

WARRINGTON

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

February 2017 Market Commentary

The rally which began after the United States' Presidential Election has produced a number of rarely-seen market events. In February, the Dow Jones Industrial Average recorded gains on twelve consecutive trading days. As markets tend to oscillate over time, such a feat is rare, happening most recently approximately 30 years ago in January of 1987. While the stock market is currently on the higher end of historical valuation ranges, a decline is not necessarily imminent, and as Keynes has been famously quoted, "The market can stay irrational longer than you can stay solvent."

In the Strategic program, Warrington looked to capitalize on a reversion to the mean in the S&P 500, but as was the case with the other major market indices, the S&P continued to climb throughout the month. The ratio put spreads held in the portfolio expired without profit although we were able to salvage some value on a position expiring early in February due to a small intraday dip in the index. Additionally, the relentless rally has finally driven the price of out-of-the-money calls to the point where the risk/reward proposition for ratio call spreads is attractive. We ended February with a position of these call spreads as we look to capitalize on the relative price increase of these calls going forward. The net result of February's trading was a small loss of approximately 0.03%.

The Tactical program took advantage of the demand for call options by selling them short while also profiting from short puts that expired worthless. Another factor which has benefited the Tactical strategy is that as the call option prices were bid higher, puts also gained in value due to the rising VIX index. This anomaly allowed Tactical to post a positive return of approximately 0.73%.

Traders that have been outright short the stock market have seen their losses magnified this year. This period highlights the differences between Warrington's unique strategies and those used by other participants that trade in the same options markets. Warrington programs are designed to use multiple approaches that can both control risk while simultaneously using those options to potentially profit from market oscillations. The extreme bullishness pervading the market now provides additional ample trading opportunities and we will continue to weigh the risk/reward of incorporating those positions in our programs as we move ahead.

Thank you again for your support of Warrington Asset Management.