

WARRINGTON

A S S E T M A N A G E M E N T

December 2008 Market Commentary

December began on a resoundingly negative note, with the first day of the month having a decline of 8.9% (the third worst single day in the history of the S&P 500), stoking fears that the stock market was heading for another significant decline. That was not to be the case, with the lows seen on December 1st being the lows for the entire the month. While those lows were not breached, the stock market was not able to post any significant gains, other than marginally recouping the losses from the first trading day, ending the month with a gain of roughly half of one percent.

The Warrington Fund had no put options on its books on the first day of the month, and therefore was unscathed during that massive decline. The manager opted to continue this strategy of avoiding puts until the market showed signs of stabilization, which were not seen in the prior three months. The manager did initiate a small position of ratio put spreads when chart patterns became favorable, seeking to capture a pullback in the S&P 500. The market failed to decline enough for the put spreads to be profitable, and all of the fund's long and short options expired out-of-the-money, incurring a small loss from the cost of the spreads.

From expiration through the end of the month, the manager looked for trade opportunities but the lack of volatility and light trading volume that is commonplace around Christmas and New Year's caused any potential trades to be unattractive to the manager.