WARRINGTON
ASSET MANAGEMENT

February 2015 Market Commentary

Surprisingly, the myriad concerns impacting the market in January were seemingly ignored in February. The S&P 500 began the month with a 3% rally, setting an early bullish tone after a dismal end to January. The market then proceeded to drift higher for the rest of the month, although in a manner unlike what we have seen in recent times: instead of gaining a few points each day, the market was actually down on nine of the nineteen total trading days in February, but the declines were insignificant while the rallies were pronounced. Given that ratio, one might expect the index to have finished around flat for the month. On the contrary, the S&P had its largest monthly gain since 2011, posting an advance of about 5.75%.

At the beginning of the month Warrington held ratio put spreads in the portfolio, anticipating a continuation of January's volatility. However, the advance kept this position from going in-the-money, even after rolling the strikes higher and out to end of month positions. Lacking a pullback, this position was then rolled to the March expiration, resulting in a slight loss for the month.

During periods of lower volatility, which can be challenging, the Manager will continue to seek out positions that exhibit attractive risk/reward potential. The Manager will not press positions to try to reach for gains by taking undue risks. As seen in January, being positioned for pullbacks (should that be what our market opinion calls for at the time) can lead to profits even in markets that have climbed higher for many months. Even moderate bouts of volatility can allow profitable trading opportunities, and the Manager believes increased volatility is inevitable going forward.