WARRINGTON
ASSET MANAGEMENT

March 2018 Market Commentary

The aftershocks of the volatility in February carried on throughout the month of March. In recent years, the established pattern has been for markets to recover quickly to new all-time highs after significant pullbacks, but trading activity in March contradicted those expectations. The unabated volatility resulted in an 8% decline in the last half of the month, with 5% of that loss occurring over just two days. One curious difference between February and March is that the VIX index did not rise exponentially as it did in February. We believe this is due to noticeably reduced exposure in the short volatility trade after the significant losses experienced by some managers in that space last month.

As in February, the Strategic program was able to successfully navigate this increased volatility, producing a net return of approximately +1.1% for the month. Our success was the result of multiple gains on intra-month ratio put spreads initiated on stock market rallies, which were then profitably monetized when markets declined. It is important to note that these profits were achieved while employing strict risk management techniques, as market gyrations frequently breached our pre-determined hedging trigger points during the month.

The Tactical program also utilized the same disciplined risk management, leading to multiple periods during the month where we had limited – and sometimes zero - risk exposure. The net result of this cautious posturing was performance which was approximately unchanged on the month. The heightened volatility provided a few opportunities for us to implement trades, but gains were roughly offset by increased costs from hedging or exiting positions prior to expiration.

The continued volatility in March appears to have broken a pattern that had been in place for a number of years, which finally validates our hypothesis that markets are reverting to more normalized historical trading patterns. If this is true, we would expect a period of above-average price ranges / VIX readings, as markets adjust to this change in regime. The new era of monetary policy tightening is unwinding years of effective government manipulation, an economic experiment that has never been undertaken and which could lead to significant unknown consequences.

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