WARRINGTON
ASSET MANAGEMENT

April 2015 Market Commentary

In the final days of April, the Federal Reserve released its published statement which failed to hint at any further stimulus or the continuation of the zero-bound Federal Funds rate. This caused the stock market to experience its worst two-day stretch of the month, rapidly declining 2% after setting new all-time highs days before. Given the lack of volatility prior to this downturn, the decline was something of a shock to market participants, as the majority of the month the market mostly drifted higher with little downside action.

This pullback helped Warrington salvage some value from the end-of-month ratio put spreads held in the fund, although not enough to entirely offset the cost of the position. Even with the small loss, Warrington is outpacing the S&P 500 this year, as January and March exhibited the volatility that tends to benefit Warrington's strategy.

As mentioned in previous commentaries, Warrington believes that the number of global crosscurrents and potential for financial and economic disappointment could derail a stock-market rally that has extended much longer than most prior bull markets. With a stock market that is priced at the higher end of normal ranges (based on P/E ratios), the equity markets may be approaching a 'priced for perfection' scenario. If this is accurate, anything but an optimal scenario should cause volatility to increase in both stock and bond markets, which would most likely be a welcome development for Warrington's trading strategy.