WARRINGTON
ASSET MANAGEMENT

November 2008 Market Commentary

The strength from the end of October (where the S&P 500 rallied almost 16% in the course of a few days) carried over into early November, where the first days of the month saw a 3.9% rally to the peak on Election Day. That would be the highest point that the market reached during November, and from there a massive decline ensued, taking the S&P 500 down by 26.6%. As the market declined, the fund entered into a small position (20% of a full sized position and about 50% of what the fund has been trading for the majority of this year) of ratio put spread to try to capitalize on a decline in the market.

This decline was relentless, similar to what the market did in September and October, where selling seemed to beget selling. As has been the manager's inclination this year, risk management was paramount, and quickly moved to hedge off downside exposure. These hedges cost money, but at the same time, the manager was able to lock in some gains from the decline, to offset some of those costs.

Around the 20th and 21st of the month, the market made new lows for the year (reaching levels last seen in April 1997), and rallied sharply from there on the news of a Citigroup bailout, gaining about 21% from the intraday lows on the 21th, through the end of the month. Even with this huge recovery, the S&P still declined about 7.5%.

Given the volatility, the manager has chosen to keep spreads much wider than in normal markets, while at the same time trading with smaller position sizes. The manager feels that this is the prudent course of action in a market where intraday swings of 5% and greater happen quite frequently. In addition to that, the fund has spent more time in cash over the past few months than at any time in the preceding five years. Unlike many other alternative investments and mutual funds, Warrington has the ability to quickly and easily liquidate positions and stay in cash as the manager deems necessary. That ability has enabled the fund to sidestep many of the precipitous declines seen this year. The fund ended the month with no positions on, instead opting to see how the market trades at the beginning of December before initiating more trades.