WARRINGTON
ASSET MANAGEMENT

April 2012 Market Commentary

In what can be viewed as a slight change in tone in the stock market, the S&P 500 futures experienced a change in character in March. Whereas January and February had very little volatility, March notched the three worst down days of the quarter (those declines were relatively small with the worst being down 1.65%). Also, of the 22 down days in the quarter, twelve of them were in March. Although the S&P closed up about three percent for the month, this fact is telling as it indicates a conflicted market where the index is not simply going up or down but is churning beneath the surface, which is often indicative of a change in trend in the market.

Warrington's fund manager had positioned the fund to potentially capitalize on a decline in the S&P 500 index, which did not materialize in March. With the over-extended nature of the rally, which began in earnest in December, the fund manager has chosen not to "chase the rally" by purchasing high-priced (and low-potential return) ratio call spreads and instead to focus on capturing the eventual decline in the market. With the internals of the market weakening and the poor quality of the day-to-day trading, the manager believes this is the most prudent course of action.