WARRINGTON
ASSET MANAGEMENT

June 2008 Market Commentary

As has been our custom over the past few months, we began the month of June holding a partial position of ratio put spreads as well as a small position of protected ratio call spreads. The weakness in the S&P 500 that began in earnest in the final week of May continued unabated. Any rally in the market was reversed within days and declines, although not as dramatic as we have seen over the past eighteen months, were consistent and unrelenting. Market participants exhibited high level of anxiety but the VIX and other metrics did not become volatile. They remained relatively subdued, which is often a sign of further declines in the market in the near future.

Coming into regular June expiration, we were able to close out our positions and realize profits. After this, the S&P 500 continued its slide, working well for our small position of ratio put spreads (which expired at the end of June) that we had purchased earlier in the month. As the end of the month approached, the market was stabilizing before the announcement by the Federal Open Market Committee regarding interest rates. We used this relative calm as an opportunity to close out our end-of-month positions a few days early, as we had good profits on paper and we knew that after interest rate decisions markets have historically been very volatile. Immediately after the Federal Reserve's announcement volatility increased, with the S&P 500 falling about 3.0% the following day. For the month, the S&P 500 cash index closed down 8.6%, the worst monthly return since September of 2002.

Given the volatility and uncertainty in the stock market, we chose to delay the initiation of any new positions for July expiration until the market was able to show some signs of stabilization.