



December 2014 Market Commentary

The consensus view of market participants was that the strong recovery from the lows in October would lead to a continued stock market rally during the seasonally strong period from Thanksgiving to Christmas. However, as often happens, the consensus was proven wrong as the S&P 500 Index instead experienced a quick drop of 5.3% in seven trading days. As the market declined, we took customary preemptive hedging steps to protect against a large decline in the market, while concurrently overlaying call spreads to lock in profits should the market rebound sharply.

In an even more shocking development, the market did indeed rebound and recaptured the entire decline in just two trading days. The velocity of this recovery left the Fund's put spreads out of the money, but the call spreads that were overlaid allowed the Fund to be profitable through expiration. A small position of end of month ratio put spreads were added, which nominally helped to offset the overall losses for the month, although a decline on the final day of the year caused January positions to mark nominally negative.