THE TANDEM REPORT

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TANDEM Investment Advisors

"It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have it, it requires ten times as much skill to keep it."

~ Ralph Waldo Emerson

Dear Clients,

Tandem is committed to the preservation of your wealth by minimizing risk while adding value through superior investment performance. This issue of *The TANDEM Report* provides a summary of our views pertaining to the investment landscape and subjects that influence our decision making. More information about our firm, including our investment style and process, is available at www.tandemadvisors.com or upon request. We hope you find this report useful.

Respectfully,

John B. Carew
President,
Chief Investment Officer

In This Issue

All performance figures, charts and graphs contained in this report are derived from publicly available sources believed to be reliable. Tandem makes no representation as to the accuracy of these numbers, nor should they be construed as any representation of past or future performance.

MARKET COMMENTARY: MARKET SHRUGS OFF WEAK ECONOMIC DATA FROM Q1, EXPECTS GROWTH IN FUTURE AND REACHES NEW RECORD HIGHS

This column keeps getting harder to write. For the 6th consecutive quarter, and 7th of the last 8, the market rose to new highs. How many different ways can this story be told? We have been fortunate enough to experience an historic bull market that the average investor doesn't trust. And the fact that this market remains somewhat distrusted is actually good news.

Let's start with the facts. GDP for the 1st quarter was –2.9%. This is a terrible number. A contracting economy is not typically an optimistic indicator. Yet the stock market shrugged this number off and continued its advance. Job growth has been steadily improving and other economic indicators point to a frozen winter causing a one-time blip in economic growth as opposed to a lasting trend. Many expect that the economy rebounded in the 2nd quarter (2nd quarter GDP will be announced July 30th) and that it will grow strongly in the 2nd half of the year, when corporate earnings are forecasted to grow around 10%. As the stock market is typically a forward looking indicator, one could argue that given these expectations the market should indeed rise.

As for this bull market being distrusted by the average investor, we view this as another positive for the market's health. Most readers will recall the enthusiasm for stocks during the late 1990's and the period from 2005 - 2008. The euphoria present then is generally lacking now. When everyone is on board, markets usually peak.

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COMMENTARY: BUYING LOW AND SELLING HIGH DOESN'T HAPPEN AT THE SAME INSTANT.

Markets rarely make sense in the moment. Only hindsight allows us to state with certainty why events unfold as they do. This is the beauty of a free market. No one really knows what is going to happen next. Differing views allow markets to function properly. Some have a short term perspective, others much longer. Some buy, some sell and some do nothing, all for reasons unique to each participant.

It has been said that in the short run the market is a voting machine and in the long run it is a weighing machine. Another way of expressing this is to say that the daily movements of markets are often driven by news, events, fear and greed. In the long run, the market's meanderings are more closely aligned with facts.

To drill down past the broad market level to individual stocks, a company has little control over its stock price on a day-to-day basis. Over time, the market weighs a company's successes and failures through a more measured lens. The constant tug-of-war between short term moves and longer term trends creates opportunity for patient investors.

We all surely agree that the key to successful investing is to buy low and sell high. Yet few investors actually behave this way in practice. Those of you that have been

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with us for awhile will have observed that in 2009-2011 we did far more buying than selling. Why? Because there were simply more stocks deserving to be bought than sold. Prices were generally low and we found value. In the past 12 months, the reverse has been true. We have sold many more stocks than we have bought. Doesn't this make sense? When stocks were low, we were buyers. Now that stocks are higher, we are sellers.

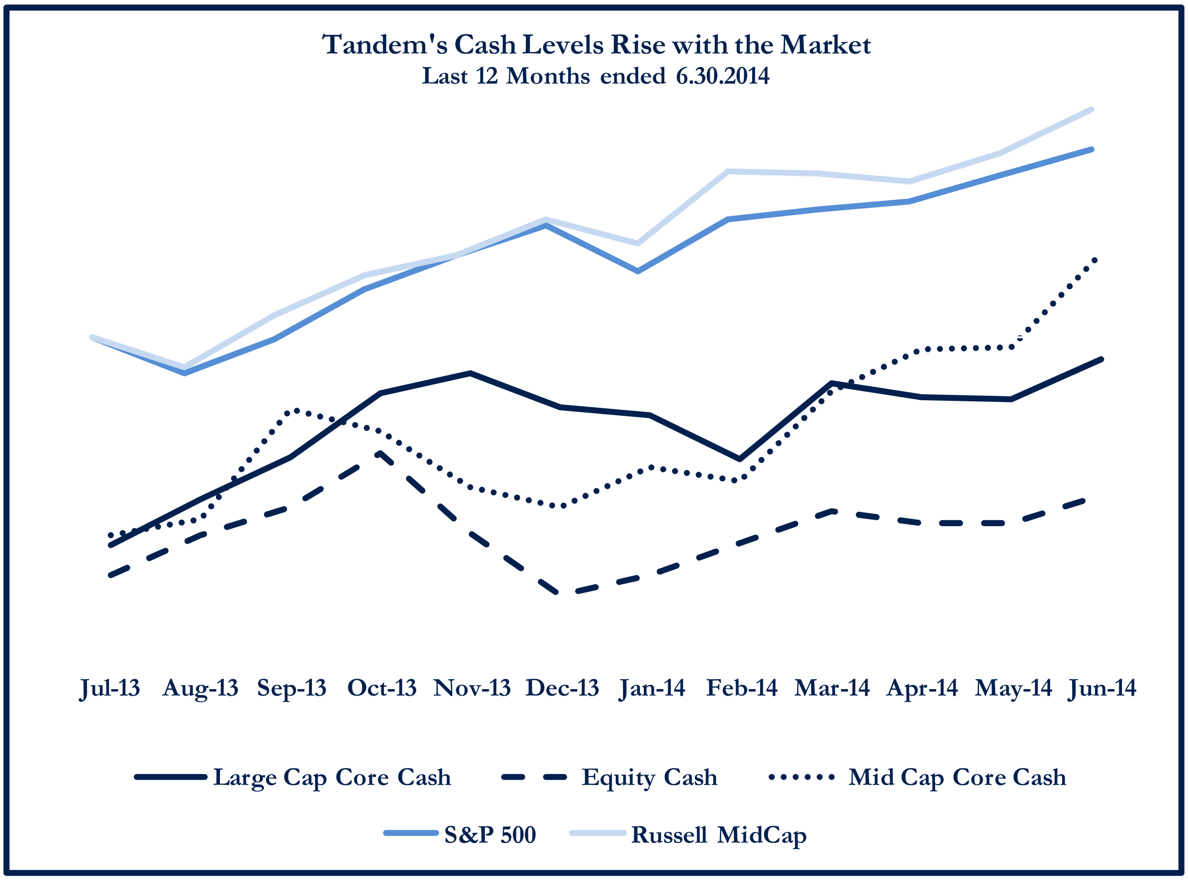
Rarely, if ever, does the best time to buy coexist with the best time to sell. Without passing any judgment on the overall health of the stock market, our view is that the past 12 months have offered us more opportunities to sell than to buy.

As a result, cash levels in the accounts we manage have been on the rise. Cash levels are not targeted in our process but merely a by-product of our investment process. When we find more to buy than sell, cash levels decrease. When we find more to sell than to buy, cash levels rise.

We do not sell or buy because of the noise driving the daily movements of the market. We transact because the value expressed as a stock's price does not properly reflect the value of a stock's underlying fundamentals. We buy low and sell high, or at least we try to.

The chart in the middle of this page illustrates the rise in the percentage of cash in our portfolios (the 3 dark blue lines at the bottom of the chart) in conjunction with the rise in market indices (the 2 lighter blue lines at the top) over the past 12 months. While it is true that these indices may continue to rise (see our *Market Commentary*), we believe that we have been presented with better opportunities to sell than to buy.

We are fully confident that this trend will reverse itself in due time. Cash in our portfolios is a very important component of how we manage money. It affords us the patience to take advantage of mispricing as it occurs. In time, the fundamentals we value will again present opportunities to buy, and we will have the cash available to act. In the short run, cash obviously can hurt our performance. We believe that over the course of a market's up and down movements,



having this cash at our disposal when it is again time to buy adds value.

To be clear, not every stock we own is mispriced. In fact, we remain "mostly" invested. Cash levels should not be construed as a broader take on the market as a whole. The stocks we own continue to fundamentally perform as we expect them to. We require that stocks grow their earnings through any market and economy. If they pay a dividend, we expect the dividend to grow in a sustainable way because earnings are growing to support dividend growth.

The table to the right on the next page shows every dividend paying stock we own across our Large Cap Core, Equity and Mid Cap strategies. It shows each company's dividend growth over the last 12 months and the last dividend increase. Most companies increase their dividends annually. Some chose to do so following a less frequent schedule. We

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DIVIDEND PAYING COMPANIES OWNED BY TANDEM 6.30.2014		
Company Name	Last Increase	12 Month Dividend Change
ABBOTT LABS	Q1 2014	57.14%
ABBVIE	Q2 2014	5.00%
ACCENTURE PLC	Q4 2013	14.81%
AMETEK	Q2 2014	50.00%
APTARGROUP	Q2 2014	12.00%
BECTON DICKINSON & CO	Q4 2013	10.10%
BROWN & BROWN	Q4 2013	11.11%
BROWN FORMAN CL B	Q4 2013	13.73%
COCA COLA	Q1 2014	8.93%
COLGATE PALMOLIVE	Q2 2014	5.88%
CORE LABORATORIES	Q1 2014	56.25%
COSTCO WHSL CORP	Q2 2014	14.52%
CSX	Q2 2014	6.67%
DOMINION RESOURCES	Q1 2014	6.57%
ECOLAB	Q4 2013	19.57%
ENTERPRISE PRODS PARTN	Q2 2014	5.97%
W.W. GRAINGER	Q2 2014	16.13%
ITT CORP	Q1 2014	10.00%
MCDONALDS	Q4 2013	5.19%
MICROSOFT	Q4 2013	21.74%
NATIONAL RETAIL PPTYS	Q3 2013	2.53%
NEXTERA ENERGY	Q2 2014	9.85%
PIEDMONT NAT GAS	Q1 2014	3.23%
PRAXAIR	Q1 2014	8.33%
T ROWE PRICE	Q1 2014	15.79%
QUALCOMM	Q2 2014	20.00%
REPUBLIC SERVICES	Q4 2013	10.64%
RESMED	Q3 2013	47.06%
ROSS STORES	Q1 2014	17.75%
SCANA	Q2 2014	3.35%
J.M. SMUCKER	Q3 2013	11.54%
STRYKER	Q4 2013	15.09%
THERMO FISHER SCIENTIFIC	Q4 2012	0.00%
TJX COS	Q2 2014	20.69%
TRACTOR SUPPLY CO	Q2 2014	23.08%
UNITED TECHNOLOGIES	Q4 2013	10.28%
VALMONT INDUSTRIES	Q2 2014	50.00%
WABTEC	Q4 2013	60.00%
WAL MART	Q1 2014	2.13%
WALGREEN	Q3 2013	14.55%
WASTE CONNECTIONS	Q4 2013	15.00%
YUM BRANDS	Q4 2013	10.45%
AVG DIVIDEND INCREASE IN LAST 12 MOS		17.21%

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insist that they follow whatever schedule they have laid out.

Dividend growth illustrated by the table varies by company, with a range of 0% to 60% over the past 12 months. On average, these stocks grew dividends by 17.21%. That is an impressive rate of growth in income paid to you, the shareholder. In a low interest rate environment, income increases like this are important. Historically share prices have risen to keep pace.

Our belief is that over time, the only things a company can control are manifested by earnings growth and dividend growth. If a company can accomplish these two things over time, the stock price will follow suit, regardless of what the market does. Sometimes the general market moves higher than this type of stock and sometimes not. Over time, fundamentals and stock price will match. When they don't we are presented opportunities - either to buy or to sell.

So while we remain "mostly" invested in companies such as these in the table, we do expect to find value in the future and put our cash holdings to work. Perhaps the opportunity will present itself when the Fed ceases its bond buying program in October. Perhaps a strengthening economy will allow companies to grow their earnings and dividends at a faster rate than presently expected. We do not know what event(s) will happen to create more buying opportunities and limit selling opportunities. We only know that something will change. It may even be something positive.

Too often the short term noise and news can make investors lose sight of their long term objectives. When markets experience sharp declines, many decide to bail. When markets set new highs, many become desperate to participate. While these emotions are understandable and even predictable, they are often just wrong.

When events conspire to drive emotion in one direction or the other, patience is quickly discarded. Maybe we like to be difficult, but when we find everyone on one side of a boat, we are inclined to move to the other. Eventually people join us. We are patient. As investors, patience affords us opportunity. The best time to sell rarely coincides with the best time to buy.

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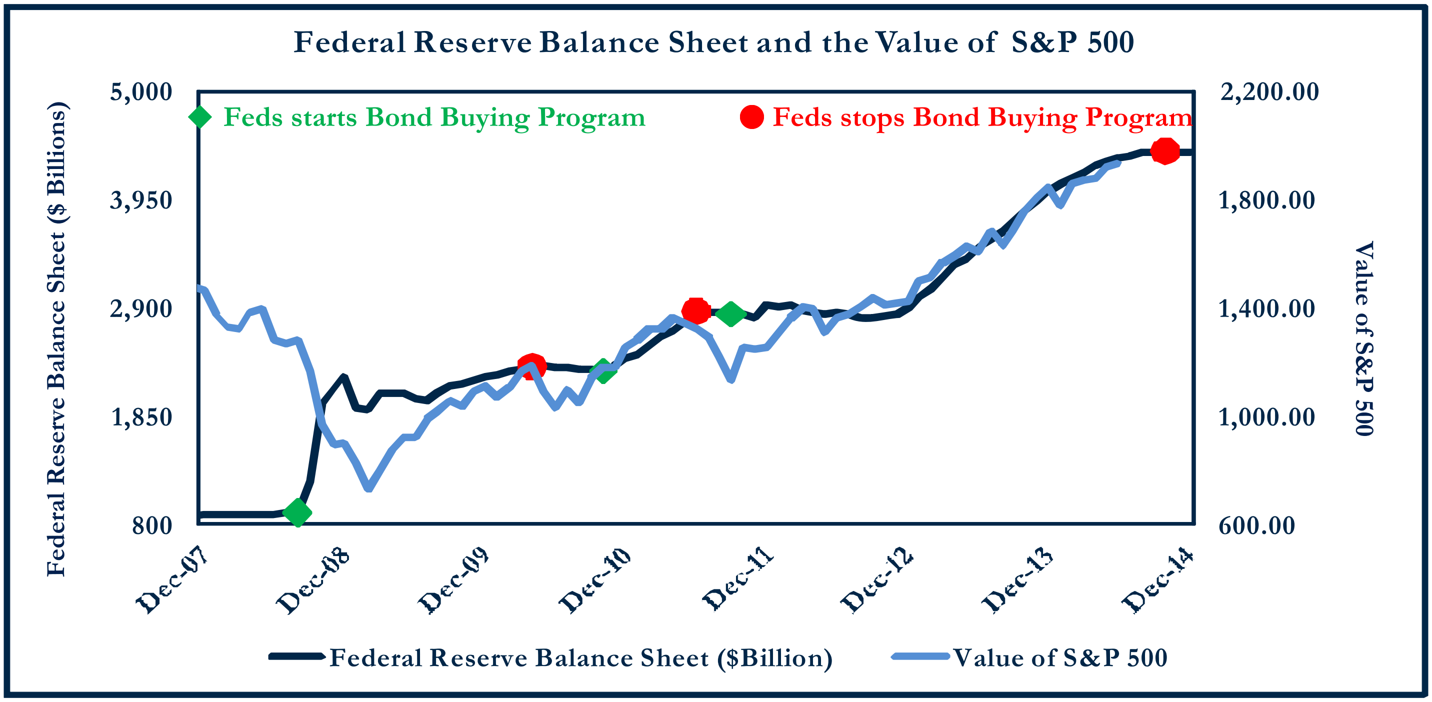
With so many still doubting the rationale for the present bull run, we have yet to reach the point of overcrowding. Or have we?

Overcrowding doesn't necessarily come from the likely suspects. And in the case of this market, it can be argued that any present overcrowding is the direct result of the Federal Reserve's policies. As we have discussed many times before, the Fed remains on a bond buying binge. Because the Fed is shrinking the supply of bonds available for the public to buy, many are forced into alternative investments. For every dollar the Fed spends to purchase bonds, it forces someone else's dollar into something other than bonds. Much of that money has ended up in the stock market.



The money flowing into the stock market is not coming from individuals in the same amount as in previous bull markets. Rather, it seems largely to be coming from "smart" money - institutions, pension funds, foreign buyers and the like. This class of investor, unlike the average individual, seems to be overwhelmingly bullish. Many believe that this "smart" money is less likely to panic and exit en masse at the first sign of trouble the way individuals have behaved in the past.

To be sure, Fed policy has had a remarkable impact on the stock market. The top of this page is dominated by a chart illustrating this relationship. The dark blue line represents the size of the Fed's balance sheet (presently over $4 Trillion, up from $800 Billion six years ago). For every month that the Fed buys more bonds, the balance sheet grows. And as the balance sheet grows, the stock market (represented by the S&P 500) has moved in lock step. The few times the Fed stopped, the market went lower. As soon as bond buying resumed, the market returned to its upward ascent. At its peak, the Fed was buying $85 Billion/month. They have begun to taper this amount by $10 Billion/month and are on course to cease new buying later this year (assuming they stay on course). It remains to be seen if the market will be able to stand on its own without the Fed's spending or if it will head lower for lack of support.

And this brings us back to why the market rose after a lousy GDP number. The market may or may not believe that the Fed will finally cease its spending spree. However, it does seem to believe that the economy is getting strong enough fast enough to stand without the Fed's direct support. And thus, the bad 1st quarter GDP will be replaced by a better 2nd quarter number followed by a robust 2nd half of the year.

Please forgive us our skepticism. As we discussed in the last issue, we have witnessed for awhile now rosy expectations for corporate earnings having to be lowered and pushed further out. Expectations of 10% corporate earnings growth seem to us to be more of the same. We believe that for there to be real and sustainable economic growth, individuals need to be economically stronger than they presently are. One way to measure individual economic strength is by earnings. If we make more we spend more. If we make the same or less we worry more and spend less. Perfectly logical.

While it is true that unemployment has come down steadily,

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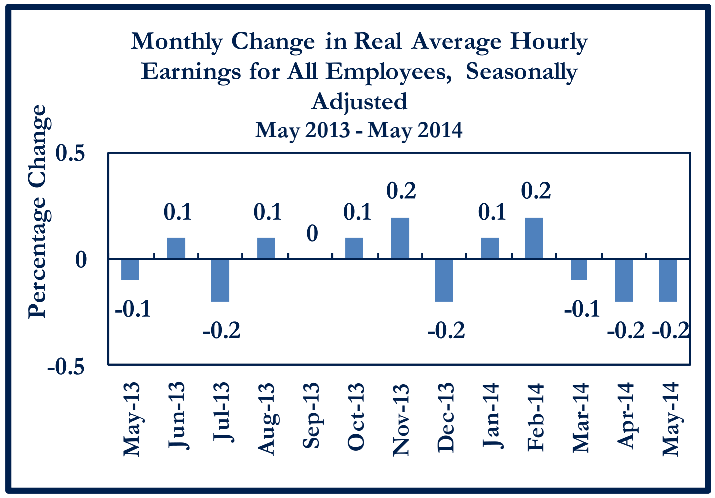
it is also true that at least part of this decline is due to a smaller percentage of the population participating. Baby boomers are retiring from the work force in large numbers and this accounts for some of the decline in the participation rate. It is also true that many have given up and "retired" unemployed. Many retirements are turning out to be not what retirees envisioned and their resources are strained.

Over 2/3 of GDP is driven by the consumer. During the snow and ice of the winter just past, consumers couldn't get out of their houses to spend money. As a result, GDP was bad. Now that winter has past, normalcy has likely returned. But normalcy doesn't mean improvement, and the market seems to be anticipating improvement. We see little sign of true improvement at present. June employment data was released July 3rd. The headline number said that the economy added 276,000 jobs in June, marking the 5th consecutive month with job gains exceeding 200,000. As a headline, this is certainly impressive strength. Yet we actually *lost* 523,000 full time jobs in June and gained 799,000 part time jobs. Of all the jobs added thus far in 2014, approximately 40% of them were part time.

While this economy is indeed adding jobs, it doesn't seem to be adding high paying jobs. The tables at the right of this page illustrate this point clearly. Real wages adjusted for inflation, both hourly and weekly, have actually decreased by 0.1% over the last year This is not a positive trend and not indicative of meaningful job creation. Earnings gains are not keeping pace with inflation and hours worked is stagnant. If hours worked is not increasing, what is the incentive for employers to add new full-time workers? Apparently any increased demand for labor by employers can simply be accommodated with part time workers. All of this would seem to place the typical consumer in a precarious spot. If GDP, the measure of economic growth, depends so heavily on the consumer, how can we forecast robust growth when real wage growth is nonexistent? It would seem to us that stagnant real wages simply spell more of the same.

By no means are we economic forecasters so take what we say with that in mind. Yet as the Fed nears the end of its bond buying spree and below-the-surface employment data remains stuck in neutral, we fail to see the signs of optimism that appear to be driving the stock market ever upward.

That said, we see little reason to fear some other outcome for the stock market. There is an old adage on Wall Street - *don't fight the Fed.* And with more than a $4 Trillion balance sheet, picking a fight with the Fed is folly. Fundamental data may suggest another outcome, but as long as the Fed wishes to keep interest rates low, there are few alternatives to the stock market. And herein lies the conundrum. The fundamentals that we value as investors suggest to us the market could use a correction. Nothing serious mind you. Simply a break in price gains to allow corporate earnings time to catch up. However, with few alternatives and the individual participating to a lesser extent than in previous bull markets, this market would seem to have more room to run. Particularly if fundamentals are given a chance to catch up with a price correction. Neither extreme optimism nor pessimism are warranted. Stay the course, keep some powder dry, wait for opportunities and enjoy the run. It is historic.



Source: Bureau of Labor Statistics www.bls.gov

Current and real (constant 1982-1984 dollars) earnings for all employees on private nonfarm payrolls, seasonally adjusted

	May 2013	Mar 2014	Apr 2014	May 2014
Real average hourly earnings	$10.29	$10.32	$10.30	$10.28
Real average weekly earnings	$355.07	$356.07	$355.29	$354.77
CPI for All Urban Consumers	232.124	235.640	236.254	237.083
Average hourly earnings	$23.89	$24.32	$24.33	$24.38
Average weekly hours	34.5	34.5	34.5	34.5
Average weekly earnings	$824.21	$839.04	$839.39	$841.11
Yearly % Change				
Real average hourly earnings	0.6	0.6	0.0	-0.1
Real average weekly earnings	0.9	0.6	0.3	-0.1
CPI for All Urban Consumers	1.4	1.5	2.0	2.1
Average hourly earnings	2.1	2.1	2.0	2.1
Average weekly hours	0.3	0.0	0.3	0.0
Average weekly earnings	2.3	2.1	2.3	2.1

Source: Bureau of Labor Statistics www.bls.gov

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MARKET REPORT CARD

YIELD TABLE

	Current	3 months ago	1 year ago
3-month Treasury Bill	0.02%	0.03%	0.03%
5-year Treasury Note	1.63%	1.72%	1.40%
10-year Treasury Bond	2.53%	2.72%	2.49%
30-year Treasury Bond	3.36%	3.56%	3.50%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Rate	0.03%	0.04%	0.03%
Discount Rate	0.75%	0.75%	0.75%
30 yr Fixed Mortgage	3.72%	4.00%	3.87%

The data used to compile the above tables come from publicly available sources. Tandem believes it to be reliable, but makes no such assertions. Such data is not meant to imply past or future performance for Tandem or any securities market.

KEY MARKET DATA

	6/30/14 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	1,960.23	22.04%	48.43%	113.23%
Dow Jones Industrial	16,826.60	12.86%	35.54%	99.20%
NASDAQ	4,408.18	29.53%	58.94%	140.22%
Russell 2000	1,192.96	22.04%	44.18%	134.71%
German Xetra DAX	9,833.07	23.54%	33.31%	104.49%
London FTSE 100	6,743.94	8.50%	13.43%	58.71%
Shanghai Composite	2,036.51	2.90%	-26.27%	-31.18%
Crude Oil	105.37	9.12%	10.43%	50.77%
Gold	1,315.00	10.32%	-12.65%	40.72%
CRB Index	308.22	11.83%	-8.82%	23.31%
U.S. Dollar Index	79.78	-4.04%	7.25%	-0.47%
Euro/Dollar*	136.94	5.25%	-5.57%	-2.42%

** Negative return represents dollar strength, positive return represents dollar weakness.*
Returns are cumulative, not annualized.

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