

WARRINGTON

ASSET MANAGEMENT

October 2008 Market Commentary

After the violent market behavior in September, Warrington was very focused on capital preservation in October. The S&P 500 began October where September left off, falling 5.2% in the first three days of the month. The next day (Monday, October 6), the market gapped open lower by 2.9% and broke through some support levels that the manager had been monitoring. With that, the fund eliminated all of its downside exposure, protecting it from further declines in the market. That action proved to be quite prescient, as the S&P declined 24.34% at the lows reached that week.

For the remainder of the month, the fund remained essentially in cash. As our positions were fully hedged, the only exposure the fund had was to the upside, in some short calls roughly 50% above the market, well within our comfort level for such positions. During this inactive period, the manager was continuously doing research on the market environment and evaluating potential new trades. While these trades presented attractive potential profits, the risks outweighed the potential rewards and the fund chose to take no action.

Near the end of the month, Warrington initiated a small put position. The day after this trade was initiated, the market was limit down in the Globex overnight session, and the manager following its risk-management protocol and closed the position that morning. Even though this was a small position and a small loss for the fund, it simply reinforced the idea that the market is not yet stable and the fund should remain on the sidelines for the short term.

Opportunities for Warrington's investing style are presenting themselves on a daily basis, and the manager will look to take advantage of these when the potential rewards outweigh the risks. The manager has experienced volatile markets before and has been able to flourish (the last five months of 2007 generated approximately +20.6% returns for the fund). This type of volatility can be quite treacherous for many investors, but Warrington's manager believes that some great opportunities are starting to line up for the fund.