The TANDEM Report

TANDEM Investment Advisors

Volume 8, Issue 4, October, 2007

INSIDE THIS ISSUE:

MARKET SCORECARD:

S&P 500:

Annualized returns:

1 year ended 9/30/07	*14.29%*
3 years ended 9/30/07	*11.06%*
5 years ended 9/30/07	*13.37%*
7 years ended 9/30/07	*0.87%*
10 years ended 9/30/07	*4.89%*

Russell 3000 Growth:

Annualized returns:

1 year ended 9/30/07	*19.31%*
3 years ended 9/30/07	*12.36%*
5 years ended 9/30/07	*14.19%*
7 years ended 9/30/07	*-2.71%*
10 years ended 9/30/07	*3.97%*

MARKET COMMENTARY

WOW! WHAT A RIDE.

There is an old Wall Street adage that says "Sell in May and go away." But had you done that, you would have missed all the fun! We entered the quarter in rally mode, with the S&P 500 rising 3.31% for the quarter by July 19th. And then the bottom fell out.

The housing crisis spilled over to the broader credit market in mid-July. Numerous private equity deals announced in the first half of the year became endangered as lenders hesitated to take on new, lower-quality debt. Banks were stuck with these loans on their balance sheets, and credit markets seized up almost overnight. The market capitulated, and the S&P 500 fell more than 10% from its all-time high set on July 19. Finally, the Federal Reserve stepped in on the morning of August 17th and lowered the overnight lending rate (or the Discount Rate) by 50 basis points. The market rallied immediately, and we were off to the races again. From the low closing price for the S&P on August 15th, the market rallied 8.53% to end the quarter with a gain of more than 1.5%. So, had you sold in May and gone away, you might have averted a heart attack, but you would have missed what turned out to be a solid quarter.

The big story was the credit crunch. It seems that the housing boom had been financed by Wall Street. Who knew? Mortgages, many of them falling into the now famous "subprime" category, were packaged together by big investment banks, given a triple-A rating, and sold to investors (principally hedge funds) as if they

(Continued on page 7)

COMMENTARY:

GREED? OR ARROGANCE?

In the 1987 movie "Wall Street", Gordon Gekko (Michael Douglas) told us that "Greed is good". In some respects, this is a truthful statement. Capitalism is the best economic system in the history of mankind because it permits individuals to pursue their own financial self-interests. But did Gekko really fall victim to greed, or was it arrogance that led to his downfall?

Throughout history, markets have been the battlefield of greed and fear. When greed holds the advantage, the market experiences lengthy periods of investment growth. When fear comes to the fore, the result is a rapid price decline. If history is to be our guide, greed is a powerful and healthy combatant.

Unfortunately, many of today's Wall Street warriors, apparently too young to recall Gekko's demise, have transformed greed into arrogance. Calling themselves "hedge fund managers," this young breed's collec-

(Continued on page 6)

Top Ten Holdings

As of September 30, 2007

As always, the list that follows represents our ten largest holdings ranked by total market value in the accounts that make up our Tandem Equity, TVM Tax-Deferred Growth and Equity Income Composites. These are not recommendations for purchase. Rather, the list is simply intended to provide some insight into how we manage accounts. Ranking is determined by the number of shares of a company we own in a composite multiplied by the share price. Weighting is a holding's value divided by the value of the composite. A composite is a group of accounts with similar investment strategies over which we exercise complete discretion. For more detailed information on Tandem's composites, please visit our website at www.tandemadvisors.com. The accounts that comprise a composite are not necessarily identical. Some contain positions that Tandem did not buy. The Equity Composite and the TVM Tax-Deferred Growth Composite are designed to produce principal growth, while the Equity Income Composite is designed for principal and income growth.

EQUITY

Holding	Weighting
1. FMC Technologies	8.21%
2. BB&T	5.59%
3. FMC Corp.	5.57%
4. Exxon Mobil	4.57%
5. BP, plc	4.22%
6. Altria	4.21%
7. T. Rowe Price	3.18%
8. Thermo Fisher Scientific	2.70%
9. Genentech	2.65%
10. ConocoPhillips	2.55%
Total	**43.45%**

QUARTERLY SUMMARY

INITIAL BUYS:

Ametek, Aptar Group, Crocs, Jacobs Engineering, Eli Lilly and United Technologies.

ADDITIONS TO HOLDINGS:

Cognizant Technology Solutions, General Dynamics, Kohl's, Legg Mason, Praxair, Republic Services Group and Thermo Fisher Scientific.

PARTIAL SALES:

American Express, BP, Canadian National Railway, Colgate Palmolive, Exxon Mobil, Johnson & Johnson and Wells Fargo.

OUTRIGHT SALES:

Hershey, Home Depot (Company tender), Pfizer and Piedmont Natural Gas.

TVM TAX-DEFERRED GROWTH

Holding	Weighting
1. Exxon Mobil	3.68%
2. Colgate Palmolive	3.52%
3. T. Rowe Price	3.29%
4. Canadian National Rail	3.18%
5. General Electric	3.16%
6. General Dynamics	3.16%
7. Praxair	3.13%
8. Thermo Fisher Scientific	3.11%
9. BP, plc	3.03%
10. Genentech	3.01%
Total	**32.27%**

QUARTERLY SUMMARY

INITIAL BUYS:

Ametek, Aptar Group, Crocs, Jacobs Engineering, Eli Lilly and United Technologies.

ADDITIONS TO HOLDINGS:

Cognizant Technology Solutions, General Dynamics, Kohl's, Legg Mason, Praxair, Republic Services Group and Thermo Fisher Scientific.

PARTIAL SALES:

American Express, BP, Canadian National Railway, Colgate Palmolive, Exxon Mobil, Johnson & Johnson and Wells Fargo.

OUTRIGHT SALES:

Hershey, Home Depot (Company tender), Pfizer and Piedmont Natural Gas.

EQUITY INCOME

Holding	Weighting
1. General Electric	5.54%
2. Exxon Mobil	4.14%
3. Microsoft	3.64%
4. General Dynamics	3.21%
5. Praxair	3.18%
6. T. Rowe Price	3.09%
7. Johnson & Johnson	2.96%
8. BP, plc	2.89%
9. National Retail Properties	2.70%
10. Walgreen	2.64%
Total	**33.99%**

QUARTERLY SUMMARY

INITIAL BUYS:

Aptar Group, Eli Lilly, Republic Services Group, United Technologies and Waste Management.

ADDITIONS TO HOLDINGS:

FPL Group and Praxair

PARTIAL SALES:

Colgate Palmolive, Exxon Mobil, and Pfizer.

OUTRIGHT SALES:

Hershey and Home Depot (Company tender).

For specific purchase and sale information, please refer to the "Purchase and Sale" report in your quarterly statement.

MARKET STATISTICS *AS OF SEPTEMBER 30, 2007*

STOCK MARKET INDEX DATA						
Stock Market Indices	Close	% Change YTD	% Change 1 Year	% Change 3 Years	% Change 5 Years	% Change 10 Years
S&P 500	1,526.75	7.65%	14.29%	36.98%	87.27%	61.17%
Russell 3000 Growth	2,735.45	12.39%	19.31%	41.87%	94.18%	47.64%
Dow Jones Industrials	13,895.62	11.49%	18.98%	37.85%	83.03%	74.89%
NASDAQ 100	2,091.11	19.02%	26.42%	48.02%	151.18%	90.59%

YIELD TABLE				
	Current	3 months ago	6 months ago	1 year ago
3-month T-Bill	3.69%	4.77%	5.04%	4.86%
5-year Treasury	4.26%	4.97%	4.49%	4.56%
10-year Treasury	4.62%	5.08%	4.62%	4.61%
Prime Rate	7.75%	8.25%	8.25%	8.25%
Fed Funds Rate	4.75%	5.25%	5.25%	5.25%

PERFORMANCE BY SECTOR WITHIN THE S&P 500

THROUGH SEPTEMBER 30, 2007 *(SOURCE: S&P 500 GICS SECTOR SCORECARD)*

Sector	% of S&P 500	Return 3 Months	Return 2007 YTD	Return 2006	Return 5-Yr Annual
S&P 500	100.00%	1.6%	7.6%	13.6%	13.4%
S&P 500/Citigroup Growth	49.42%	3.4%	9.5%	9.4%	11.5%
S&P 500/Citigroup Value	50.58%	-0.2%	5.9%	18.0%	15.3%
Consumer Discretionary	9.23%	-6.5%	-4.3%	17.2%	10.1%
Consumer Staples	9.52%	4.2%	8.1%	11.8%	7.3%
Energy	11.68%	9.4%	27.2%	22.2%	27.4%
Financials	19.82%	-4.9%	-6.8%	16.2%	10.7%
Health Care	11.64%	0.6%	5.9%	5.8%	6.9%
Industrials	11.51%	5.4%	15.8%	11.0%	15.3%
Information Technology	16.18%	6.1%	15.6%	7.7%	18.0%
Materials	3.23%	4.4%	20.5%	15.7%	19.0%
Telecommunication Services	3.75%	1.4%	15.1%	32.1%	17.7%
Utilities	3.44%	1.2%	8.5%	16.9%	16.5%

PRICE CHANGE RELATIVE TO THE S&P 500 OF TVM STOCKS IN THE TANDEM EQUITY COMPOSITE AND TVM TAX-DEFERRED COMPOSITE

Purchase Date	TVM Buys	Cost	9/30/07 Price	TVM Price Change	S&P 500 Value on Purchase Date	S&P 500 Value on 9/30/07	S&P Price Change	Price Change Relative to the S&P 500
3/20/07	Brown Forman*	62.47	74.91	19.91%	1410.94	1526.75	8.21%	**11.71%**
3/20/07	Praxair	62.85	83.76	33.27%	1410.94	1526.75	8.21%	**25.06%**
3/20/07	Republic Service Group	27.27	32.71	19.95%	1410.94	1526.75	8.21%	**11.74%**
3/20/07	Advisory Board	51.16	58.47	14.29%	1410.94	1526.75	8.21%	**6.08%**
4/18/07	Coca Cola	51.74	57.47	11.07%	1472.50	1526.75	3.68%	**7.39%**
4/25/07	Advisory Board	48.08	58.47	21.61%	1495.42	1526.75	2.10%	**19.51%**
4/26/07	Paychex	36.90	41.00	11.11%	1494.25	1526.75	2.18%	**8.94%**
4/26/07	Avery Dennison	63.64	57.02	-10.40%	1494.25	1526.75	2.18%	**-12.58%**
5/11/07	Kohl's	72.53	57.33	-20.96%	1505.85	1526.75	1.39%	**-22.34%**
5/25/07	Cognizant Technology	75.46	79.79	5.74%	1515.73	1526.75	0.73%	**5.01%**
6/22/07	Thermo Fisher	51.53	57.72	12.01%	1502.56	1526.75	1.61%	**10.40%**
6/22/07	Genentech	75.36	78.02	3.53%	1502.56	1526.75	1.61%	**1.92%**
6/26/07	Kohl's	68.91	57.33	-16.80%	1492.89	1526.75	2.27%	**-19.07%**
6/26/07	Walgreens	43.81	47.24	7.83%	1492.89	1526.75	2.27%	**5.56%**
7/17/07	Kohl's	66.18	57.33	-13.37%	1549.37	1526.75	-1.46%	**-11.91%**
7/18/07	Republic Service Group	30.93	32.71	5.75%	1546.17	1526.75	-1.26%	**7.01%**
7/27/07	Thermo Fisher	52.49	57.72	9.96%	1458.95	1526.75	4.65%	**5.32%**
8/7/07	Aptar Group	35.90	37.87	5.49%	1476.71	1526.75	3.39%	**2.10%**
8/7/07	Thermo Fisher	52.06	57.72	10.87%	1476.71	1526.75	3.39%	**7.48%**
8/8/07	General Dynamics	77.57	84.47	8.90%	1497.49	1526.75	1.95%	**6.94%**
8/8/07	Republic Service Group	31.01	32.71	5.48%	1497.49	1526.75	1.95%	**3.53%**
8/9/07	United Technologies	73.49	80.48	9.51%	1453.09	1526.75	5.07%	**4.44%**
8/10/07	Crocs	50.53	67.25	33.08%	1453.64	1526.75	5.03%	**28.05%**
8/14/07	Cognizant Technology	80.82	79.79	-1.29%	1426.54	1526.75	7.02%	**-8.31%**
8/15/07	Ametech	38.08	43.22	13.50%	1406.70	1526.75	8.53%	**4.96%**
8/15/07	Praxair	73.35	83.76	14.19%	1406.70	1526.75	8.53%	**5.65%**
8/16/07	Jacobs Engineering	57.78	75.58	30.81%	1411.27	1526.75	8.18%	**22.62%**
8/16/07	Legg Mason	84.03	84.29	0.31%	1411.27	1526.75	8.18%	**-7.87%**
8/16/07	Eli Lilly	54.31	56.93	4.82%	1411.27	1526.75	8.18%	**-3.36%**
8/27/07	Aptar Group	35.84	37.87	5.66%	1466.79	1526.75	4.09%	**1.58%**
Averages			**TVM Stock Return**	**8.53%**		**S&P 500 Return**	**4.28%**	**4.25%**

* The cost of Brown Forman is adjusted lower to reflect a special dividend of $1.66 per share on 5/10/2007.

Disclaimer: The tables on this page and the next are in no way intended to imply overall portfolio performance. The impact these purchases have on overall performance is a function of the weighting of each stock within a specific portfolio. The cost column in the TVM section indicates the cost per share actually paid, including commissions, on the purchase date. The S&P 500 cost is the closing value of the S&P 500 on the purchase date. Dividends, unless otherwise noted in the table, are not included in price change calculations. Further, these purchases should not be construed as general recommendations. The TVM Model is the property of Tandem Investment Advisors, Inc., and is to be used solely by Tandem in making investment decisions for accounts Tandem manages.

PRICE CHANGE RELATIVE TO THE S&P 500 OF TVM STOCKS IN THE TANDEM EQUITY INCOME COMPOSITE								
Purchase Date	**TVM Buys**	**Cost**	**9/30/07 Price**	**TVM Price Change**	**S&P 500 Value on Purchase Date**	**S&P 500 Value on 9/30/07**	**S&P Price Change**	**Price Change Relative to the S&P 500**
3/20/07	Brown Forman*	62.47	74.91	19.91%	1410.94	1526.75	8.21%	**11.71%**
3/20/07	Praxair	62.85	83.76	33.27%	1410.94	1526.75	8.21%	**25.06%**
4/18/07	Coca Cola	51.74	57.47	11.07%	1472.50	1526.75	3.68%	**7.39%**
4/26/07	Paychex	36.90	41.00	11.11%	1494.25	1526.75	2.18%	**8.94%**
4/26/07	Avery Dennison	63.64	57.02	-10.40%	1494.25	1526.75	2.18%	**-12.58%**
6/26/07	Health Care Ppty	28.50	33.17	16.39%	1492.89	1526.75	2.27%	**14.12%**
6/26/07	Walgreens	43.81	47.24	7.83%	1492.89	1526.75	2.27%	**5.56%**
7/18/07	Waste Management	38.97	37.74	-3.16%	1546.17	1526.75	-1.26%	**-1.90%**
7/18/07	Republic Service Group	30.93	32.71	5.75%	1546.17	1526.75	-1.26%	**7.01%**
7/27/07	FPL Group	55.75	60.88	9.20%	1458.95	1526.75	4.65%	**4.55%**
7/27/07	Waste Management	37.58	37.74	0.43%	1458.95	1526.75	4.65%	**-4.22%**
8/7/07	Aptar Group	35.90	37.87	5.49%	1476.71	1526.75	3.39%	**2.10%**
8/8/07	General Dynamics	77.57	84.47	8.90%	1497.49	1526.75	1.95%	**6.94%**
8/8/07	Republic Service Group	31.01	32.71	5.48%	1497.49	1526.75	1.95%	**3.53%**
8/9/07	United Technologies	73.49	80.48	9.51%	1453.09	1526.75	5.07%	**4.44%**
8/15/07	Praxair	73.35	83.76	14.19%	1406.70	1526.75	8.53%	**5.65%**
8/16/07	Eli Lilly	54.31	56.93	4.82%	1411.27	1526.75	8.18%	**-3.36%**
Averages			**TVM Stock Return**	**8.81%**		**S&P 500 Return**	**3.26%**	**4.99%**

* The cost of Brown Forman is adjusted lower to reflect a special dividend of $1.66 per share on 5/10/2007.

Bond Commentary

To those clients that invest in bonds, we say be patient. We had several bonds mature over the summer, and we have re-invested very few of those proceeds. We are uncomfortable with the credit markets at this time, and would prefer to wait before we commit money to bond purchases. This is not interest rate motivated entirely (although we do believe the long-term trend is up, rates will likely go lower first). It is simply that when we are uncomfortable with the market action, we believe it is prudent to wait for order to be restored. In the meantime, money market rates are very competitive.

Tandem Notes

The time has come to close the Charlottesville office, at least for now. No need for alarm. All work has been done in Charleston for awhile now. John is the only one in Charlottesville, where he continues to live, and it just made no sense to keep a satellite office open in Charlottesville until or unless we add staff there. If you need to reach John, the phone number remains (434) 979-4300, and the new address is:

PO Box 4545
Charlottesville, VA 22905

John is *very* pleased with this new arrangement.

COMMENTARY (CONTINUED)

(Continued from page 1)
tive sense of infallibility is creating headaches for the rest of us. In a well-orchestrated march toward astronomical and unsustainable returns and ever-larger bonuses, they have dismissed risk, seemingly oblivious to their own human short-comings. They move, en masse, into the latest hot investment, driving prices higher along the way. And as their returns go higher, so too does their pool of money from their "investors".

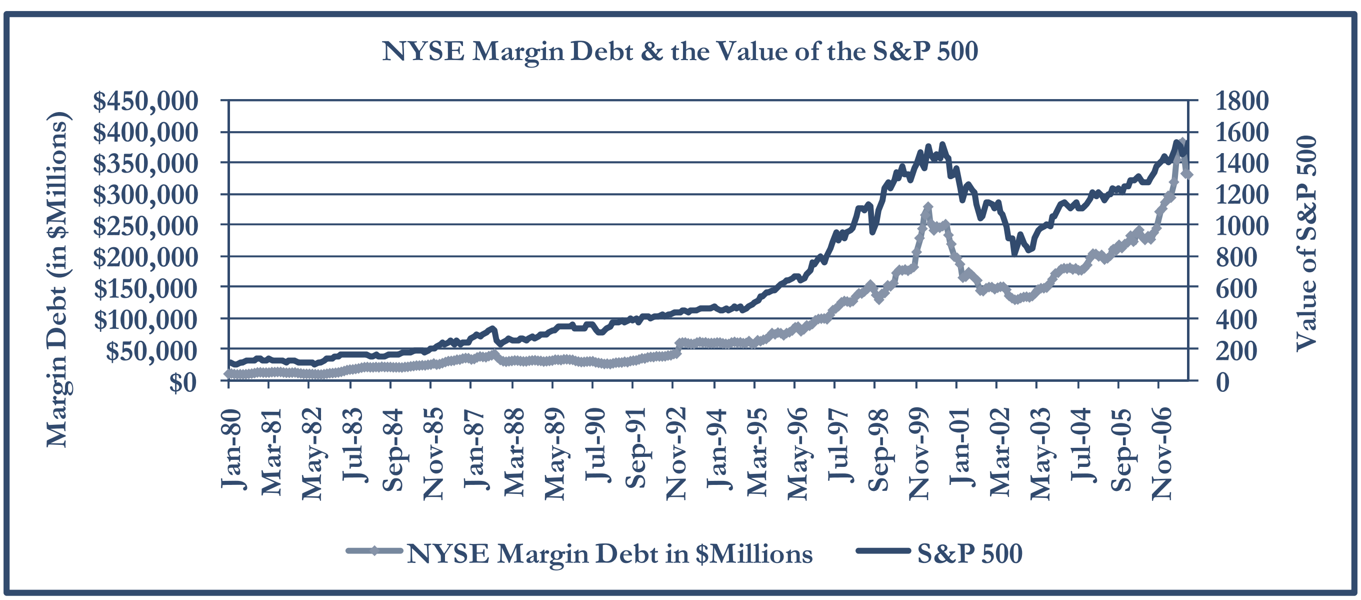
This set of circumstances brings to mind the greater fool theory. Taken from *Investopedia*, "in accordance with the greater fool theory, an investor buys questionable securities not with any regard to their quality, but with the hope of quickly selling them off to another investor (the greater fool), who might also be hoping to flip it quickly. Unfortunately, speculative bubbles always burst eventually, leading to a rapid depreciation in share price due to the selloff." The bubbles we have already experienced include tech stocks, real estate and credit. The common denominator in these bubbles has been an unhealthy lack of respect for risk.

The chart below compares the level of borrowing on the New York Stock Exchange with the price of the S&P 500. One can observe that increased borrowing (or margin debt) can have a positive impact on the price of stocks, but when it unravels the decline is steep. We have discussed the reasons for this numerous times, but simply put, borrowed money increases demand for stocks. When stocks fall, the indebtedness must be repaid, and is typically done by wholesale liquidation of investments. We experienced this most recently in July and August.

Borrowing (the lower line) has spiked in recent years, and is only now beginning to unwind. We hope that it continues to unwind *without* an accompanying decline in the market. This chart only represents stocks. The real borrowing has gone into private equity, currencies, real estate, commodities and other less liquid investments. If these markets collapse, stocks will likely fall as well because they are more easily sold. This summer, stocks fell because they were the only assets hedge funds could sell quickly to cover losses in the credit markets.

Investors pouring money into hedge funds are pursuing their own economic self-interest because they believe this to be the path to wealth. Hedge fund managers are also pursuing their own economic self-interest by expanding the amount of assets they manage. But they have fallen prey to arrogance by using substantial amounts of borrowed money to improve returns without adequately recognizing the risks they assume with other people's money.

Gordon Gekko and his young co-conspirator Bud Fox learned the hard way. Perhaps the lesson Bud ignored is still relevant. His father Carl told him to "stop going for the easy buck and start producing something with your life. Create, instead of living off the buying and selling of others."



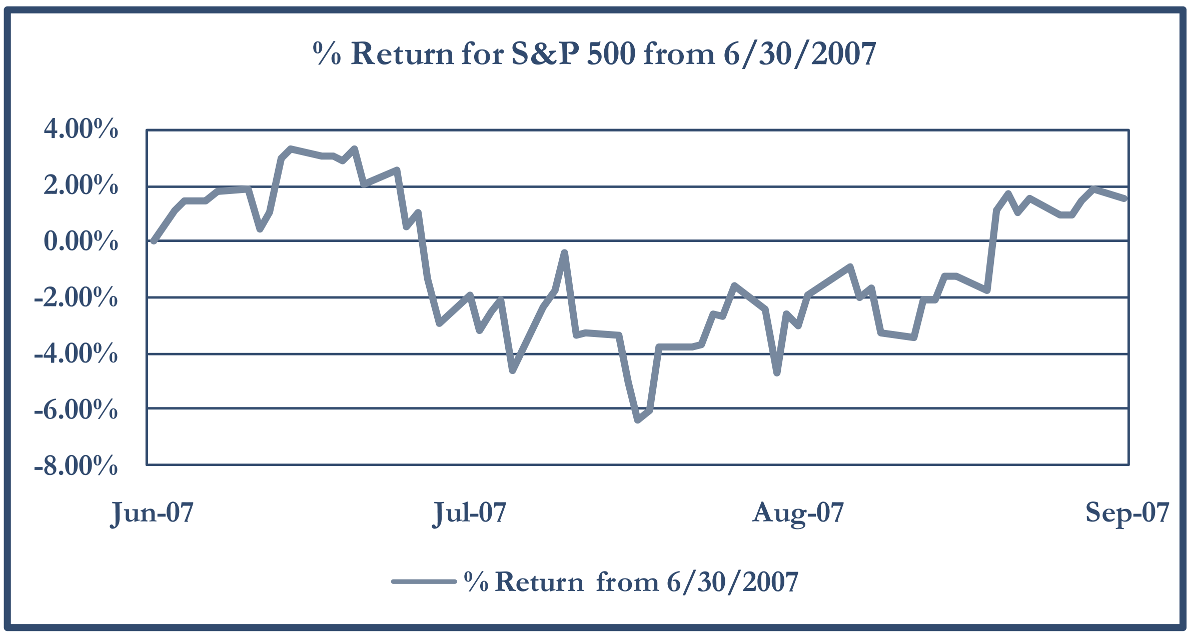
MARKET COMMENTARY (CONTINUED)

(Continued from page 1)

were high quality bonds.

These pools of mortgages (called collateralized mortgage obligations, or CMO's) worked so well for investors that many hedge funds decided they should borrow money in order to buy even more. In the housing heyday, adjustable rate mortgages became commonplace, and as mortgage rates began to rise this year, defaults increased. Suddenly these CMO's didn't seem so safe anymore.

As a result, CMO values began to plummet. Funds were faced with huge margin calls, and could not sell their CMO's. So they sold stocks. The CMO collapse was bad enough, but it was exacerbated by funds using leverage (borrowing) to finance purchases of these instruments. As we have discussed in the past, leverage can have a dramatic effect on returns, both good and bad. In July, a lot of investors learned first hand how leverage can backfire.



It would not be an overstatement to say that the seizing up of credit markets could have had disastrous ramifications had not the Fed acted when it did. And it would be premature to say the worst is over. We simply don't know the ultimate impact all this mess has had on the balance sheets of some of our largest financial institutions. However, the Fed has made it clear that they are on the scene, and panic has been averted. Rightfully so.

No doubt some firms will cease to exist as a result of this. A few hedge funds have already closed, and at least one brokerage firm (Bear Stearns) is rumored to be in need of capital. Good riddance. Our markets can withstand this. Shaking out the weak players is a healthy thing, because it leaves us stronger in the end. That said, turmoil is rarely fun.

We were very opportunistic in the quarter. TVM had us enter the quarter with a lot of cash. The model gave us some excellent buys as the market bottomed, and some timely sales as the market regained footing. We finished the third quarter with strong performance, and we still enjoy a very healthy cash position. Now in its sixth month of operation, TVM has produced some solid results. We are pleased, and managed to use market volatility to our great advantage.

As we enter the 4th quarter, the economy has taken center stage. The Federal Reserve cut the Fed Funds Rate and the Discount Rate (again) at their September meeting, and most believe more cuts are necessary to avert a recession. Lower interest rates have put even more pressure on our dollar, which is hitting all-time lows against many currencies. A recession would definitely hurt stocks, but we must keep in mind that the market is a *leading* economic indicator. To date, we do not see the market predicting anything more than slowing growth.

Regardless of the outcome of the summer's credit crunch, Jim Cramer assures us that there is always a bull market out there somewhere. Let's enjoy the ride!

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