WARRINGTON
ASSET MANAGEMENT

June 2011 Market Commentary

Since late February, domestic stock markets have undergone a welcome change in character, reverting to more normalized patterns. Small declines are no longer automatically bought in an almost Pavlovian fashion. Instead, real selling has gripped the markets for extended periods, which was definitely the case for the majority of June. On the first day of the month, the S&P 500 index fell 2.3% and continued its slide for the next few weeks, ultimately falling 6.5% from May's close. From this low, markets then stabilized just above the widely-watched 200-day moving average and then rallied to finish the month down about 1.7%.

Through this decline in the S&P index, Warrington held ratio put spreads designed to profit from a moderate decline in markets. As the decline continued through the regular options expiration day, the manager was able to realize gains on those ratio put spreads even though the overall markets were quite weak.

Warrington's absolute performance through the first half of this year speaks volumes to the strategy's ability to profit in volatile markets. With moderate to high volatility, Warrington has been able to generate gains and the manager feels that, given continued moderate volatility, the fund should continue to do so.