WARRINGTON
ASSET MANAGEMENT

March 2012 Market Commentary

Relative to the first two months of 2012, the S&P 500 futures experienced a change in character in March. Whereas January and February had no significant daily market declines, March notched the three worst down days of the quarter (those declines were relatively small with the worst being down 1.65%). Each decline was short lived, as the market recovered quickly and closed near its highs for the month.

It is interesting to note that of the 22 down days in the quarter, twelve of them were in March. Although the S&P closed up about three percent for the month, this fact is telling as it indicates a conflicted market where the index is not simply going up or down but is churning beneath the surface, which is often indicative of a change in trend in the market.

Warrington's manager positioned the fund to capitalize on a sustained decline in the S&P 500 index which did not materialize in March, but the fund's performance was only slightly negative for the month. Given the over-extended nature of the rally which began in earnest in December, the fund manager has chosen not to "chase the rally" by purchasing high-priced (and low-potential return) ratio call spreads but instead to focus on capturing the eventual decline in the market. With the internals of the market weakening and the increasingly poor quality of the day-to-day trading, the manager believes this is the most prudent course of action.