

WARRINGTON

ASSET MANAGEMENT

December 2012 Market Commentary

As the end of the year approached, no substantial progress was made by Congress to address the looming “Fiscal Cliff.” Rumors and conjecture on potential agreements and possible compromise scenarios came and went with no real solution. Warrington’s manager positioned the portfolio to potentially capitalize on a market decline as the Manager did not believe an agreement would be made until the eleventh hour, if at all in 2012. Through the regular options expiration date, the S&P 500 index actually gained almost 2.0% for the month even though no deal to avert the “Fiscal Cliff” had been reached. Subsequently, the Manager chose to roll the positions held in the portfolio to end-of-month options, which was then followed by a steady decline in the market. As debate continued to the pending “Fiscal Cliff” deadline, the S&P 500 futures declined 4.5% from the highs earlier in the month. Warrington’s manager was able to close out the fund’s positions into this retracement and lock in profits.

Although some of the issues related to the “Fiscal Cliff” were addressed at the end of December, many other political headwinds and crosscurrents remain on the horizon. When the U.S. debt ceiling needs to be raised (yet again) in coming months, the Manager predicts a similarly drawn out negotiation in Washington which could once again send shockwaves through Wall Street.