WARRINGTON
ASSET MANAGEMENT

May 2011 Market Commentary

After the euphoria of QE2-induced risk taking started to ebb earlier this year, stock markets began trading in more "normalized" patterns. Absent were the steadily-drifting-higher rallies, replaced by very real selling brought about by decidedly negative world events and macro data. This change in market character was correctly anticipated by the manager, and Warrington's strategy has proven its value in partners' portfolios, gaining approximately 2.0% in May (net of all fees). It is instructive to note that the gains realized by Warrington most often occurred during turbulent market activity.

After setting the high for May on the first trading day of the month, the S&P 500 futures declined 5.2% to the lows seen on May 25th. Warrington held ratio put spreads in the portfolio and was able to profit from this long, gradual decline. The stock market then rallied 3.2%, reducing the final net loss for the index in May to a negative 1.13%.

The manager is optimistic about the prospects for Warrington's strategy given the return of moderate volatility, even though the VIX (a measurement of volatility which uses option prices to ascertain the level of fear in market participants) has remained persistently low. Should this volatility continue, the manager believes that the VIX will climb out of its lower trading range (it has been below 20 since the end of March), which could further benefit Warrington's strategy.