

WARRINGTON

ASSET MANAGEMENT

January 2017 Market Commentary

Despite many market participants' prognostications for greater volatility as President Trump was inaugurated, the S&P 500 index ended January recording the lowest level of volatility since 1961. Based on the intraday price movements of the index, the average high-to-low range was only 0.55% during the month. Equally lacking in prescience, many forecasted a significant market decline concurrent with the inauguration, yet no such pullback materialized. However, the probability of greater volatility and uncertainty increased at the end of the month, as the Administration rapidly embarked on the promised immigration measures and other executive orders in the final days of January. This tempered the excitement over the Dow Jones Industrial Average finally eclipsing the arbitrary 20,000 level for the first time, which proved short-lived as uncertainty surrounding the new administration increased.

The Strategic program was able to capitalize on both the limited volatility early in January as well as the slight expansion of volatility at the end of the month and gained approximately 0.58%, net of fees. Multiple positions were established across three separate expirations, which allowed the program to capitalize on the nominal price moves by capturing opportunistic profits on those positions during the intermittent declines early in the month. Additional gains were realized on the end-of-month put spread positions, as the S&P 500 experienced a 1.6% decline in the last two days of the month.

The limited trading range in January, coupled with the concern that President Trump might increase volatility levels at any time, created an optimal environment for the Tactical program. The expected rise in volatility levels kept option premium prices elevated throughout the month, allowing Tactical to record consistent weekly gains as the short options held in the portfolio expired worthless. As a result, the program returned approximately 0.75%, net of fees.

Going forward, market participants will continue to weigh the prospective positives from having a business-friendly Administration against the uncertainty of a seemingly mercurial President. January provided significant examples of both, implying a very different trading environment from the past few years. As such, we will continue to weigh the risk versus reward opportunities and seek out those which we expect to benefit the portfolio and our clients.

As always, we thank you for your continued support of Warrington Asset Management.