ARMORY
CAPITAL MANAGEMENT, LLC

The Buttonwood—An Informational Newsletter

Second Quarter 2015

Not Much Traction…Not Much Noise

As the first half of 2015 came to a close it looked a lot like this year's first quarter. You may recall that major US stock indices struggled to squeeze out gains in the first quarter despite making new all-time highs.

In the second quarter of 2015 the Dow Jones Industrial Average and the S&P 500 made new all-time highs in May and the NASDAQ reached its all-time high in June. Yet by the end of the second quarter, the Dow was down 1.14% for the year while the S&P was up fractionally. The more speculative, tech heavy NASDAQ posted a gain of 5.3%.

Usually when major indices make new highs there is quite a lot of fanfare that accompanies the occasion. This time around the news was somewhat muted. As we've mentioned before, this is a result of a market that lacks volatility. We'd prefer that the markets make new highs in this fashion rather than extreme moves either up or down. An extreme move in either direction could be a sign of a market top or the beginning of a 10% plus correction. We'll take dull boring markets that quietly make new highs!

Meanwhile bond prices were mixed in the first half of 2015. The Barclays US Aggregate Corporate Bond Index was down fractionally through the end of June. The municipal market, as measured by the Barclays Municipal Bond Index, was flat. US Treasury prices tumbled as the 10 year yield rose to 2.40% on June 25th from 1.94% at the end of March. (Remember bond prices go down when interest rates go up or in anticipation of rate hikes.) Merrill Lynch reported that "government bonds experienced a sixth-straight week of outflows" through June 7th.

Some Good News

While the US stock and bond markets may trade sideways in anticipation of a rate hike, there is some very encouraging news on the US economic front. In particular, the July 2nd jobs report was very positive. US unemployment is at its lowest rate since April 2008 falling to 5.3%. In addition, the report stated that hiring remains strong with 223,000 jobs added in June. The job gains came across a very broad front with a

History of the Buttonwood

On May 17, 1792, twenty-four merchants gathered under a Buttonwood tree at 68 Wall Street. There they signed the Buttonwood Agreement, creating the first investment community, which later evolved into the New York Stock Exchange.

plus 40,000 in health care and 64,000 in the professional and business services sector which includes lawyers and accountants.

The increase in jobs has had a major trickle-down effect in other areas of the economy. The Commerce Department reported that personal consumption expenditure, which is a measure of spending, posted its best monthly rise in May since 2009. Overall these latest reports confirm what we have been saying for quite some time. That is, the US economy and labor market continue to slowly improve from the depths of the most severe downturn the US has seen since the generational stock market low of 1974.

In addition to the jobs report there is good news on the housing front. Reuters reported on June 30th that US home prices continue to increase at a healthy pace. The Standard & Poor's/Case Shiller 20-city home price index rose by 4.9% in April from 12 months earlier. It should be noted that the Case Shiller index covers approximately 50% of US homes.

The Reuters report also stated that the real estate market has just 5.1 months supply of homes (inventory) versus an average of six months in a healthy market. Finally, recent sales figures from the National Association of Realtors found that median home prices rose by 7.9% over the last 12 months to $228,700 which is just shy of the July 2006 peak. The real estate market continues to benefit from historically low interest rates and recent Federal Reserve rhetoric that suggests interest rate increases will be modest.

The Squeaky Wheel is Greece & Others

As we mentioned above, the Dow Jones and S&P 500 made new highs in May and seemed poised to post decent gains as the first half of 2015 came to a close. In fact, the current bull market in stocks moved into 3rd place all-time and is now 2,304 days old as of June 30th. All of this was derailed by international headlines involving Greece, Puerto Rico, and the Chinese stock market.

The situation in Greece is quite complicated and includes economic, political, and cultural challenges. From an economic perspective, it should be remembered that Greece makes up about 0.3% of the global economy and less than 2% of the European Union's GDP.

A recent CNN article noted that Greece "owes its money to big institutions, not private banks". Greece threatened to default about 5 years ago, which is why private sector exposure to Greek debt is not significant. Analysts suggest that healthier European banks should help stabilize markets regardless of Greece's future in the euro zone.

The CNN article noted that this risk is not widespread. At the end of 2014, foreign investment in Greek banks totaled $46 billion vs. $300 billion in 2010 and it was noted that no one creditor had a significant portion of the debt. Finally, it was noted that there are a few private speculators who have a great deal of exposure, but they are mostly hedge funds. S&P strategist Sam Stovall wrote "by itself a default or exit won't upend the EU."

The situation in Puerto Rico involves debt totaling over $72 billion dollars. Anne Krueger, a former World Bank Chief economist recently reported that Puerto Rico's situation is a result of long-term economic stagnation, a housing bust, weak public finance policies, and overly optimistic revenue projections. In addition, government aid provides benefits to residents of $1,743 per month which compares to $1,159 per month for a minimum wage worker.

Obviously a great deal of work needs to be done to get Puerto Rico back on solid financial/economic footing. That will play out over time and our guess is that this will involve rebuilding the island's economic and fiscal structure that will include legislation that encourages business growth, higher taxes, and cuts in government spending.

Investors in municipal bonds or municipal bond funds should be mindful of recent bond rating downgrades. Earlier this year we sold Puerto Rico municipal bond positions that were bought prior to our arriving at Armory Capital. Our position remains the same – for the near term any potential reward is not worth the current risks associated with owning Puerto Rico munis.

The Shanghai Index continues to make headlines on a daily basis. After making an all-time high on June 5th, the index dropped 25.80% as of the closing price on 7/7/15. Efforts to stem the decline include lowering interest rates, a commitment by Chinese brokerage firms to buy billions of dollars' worth of stock, a suspension of IPOs, and a suspension of trading almost half of all listed companies.

Officials are most concerned about the retail Chinese investor who makes up a significant portion of China's market participants. The concern is that household savings have taken a major hit which could affect consumption in the near term. This is significant because economic expansion has been the result of an export economy and an emphasis has been placed on shifting that growth to a consumer driven economy.

Despite the significant decline, it is important to remember that the Shanghai Index is still up over 8% as of July 8th. In addition, according to Capital Economics, foreign investors have little exposure to Chinese stocks owning less than 2% of total shares.

Final thoughts

Currently our position remains the same as it was on March 31st. 2015 is going to be a year that requires patience. That doesn't mean that US markets will finish in the red for the year. In fact, with all of the headwinds the markets face, it helps to remember that there are still many positives. So we'll have to accept the fact that this year we're going to have to ***Get Rich Slow!***

We are pleased to announce the launch of our brand new website! We think it explains who we are and what we do very effectively.

We are interested in hearing your thoughts on the site, along with any suggestions you may have.

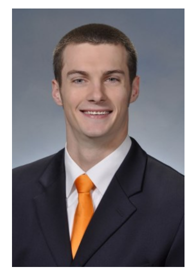
Please visit the site at www.armorycm.com and contact Henry or Matt with your feedback. Thank you!

Visit us at

www.armorycm.com

CONTACT US

Henry J. Wildhack II
President, Investment Advisor
P 315.701.6415
hwildhack@armorycm.com



Matthew J. Abbott
Investment Advisor
P 315.701.6331
mabbott@armorycm.com

ARMORY CAPITAL MANAGEMENT, LLC

Patient Investing. Steady Returns.

Successful investing is an elusive realty for many people. It should not be that way.

Investors who are willing to embrace a long-term time horizon, adhere to a conservative investment philosophy, and seek proper guidance will be rewarded. In the short run, the markets may seem volatile, in the long run, the trend is favorable for those willing to hold quality investments over time.

At ACM we believe that the underlying principles of sound investment should not alter from decade to decade. The likelihood for success is overwhelmingly in your favor if you have the required patience and proper guidance.

Please call us, we'd like to help you **Get Rich Slow**.

Armory Capital Management LLC
110 West Fayette Street, Suite 900
One Lincoln Center
Syracuse, NY 13202-1387

www.armorycm.com

ARMORY
CAPITAL MANAGEMENT, LLC