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

ARMORY CAPITAL MANAGEMENT, LLC

The Buttonwood—An Informational Newsletter

Second Quarter —2016

Never-Never Land…..

The second quarter of 2016 is history, but it did not ride off into the sunset quietly. On the surface there seemed to be certain finality to the Brexit vote, but the end game is quite uncertain and the historians will be writing about it for quite a long time.

From where we sit it seems like never-never land. Christine Romans, a CNN news anchor, summed it up best. Never was so much global market wealth lost so quickly (lost only if you sold). $3.1 trillion in paper losses in 2 trading days which is more than the one day crash in October of 1987, more than the 9/11 attacks, more than the bear market in March of 2009. Most was recovered by the end of the quarter.

- Never has there been so much uncertainty in Europe from an economic perspective post Brexit.
- Never has Great Britain's debt rating been lowered until Standard & Poor's did just that recently. The rating was lowered two notches from AAA to AA.
- Never when the European Union (EU) adopted English as one of the three official languages could it have been imagined that the only English speaking nation would leave.

- Never has any member voted to leave the EU. The concept of the EU, which originated with the Treaty of Paris (1951) establishing the European Coal and Steel Community, has since served to significantly progress Europe economically.
- Never have so many offered so many opinions and been so clueless. The fact of the matter is that no one knows what the end game will be as a result of the vote.

From where we sit it helps to put Brexit in perspective. Brexit was a political event because it was decided by a vote. While it will have economic implications, it was not an economic event. That is an important distinction that warrants

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.

more explanation. Obviously an economic event can have an effect on politics and a political event can impact the economy. Each of these can, in turn, impact our stock market.

Of the two, an economic event typically has more impact on the direction of stock prices than the political event. Many times the economic event changes the fundamentals of the current market and the results can be significant. The dot-com stock market correction was an economic event which saw the NASDAQ drop from a high of 5,046 in March of 2000 to a bear market low of 1,114 in October of 2002. That is was a 78% drop. The fundamentals of that market changed significantly when investors realized that it is risky business to invest in companies that are a valued on a revenue multiple, rather than an earnings multiple.

The most recent bear market was a result of real estate valuations and the implications that they had on US banks. This economic event resulted in the S&P 500 dropping from its October 2007 high of 1,576 to a March 2009 low of 676 or a 57% correction. The fundamentals of that market changed when investors realized that you shouldn't buy a $1 million home on a $50,000 salary absent significant outside wealth.

Many times a political event will cause a stock market reaction one way or the other over a short period of time. However, after the markets digest the news, they typically revert to trading on the fundamentals that were in place at the time of the political event. In the extreme, a good example of this is World War II. From January of 1942 to December of 1945 the Dow Jones returned 7.61%, 13.82%, 11.80% and 26.93% respectively. While the political endgame was uncertain for some time and circumstances were horrible, the harsh reality is that the war was good for the economy.

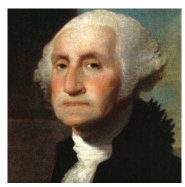
Conversely from 1946 through 1949, the Dow Jones returned -8.14%, 2.23%, -2.13% and 12.88%, respectively. The obvious conclusion to draw is that the transition from a wartime economy to a peacetime economy led to some uncertainty and slower economic growth.

The final impact of the Brexit vote will play out over a period of years and, as we stated previously, no one knows for certain what that impact might be. We don't think it will be the disastrous calamity that some have predicted. Certainly there will be some difficulties as the exit process unfolds. The US markets have reacted as expected. Initially, some significant downward pressure followed by a nearly full recovery.

One positive could be that the US stock market is the market of choice over the next several years. Our slow growth economy, low interest rate, low inflation environment and stability might prove to be attractive to foreign investors.

More Political Events and the Market

There seems to be a pervasive sense of "how'd we ever get to this point" when you consider the current



state of US presidential politics. We feel it is best to leave any further comment to the TV, internet and Twitter pundits of which there is no shortage. After all, we are in the business of helping you get rich slow not choosing sides when it comes to politics! However, there are two observations that we feel might offer some good insight.

First, to those who might be in the "how'd we ever get to this point" crowd we offer this perspective. As a nation we have been there before. Two presidential election years come to mind. The first is 1964. The democratic nominee, Lyndon Johnson had been in office less than one year after the Kennedy assassination. He represented the incumbent party and was by far the more traditional candidate. One might draw a parallel to presumed Democratic nominee Hilary Clinton.

Senator Barry Goldwater was the Republican nominee and he was known to be very outspoken. As a senator in 1960 he labeled the Eisenhower administration "a dime store new deal" which would be strong language for a Republican senator to use when describing the Republican president. As a conservative candidate, Goldwater was successful in appealing to conservatives but had a difficult time broadening his base beyond that group. One might draw a parallel to presumed Republican nominee Donald Trump.

President Johnson positioned himself as a moderate; Goldwater was labeled as an extremist. Johnson's campaign was along more traditional lines while Goldwater was in favor of using tactical nuclear weapons in Vietnam, an extreme view. The fact that the Republican Party was badly divided between conservative and moderate factions hurt the Goldwater campaign. Johnson would go on to win the election in a landslide. Goldwater's defeat would result in the Republican Party being forced to redefine their mission.

Our second observation relates to the presidential election a mere four years later. On March 31, 1968 Lyndon B. Johnson announced that he would not seek re-election. In the spring of 1968 the nation witnessed the assassination of a civil rights leader and a presidential candidate. The shootings of Martin Luther King, Jr. and Robert F. Kennedy, just over two months apart, rocked the nation. These events, combined with the intense opposition to the Vietnam War, led to civil unrest across America. The worst of this unrest was broadcast nationally in Chicago during the Democratic convention. If you are old enough to have been watching, you remember how ugly it was.

We are not suggesting that past is prologue and we are not passing judgement on the presumed candidates. It helps to remember that no matter how 2016 plays out, politics, even presidential politics, can be unsettling. The current tone seems to indicate that this time around we could be in for an interesting campaign season. It helps to remember what we stated above – that is, no matter the outcome, the markets are likely to trade on economic fundamentals after a reaction to the political eventualities.

Speaking of Fundamentals…

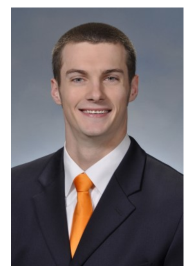
Since the lows made in March 2009, US stock market investors have witnessed the second longest bull market in history. The Dow Jones crossed that threshold in April with little fanfare. We feel that this might be the most unloved bull market in history. In addition, as we have mentioned many times, the current market has proven it can take a punch. Each time there has been a correction, stock prices have rebounded quickly and stock prices, as measured by the Dow Jones, are close to last year's all-time highs at quarter end. Simply stated, markets don't trade in this fashion unless there are some very solid fundamentals.

We think this bull market has more potential for price appreciation given the slow growth, low inflation, low interest rate environment. There are challenges and concerns as always, but our sense is that earnings have a good chance to grow in the second half of 2016. This, combined with the near term uncertainty in Europe, could make US stocks attractive to investors worldwide.

The odds favor higher prices between now and year end so be patient, stick with quality and you'll *Get Rich Slow*.

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

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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

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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**.