

WARRINGTON

A S S E T M A N A G E M E N T

August 2016 Market Commentary

The calm that weighed upon US equity markets since early July continued for the entirety of August. During the month, the S&P recorded 17 straight days where the high and low for the day were within 0.75% of one another, a feat not recorded since the 1970s. Volatility, as measured by the VIX, was signaling a slightly less sanguine story. Even though the VIX recorded the lowest levels in over a year, it ended August well off those depressed levels (albeit still lower than historical norms) and saw an intra-month climb of 35.5%.

Warrington's Strategic program was able to take advantage of this low volatility environment with the ratio put spreads held in the portfolio increasing in value as the market declined slightly near the end of August. Those gains resulted in the Fund recording an approximate net profit of over 1%.

The market's lower volatility and tight trading range resulted in the Tactical program recording net gains of approximately 0.5%. Compressed volatility ranges can provide Tactical an environment to realize gains more consistently, but the dollar value of the premiums sold can be decreased by that same low volatility. A component of Warrington's risk management is to keep the short options' strike price a significant distance away from current market levels. In a low volatility environment, as experienced in August, we look to avoid compressing those ranges and abstain from reaching for higher premiums that we determine are not worth the additional risk.

August was unlike many other "low volatility" months we have experienced recently. Instead of a market that steadily rises throughout the month, which has been the usual case, August saw the S&P 500 Index move sideways and end the month slightly below where it began. This unique situation, and our ability to profit from it (even as the broader equity markets seemed to stall) provides another example of the non-correlation benefits provided by Warrington's investment strategies.

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