

# **WARRINGTON**

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## **A S S E T M A N A G E M E N T**

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### **November 2009 Market Commentary**

Within the first few days of November, the S&P 500 quickly erased the declines from the end of October. After just eight trading days, the S&P 500 had gained 6.8%. As this rally progressed, the fund manager reduced the portfolio's holdings to realize profits. These trades, in conjunction with others like them later in the month, allowed Warrington to record a significant positive return for November.

Over the Thanksgiving holiday, when the portfolio was lightly invested (holding roughly half the position size of what has recently been held), Nakheel, a state-owned investment company in Dubai, announced that it would have difficulty paying its next multi-billion dollar interest payment due in early December and sought to freeze payments until May, 2010. This shocked world markets into a decline of about 4% in overnight markets. When the US markets reopened on Friday after Thanksgiving, US indices lost over 2% on the day, yet Warrington lost about one tenth of one percent. The declines actually allowed Warrington to realize gains on a ratio put spread position that expired at the end of November.

In the bigger picture, the problems unearthed at Nakheel were mostly commercial construction loans. This sector has yet to feel much of the pain that residential construction has been facing for the past two years. The fund manager believes that commercial construction debt problems could easily morph into another strong headwind for the US (and international) stock markets, and the team at Warrington will continue to monitor this very closely.