WARRINGTON ASSET MANAGEMENT

April 2016 Market Commentary

Following the strong rally in the S&P 500 index in March, April began in a decidedly sideways manner, with the index essentially flat after the first eight trading days. Crude oil continued its recovery, climbing over 22% from the March close which, combined with positive earnings reported by JP Morgan, led the index on its initial march higher. The index experienced a 3.5% rally over the ensuing six trading days, with many market commentators crediting expected "dovish" commentary from global central banks as the impetus. When the ECB failed to deliver its April meeting comments as "dovishly" as expected, the S&P 500 reversed course and began to trade lower. The Federal Reserve and Bank of Japan followed suit later in the month, also failing to pacify equity markets and leading the index lower still, closing the month near where it began. The Conference Board Consumer Confidence Index® and The University of Michigan Index of Consumer Sentiment both fell as consumer expectations for an improving economy continue to wane.

Warrington's Strategic program was able to take advantage of the nominal market volatility in the index throughout April, capturing small gains on a few different positions. Positions covering the regular options expiration as well as end-of-month put spreads contributed to the program's gains. Even though market volatility was moderate, position sizes were intentionally smaller than average as the Volatility Index (VIX) declined to levels last seen in early August of 2015. When the VIX is too low, we prefer to keep positions smaller than average, and look to increase position sizes when the VIX is in historically normal ranges.

Warrington's Tactical program generated similar returns to the Strategic program but for altogether different reasons. The moderate volatility meant that the market did not make a push to test either side of our proprietary Band Chart, meaning the short calls and puts were able to expire worthless. The premiums collected for those positions led to a modest profit with smaller than average position sizes.

We have noticed a pattern in 2016 which has been characterized by the phrase "Buyers above, Sellers below" (meaning that investors are buying more as prices go higher, and selling more as prices go lower). There are a number of factors leading to this unusual activity, but it is contrary to the value investor's credo to "Buy low, Sell high," and markets have indeed witnessed buying and selling panics when index prices have moved to extremes. This behavior is simply another reminder of a long standing market reality that we focus on intently in our analysis of risk: markets can, and do, go farther and faster (in both directions) than investors expect. We will continue to stay focused on risk management while concurrently seeking positive risk/reward trading opportunities.

Thank you for your continued support of Warrington Asset Management.