WARRINGTON
ASSET MANAGEMENT

May 2016 Market Commentary

The S&P 500 index exhibited trading behavior in May that is more in-line with what Warrington believes to be normal historical volatility. During the month the index did not stray from the 21 day moving average by more than 3.5%, a level used by Warrington to indicate the market is starting to show signs of buying or selling extremes. Multiple crosscurrents during the month included rising oil prices, disappointing earnings from brick and mortar retail stores and minutes from the Federal Reserve's most recent monetary policy meeting, which caused markets to oscillate but still remain within our band of expected volatility. Even so, we do see some indicators that outsized volatility may be ahead in the near term, as many Federal Reserve governors have signaled the strong possibility of a June interest rate hike. Our opinion is that, while a rate hike is forthcoming, due to the timing of the "Brexit" vote on June 23 (where Britain is voting to potentially leave the European Union) and recent soft economic indicators, the Federal Reserve will hold rates steady at their mid-June meeting and announce the next rate increase later in the year, if conditions even warrant.

Warrington's Strategic program was able to take advantage of the nominal index volatility throughout May, capturing gains on multiple positions. By spreading positons across three different expirations, the program was able to profit from the steady drift lower that the market experienced, locking in gains prior to the reversal in the final few days of May. The program return for May was approximately +1.0%.

Warrington's Tactical program also generated a moderate return of approximately +0.21%, as short put positons were kept smaller than normal as we determined that the risk of an outsized move was more likely to be lower in the index. The limited volatility meant that the market did not make a push beyond our measured extremes and therefore the short options expired worthless, providing profits from the premiums received. All positions were profitable for the month.

Given the potential for the Brexit vote to surprise markets (recent polls have shown the likelihood of Britain leaving the EU to be increasing, currently just above 50%), we will closely monitor the situation and use our experience assessing potential risk/reward outcomes to size our positions appropriately. This discretionary risk management is a cornerstone of Warrington's trading philosophy and employed when this and other major non-quantifiable events have the potential for significant market impact. While these events can engender greater risk, they can also bring market opportunities from over-reaction, and we stand ready to protect principal but also seek out risk-advantaged entry points to produce profits.

Thank you for your continued support of Warrington Asset Management.