



April 2014 Market Commentary

The S&P 500 stock index finished the month with a gain of less than 1%, but that small move masked significant price volatility and new crosscurrents in the markets. As Russia continued its controversial advances into Ukraine, world markets reacted to each rumor of troop advances or purported peace talks. In addition, a number of stocks in the Nasdaq fell precipitously, with many having intramonth declines over 10% and the overall index having a 7.9% pullback from high to low. While the S&P did not experience this extreme volatility, the selling pressure in the Nasdaq did cause some spillover into the S&P.

Warrington was able to capitalize on this moderate volatility and used the up and down moves to realize a gain of about 1%. By overlaying call spreads on the core position when the market declined and utilizing additional put spreads after the market advanced, the manager was able to advantageously position the portfolio during these moves, a hallmark of what distinguishes Warrington from most other money managers.

Going into May, the manager expects these crosscurrents to continue. The Russia-Ukraine incursion could be resolved, but new concerns are certain to emerge. When a market has advanced as much as it did in 2013, it is arguably “priced for perfection” implying any news flow that is even marginally disappointing could have an outsized impact on the market as a whole.