WARRINGTON
ASSET MANAGEMENT

March 2010 Market Commentary

The Warrington Fund's option spread positions most often benefit from what can be termed "Goldilocks" volatility, as measured by the volatility index, or "VIX." Not too hot (a high VIX) and not too cold (a low VIX) would be a good description of the optimal volatility environment. In March, the pendulum swung dramatically to the "Too Cold" side, with the VIX dropping to lows last seen in July 2007, just before subprime mortgage backed security problems began to negatively affect stock and credit markets.

Often with a very low VIX the stock market slowly grinds higher with no substantial declines. This was precisely the case in March, with the S&P 500 increasing in value on 18 of the 23 trading days in the month. More so, of the five trading days where the S&P 500 declined the average drop was just 0.38% and no closing decline was greater than 1% As the Warrington Fund was primarily holding ratio put spreads, the consistent gains in the market led to those options expiring worthless. The small losses during the month incurred by the fund were limited to the net cost of the spreads.

Going forward, the fund manager expects volatility to increase once the current earnings announcement period subsides. In light of this, the fund manager will continue to seek out opportunistic trades with a focus on risk management.