WARRINGTON
ASSET MANAGEMENT

August 2013 Market Commentary

A confluence of factors caused August to have the sort of volatility that Warrington's strategy generally favors. Continued rumblings of a "Taper" of asset purchases by the US Federal Reserve, ongoing debate on who the next Fed Chairman (or Chairwoman) will be, and more talk of a government shutdown in the fall due to potentially stalling debt ceiling negotiations (yet again) were all some of the issues that crept into the headlines. Add to those problems the geopolitical risks from Syria, and the market suddenly became quite unsure about the rosy outlook that was the consensus mere weeks ago. The S&P traded steadily lower after an initial gap higher to begin the month (setting the highs for August within the first two trading days), then declined 4.6% from those highs to the lows during the last week of August.

Warrington was able to capitalize on this extended decline through two separate positions, one for the regular options expiration (the third Friday of the month) and one for the end-of-month expiration (the last trading day of the month). The manager had positioned the portfolio in a manner similar to other times throughout the year, and by "sticking to their knitting" Warrington was able to close out both the regular and end-of-month positions for strong gains, outperforming the S&P 500 by over 7% with an estimated positive 4.1% rate of return for the month.

Warrington's manager believes that continued volatility could be the norm for the latter half of the year, as many of the issues mentioned earlier will have to be resolved. As shown in August, Warrington can perform very well when stock markets encounter moderate volatility, as the strategy produced its best return since November 2011.