WARRINGTON
ASSET MANAGEMENT

March 2008 Market Commentary

March S&P 500 performance was characterized by massive swings (both up and down). The month began with a six–day decline of 4.36%. Immediately on the heels of that pullback the market then rallied 4.68%, into positive territory for the month. This rally could not hold and the S&P 500 dropped precipitously over the next few days to new lows for the year, to the 1256 area (down 14.40% for the year). This decline coincided with the problems revealed at Bear Stearns which allowed JP Morgan to step in and buy Bear Stearns (with much assistance from the Federal Reserve) at a tremendous discount to its prior stock price. The S&P 500 rallied 8.17% over the next week, before falling back somewhat to finish the month down 0.6%.

We began this volatile month holding some ratio put spreads. As the market moved, we actively hedged the portfolio to give the market more room to fluctuate. In the midst of this volatility, we used call spreads to give the fund profit potential should a snap-back rally occur. The S&P 500 continued this erratic motion through March expiration, allowing us to realize profits for the month. We also held a position of ratio put spreads that expired at the end of the March that allowed us to realize additional profits.