WARRINGTON
ASSET MANAGEMENT

June 2013 Market Commentary

The S&P 500 spent the majority of the month churning until the Federal Open Market Committee meeting held on June 18th and 19th. After previous discussion of a potential "taper" to the Fed's massive QE bond buying program, asset markets had been uneasy. Bond yields had been climbing precipitously and stocks had come off their highs at the end of May. After the Fed essentially left its statement unchanged, the Q&A segment of the Fed's press conference once again raised the possibility of a reduction in asset purchases. In trying to take advantage of this volatility, Warrington's manager closed out its June positions at a small gain, and rolled the ratio put spreads to the end of June, looking for some continued, but not excessive volatility. As the S&P futures continued to decline and break through some previously strong support levels, the manager chose to close out those end-of-month positions which resulted in a loss. Risk management is foremost for Warrington and given the magnitude and rapidity of the decline (almost 6% in four trading days), the manager believed closing out positions and eliminating downside risk was the prudent course of action.

After an excellent year in 2012, this year has so far proved challenging for Warrington. There was almost no volatility for the first five months of the year, but when substantial volatility arrived in late June it was much more directional in nature with no choppiness to alleviate the selling pressure. Neither of these environments are generally favorable for Warrington's trading strategy. However, as the manager's long term, consistent track record since 1997 illustrates, market environments can and will change frequently, and Warrington will continue to look for trading opportunities where potential rewards outweigh the perceived risks.