WARRINGTON
ASSET MANAGEMENT

January 2013 Market Commentary

Approximately half of the gain in the S&P 500 futures for the entire month of January occurred on the first trading day of the year, after the Fiscal Cliff was addressed at the last minute by Congress. The legislative action caused market volatility to cease almost instantly, even though the debt ceiling was not raised and the mandatory spending sequesters were merely delayed by a few months.

To illustrate the lack of stock market volatility: after the large 2.6% gain on the first trading day of the month, the S&P 500 futures were never down by more than 0.7% at any time during January. Upside volatility was gone as well. For instance, the S&P 500 futures never closed higher than +1% other than that first trading day. Even without any upside or downside volatility, the steady climb of the market led to a gain of over 5% for the S&P.

Listless, directional trading without any retracements fails to produce the mean reversion and choppy trading environment that often benefits Warrington. The one-way climb in January meant that the ratio put spreads held in the fund expired worthless, causing a nominal loss for Warrington. Entering February, the manager is looking for a pullback to occur as many of Warrington's proprietary indicators are suggesting that the S&P index is somewhat overbought.