WARRINGTON
ASSET MANAGEMENT

October 2011 Market Commentary

The weakness in the S&P 500 index at the end of September continued into the first few trading days of October, dropping 10.1% in just six trading days (September 27th to October 4th) and printing new lows for the year. As the S&P 500 futures crossed key technical support levels, Warrington aggressively hedged its positions to eliminate the downside risks to the portfolio.

From those lows, a furious rally ensued with the S&P climbing 20.3%, one of the largest intramonth percentage moves in the history of S&P 500. The strong move in the stock market was attributed to some tentatively positive signs that Europe is closer to solving its debt woes, although the manager of Warrington remains somewhat dubious of this and continues to position the portfolio to potentially profit from the S&P 500 pulling back after such a strong run.

The manic nature of markets in recent months (which can be attributed to many different reasons) can make investing in such markets challenging. Warrington counters this "binary" market (a market that goes straight up or down for days at a time with little to no retracement) with reduced position sizes and diligent risk management. By adhering to this discipline in October, the manager was able to avoid much of the month's volatility and end with a slight loss for the month.