WARRINGTON
ASSET MANAGEMENT

February 2008 Market Commentary

On the heels of a very volatile month in January, expectations for February were for more of the same. In actuality, volatility was present but the S&P 500 oscillated within a trading range of about 5.7%. As the highs of the range were reached, the market would roll over, and then find support near the lows. In early February, the decline from the high of 1397.50 (basis March S&P 500 futures) to the low of 1317.50 occurred in only four trading days. Declines such as that have kept investors on their toes.

We began February with a light position of ratio put spreads with some put protection below the market. To this position, we added a partial position of end-of-February expiration ratio put spreads, along with some protective put spreads below those. Both the regular February and end of February positions helped to contribute to the fund's profitability for the month. For both expirations, we decided to forgo any call spread positions as we felt that any upside would be limited as the likelihood of a strong snap-back rally (like we saw in August) was minimal. Should the market continue to become more oversold, our view on buying call spreads will most likely change.

In the final days of the month, we initiated a small position of ratio put spreads for March. As the S&P 500 declined from the high end of the recent trading range to the lower end of the range in the last few days of the month, those March positions marked-to-market against us slightly, negatively impacting February's results (by less than a third of a percent).