WARRINGTON
ASSET MANAGEMENT

September 2012 Market Commentary

One of the benefits of having an open, communicative Federal Reserve is that when they do make major policy changes, the broad strokes of their policy announcement have already been communicated to the market (sometimes in the form of Fed governor speeches and other times through information intentionally leaked to the press), and thus is somewhat discounted. This was entirely the case with the third round of Quantitative Easing (aka, QE3) which was formally announced on September 13th. After the market rallied briefly on the day of the announcement (what surprised the market was the open-ended nature of the plan, and not necessarily the plan itself), the S&P 500 declined for the balance of the month. Through the 14th, the S&P 500 gained 4.8%, but then trailed off over the rest of the month by 3.0% from its highs. Warrington's manager had anticipated that QE3 was priced into equity markets and positioned the portfolio to attempt to capitalize on an expected decline. Once the surprise of QE3 faded, the old, unanswered problems (Europe's continual woes, slowing US domestic growth, and uncertain fiscal policy) returned to the forefront and provided an opportunity for the manager to realize profits. Because of these persistent and unresolved problems, Warrington's manager will continue to hold ratio put spreads in the portfolio in anticipation of weaker stock markets.