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The Buttonwood

Our Thoughts On Investment Trends,
An Informational Newsletter

Third Quarter —2016



3 Down...1 To Go

The 4th quarter has started out much differently than the 1st quarter of this year. As you may recall, we began 2016 with a resounding thud. The first day of trading in 2016 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 DJIA, its worst start to a year ever! The Standard & Poor's 500 posted a loss of 10.27% from 1/1/16 to 2/11/16 on a total return basis.

From these lows the S&P 500 has recovered and is now up 7.84% year-to-date, having posted a healthy gain of 3.85% in the third quarter on a total return basis. As we have said many times, this market has proven it can take a punch and continues its upward trend. The big question now is can the positive trend continue, given the age of this bull market and the uncertainty of the election on the horizon? We came upon some interesting data from **Fundstradt** founder Tom Lee whom we've quoted many times in the past.

The **Fundstradt** data (next page) shows that since 1944 there have been 31 years in which the S&P 500 has posted a gain of 5% or more from the beginning of the year through September 15th on a price return basis. The chart on the next page illustrates the data. As you will see 2016 represents the 31st time this has happened.

Of those 31 times over the last 73 years, there have been 8 occasions where a presidential election was looming. Further analysis of the data suggests that there is a good chance that the markets will close higher between now and year end.

- There have been only three times (1978, 1979 & 2012) where the S&P finished lower from the September 15th date to year end



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.



The Buttonwood—Third Quarter —2016

Year	S&P Beg Yr	S&P Sept 15th	Gain Jan 1st - Sept 15th	S&P Dec 31st	Gain Sep 15th -12/31	Yr % gain/loss *
1944 - E	11.85	12.64	6.7%	13.49	6.7%	13.8%
1945	13.49	16.11	19.4%	17.64	9.5%	30.8%
1950	16.79	19.29	14.9%	20.43	5.9%	21.7%
1951	20.43	23.69	16.0%	23.77	0.3%	16.3%
1961	58.11	67.65	16.4%	71.55	5.8%	23.1%
1963	63.10	73.17	16.0%	75.02	2.5%	18.9%
1964 - E	75.02	83.00	10.6%	84.75	2.1%	13.0%
1965	84.75	89.52	5.6%	92.43	3.3%	9.1%
1967	80.33	96.27	19.8%	96.47	0.2%	20.1%
1971	92.15	99.77	8.3%	102.09	2.3%	10.8%
1972 - E	102.09	108.81	6.6%	118.05	8.5%	15.6%
1976 - E	90.19	104.25	15.6%	107.46	3.1%	19.1%
1978	95.1	104.12	9.5%	96.11	-7.7%	1.1%
1979	96.11	108.76	13.2%	107.94	-0.8%	12.3%
1980 - E	107.94	125.67	16.4%	135.76	8.0%	25.8%
1983	140.65	164.39	16.9%	164.93	0.3%	17.3%
1985	167.24	182.91	9.4%	211.28	15.5%	26.3%
1986	211.28	231.94	9.8%	242.17	4.4%	14.6%
1988 - E	247.08	268.13	8.5%	277.72	3.6%	12.4%
1991	330.22	383.59	16.2%	417.09	8.7%	26.3%
1993	435.71	461.60	5.9%	466.45	1.1%	7.1%
1996 - E	615.93	680.54	10.5%	740.74	8.8%	20.3%
1998	970.43	1037.68	6.9%	1229.23	18.5%	26.7%
1999	1229.93	1317.97	7.2%	1469.25	11.5%	19.5%
2003	879.82	1014.81	15.3%	1111.92	9.6%	26.4%
2006	1248.29	1319.66	5.7%	1418.30	7.5%	13.6%
2009	903.25	1052.63	16.5%	1115.10	5.9%	23.5%
2012 - E	1257.60	1465.77	16.6%	1426.19	-2.7%	13.4%
2013	1426.19	1687.99	18.4%	1848.36	9.5%	29.6%
2014	1848.36	1984.13	7.3%	2058.90	3.8%	11.4%
2016 - E	2043.94	2147.26	5.1%	N/A	N/A	N/A

*S&P 500 price return, E is presidential election year

- The average gain from January 1st through September 15th for all years was 12.2%
- The average gain from January 1st through September 15th for election years was 11.4%
- The average gain from September 15th to year end for all years was 5.2%
- The average gain from September 15th to year end for election years was 4.8%
- The average return for the full year was 18.0% for all years
- The average return for the full year was 16.7% for election years
- In each instance the S&P finished higher for the full year.

We are encouraged by this historical perspective when combined with the current slow growth, low inflation, and low interest rate environment. In addition, the latest **Conference Board Consumer Confidence Index** released on 9/27/16 showed an increase in consumer confidence for the second consecutive month, rising to 104, which is its highest level since the August 2007 level of 105.6. On October 10th the **Labor Department** announced that employers added 156,000 jobs in September bringing the 2016 monthly average increase to just shy of 180,000. While some would argue for a more robust number (think presidential candidates) the 2016 results are, thus far, a continuation of the trend that started in 2011. We quickly acknowledge that there will be the usual “market noise” between now and the end of the year and the uncertainty of the pending election. All of this is offset by some very solid fundamentals.

Finally the Home Stretch

Speaking of elections - for an event that occurs once every 4 years it does seem as though someone has been running for president since Barack Obama's inauguration in 2013. As we mentioned in the last **Buttonwood**, we are not in the business of political prognostication so we'll refrain from any prediction with respect to the election results. However, we are in the business of helping you **Get Rich Slow**. Having said that, we wanted to examine the effects of the election outcome from a historical perspective. Conventional wisdom suggests that a Republican president is better for the US economy and Wall Street than a Democrat. It is said that Republicans are for less government, less regulation, lower taxes etc., all of which supposedly strengthen the economy and support rising stock prices. The Democrats are viewed by some as just the opposite. Tax the wealthy more, raise taxes in general, regulate Wall Street, initiate more social programs etc., all of which supposedly hinder rising stock prices.

The two charts that follow offer some interesting insight. We went back to 1933, which was Franklin Roosevelt's first inaugural year and included every inaugural year up to 2013. This gives us 21 time frames. For additional meaningful perspective we included GDP growth, unemployment, inflation and interest rates for each year. The logic for including this data is that stock market performance is, in large part, determined by these aspects of the economy. The final column is the S&P 500 total return performance each year.

As we've said many times, the financial markets invariably go up or down, in the long run, as a result of economic fundamentals more than political events or circumstances. Certainly politics and economics will have an effect on each other, and some politicians may even have lost their political office because of economics. But, it is the economy and the underlying fundamentals that will drive the direction of Wall Street over the long term.

What is interesting about the charts is that conventional wisdom doesn't hold up. The average return for the S&P in the first year of a Democratic presidential term is 16.43%. For Republicans the return is 1.87%. So much for the Republicans being better for Wall Street than the Democrats, at least in the first year of a term. In each camp there are some extremes that had a negative impact on market performance. In 1937 and 1941 FDR had to deal with the depression and the threat of war. In 1969, 1973 and 1981 the Republicans were faced with high inflation.

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DEMOCRATIC PRESIDENTS

Party In Office (D)	Year	Year In Cycle	GDP Growth, 1	Unemployment Rate (December) 1	Inflation Y-O-Y (December) 2	10 Year Jan.	Treasury Dec. 3	Y-O-Y Change	Stock Market Return, 4
FDR	1933	Inaugural Year	-1.30%	24.90%	0.80%	3.31%	3.12%	-5.74%	54.00%
FDR	1937	Inaugural Year	5.10%	14.30%	2.90%	2.68%	2.56%	-4.48%	-35.00%
FDR	1941	Inaugural Year	17.70%	9.90%	9.90%	1.95%	2.46%	26.15%	-11.60%
FDR/TRUMAN	1945	Inaugural Year	-1.00%	1.90%	2.20%	2.37%	2.19%	-7.59%	36.40%
TRUMAN	1949	Inaugural Year	-0.50%	6.60%	-2.10%	2.31%	2.32%	0.43%	18.80%
JFK/LBJ	1961	Inaugural Year	2.60%	6.00%	0.70%	3.84%	4.08%	6.25%	26.90%
JFK/LBJ	1965	Inaugural Year	6.50%	4.00%	1.90%	4.19%	4.61%	10.02%	12.50%
CARTER	1977	Inaugural Year	4.60%	6.40%	6.70%	7.21%	7.96%	10.40%	-7.20%
CLINTON	1993	Inaugural Year	2.70%	6.50%	2.70%	6.60%	5.75%	12.88%	10.10%
CLINTON	1997	Inaugural Year	4.50%	4.70%	1.70%	6.58%	5.54%	15.81%	33.40%
OBAMA	2009	Inaugural Year	-2.80%	9.90%	2.70%	2.52%	3.73%	48.02%	26.50%
OBAMA	2013	Inaugural Year	1.70%	6.70%	1.50%	1.91%	2.86%	49.74%	32.40%

REPUBLICAN PRESIDENTS

Party In Office (R)	Year	Year In Cycle	GDP Growth, 1	Unemployment Rate (December) 1	Inflation Y-O-Y (December) 2	10 Year Jan.	Treasury Dec. 3	Y-O-Y Change	Stock Market Return, 4
IKE	1953	Inaugural Year	4.70%	4.50%	0.70%	2.83%	2.48%	12.37%	-1.00%
IKE	1957	Inaugural Year	0.12%	5.20%	2.90%	3.46%	3.09%	10.69%	-10.80%
NIXON	1969	Inaugural Year	3.10%	3.50%	6.20%	6.04%	7.79%	28.97%	-8.50%
NIXON/FORD	1973	Inaugural Year	5.60%	4.90%	8.70%	6.46%	6.99%	8.20%	-14.70%
RAEGAN	1981	Inaugural Year	2.60%	8.50%	8.90%	12.57%	14.59%	16.07%	-4.90%
RAEGAN	1985	Inaugural Year	4.20%	7.00%	3.80%	11.38%	9.19%	-9.24%	32.20%
BUSH, HW	1989	Inaugural Year	3.70%	5.40%	4.60%	9.09%	8.21%	-9.68%	31.50%
BUSH, W	2001	Inaugural Year	1.00%	5.70%	1.60%	5.16%	5.04%	-2.33%	-11.90%
BUSH,W	2005	Inaugural Year	3.40%	4.90%	3.40%	4.22%	4.42%	4.74%	4.90%

1 Bureau of Economic Analysis, National Income & Products Accounts Table, 2 Bureau of Labor Statistics, Historical Inflation Rate, 3 <http://www.multpl.com/10-year-treasury-rate/table/bymonth> 4 DFA Funds Matrix Book, historic total returns

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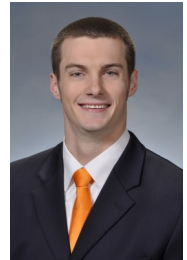
As far as where Wall Street goes for the rest of 2016 and 2017, our surmise is that the bull market has a solid chance to continue. Our sense is that GDP growth will remain in the slow but steady camp and the unemployment numbers will track in a fashion that is consistent with this slow but steady environment. There does not seem to be any meaningful inflation in the foreseeable future. Given the employment environment there is little chance for wage inflation. Low oil prices and the supply/demand situation indicate little chance for commodity inflation. With regard to interest rates we feel the Federal Reserve will raise rates slowly. It helps to remember that rates are at historic lows and it will take many rate increases to reach normal levels. As we've stated before, in the early phases of tightening, stocks could very well rally as investors realize that rates are going up because the economy is doing well. Consumers have been net savers over the last several years, there are signs of income growth, consumer confidence is strong and there is record amount of cash available for investment. Sounds like all the ingredients are in place for investors to **Get Rich Slow**.

The next **Buttonwood** is scheduled to be mailed in early 2017. With that in mind we'd like to take this opportunity to wish everyone a very Happy Thanksgiving and a happy and healthy holiday season. Please know that we appreciate and value the relationship we have with you and look forward to a great 2017.

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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



GUESS THE DOW CONTEST

It is undeniable, that in this day and age, Wall Street affects us all. Think about it for just a minute...your 401(k), taxes, entitlements, deficits, etc. Wall Street is a big part of our lives. Since it is, we at Armory Capital Management have decided to have some fun with it. You are invited to take part in the Annual Guess the Dow Jones Contest. **Invite a friend to join you!** Here are the rules:

- Entries must be submitted via email by **Friday, January 27, 2017 at 11:59 p.m.** No entries will be taken after that time.
- Email your guess to Matt Abbott at **mabbott@armorycm.com**.
- The winner is the person who guesses the closing value of the Dow Jones Industrial Average (or comes the closest) on December 31, 2017.

For more information about our investment philosophy and approach, please visit www.armorycm.com.

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ARMORY
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Patient Investing. Steady Returns.

Successful investing is an elusive reality 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**.