WARRINGTON
ASSET MANAGEMENT

November 2006 Market Commentary

To follow on where the October commentary left off, we will begin by highlighting a recurring theme: the historically significant string of consecutive trading days that the S&P cash index goes without a down day of more than 1.00%. This string was finally broken on November 27th, trading down 1.36%. The streak had lasted 94 days to that date, the thirteenth longest such occurrence since January 1950. The most recent run of this magnitude or greater ended on 12/15/1995, meaning that during one of the most remarkably bullish periods in history (the late 1990s), the market was nowhere near as complacent as it has been recently. Another measure of this is the VIX Index of Volatility which hit a low in November of 9.81, the lowest level since January 1994.

All of these statistics point to a complacent stock market with little to no downside volatility. Warrington generally performs better in markets with a greater degree of volatility, yet we have still been able to achieve profitable months. Once again in November, we held a full position of put spreads, and hedged that position with some synthetic calls, similar in size to our October position. The lack of any downside volatility impinged upon our ability to add to our long exposure. Still, with positions on both sides of the market, we were able to achieve profitability, even though our put spreads finished out of the money.