WARRINGTON
ASSET MANAGEMENT

August 2018 Market Commentary

In August, the S&P 500 Index ("Index") continued its move higher with few short-lived declines, ending the month up 3.26%. The NASDAQ also continued its climb, led by Apple, which gained almost 20% in August. The current state of euphoric market sentiment is now prompting some major market participants, like Goldman Sachs and Citigroup, to flash warning signals saying a reversal is three times more likely than average. This rally has been a U.S. phenomenon with overseas markets lagging significantly, with emerging markets and related currencies continuing to be the hardest hit. Of particular note was the extreme sell off in Argentina where the Peso crashed by more than 50% at its lows, combined with a rise in interest rates to amongst the highest in the world at 60%. Ongoing media coverage focusing on the potential for a trade war due to the President's use of tariffs continues, but it appears to be more of a political focus as investors do not seem to be as worried as the pundits.

The Strategic program was essentially flat in August, gaining 0.03%. While August presented some challenges due to a lack of market volatility, we made small profits on put spreads early in the month and spent some of those gains on ratio put spreads seeking to capitalize on a decline in the S&P 500. Even though a material drop did not occur, we were able to minimize the debit costs of spreads to remain flat for the month.

The Tactical program continued to take advantage of the directional moves and low market volatility profiting on its short put positions throughout August, ending the month up approximately 0.63%. Risk management protocols led to hedging some short call exposure well above the market, incurring some small costs in the process.

August has historically been a volatile month over the past decade but was unremarkable this month. We continue to monitor the Fed's balance sheet run-off, which will undoubtedly effect markets going forward. However, we believe we have yet to see any notable impacts as the ramifications of this liquidity drain are occurring with the backdrop of a still vibrant economy. Although we continue to see some strong current economic indicators in the US, we see leading indicators that this historic rise in the U.S. markets will begin to encounter increasing headwinds. The short-term nature of our positioning through extensive technical and fundamental analysis provides us the agility to identify profit opportunities in these uncertain environments.

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