

WARRINGTON

ASSET MANAGEMENT

May 2008 Market Commentary

As we entered May, our ratio puts purchased near the end of April were at-the-money. However, as the month progressed, a moderate rally ensued, meaning our long puts were then out-of-the-money. Still, we chose to take advantage of the rally by adding to our position with higher-strike ratio put spreads. We also held a small component of protected ratio call spreads. While we would have preferred the market to drift lower into expiration (as our put spreads had greater profit potential than our call spreads), it instead rallied and we were able to realize profits on our call spreads.

We also held a component of ratio put spreads that expired at the end of May. We were able to implement these as the market rallied into expiration. That rally peaked on the 19th, the Monday after expiration, and a quick decline ensued (down 4.7% in the next four days). This decline, and the fact that a strong snap-back rally did not materialize, gave us an opportunity to realize gains on these put spreads. Gains realized on this position and our position that expired at the regular May expiration added up to our most profitable month of the year to date.

At the close of the month, we held a small component of ratio put spreads for June's expiration, as well as small component of protected ratio call spreads, giving us profit potential on both an upside or downside move in June.