

# WARRINGTON

## ASSET MANAGEMENT

### September 2006 Market Commentary

At the beginning of September the S&P 500 continued the gradual ascent off its July low, with market participants exhibiting increasing complacency. The volatility index (the VIX) was in a tight, low range at the end of August, which often is a sign of imminent market movement. This was, in fact, the case as the S&P lost 1.7% over two days in the first week of September. From there the S&P climbed steadily, up 3.2% from the lows seen in that first week, with almost no downside movement. Warrington was able to somewhat take advantage of this early volatility by adding a partial position of synthetic long calls which complemented our existing position of long put spreads. While the month was profitable for the Fund, some additional downside volatility would have benefited returns as we would have been able to increase or synthetic long call positions, which were in-the-money at option expiration. Also during option expiration week, we added a partial position of October put spreads to capture a market decline, should one occur.