ARMORY
CAPITAL MANAGEMENT, LLC

The Buttonwood—An Informational Newsletter

Third Quarter 2015

Tough 3rd Quarter

After posting new all-time highs in May of this year, the Dow Jones Industrial Average and Standard & Poor's 500 declined over 10% in late August and by so doing, officially fell into "correction" territory. At the close of trading on August 25th the S&P had dropped 12.35% from its 5/21/15 high and the Dow Jones had dropped 14.45% from its 5/19/15 high. As we mentioned in our August 28th ***Buttonwood*** update, a correction was long overdue and therefore did not come as a surprise.

Is This Correction Normal?

We went back and tried to gather some relevant data that might help gauge where we are in the current correction relative to past corrections. What we found, with the help of ***Yardeni Research Inc***., is that there have been 25 corrections (a drop of 10% or more, but less than 20%) since 1936. On average, a correction occurs every 3.1 years. As the chart on the next page shows, the 1970's were particularly difficult as stocks were in the midst of a correction for 885 days or 25% of the decade. During the 1970's, Wall Street witnessed a huge spike in oil prices, the end of the Vietnam War, the Nixon White House, and a 10 year treasury rate that rose 38% - hardly a decade that was positive for investor confidence.

We mention the 1970's because the frequency of corrections skews the long term data significantly. While one can never ignore statistically relevant data, we do not think that we are headed for a repeat, given the current economic environment. We certainly hope not as the Dow Jones closed at 800.36 on 12/31/69 and rose to 838.71 on 12/31/79, ouch.

There are several interesting observations to be taken from the chart. Among the most significant is that, thus far, we appear to be in the midst of an average correction. As you can see, the average decline for all corrections was 14.3%. As we mentioned earlier, the Dow Jones hit a low of 14.45% from its high on 5/19/15. Quite average, obviously.

From a timeframe perspective, this correction took 94 days to go from the previous high to the low. The average timeframe from peak to trough in a correction has been 133 days. So this correction happened slightly quicker than the average. Obviously there are any number of variables that could come into focus and prolong the current correction process and cause a further drop. But at this juncture, this correction seems to be quite average.

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.

Market (S&P 500)	Corrections	1936-2015
Date(s)	**% Drop**	**# OF DAYS**
Average 1936-2015	**-14.3%**	**133**
2015	-12.4%	94
2011	-19.4%	154
2010	-16.0%	69
2002-2003	-14.7%	104
1998	-19.3%	44
1990	-19.9%	85
1983-1984	-14.4%	284
1980	-17.1%	44
1979	-10.2%	32
1978	-13.6%	62
1976-1978	-19.4%	525
1975	-14.1%	61
1974	-13.6%	29
1971	-11.0%	75
1971	-10.7%	101
1967-1968	-10.1%	160
1962	-10.5%	61
1959-1960	-13.6%	415
1956-1957	-14.8%	190
1953	-14.8%	249
1950	-14.0%	35
1947-1948	-14.1%	200
1947	-14.7%	98
1943	-13.1%	135
1936	-12.8%	23

Source: Yardeni Research, Inc.

More Evidence of Normal

The most significant decline during this recent correction occurred from 8/20/15 to 8/24/15. Between the market close on Thursday August 20th and the intraday low on Monday August 24th, the Dow Jones fell by 9%. According to Tom Lee, founder of ***Fundstradt,*** this has happened only 12 times since 1928. That, in and of itself, is not normal. What was normal was the bounce back. Typically the market bounces back by 7% within a week of a 9% dip. This time that recovery took 3 days from the intraday low on the 8/24 to the close on 8/27. Finally, corrections during bull markets are typically very quick and severe. This does not mean that we will return to the all-time highs of earlier this year quickly. It does mean that the downward pressure on stock prices occurs over a short period of time.

Where Are We Headed?

The evidence seems to suggest that what we've been through is quite normal. Having said that, one might ask where do we go from here? And what is the likelihood that we're headed for a steeper market decline?

With the help of ***RBC Global Insights, October 2015*** we went back over the past 100 years and tracked stock market performance. From 1915 to 2014 the S&P 500 was up 74% of the time and down 26%. Of the down years, 13 have been in the range of 0% to -10% while 6 were -10% to -20%. The remaining 7 years saw market declines that ranged from -21.97% to -43.84%.

A review of the data post World War II (commonly referred to the modern era) shows that a 20%+ decline occurred only 3 times. That's 3 times over a 70 year period or 4.3% of the time. In each of these 3 instances the decline was during a US recession. As we reviewed the data, what became significant was the role that recessions might have played in the steeper market declines.

Over the last 100 years the US economy has slipped into a recession (two consecutive quarters of negative economic growth) 18 times or once every 5.5 years. An interesting point to make here is that, as the US economy has slowly shifted from a manufacturing economy to a service economy over the last 35 years, recessions occur every 8.5 years.

Remember the market has posted negative returns in 26 of the last 100 years. Of these 26 down years the US economy was impacted by a recession 15 times. That tells us the market declined 11 times absent any recessionary pressure. Seven of these 11 times the market was down 10% or less. It's interesting to note that this is precisely where we are now. That is to say, a market down 8.6% absent a recession. Stay with us because we will tie all of this together.

There are still 4 years to account for and in each case the market was down over 10%. To be precise, these 4 years are 1917 (-23.77%), 1941 (-11.59%), 1966 (-10.06), and 2002 (-22.10). The conclusion to be drawn from this is that there have been only 2 years (1966 & 2002) in the last 100 where the market declined by more than 10% during a period that did not involve a world war or a recession.

This tells us that recessions play a key role in market performance so we need to consider the likelihood of a recession as we look out to the 4th quarter of this year and into 2016. As the chart on the next page shows, the data seems to suggest continued growth in the US economy over the next 12 to 18 months. In support of this data, the St. Louis Federal Reserve recently assigned a less than 1% chance of a US recession.

As we stated in January, we feel that 2015 will be a year that requires patience. So far we've been correct in that assessment. For 2015 to post positive returns for the year would require a very strong finish. Having said that, we feel the likelihood of a bear market or a recession is a long shot. The evidence we've presented here supports our contention.

Certainly past performance does not guarantee future performance and perhaps the next 100 years will be significantly different. But we are reminded of what Sir John Templeton once said, the four most dangerous words for investors are ***"this time it's different."*** Keeping that in mind will most definitely help you ***Get Rich Slow.***

Start of Recession	Yield Curve	ISM Mfg	Inflation Trends	Capacity Utilization	Housing Starts	Avg weekly Hours
Dec-69	Recession	Recession	Recession	Recession	Recession	Recession
Nov-73	Recession	Recession	Recession	Recession	Recession	Recession
Jan-80	Recession	Recession	Recession	Recession	Recession	Recession
Jul-81	Recession	Recession	Expansion	Expansion	Recession	Expansion
Jul-90	Recession	Recession	Recession	Recession	Recession	Recession
Mar-01	Recession	Recession	Recession	Recession	Neutral	Recession
Dec-07	Recession	Recession	Recession	Recession	Recession	Neutral
Present	Expansion	Expansion	Expansion	Neutral	Expansion	Neutral

Source: RBC Capital Markets, Federal Reserve, ISM, BLS, US Census Bureau

In closing we'd like to take this opportunity to thank you for entrusting us with your investments. We value the relationship and encourage you to call or email us with any questions or comments. The 4th quarter includes Thanksgiving and religious holidays. We would like to extend to you and your family our sincere best wishes as we approach November and December.

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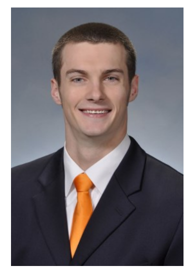

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