WARRINGTON
ASSET MANAGEMENT

January 2012 Market Commentary

U.S. stock markets rallied for the majority of the month, exhibiting a slow, grinding-higher pattern caused by a combination of the European Central Bank's LTRO program (Long Term Refinancing Operation, which essentially amounts to quantitative easing aimed at European banks) and the hints from the Federal Reserve about the possibility of further quantitative easing in the U.S. (possibly in the form of mortgage-backed securities purchases). For the entire month, the March S&P futures contract never traded down on the day by more than 1.5%, and the worst close on any day during the month was a nominal minus 0.37%. Even when the market experienced a few days of selling near the end of the month, with the S&P futures closing negative four days in a row, the market declined only 0.91% for that period.

This complete lack of volatility was somewhat perplexing, especially when compared to the last two quarters of 2011. Warrington held positions in both regular and end-of-month ratio put spreads in the fund, but the lack of any significant downside precluded profits of the magnitude of November and December, 2011. The small pullback at the end of the month did allow the manager to record a slight gain for the month, and the majority of the fund's positions were rolled to the February expiration cycle.