WARRINGTON
ASSET MANAGEMENT

November 2007 Market Commentary

On the final day of October, the Federal Reserve cut the Fed Funds rate by a quarter of a percent, continuing a rally that had commenced a few days earlier. However, the next day, the bullish sentiment on Wall Street turned sour and a steady decline in the stock market ensued. By November 26th, the S&P futures had declined 9.5% from the beginning of the month. This decline is exactly what we were positioned for, as we profited from our put spreads as the stock market lost value. The slow and steady nature of the decline kept the prices of our short puts in check, while our long puts steadily gained in value.

Near the end of the month, we felt that the stock market was overdue for a rally, so we took steps to capture profits on our position of End-of-Month S&P option ratio put spreads. This rally did occur, as the stock market spiked 5.4% from the lows of November 26th to November 30th.

Going into December, we were positioned with a partial position of ratio put spreads, and some conservative ratio call spreads, as we felt an end-of-year rally might be in the cards. These spread positions were very wide as we wanted to be defensive in such a volatile market environment. The elevated VIX allowed us to enter these wide positions at advantageous prices, something we expect to continue as the VIX remains somewhat above its historical norms.