



## July 2008 Market Commentary

In the beginning of July we held no positions, as the S&P 500 continued its decline and we believed risk management was paramount. After the market showed signs of stabilization, we initiated a partial position of ratio put spreads. The market continued to go lower, eventually declining 16.65% from the end of May to the middle of July. The week before options expiration the S&P 500 made a low near the 1200 level (its lowest level since October of 2005). However, in the days that followed, the market turned and rallied hard through options expiration. This erased gains we were experiencing and led to a small profit on this position at expiration.

During this week, we entered into a small position of ratio put spreads which expired at the end of June. We were set up for a pullback in the market, but this did not materialize and the position expired. The low cost of these end of month ratio put spreads did not really impact our P&L, and the return for the month wound up being essentially unchanged, net of fees. On a positive note, July proved to be quite a challenging month for many money managers, while our risk management discipline helped us avoid difficulty in a treacherous market environment.