WARRINGTON
ASSET MANAGEMENT

January 2016 Market Commentary

Domestic equity markets began the year with the S&P 500 having its worst opening week in market history and finished the month by posting the third worst January on record, down 5.1%.

According to Standard & Poor's, the daily volatility (the actual intraday movement of the index) was greater in January than at any time in the past 40 years, other than the 2008-2009 Great Recession. The US was not alone in the carnage as the impetus for the global meltdown began with the report of the 10th consecutive monthly decline in the Chinese Manufacturing Index, resulting in China's Shanghai Composite Index falling over 22% for the month. The continued drop in the price of crude oil also played into the global market turmoil with prices declining over 30% at their low. These large moves coupled with the potential for further Fed rate hikes, currency level debates, and varied market valuations led to a sell off in the S&P 500 of almost 15% from its recent high point in December.

We entered January with no put spreads in the fund as the beginning of January can often see large moves, either up or down. Once we were able to identify some signs of market stability, we entered into a small ratio put spread position, which was quickly closed as the S&P broke below our predetermined hedge triggers. We incurred a small loss on this position. From there, the S&P traded below our trading bands for most of the month, a signal to us that we are in an environment where we should exercise extreme caution. Gains were realized on net premium from short calls held throughout the month but the final result was a nominal loss for the fund.

Whether the global economy is showing signs of slowing (with the price of oil being a barometer), or market participants are coming to grips with the expectation of a less-accommodating Fed, markets are reacting with an outcome of extreme volatility. These are markets conditions that call for active management versus the passive investment management that has been popular over the past few years. Our active style, focusing heavily on risk/reward measures, allowed Warrington to outperform the index by approximately 4.5% in January. We will continue to implement our strategy looking for compelling opportunities in these challenging markets.

We thank you for your continued support of Warrington Asset Management.