October 2012 Market Commentary

Even before Hurricane Sandy closed markets for two days and left much of the Northeast and Mid-Atlantic devastated and without power, domestic equity markets were dealing with significant problems. When earnings season began en masse in the middle of October, the market was seemingly surprised by the succession of lighter-than-expected revenue figures being reported (even though many companies were able to cut costs in order to meet analysts' earnings expectations). This wave of bad news dropped the S&P futures 3.9% in four trading days. In anticipation of a decline, Warrington was holding end-of-month ratio put spreads in the fund and during this quick decline, the manager initiated some preemptive hedges to protect the fund should the pullback accelerate. By the time the market was forcibly shut down due to Hurricane Sandy, Warrington's manager had aggressively hedged the portfolio, yet still retained significant profit potential. After the market reopened on the final day of the month, the end-of-month positions were closed out at a profit and added to the gains from positions held at the regular options expiration. These two positions combined for Warrington's positive net return of approximately 1.75% while the S&P 500 lost about 2% for the month.