WARRINGTON
ASSET MANAGEMENT

# July 2010 Market Commentary

On the first day of July, the S&P 500 futures reached a new low for the year, declining 10.7% in just nine trading days and down 17.25% from the high of the year in April. At that point, just as market participants were becoming more bearish, the S&P rallied 8.9% in the next eight trading days and eventually climbed 11% from the lows in early July. This type of directional trading, with 7-10% swings with little or no retracement in the market, can be challenging for the Warrington strategy.

Given the manager's anticipation of this increased volatility, the Warrington Fund was protected with aggressive hedging and therefore escaped these swings with little damage (but unfortunately no net gains). Heading into options expiration, the stock market had rallied sharply (as discussed earlier) and had pushed to levels where the fund's ratio put spreads were out-of-the-money. On the actual day of expiration, the market declined sharply (down 2.8%), allowing the manager to salvage some gains as the long puts held in the portfolio became closer to in-the-money. Those small gains helped to somewhat offset the nominal costs incurred from buying the ratio put spreads and hedges. For the month, the portfolio lost a nominal amount of money due to the initial cost of trades and the subsequent hedging maneuvers.

In the months ahead, the manager expects to see continued volatility with the preference that choppy markets return instead of the directional trading that has been present since early May. When the market moves both up and down in a choppy pattern, the manager can more easily position the fund to profit from these moves and take advantage of being more nimble than other, larger market participants.