WARRINGTON
ASSET MANAGEMENT

October 2010 Market Commentary

The slow, grinding-higher rally which began in early September continued unabated in October. Of the 21 trading days during the month, only four saw declines and only one of those days ended with a decline of over 1%. With such a lack of downside volatility (as also witnessed in September) the ratio put spreads that Warrington held in its portfolio expired out of the money. The loss for the month was incurred from net cost of these put spreads as well as the costs associated with adjusting the put spreads as the market climbed. The manager opted to forgo any ratio call spreads as they were deemed to be too expensive given the over-extended nature of the S&P 500 futures. In such an upward drifting market with no retracement, declines will eventually occur and Warrington is positioning the portfolio to potentially capitalize on this.

Early November will bring resolution to the speculation about Federal Reserve's rumored QE2 program (Quantitative Easing, part 2) as well as the Midterm elections. Once those events have passed and the market has digested the news (either positively or negatively), the manager feels that some degree of volatility will return to the market, which will improve the odds for more favorable trading conditions.