June 2014 Market Commentary

A widely-circulated market observation is that the S&P 500 has not closed up or down more than one percent for 49 days in a row (through late June), a streak unmatched since 1995. This, coupled with the VIX hitting lows not seen since February 2007, is strong evidence of a very calm, lethargic stock market. While low volatility can persist much longer than many expect, higher volatility will eventually materialize. For many market participants, the perception of stability often renders the idea of future volatility difficult to comprehend, causing significant angst once volatility does indeed return.

For June, the absence of any material intra-month declines led to losses for Warrington from the debit cost of ratio put spreads held in the portfolio. Additionally, the manager incurred some costs from hedging the call spread exposure as the S&P futures climbed rapidly near the beginning of the month. The overall rally of 4.8% from the mid-May lows was not of substantial magnitude, however the persistence of the rally was very unusual. Over 21 trading days from mid-May to early June, the market did not close down more than one tenth of a percent, and the largest intra-day decline was less than four tenths of a percent. This steady grind higher presented limited opportunities for the mean-reversion trading methods that Warrington often employs.