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The Buttonwood

Our Thoughts On Investment Trends, An Informational Newsletter

First Quarter —2017

A Good One—But No Irrational Exuberance

As we closed out the first quarter of 2017, the major US indices posted healthy returns as measured by the Dow Jones Industrial Average, S&P 500, S&P 400 Mid Cap, S&P 600 Small Cap and the NASDAQ. The chart below illustrates those returns and the returns on a price basis for those 5 popular indices since this bull market began.

An interesting side note is that during the quarter the Dow Jones and S&P 500

US Stock Index	2017 Returns	2009 Lows (3/9/09 Close)	3/31/2017	Point Gain	% Gain	Annualized Gain (3/9/09-3/31/17)
S&P 500	5.50%	676.53	2,362.72	1,686.19	249.24%	16.77%
S&P 400 Mid Cap	3.60%	404.62	1,719.65	1,315.03	325.00%	19.65%
S&P 600 Small	0.70%	181.79	844.17	662.38	364.37%	20.97%
NASDAQ	9.80%	1,268.64	5,911.74	4,643.10	365.99%	21.02%

enjoyed their least volatile quarter in more than half a century. According to ***WSJ Market Data Group,*** the average daily move for the Dow Jones was 0.3185%, the smallest average daily move since Q4 1965. The broader S&P 500 Index weighed in with a daily average move of 0.3172%, its quietest showing since Q3 1967.

There was further evidence of the lack of volatility in an up market. Evidence of this is that of the 62 trading days in the quarter, the Dow Jones was up 30 days in Q1 and down 32 days. It must be noted that the index was up 12 straight days in the quarter which tied a 12 day winning streak not seen since January of 1987. Back in 1987 the 12 day winning streak produced a gain of 9.19%. This year's streak showed a gain of 3.29%. One final note, the daily advance/decline ratio on the New York Stock Exchange for the quarter was 1.44 advances over declines. This figure is moderately bullish but not excessively so.

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.

Why all this attention to daily volatility, number of days up vs. down, winning streaks and advance/decline ratios? This data falls in the realm of technical stock market analysis. These numbers are used to judge the state of the market relative to anticipated price direction or whether the market might be overbought or oversold.

Excessive market volatility on a daily basis could be a warning sign. So too could the number of days up vs. down for the quarter. If the aforementioned 12 day winning streak produced a return similar to that of 1987, that would be a warning sign. An advance/decline ratio over 2.00 would get our attention. The point we are making is that while the market was up, there were no signs of irrational exuberance that you typically see at a market top. When you combine this positive, but not excessive, technical data with some very solid fundamental data (more on that later) you get a sense of potential direction for the market for the rest of 2017. At this point we are encouraged.

Mr. Trump Is Off To A Good Start

March 31, 2017 marked the 70th day since the presidential inauguration. As you can see from the chart below, the Dow Jones Industrial Average posted a respectful gain of 4.22% during the first 70 days of Mr. Trump's presidency.

Election Winner	Inaugural Date	DJIA Value Inaugural Day	DJIA, End Q 1, First 70 days	Pct. Up/down First 70 days	Pct. Year Return
Obama	1/20/2013	13,649.70	14,578.54	6.80%	26.50%
JKF	1/20/1961	634.37	676.63	6.66%	18.71%
Clinton	1/20/1993	3,241.95	3,435.11	5.96%	13.72%
Reagan	1/20/1981	950.68	1,003.87	5.59%	-9.23%
Trump	**1/20/2017**	**19,827.25**	**20,663.22**	**4.22%**	**??**
Reagan	1/20/1985	1,227.36	1,266.78	3.21%	27.66%
Bush, HW	1/20/1989	2,235.36	2,293.62	2.61%	26.96%
Truman	1/20/1945	152.71	154.41	1.11%	26.97%
Nixon	1/20/1969	931.25	935.48	0.45%	-15.19%
Bush, W	1/20/2005	10,471.47	10,503.76	0.31%	-0.61%
FDR	1/20/1937	185.96	186.41	0.24%	-32.82%
Eisenhower	1/20/1957	477.46	474.81	-0.56%	-12.77%
LBJ	1/20/1965	895.31	889.05	-0.70%	10.88%
Truman	1/20/1949	181.43	177.10	-2.39%	13.10%
Eisenhower	1/20/1953	288.00	279.87	-2.82%	-3.77%
Clinton	1/20/1997	6,843.87	6,583.48	-3.80%	22.64%
Carter	1/20/1977	959.03	919.13	-4.16%	-17.27%
Obama	1/20/2009	7,949.09	7,608.92	-4.28%	18.82%
FDR	1/20/1941	129.24	122.72	-5.04%	-15.38%
Bush, W	1/20/2001	10,587.59	9,878.78	-6.69%	-7.10%
Nixon	1/20/1973	1,026.19	951.01	-7.33%	-16.58%

This was number 5 on the list of data that goes back to Franklin Roosevelt in 1937. Trump's number is the best for a newly elected GOP president since Reagan in 1981. Of the 21 time periods shown, 11 have been up with an average positive return of 3.38%. And of these 11 time periods, the return for the entire year has averaged a positive 8.27%. In addition, the Dow Jones has made new highs a total of 31 times since the election and traded above the 19,000, 20,000 and 21,000 levels.

Another noteworthy event relates to interest rate increases. The Federal Reserve raised rates in December of 2015 and 2016. A third rate hike occurred in March of 2017. This latest rate hike was the first non-December rate hike since June of 2006. We mention this because the evidence suggests that we have entered into a long term phase of rising interest rates. As we predicted, the markets have shrugged off rate hikes thus far because of an improving economy. So far so good, but this will be something we will watch closely.

Fundamentally Sound

With a less accommodative Fed policy in place, any further market increase will be dependent on economic fundamentals. As we have long stated, the Fed did its job. Simply stated, the US economy was in a very difficult situation in 2008 and 2009. The financial markets were buoyed by unprecedented interest rate cuts. One cannot predict where we might have landed if this had not been the policy - other to say it probably would not have been good. Slowly, ever so slowly, the consumer has recovered from the wreckage of the great recession and seems poised to lead the economy and markets higher. If the administration can push through tax reform, ease regulatory policy, and enact an infrastructure program, it would be a huge benefit to economic growth. We realize that Washington is still a very contentious place and is likely to remain so. However, the thought here is that something positive will emerge that will be economically beneficial.

A key component to the equation at this point is consumer confidence. The most recent University of Michigan's sentiment data came in at 96.9, better than the February reading of 96.3 and near the highest level in many years.

Year/Month	Jan.	Feb.	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2007	96.9	91.3	88.4	87.1	88.3	85.3	90.4	83.4	83.4	80.9	76.1	75.5
2008	78.4	70.8	69.5	62.6	59.8	56.4	61.2	63.0	70.3	57.6	55.3	60.1
2009	61.2	56.3	57.3	65.1	68.7	70.8	66.0	65.7	73.5	70.6	67.4	72.5
2010	74.4	73.6	73.6	72.2	73.6	76.0	67.8	68.9	68.2	67.7	71.6	74.5
2011	74.2	77.5	67.5	69.8	74.3	71.5	63.7	55.8	59.5	60.8	63.7	69.9
2012	75.0	75.3	76.2	76.4	79.3	73.2	72.3	74.3	78.3	82.6	82.7	72.9
2013	73.8	77.6	78.6	76.4	84.5	84.1	85.1	82.1	77.5	73.2	75.1	82.5
2014	81.2	81.6	80.0	84.1	81.9	82.5	81.8	82.5	84.6	86.9	88.8	93.6
2015	98.1	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6
2016	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2
2017	98.5	96.3	96.9	-	-	-	-	-	-	-	-	-

Gray equals recession

Source: University of Michigan, St. Louis Federal Reserve Bank

Richard Curtin, chief economist for the survey said in the report "The continued strength in consumer sentiment has been due to optimistic views on three critical components: higher incomes and wealth, more favorable job prospects, and low inflation expectations." He goes on to suggest that consumers are comfortable with slower growth and have "judged lower rates of growth more favorably than they would have in an earlier era." The bottom line here is that slow growth, low interest rates and low inflation are favorable variables in the equation.

A second key component is jobs and job growth. Daniel Tarullo, outgoing Federal Reserve Governor, recently said "traction in the economy really seems to have taken hold with respect to job numbers and other data as well." The recent ADP report confirms the solid trend of employment strength. US employers added 263,000 private-sector jobs last month well above the consensus estimate of a 170,000 increase.

It should be noted that Q1 2017 GDP growth was low but this is consistent with past Q1 data. Tarullo says "the Q1 numbers are somewhat lower than people expected" due mostly to "residual seasonality". Economists define seasonality as seasonal fluctuations that depend on natural cycles such as weather.

Another key component, as always, is earnings forecasts. FactSet, which is headquartered in Norwalk, CT., offers data and analytics to institutional clients. They have forecasted earnings growth for the S&P 500 of 9.9%, 11.8% and 9.7% in 2017, 2018 and 2019, respectively. Ed Yardeni, Yardeni and Associates, agrees with the FactSet estimates. He recently mentioned that "energy is no longer weighing down on overall corporate earnings and corporate earnings are doing remarkably well".

He goes on to say "the global economy is showing more signs of improving in recent months. That's already boosting revenues growth for the S&P 500, and should be increasingly obvious as corporations report their top-line growth rates for the Q1 earnings season during April."

The forward-looking indicators such as jobs, consumer confidence and earnings growth bode well for second quarter growth and beyond. We feel the market has a very good chance of further gains in 2017. It is not likely to be without some volatility - it never is. While we do not forecast much chance of a recession, we are aware that a correction is a possibility.

Correction Territory

Ah yes, the correction. The one that was supposed to occur after the election, or during the transition from Obama to Trump, or after the inauguration, or after the recent GOP health care debacle, or once America woke up and realized what is happening in Washington, etc. Nothing has happened yet. It hasn't happened yet because in the long run markets trade up or down based on fundamentals, not politics. Warren Buffet was interviewed at length on CNBC, Monday, February 27th. When asked about the prospects of the Trump administration and the direction of the financial markets he said "I have seen people make economic decisions based on their political feelings and it is not the way to do it…If you mix your politics with your investment decisions, you're making a big mistake."

Having said that, there is always the chance the market could correct (drop of 10% to 20%) at any time. As you may recall, we had a sharp correction in mid-2015. The Dow Jones dropped by 14.45% from peak to trough. It recovered by a like amount very quickly. The same occurred in late 2015 to early 2016. The Dow dropped by 12.45% and is still going up without any correction.

When considering market corrections, it helps to remember that trying to time them isn't possible. Of trying to time corrections Peter Lynch said "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves". A lot of investors will say "I told you so" when the market corrects. To that we say corrections are a part of the long-term successful investment equation. I might also remind them that a broken clock is right twice a day but it's not a good idea to plan your life around it.

Finally, as the chart below illustrates, the current bull market, now the second longest, celebrated its 8th birthday last month. Happy Birthday – just goes to show that you can indeed ***GET RICH SLOW .***

Dates	End	# of days	Start Price	End Price	% Change
12/4/1987	2/24/2000	4465	223.92	1,527.46	582.15%
3/9/2009	**3/31/2017**	**2944**	**676.53**	**2,362.72**	**249.24%**
6/13/1949	8/2/1956	2607	13.55	49.74	267.08%
8/12/1982	8/25/1987	1839	102.42	336.77	228.81%
4/28/1942	5/29/1946	1492	7.47	19.25	157.70%
3/14/1935	3/10/1937	727	8.06	18.67	131.64%
10/3/1974	11/28/1980	2248	62.28	140.52	125.63%

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. Here are our beliefs for successful investing:

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.

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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***.

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