WARRINGTON
ASSET MANAGEMENT

December 2007 Market Commentary

With the success that the Warrington Fund experienced during November, we were very attuned to limiting our potential losses in December. Even with an extra dose of caution, we felt that the opportunities presenting themselves in December had favorable risk / reward characteristics to allow us to trade as we had been throughout the previous few months: trading smaller position sizes and wider ranges in our spreads to decrease risk and maintain significant profit potential.

Entering December we were holding a fractional position of ratio put spreads and some protected call spreads as we felt that the stock market might be due for a rally, given that it had declined for essentially the entire month until the final few days of November. This rally did materialize as the S&P increased by 2.8% over the first week and a half of December, hitting a peak on December 11th. This rally gave us the opportunity to modify our position, looking for a pullback as we have successfully done over the past few months. When the Federal Reserve announced its decision on the 11th to decrease the Fed Funds rate by a quarter of a percent when many market participants were anticipating a larger half of a percent cut, a pullback in the market ensued. Over the next five trading days, the S&P declined 5.8% from the high on December 11th to the low on December 18th. On the 19th, shortly after the lows for the month had been made, we locked in a profit for the position and kept most of our assets in cash for the duration of the month. Given the challenges of the first half of the year, we were pleased with our results and felt the risks of the holiday weeks did not justify adding new positions.