WARRINGTON ASSET MANAGEMENT

March 2007 Market Commentary

The month of March began where February left off: on the heels of the rapid market decline on February 27th, investors were still searching for market direction. Subprime lending issues were compounding, the market had been on a one way upward slope for months until just days before, and risky assets of all types were being sold. All of this played into our investment decision to reduce risk and increase our hedging activity. As the S&P 500 futures rebounded somewhat after the second move down on March 5th, investors sensed that the market was regaining its footing, only to have yet another move lower. This time, though, the ensuing rally continued and the lows held, providing a springboard to the market, which rocketed 6.27% (basis the June S&P future contract) from the low of March 15th to the high on March 21st.

This market activity allowed us to minimize our losses on our March position and to also have some mark-to-market gains at the end of the month on our April positions, though still being down overall on the month. We remained bearish through this rally and modified our April positions to take advantage of a decline in the market, should one occur. Through the end of March, the rally had stalled, leaving our long puts very near the money and short puts significantly out of the money. We were also profitable on our synthetic long call position, yet out overall position was biased toward a market decline. We felt that complacency and a generally lax attitude to risks in the market implied that the S&Ps may not be through with its downside activity. Through the end of March, no such decline had materialized, but we felt in necessary to position the portfolio accordingly.