

# WARRINGTON

## ASSET MANAGEMENT

### June 2017 Market Commentary

The month of June began with a moderate 1.5% rally over the first three trading days, but from there the S&P 500 Index (“Index”) remained in a very tight trading range despite some remarkable events, including the Fed raising interest rates for only the fourth time in a decade. From the market close on June 2nd, the Index did not advance or decline intra-day by more than 1% from those early levels until June 29<sup>th</sup>. On that day, weakness in the technology sector (most notably the FAANG stocks- Facebook, Apple, Amazon, Netflix, and Google) caused the largest decline of the month, with the S&P dropping 1.5% on its lows and the VIX climbing as much as 51.2% at its peak.

The Strategic program was able to profit despite the persistently low volatility, extracting value from the minor movements in the Index during the few periodic intramonth volatility spikes. Warrington held ratio put spreads across four different expirations for the month and was able to record profits from each position. These small, consistent profits cumulated to a positive monthly return of 0.96%.

The Tactical program was also successful, as the nominal volatility allowed the program to achieve profits from multiple positions during the month. While the relative lack volatility impinged on the total premiums collected, the limited movement in the index allowed those options to expire worthless, resulting in a gain of 0.60% for June.

The large month-end spike in the VIX can be attributed to the fact that many investors are currently short volatility through a variety of derivative securities. The instruments themselves are not inherently problematic, but when too many market participants are positioned on one side of a trade (in this case, short volatility) the unwind of that trade may become extreme. As part of our ongoing fundamental analysis, we are cognizant of prospective dislocation risks and stand ready to adjust our trading based on these non-quantifiable factors to create ongoing profit opportunities for our investors.

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