WARRINGTON
ASSET MANAGEMENT

August 2009 Market Commentary

August was very similar to previous summer months this year. Little stock market volatility and weak trading volume during a steady ramp up in the S&P 500 meant that ratio put spreads were not as profitable as the manager would have hoped.

Without any sustained declines in the S&P 500 (the largest was a 3.5% drop over the course of two days in the middle of the month that was quickly retraced), the put spreads that the fund employs never had much of a chance to increase in value. Due to still-present underlying economic issues (continually increasing unemployment and home foreclosure rates, among other factors), the manager has abstained from investing significant money in call spreads to capitalize on increases in the S&P 500. The stock market is still over-bought, but has been so for some time and is most likely due for a decline lasting more than two days. Some volatility would arguably be a healthy development, dampening some of the speculative fervor (as evidenced by staggering increases in some previously worthless stocks and bonds).

September and October are historically very volatile markets, and in this environment the manager will continue to employ ratio put spreads to potentially capitalize on stock market declines, while keeping a sharp focus on risk management.