WARRINGTON
ASSET MANAGEMENT

March 2015 Market Commentary

A typical question we receive from clients and advisors seeks to determine what type of market environment tends to be optimal for Warrington's strategy. Our answer: moderate, historically normalized volatility in a choppy market that remains within our proprietary "Band" chart. This is exactly what March presented and, like January of this year, Warrington produced significant positive returns while the S&P 500 Index declined by approximately -1.7%. Even though it was a moderately negative month for stocks in general, Warrington benefited from separate rallies and declines which occurred intra-month, exhibiting the type of market choppiness that we like to see.

After the first of the month, the S&P had a 3.7% decline. This downward trend caused the ratio put spreads held in the Fund to increase in value. As the stock market then began to turn higher, Warrington chose to close these positions and lock in profits. The market then rallied further, having a 3.7% recovery from the lows. In response, Warrington initiated several new ratio put spreads for the end-of-month expiration. The S&P then had another decline of about 3.3%, causing the Fund's positions again to increase in value. Warrington then closed out these positions prior to the end of month, adding to the gains realized previously.

In a quarter where the overall market has not performed well, with the S&P 500 Index gaining just 0.4%, Warrington again has exhibited the ability to profit in downward and choppy markets. Through the first quarter, Warrington has gained approximately 2.8% net of fees, and our portfolio team sees signs indicating that the recent moderate volatility should continue. The Federal Reserve is no longer communicating a policy of quantitative easing, instead focusing on the timing of the imminent interest rate-tightening cycle. This sea change has put markets on alert and has quelled the "animal spirits" that have driven the markets relentlessly higher over the prior years, indicating a return to more normalized volatility.