WARRINGTON
ASSET MANAGEMENT

March 2011 Market Commentary

If one chose to focus only on month-end returns, March would appear to have been a stable month lacking volatility. The S&P 500 index (including dividends) was up 0.04% for the month, essentially unchanged. However, an analysis of intra-month activity reveals that the stock market experienced a great deal of volatility, from continued strife in the Middle East with the Libyan uprisings to the multiple disasters in Japan.

After declining 1.9% on the first day of the month, the S&P regained its footing and was only down slightly a week into the month. At that point, Japan was hit by the worst earthquake it has experienced in modern times, leading to a destructive tsunami which then caused a massive nuclear reactor disaster. Global stock markets declined precipitously on this news. Warrington was positioned in ratio put spreads prior to this disaster, and the declines in the S&P 500 caused the fund to realize significant profits as the spreads became deep in the money. Even as the stock market recovered (climbing 6.1% from the lows to the end of the month), defensive trading helped Warrington preserve these gains (and actually added to them). Warrington's trading methodology is well-suited to capitalize on the up and down volatility that was present during March, and the fund manager was pleased with the fund's performance during this period.