WARRINGTON
ASSET MANAGEMENT

September 2014 Market Commentary

There was a distinct increase in volatility in last few weeks of September which may portend a change in the character of stock markets going forward. Given that the "Taper" of Fed stimulus is scheduled to be completed in October, what has been a strong source of support for equities will no longer provide a tailwind. The Federal Reserve still has an accommodative bias, but the degree of accommodation is definitely decreasing and will eventually lead to interest rate increases. While it is difficult to determine if this was the cause of the decline, the move lower was beneficial to Warrington's positions.

Markets were range bound for the first half of September, and positions that expired on the regular expiration were rolled to end of the month ratio put spreads. In this way, Warrington was able to capitalize on the decline in the market and realize profits. The S&P ended the month down about 1.4%, meaning Warrington outperformed the market by well over 2%. While this is just one example, it again affirms the ability of Warrington's unique strategy to profit while stocks are broadly moving lower.

At the end of September, the manager initiated ratio put spreads for the October expiration cycle. With the increased volatility, the manager believes that there will be more chances to trade opportunistically and take advantage of price swings in the stock market.