WARRINGTON
ASSET MANAGEMENT

December 2010 Market Commentary

Since the beginning of September 2010, downside volatility in the S&P 500 futures has been almost nonexistent, with a nominal amount of volatility seen in November (which Warrington was able to successfully trade, registering our best month since August). December proved to be even less volatile than prior months, with no single day in the S&P 500 closing down more than 0.4% from the previous day's close and at no time was the index down more than 0.7% intraday. This lackluster trading, coupled with the multitude of over-bought readings the market continues to register in various technical indicators, often proves challenging, and as a result the manager opted not to chase the rally and instead positioned the portfolio in ratio put spreads that would profit on even a nominal retracement. The expected down-turn did not materialize by options expiration, and subsequently the ratio put spreads expired worthless causing the fund to incur a small loss from the initial cost of purchasing the spreads.

It is anticipated that the current overbought and non-volatile market will not continue forever, and the fund manager will continue to position the portfolio to attempt to capitalize on pullbacks while keeping a focus on risk management in the event that a decline leads to a more severe correction in the stock market.