



July 2009 Market Commentary

Early in the month of July the S&P 500 experienced a moderate decline, sending the index down 5.5 percent over the course of five trading days. This pullback caused the S&P to reach certain technical support levels, but when those support levels held and the stock market did not decline any further it was “off to the races.” From those lows, the S&P 500 rallied 13.8% to end the month up by about 7.5%.

While this type of one-way straight up move can often cause problems for Warrington’s trading methodology, the manager was able to avoid losses and actually post a positive return for the month.

By many metrics the S&P 500 has begun to price in a very strong economic recovery. While stock markets are not quite “priced for perfection,” the manager does believe that if the economic data were to become more negative there could be ramifications for stock prices. Therefore, the manager is continuing to hold ratio put spreads in the fund’s portfolio to attempt to capitalize on a decline in the S&P 500, should such a scenario materialize, while also attempting to profit from the continuing rally.