ARMORY
CAPITAL MANAGEMENT, LLC

Armory Capital Management LLC
110 West Fayette Street, Suite 900
One Lincoln Center
Syracuse, NY 13202-1387
315.701.6452
www.armorycm.com

The Buttonwood—An Informational Newsletter

First Quarter—2016

What a Difference a Year Makes

One year ago we started the April Buttonwood with these words…***If you fell asleep on New Year's Day and woke up on March 31st, you might be inclined to ask what happened to the US stock market over the last 90 days. The answer would have to be "not much". US stocks as measured by the Dow Jones Industrial Average and the S&P 500 ended the first quarter just about where they started...***In 2015, the first quarter was marked by little in the way of headlines or market movement. Frankly, things were quite dull. What a difference a year makes.

Over the past several months, a sampling of financial news headlines has included the following: ***Markets Begin Year With a Thud, US Stocks Slide in Global Rout, China Fears Sink Market Again, Stock Plunge Picks Up Speed.*** Certainly we could go on, but our guess is that investors have taken note of the recent media headlines, and for good reason. The first day of trading saw the Dow Jones post its biggest opening-day loss since 2008. The first week of trading saw a drop of 6.19% for the Dow Jones, its worst start ever. While the media does have a tendency to dramatize events, the 2016 start was noteworthy for its scope and severity.

Corrections Compared

Dates	Direction	DJIA From	DJIA To	Pts Mkt up/down	% Mkt up/down	# of days
5/19/15-8/25/15	Correction	18,312.39	15,666.44	-2,645.95	-14.45%	98
8/25/15-12/1/15	Recovery	15,666.44	17,888.35	2,221.91	14.18%	98
12/1/15-2/11/16	Correction	17,888.35	15,660.18	-2,228.17	-12.46%	72
2/11/16-3/31/16	Recovery	15,660.18	17,685.09	2,024.91	12.93%	49 & counting

Certainly, the headlines caught our attention, which prompted us to go back and review this year's start and the severity of the correction and compare it to the correction in August of 2015. As you may recall, a correction is *a market decline of an index (Dow Jones, S&P 500, NASDAQ, etc.) of more than 10%, but less than 20%*. Corrections are a normal part of the long-term investment process and many times are good for the markets from a valuation perspective.

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.

On May 19th of last year, the Dow Jones Industrial Average closed at a record high of 18,312.39. A very short 98 days later, the Dow had fallen 2,645.95 points or almost 14.50%. The selloff was a result of worries about the pace of global growth due to the economic slowdown in China, which would soon spread to emerging markets. While the Dow would bottom at 15,666.44 on August 25th, the US economy continued its slow, steady recovery from the March 2009 recession lows. There were virtually no forecasts of a US recession, and in fact, some economists predicted that those recent developments, including lower oil prices (more on oil prices later), would help US consumers and businesses. That proved to be the correct call because the Dow would rally some 2,221 points by December 1st, posting a 14.18% gain off of the August lows.

The recovery was short-lived, as those lower oil prices mentioned above would prove to be a fickle benefit. When the Dow reached its most recent high of 17,888.35 on December 1st, the price of a barrel of Brent Crude was $44.44. Brent Crude oil prices would drop 16.11% to $37.28 by December 31st. The decline would continue with a benchmark low of $27.88 being made on January 20th, which equates to a decline of 37.26% from December 1st. The collapse of oil prices and the collateral damage it caused in businesses related to oil, illustrate that a deflationary environment in the world of commodities is cause for significant concern. Wall Street took its que from oil's decline and dropped over 12% in just 72 days. This correction would include the worst-ever opening week for the Dow Jones.

Just as quickly as oil prices dropped, so too did they rebound. As the first quarter came to a close, Brent Crude stood at $40.17 per barrel and the Dow had recovered to the point where it posted a slight gain of 1.5%. As the chart on the previous page shows, there seems to be some symmetry to the market during these recent declines and rallies. A 14% correction over a short time frame is followed by a like rally with the same holding true for the 12% correction and rebound. In both instances, the Dow Jones found support at the 15,660 level.

The May through August correction was a result of an economic slowdown in China and emerging market volatility. This latest correction and subsequent rebound was related to oil prices. At this point, the market seems to be telling us that as long as oil stays at or near $40 per barrel, the Dow Jones can be expected to trade around 17,500. Of course, that assumes that the underlying fundamentals remain the same or improve. The most important thing we take from the first quarter of 2016 is that the Dow Jones closed down 10.09% from the start of the year on February 11th and rallied to finish the quarter up 1.5%. This 12.93% rebound from the intra-quarter low was the biggest quarterly comeback since the 4th quarter of 1933.

Where Do We Go From Here?

This current bull market that began in March of 2009 will reach another milestone in late April. Barring something totally unforeseen, this will become the second longest bull market on April 30th. There will most likely be a lot of fanfare as we approach the April date. And there are already those naysayers who suggest that because of this market's longevity, we are due for a bear market soon (a bear market is *a market decline of 20% or more*). To that we remind investors that bull markets don't die of old age, they die from speculative excesses such as the dot com bubble in 1999-2000 and real estate bubble in 2008, or they die from recessions.

<u>Student and Auto Loan Debt</u>

At this point we do not see any speculative excesses. What does warrant a watchful eye in this regard, however, is the level of student loan debt and auto loan debt, each of which recently topped $1 trillion for the first time, according to the New York Federal Reserve. The class of 2015 graduated with an average of $35,051 in student debt according to an analysis from Mark Kantrowitz, the publisher of Edvisors.com, a website that provides information to parents and students about college costs and financial aid. That is a substantial level of debt for a college graduate in a low wage growth environment.

Our sense is that some sort of relief from the Federal government could be forthcoming. While a trillion dollars in auto loans is a lot of money, we don't think that the structure of this debt or the nature of the underlying assets will result in the type of excess we witnessed in 2008.

Recession Territory?

Early in the first quarter of 2016, during the market correction, a CNBC Fed survey placed the odds of a recession at the highest levels since 2011. That's the type of headline you might expect as the US markets were correcting in the first quarter. What is interesting to note is that even though there were concerns about a recession in 2011, no recession developed.

The US economy continued its slow steady upward trend even as the Dow Jones posted a 12.09% loss in the third quarter of 2011. That 12.09% decline is similar to what we saw last August and earlier this year. We continue to see the same sort of slow growth trend in the wake of the recent correction. In addition, we maintain that corrections, in and of themselves, do not cause recessions.

Furthermore, as the updated table from RBC below suggests, we do not appear to be in recession territory. You may recall that we displayed the same table in the third quarter of 2015 Buttonwood and there has been little change in the data.

Start of Recession	Yield Curve	ISM Mfg	Inflation Trends	Capacity Utilization	Housing Starts	Labor Market
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
Jun-15	Expansion	Expansion	Expansion	Neutral	Expansion	Expansion
Today	Expansion	Neutral	Expansion	Neutral	Expansion	Expansion

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

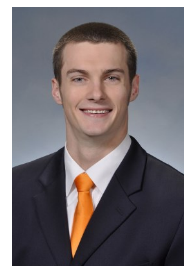
We continue to believe that the global economy will continue to recover and return to more normal growth rates. According to RBC, the pace of expansion in Europe has moved above 1% and is forecast to be at 2% for all of 2016. Reports suggest that the UK is already above that pace. RBC said "China appears to be holding its own, as monetary easing and new fiscal initiatives should lend additional tone to 2016."

US Growth is Key

Key to any continued expansion is US growth. If US growth were to slip below 1.5%, the outlook for all other economies would worsen. We feel that a 2% to 3% growth rate is sustainable and would be very constructive for US stocks. Continued....

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

Visit us at

www.armorycm.com

ARMORY
CAPITAL MANAGEMENT, LLC

Supporting this contention, we point out that the US consumer accounts for approximately 70% of GDP and in this regard we see some significant positives. Among them are:

- More Americans are working. The US economy added 2.5 million jobs last year.
- Incomes are rising. RBC reports that consumer income gains have reached 4% per year.
- Household finances are in good shape. Reports suggest that American household savings are $8 trillion dollars up from $4 trillion in 2008. Credit card delinquencies are down from 7% during the recession and stand at 2% presently and mortgage delinquencies have fallen by half since 2008.

We predict that the Federal Reserve will continue to move slowly and cautiously as interest rates return to more normal levels. This is an area that must be monitored carefully, however. Almost every bear market has been associated with a recession and every recession has been triggered by a worsening credit environment. We don't see this being a concern for quite some time at this point.

Finally, we feel that there is potential for earnings expansion in 2016 and into 2017. Currently the S&P is trading at or slightly above normal levels given a low interest rate environment. Earnings growth in 2014 and 2015 was sluggish at best. Any earnings growth in 2016 and 2017 would be a strong positive and would help you ***Get Rich Slow!***

7 Key Tenets to Successful Long-Term Investing

At its core, we believe that successful investing requires a consistent investment philosophy and discipline. We believe that buying and holding quality investments over a long period of time is the foundation for a successful investment program.

1. Get Rich Slow
2. Belief in Capitalism, Free Enterprise, & America
3. A Disciplined Investment Philosophy is Critical
4. Don't Overpay For Underperformance
5. Compare Performance Correctly
6. Taxes Are Important
7. Managers Manage

For more information about our investment philosophy and approach, please visit

www.armorycm.com.

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