

WARRINGTON

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

September 2016 Market Commentary

The lethargic market activity during July and August continued at the beginning of September. That calm was broken on September 9th when the S&P 500 Index declined by 2.5% and the VIX increased by 40% as the President of the Federal Reserve Bank of Boston stated his opinion that the Fed should gradually move forward with interest rate increases. Market participants interpreted this (in conjunction with some other hawkish rhetoric from Fed speakers) as though a rate increase was imminent and could come as soon as the next meeting in late September. The market did not continue its decline in the ensuing days but it did experience a number of moderate up and down trading moves over the balance of the month.

Increased market volatility, resulting in continued choppiness in price, can often work to Warrington's benefit. The Strategic program was able to navigate the oscillating price action to generate the Fund's second best return of the year (up approximately 1.5%, net of all fees). We used a number of smaller ratio put spreads at different expirations during the month to capture profits. Spreading positions throughout the month in this manner can allow a near-dated position to act as a volatility hedge against a position with more time until expiration. Employing this strategy allowed Warrington to realize profits on four separate expirations during the month.

The Tactical program also benefitted from the choppy trading pattern that existed throughout the month. As a result of the market never experiencing a long string of up or down days, our short options above and below the market all expired worthless allowing Warrington to profit from the premiums received.

While many other advisors have experienced poor performance trying to navigate this recent period of increased volatility, Warrington has been able to thrive and provide our investors with gains of over 1% in four of the last five months in the Strategic program. With continued headwinds facing the equity markets, including troubles recently revealed at Deutsche Bank as well as global Central Banks bumping against limits to the effectiveness of their current stimulus programs, it is likely that the markets will continue to exhibit volatility and provide Warrington continued opportunities to profit.

Thank you for your continued support of Warrington Asset Management.