WARRINGTON
ASSET MANAGEMENT

November 2013 Market Commentary

Healthy markets tend to have both rallies and declines within broader trending moves. While stocks have risen sharply from the lows in 2009, prior to this year there have been a number of periodic declines which allowed gains to be "digested" and which effectively cleansed the market of excess bullishness. Until this year, that is. Through November, the S&P 500 has not had a peak to valley decline of more than 8%, after having multiple moves of that magnitude in previous years. Whether this is due to a blind reliance on the Fed's stimulus programs (which have created the "Bernanke put option", supporting asset prices) or another "New Paradigm" which has caused the stock market P/E multiple to expand, Warrington's manager finds the long term outlook not entirely compelling.

Fed stimulus has the effect of essentially borrowing growth from the future. In prior periods (specifically 2008 and 2009) this was necessary to keep the U.S. economy from falling into the abyss. Today, however, it smacks of "robbing from Peter to pay Paul." Stock markets are currently unfazed by this notion, as rampant bullishness and an unwavering faith in the Fed propel equities to new all-time highs even though earnings are not keeping pace and recent "Black Friday" retail sales were disappointing.

In November, Warrington's performance was a nominal loss limited to the debit cost of the ratio put spreads held in the portfolio, as the largest intra-month decline was less that 1.4% and spanned the course of only two days. Whereas Warrington performed very well in the previous two years, when markets exhibited some volatility, that has not been the case thus far in 2013. At the core of its investing philosophy, Warrington seeks to capitalize on mean reversion in markets, and there has been no such reversion in equities this year. While frustrating, Warrington's manager will continue to adhere to its discipline which has served clients well over the last seventeen years.