WARRINGTON
ASSET MANAGEMENT

September 2007 Market Commentary

We entered September holding a partial position of put spreads which had great risk / return characteristics due to the high-VIX environment in which we initiated the trades. By early September, the S&P 500 had recovered somewhat from the weakness seen in the late July / August period, and was anticipating a Federal Reserve rate cut. At its scheduled monthly meeting, the Federal Reserve did cut the Fed Funds rate by 50 basis points, more than the widely anticipated 25 basis point cut, which proved to be the catalyst for a strong rally. Because of the great uncertainty surrounding the Fed meeting, we chose to be very conservative, keeping call and put spreads very wide. This prudence was ultimately rewarded, as the market oscillated around this higher range through the end of the month, leading to one of our best months of the year.

Going into October, we viewed the continued climb in the stock market with a healthy dose of skepticism. In our opinion, the many negative events of the past few months have not been resolved, and yet, the S&P 500 and Dow Jones Industrial Average have returned to be near all-time high levels. To take advantage of a pullback, should one occur, we initiated ratio put spreads at a net credit so that if the stock market continued its ascent we could make money, even if the put spreads remained out-of-the-money.