

WARRINGTON

A S S E T M A N A G E M E N T

March 2006 Market Commentary

Warrington entered March with a neutral market position, where either a moderate upward or downward move would have been beneficial to the Fund. A few days into the month, a 2.3% sell-off in the S&P futures caused our long puts to go in-the-money. During this move in the S&Ps we added to our small long futures position to act as a partial hedge. After hitting the low of the month for the S&P futures the week before options expiration, the market rallied 3.3% into expiration day where we closed out our March positions with a slight gain. Prior to expiration we began a partial position of long put spreads (for April), which we then increased to a full position. This let us take advantage of the very choppy market activity through the end of the month. Using our futures hedges against our long put spreads, we were able to capture moderate profits by selling out of our hedges when the market had become short-term overbought, then re-instating the hedges when the market had returned to oversold. The S&Ps ended the month in the lower end of the recent trading range, leaving our long put spreads in-the-money, generating additional mark-to-market gains.