# December 2006 Market Commentary

We entered the month of December holding a full position of put spreads offset by a partial position of futures, making synthetic calls. The buoyant, non-volatile market of the previous six months had just experienced a dose of volatility in the final days of November so we held our position steady in case of further volatility. When this volatility did not materialize, the S&P 500 futures resumed the pattern of rising slowly with historically low levels of volatility. With this slow churn higher, we adjusted the portfolio so that we were long puts at a higher strike to more effectively take advantage of a decline in the market, should one occur. Going into expiration, only a minor pullback occurred, allowing us to take off some of our long puts to lock in a gain. This pullback (of only a few S&P points) was short lived and the market resumed its grind higher into the end of the month.

Volatility (as measured by the VIX) is low and has been low for quite some time. This will not always be the case. Complacency and market buoyancy will only last for so long, and we continue to position the portfolio to try to capture both sides of this market.