

WARRINGTON

ASSET MANAGEMENT

July 2006 Market Commentary

Warrington began the month of July holding a position of put spreads which were initiated after the S&P 500 futures had rallied strongly to close out the month of June. As the market fluctuated through the early part of July, we added to this position by buying more put spreads, and we purchased a partial position of futures to give the portfolio some long exposure. On July 12th, the S&Ps began a 4.1% decline that would take only five trading days to complete. The quick decline and the volatility in the market after this move allowed Warrington to capture profits from the put spreads. After expiration we held a moderately-sized position of very wide put spreads. The S&P futures finished the month by steadily climbing to near the levels at the beginning of the month, to end the month down by about 0.2%. This rally and subsequent decrease in volatility caused a collapse in the values of our short options, creating a marked-to-market gain on August positions at the end of the month.