WARRINGTON
ASSET MANAGEMENT

January 2019 Market Commentary

The S&P 500 Index began the month, even after the sharp rebound at the end of December, still deeply oversold, indicating to us that any subsequent declines or rallies could be dramatic. The partial government shutdown had little impact on markets in January although it seemed that any positive mention of a trade deal with China sent equities higher. This backdrop allowed the VIX index to return to historically normalized levels, an environment that is often accompanied by moderate oscillations in equity markets.

The Strategic program sought to capitalize on those oscillations by employing both call and put spreads throughout the month. In many instances we held these spreads for the same expiration, a strategy that, considering the current market volatility and price characteristics, has often been successful when employed in prior periods. Nevertheless, the oscillations during the month fell short of our expectations, with almost no range on downside moves, limiting potential profit opportunities. This contraction of spreads resulted in a small loss in January of 0.15%.

As the S&P rallied during the month, gaining approximately +8%, it would be logical to assume that holders of short calls would have suffered losses. Reality was to the contrary with all our short call positions in the Tactical program expiring worthless. Volatility at the beginning of the month was extremely high which enabled us to sell call options at strikes far enough away from the then-current market level that our risk management triggers were never breached. Due to the potential for a strong retracement, we held fractional-sized put positions, slowly building on those positions as expiration approached. Employing these varied trading approaches resulted in a gain of +0.43% for the Tactical program in January.

The strong market recovery in January has had a positive impact on pundit outlooks, following the often quoted saying that "price changes sentiment." As the level of the stock market increases, the sentiment regarding the market also improves, often irrespective of actual developments and fundamental news. Investors may anticipate positive outcomes without regard to the stumbling blocks still in place. In the trade discussions with China, for example, the issue of intellectual property protections, arguably the most important and contentious point in negotiations, has seen very little progress achieved. Without resolution of this core issue, any agreement with China will be only nominally impactful. We are continuing to weigh the risk / reward characteristics of trade opportunities and will seek profits where that relationship is skewed in our favor.

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