WARRINGTON
ASSET MANAGEMENT

August 2011 Market Commentary

On the first day of August news was announced that the U.S. President and the heads of the House and Senate had reached a compromise to raise the debt ceiling. S&P futures rallied sharply overnight on the announcement, but quickly faded once markets opened on Monday morning. The declines then accelerated, reaching a selling crescendo overnight on August 8th. At those lows, the S&P futures had dropped an astounding 16.4% in only six trading days, and over 20% from the highs seen at the end of July.

The magnitude and velocity of this move caused the S&P futures to slice through previously strong support levels and triggered Warrington to aggressively hedge the ratio put spreads held in the portfolio. By doing so early in the market's decline, the manager was able to limit the fund's overall losses to a fraction of the market's total decline.

The end of the month saw a strong rally causing the major indices to end August with large declines (down approximately 5.5% for the S&P 500), but nowhere near the magnitude of what was experienced during the month. This rally masked the true negativity in a market which continues to trade in a volatile and unpredictable manner. Warrington continues to hold conservatively-sized positions and remains focused on risk management.