

WARRINGTON

A S S E T M A N A G E M E N T

October 2009 Market Commentary

As the month of October began, the S&P 500 index was immediately down 3.6%, stoking fears of past severe October declines. Investors sold stocks aggressively and the Volatility Index (the VIX) climbed 15.4% in two days. Warrington, holding ratio put spreads, saw quick profits of 1.3% at the beginning of the month. However, the declines proved fleeting as the S&P 500 rallied 8.0% (through the middle of October), erasing Warrington's gains for the month to that point.

The rally faltered after mid-month and the S&P 500 dropped 6.3% from the highs through the end of the month (causing the index to be down 1.9% net). Warrington once again saw gains on the ratio put spreads held by the Fund as the market declined, but the last day of the month was a strong down day. This particular decline caused the amount of fear in the market (as measured by the VIX) to spike 27.6% in a single day. The rapid increase in the VIX caused the options that the Fund was short to spike in value more than the options that the fund had purchased. Even though the market movement was exactly what Warrington wanted for the positions held in the fund, the options marked-to-market negatively. In the first week of November, the pricing of the options moderated and the fund gained 2.4%, erasing October's loss and adding net gains to our positions.