

WARRINGTON

ASSET MANAGEMENT

August 2006 Market Commentary

At the beginning of August, Warrington held an average size position of long put spreads, anticipating a retracement in the S&P 500 Futures after July ended with a rally. As the S&Ps began to decline in the second week of the month, we initiated a small long call position as well as some long futures, to take advantage of a potential rally in the S&P futures. At the same time, we increased our long put spread holdings to get the fund in a position to profit from a decline in the futures, should that occur. As expiration approached, the S&P did stage a strong rally, thereby making our long calls and futures profitable, but decreasing the value of our long puts commensurately. This rally continued through the end of the month, and we started to set up September positions to take advantage of another potential decline in the S&P futures.