

# **WARRINGTON**

## **A S S E T M A N A G E M E N T**

### **August 2017 Market Commentary**

After climbing to all-time highs in early August, the S&P suffered several daily mid-month reversals of approximately 1.5%, reacting to ongoing geopolitical tensions. Each of those declines was short-lived as the markets recovered within a few days. Additionally, after North Korea launched an ICBM which flew over Japan, the market dropped 0.7% overnight, but reversed course and ended net positive the following day. These sharp drops and quick recoveries are not necessarily evident in the end of month figures for the major indices. However, the volatility of the VIX (VVIX) reached its highest reading since August of 2015, which was one of the most volatile market periods in the last five years. While the market behavior in August 2017 was calm on the surface relative to August 2015, the extreme VVIX reading is evidence of instability in equity markets.

The Strategic program was able to identify this underlying market risk preemptively, which triggered hedges per its discipline. The subsequent quick recoveries sent the market above the range of the ratio put spreads held in the portfolio. As a result of the erratic market behavior, the net cost of spreads and hedges resulted in a loss of 0.47% for the program.

The Tactical program's returns were positive but muted as risk management required hedging as well. The program was able to offset the additional hedging expenses with gains on short put premium earlier in the month, resulting in a net profit of 0.38%.

Domestic and international political issues continue to surface, but their impact has been fleeting, which has been the norm for most of 2017. Our thesis is that the result of these recurring events will lead to a higher average level of the VIX over the intermediate term. If these occurrences continue, investors will bid up the prices of portfolio protection, which should lead to improved profit opportunities for Warrington's programs.

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