEX in short periods of time, we have had an impressive long-term performance record over the past 12 years.

If you look at the chart above, FOXHALL also underperformed the S&P 500 INDEX in 2004, which was another volatile, roller-coaster year for the stock market.

### WHERE DO WE GO FROM HERE?

Our FOXHALL DEFENSIVE TECHNICAL SIGNALS are still not telling us we are entering into a long-term bear market but THEY ARE INTENSELY FLASHING A "YELLOW CAUTION LIGHT."

Over the past few weeks, the stock market has seen signs of a modest recovery. Retail sales are up. The jobless rate has gone down a little. Manufacturing has bounced back along with exports, and some consumer confidence has come back, at least during this holiday season.

Normally, this news would be taken as an early sign of a real recovery. But it is clear that Europe—with an economy slightly larger than that of the U.S.—is driving events globally.

But it's not just Europe. The entire global economy does not look good over the next six months. Europe is in recession. Japan's growth is flat lining. Asian growth is slowing. It is going to be very hard for America to really take off in the face of a major global slowdown. I don't know if we will go into a formal recession, but we could see very slow growth.

### THINGS MAY GET WORSE, BEFORE THEY GET BETTER.

All investors remain vulnerable to the debt crisis in Europe and the possibility of a global financial melt-down.



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The trends developing overseas are negative enough that it will be hard for the U.S. economy to entirely avoid being affected. We found out in 2008 and 2009 that no one is immune to overall trends in the global economy.

### **SO HOW WILL FOXHALL BE INVESTING CLIENT PORTFOLIOS OVER THE NEXT SIX MONTHS?**

The answer is: VERY CAUTIOUSLY!

FOXHALL will continue to hold large amounts of cash and U.S treasury bonds in our client's portfolios while there is still great risk in the stock market.

With risk management there is always a potential trade-off. An investor gives up some potential reward to manage potential catastrophic risk.

Although risk management is not always perfect, it is always important to be vigilant in trying to manage the downside risk—and it also helps to try to be humble enough to admit that we don't or can't know everything.

HOPING FOR THE BEST AND PREPARING FOR THE WORST IS STILL A GOOD INVESTMENT STRATEGY.

With FOXHALL maintaining large positions in cash and treasury bonds to protect from an expected downturn in the stock market early next year, investors should realize that on days when the market goes up, their portfolios will probably underperform. Conversely, on days the stock market drops, they most likely will be protected.

I have always believed it is better to look like an idiot when the bulls are running than when everyone is getting gored!

Next week I will give my views on what investments will outperform in 2012!

Until then...

Patience!

—Paul Dietrich  
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The GROWTH STRATEGY (CREATION DATE 12/31/1999) has a target equity allocation of 100%, however, the portfolio may move entirely to non-equity funds as a defensive position during major market declines or economic recession. Prior to May 1, 2006 each of the sub-advised managed accounts are counted as individual accounts and as of May 1, 2006 and later they are treated as one aggregate account.

FOXHALL GLOBAL SERIES	YTD 11/30/11 (net)	Bench-marks	2010 (net)	Bench-marks	2009 (net)	Bench-marks
Growth	-15.24%	1.09% 1 -7.11% 5	5.10%	15.05% 1 15.71% 5	4.11%	26.45% 1 38.64% 5
	2008 (net)	Bench-marks	2007 (net)	Bench-marks	2006 (net)	Bench-marks
	-8.96%	-37.00% 1 -42.67% 5	10.20%	5.49% 1 13.72% 5	9.55%	15.80% 1 20.62% 5
	2005 (net)	Bench-marks	2004 (net)	Bench-marks	2003 (net)	Bench-marks
	4.71%	2.27% 1 -3.94% 5	2.40%	10.88% 1 15.77% 5	22.28%	28.68% 1 33.98% 5
	2002 (net)	Bench-marks	2001 (net)	Bench-marks	2000 (net)	Bench-marks
	1.20%	-22.06% 1 -13.67% 5	6.67%	-11.93% 1 -13.88% 5	5.84%	-9.10% 1 -13.29% 5

\* Partial period return. (1) S&P 500 Index w/divs (5) MSCI ACWI All Country World Index

The initial benchmark was the S&P 500 Index, an index of the 500 most widely held U.S. stocks. Because the strategy is a global equity strategy, benchmarking it to an index of U.S. stocks might have been confusing to certain investors. On 03/31/09, a "blended benchmark" reflecting the base line allocation of developed markets, emerging markets and commodities/hard assets was established. This benchmark proved to be less than useful as it simply reflected the strategy itself. On 04/01/11, the MSCI ACWI (All Country World Index) Index was established as the benchmark for the strategy. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices. This is an independent benchmark that is widely available on financial websites and other financial information sources. Additional information on the MSCI All World index and the previous benchmarks is available upon request.

Foxhall Capital Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®). Foxhall Capital Management has been GIPS verified for the periods 12/31/99 – 12/31/08 by Beacon Verification Services. The ETF Series composites have received a performance examination for the period since inception through December 31, 2008. A copy of the verification report is available upon request.