WARRINGTON
ASSET MANAGEMENT

October 2007 Market Commentary

At the beginning of October, the securities markets were strong in the aftermath of the Federal Reserve's rate cut on September 18th (where they decreased the Fed Funds rate by 50 basis points, instead of the more widely expected 25 basis points). The S&P 500 continued to rally for the next week and a half, with the S&P futures hitting an all-time intraday high of 1586.50, up 3.15% from the beginning of the month. We were long a partial position of ratio put spreads during this move, but as the market retreated from its highs we added to the position in an attempt to take advantage of a pullback from these levels, which we considered unsustainable. The S&P 500 did indeed decline at this point, falling 5.1% from the intra-day high in the December futures contract, and dropping 2.7% on options expiration Friday (also the 20th anniversary of the 1987 stock market crash). This sharp decline allowed us to realize profits on our October put spreads.

Days later, the decline had run its course and the S&P 500 futures resumed climbing, increasing by 4.0% from the October 22nd lows to the end of the month. We used this advance to go long a partial position of November ratio put spreads, designed to take advantage of yet another decline. With the equity markets seemingly ignoring skyrocketing crude oil prices and a rapidly declining dollar, we are focusing on risk management, while at the same time trying to profit from the market's continuing gyrations.