WARRINGTON
ASSET MANAGEMENT

August 2010 Market Commentary

After a strong rally in July, the S&P 500 index immediately ran up against resistance in the 1125 area (based upon the September futures contract). Given that the manager believed that the market was poised to decline from this level, a position of ratio put spreads was implemented to potentially take advantage of a drop in share prices. After a few days of failed attempts to break though the 1125 resistance level, the S&P futures dramatically declined 4.8% in just two days. With the market remaining at roughly those levels through expiration, Warrington was able to profit from this decline and lock in profits of roughly 2.0%.

In addition to the position based on the regular options expiration, the fund also held a position of ratio put spreads that expired at the end of August. As the S&P futures continued to decline, these additional put spreads increased in value. Over the ensuing few days, the market churned in place and Warrington was able to realize an additional 1% profit from the end of month options.

In a steadily declining stock market, where the S&P futures declined by 7.9% from high to low during the month, Warrington was able to realize profits from two separate positions. The potential to profit in such scenarios is a cornerstone of the Warrington investment strategy and highlights an excellent reason why an investment in the fund can be a great diversifier to traditional portfolios.