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:
Uncertainty Reigns

The stock market took us for quite a ride in 2015. As it turns out though, we just went around the block.

Bulls and Bears both had their way in 2015. After a brief stumble out of the gate in January, the market gained traction and headed higher through May, giving the Bulls encouragement. After bouncing around near all-time highs for most of the summer, some bad economic data threw a scare into the market in August and the Bears held sway, sending the S&P down more than 9% for the year and more than 12% from its all-time high.

The Bears were so effective, in fact, that they seemingly convinced the Federal Reserve to not raise interest rates in September. With that, the Bulls were back in charge! October brought a rally that erased the year's losses and returned the S&P nearly to its most lofty

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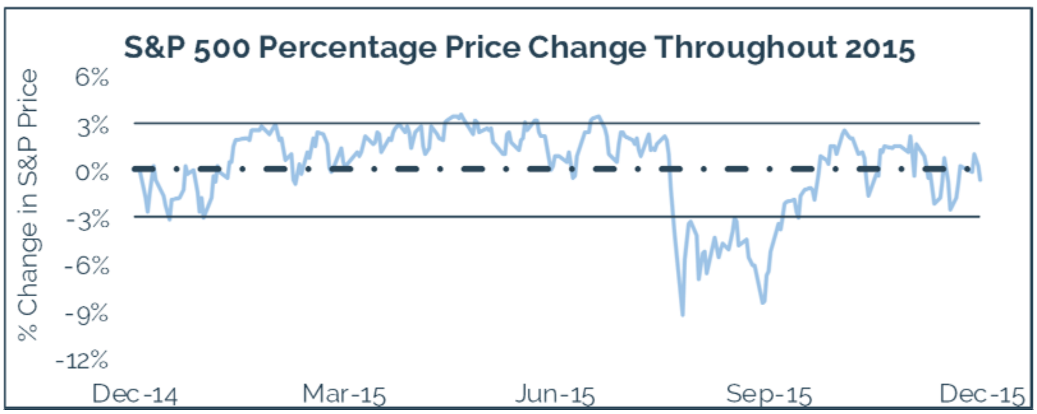

COMMENTARY:
Emotions and Perspective

Proper perspective is always important. Particularly in confusing times such as these.

Emotion is the enemy of every investor. It makes us do the wrong thing at the wrong time for the wrong reason. It makes us greedy when stocks are rising and it makes us fearful when stocks are falling. Intellectually we know we should be sellers when we are feeling greedy and we should be buyers when we are feeling fearful. But that's really hard for most people to do. It takes the courage of one's convictions to go against the grain. It feels safer to run with the herd, even if the herd is running in the wrong direction.

Emotion definitely seems to be taking hold of many investors as 2016 is off to the worst start in the history of the stock market. At the time of this writing the market is down approximately 10% to begin the New Year. Ouch.

There is certainly much to take note of during this market sell-off. China may be in the midst of an economic col-

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lapse. The price of crude oil is at levels not seen in over a decade and seems to fall more every day. Could this portend a global recession? The Federal Reserve has raised rates - the only Central Bank on the planet to do so. Could the Fed cause the Dollar to strengthen too much and choke off corporate profit growth? There is a lot of serious stuff to consider. How are investors supposed to make sense of it all? Who's to blame them when their emotions get the better of them and they throw in the towel when things look bleak?

Proper perspective can help keep emotions in check, particularly when perspective is accompanied by a plan. First, whenever fear takes hold, tune out the noise and focus on what really matters. Remember that our portfolio is not invested in *"the market"*. It is invested in companies - good companies that grow their earnings and dividends regularly through most any environment.

Second, remember that we have a plan. Our discipline allows us to be proactive instead of reactive. Our job is to buy low and sell high, and we have a process that does exactly that. On a stock-by-stock basis. It analyzes what each individual company is doing, not *"the market"*, not China and not anything else.

For months many individual stocks have been telling us that their growth was slowing and their price was overvalued. Not every stock has given us this signal, but certainly more have than usual. And we followed these signals, allowing us to sell before the market began to decline. As a result, cash has built up in our portfolios. Eventually stocks will begin to tell us that their prices are too low and do not properly reflect their prospects for growth. And we will have the cash on hand to buy those stocks when the time comes. To us, this approach is quite logical. Unfortunately for many investors, it is not widely followed. It eliminates emotions and adheres to a discipline. It is proactive.

The chart below illustrates how our investment process works. For each stock in our universe we calculate a ratio designed to identify those companies that grow their earnings and dividends in any type of economy, good or bad. The ratio (represented by the dark blue solid line) fluctuates in value over time, but as long as it remains a positive number, the stock meets our strict criteria. Whenever the ratio crosses above the top horizontal line, the stock is cheap in price and should be bought. Whenever the ratio drops below the bottom horizontal line, the stock is expensive and we must take some profit. Whenever the ratio goes below zero, we must liquidate the stock. As you can see, when the ratio is above the lines, the stock price (the lighter blue line) is cheap and poised to go higher. Whenever the ratio is below the lines, the stock is expensive and poised to go lower. The stock in this example is EcoLab, which can be found in the portfolios of all of Tandem's strategies.

We rely upon this discipline to guide us without emotion and to follow the signals each stock is giving us. It is simple, logical and understandable. Sometimes investors overthink things. Remember, complicated isn't better. It is just harder to understand.

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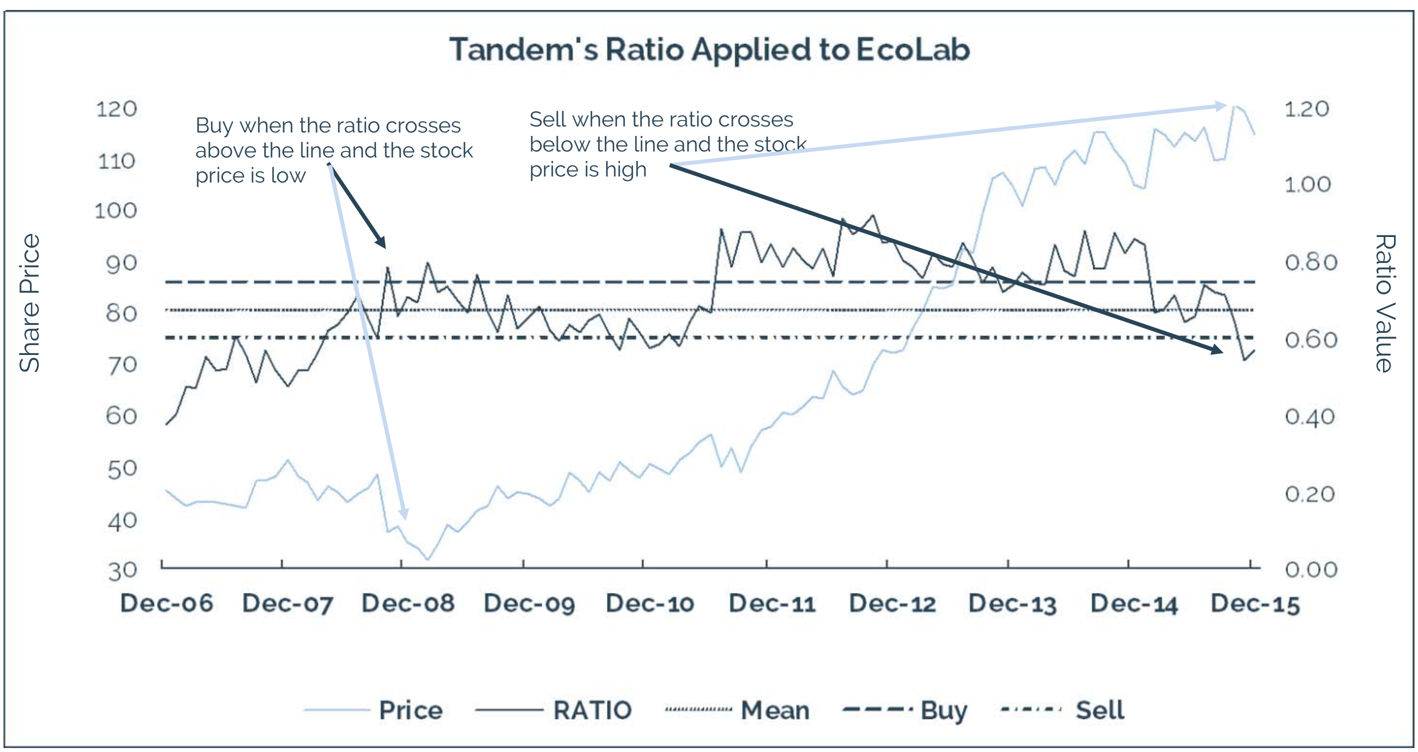

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No matter what is in store for the stock market in 2016 and beyond, know that at some point prices will go down enough to scare a lot of investors. Whenever this has happened in the past, widespread fear has caused prices to fall further than they probably should have. But so far, stock prices have always come back. The Great Recession was pretty scary stuff, but the market recovered from that. It recovered from the Tech Bubble, Black Monday in 1987, the Cuban Missile Crisis and even the Great Depression.

Proper perspective will see you through whatever lies ahead. We have a plan, we are proactive, and you can understand your investments, which means you can filter out the noise and focus on what matters most - the companies you own. Have a look at them in the tables below. Some you may not have heard of, but most you have, Much like our investment process, they are simple, straight forward business. Buying low and selling high isn't easy. If it were, everyone would be doing it! But with the proper perspective (and a plan) it can be done.

5 Year Earnings and Dividend Growth for Tandem's Holdings by Strategy

Large Cap Core Holdings 5 Year Growth

Company	Earnings	Dividends
Accenture Plc	53.2%	81.33%
Aptargroup	20.6%	72.73%
Becton, Dickinson	46.1%	61.84%
Brown & Brown	47.3%	44.80%
Brown-Forman Cl B	45.0%	57.50%
Coca-Cola	13.7%	50.00%
Colgate-Palmolive	16.1%	47.78%
Costco	67.3%	95.60%
CSX	48.1%	114.28%
Dominion Resources	9.3%	41.53%
Ecolab	97.3%	109.38%
Expeditors International	50.3%	80.00%
W.W. Grainger	71.6%	120.67%
Microsoft	2.6%	134.55%
National Retail Ppty	70.2%	13.25%
NextEra Energy	31.6%	54.00%
Piedmont Natural Gas	-4.6%	18.02%
Praxair	22.4%	58.89%
T. Rowe Price	79.4%	92.59%
QUALCOMM	89.4%	151.35%
Republic Services	19.9%	48.72%
ResMed	77.2%	NA
SCANA	28.2%	14.74%
Scripps Networks	89.1%	206.67%
J. M. Smucker	23.5%	69.03%
Stryker	53.5%	124.60%
TJX Cos	88.0%	182.46%
Tractor Supply	165.5%	442.86%
United Technologies	33.3%	50.59%
Wabtec	220.3%	1300.00%
Wal-Mart	12.3%	65.25%
Walgreens Boots	69.7%	123.20%
Waste Connections	58.1%	380.01%
Average	**55.0%**	**140.9%**

Equity Holdings 5 Year Growth

Company	Earnings	Dividends
Accenture Plc	53.2%	81.33%
AMETEK	117.9%	199.97%
Aptargroup	20.6%	72.73%
Becton, Dickinson	46.1%	61.84%
Brown & Brown	47.3%	44.80%
Brown-Forman Cl B	45.0%	57.50%
Cerner	179.7%	0.00%
Coca-Cola	13.7%	50.00%
Cognizant Technology	155.5%	NA
Colgate-Palmolive	16.1%	47.78%
Costco	67.3%	95.60%
CSX	48.1%	114.28%
Ecolab	97.3%	109.38%
Expeditors International	50.3%	80.00%
FMC Technologies	53.7%	NA
W.W. Grainger	71.6%	120.67%
MEDNAX	101.0%	NA
Microsoft	2.6%	134.55%
NextEra Energy	31.6%	54.00%
O'Reilly Automotive	198.4%	NA
Praxair	22.4%	58.89%
T. Rowe Price	79.4%	92.59%
QUALCOMM	89.4%	151.35%
Republic Services	19.9%	48.72%
ResMed	77.2%	NA
Scripps Networks	114.7%	206.67%
Signature Bank NY	216.1%	NA
Stryker	53.5%	124.60%
Thermo Fisher Scientific	106.7%	NA
TJX Cos	88.0%	182.46%
Tractor Supply	165.5%	442.86%
United Technologies	33.3%	50.59%
Wabtec	220.3%	1300.00%
Walgreens Boots	69.7%	123.20%
Waste Connections	58.1%	389.25%
Average	**80.9%**	**160.6%**

Mid Cap Core Holdings 5 Year Growth

Company	Earnings	Dividends
AMETEK	117.9%	199.97%
Aptargroup	20.6%	72.73%
Becton, Dickinson	46.1%	61.84%
Brown & Brown	47.3%	44.80%
Brown-Forman Cl B	45.0%	57.50%
Cerner	179.7%	NA
Cognizant Technology	155.5%	NA
Dollar Tree	66.0%	NA
Ecolab	97.3%	109.38%
Expeditors International	50.3%	80.00%
Fiserv	90.1%	NA
FMC Technologies	53.7%	NA
W.W. Grainger	71.6%	120.67%
MEDNAX	101.0%	NA
National Retail Ppty	70.2%	13.25%
O'Reilly Automotive	198.4%	NA
Piedmont Natural Gas	-4.6%	18.02%
Praxair	22.4%	58.89%
T. Rowe Price	79.4%	92.59%
Republic Services	19.9%	48.72%
ResMed	77.2%	NA
Ross Stores	114.7%	166.95%
SCANA	28.2%	14.74%
Scripps Networks	89.1%	206.67%
Signature Bank NY	216.1%	NA
J. M. Smucker	23.5%	69.03%
Stryker	53.5%	124.60%
Thermo Fisher Scientific	106.7%	NA
Tractor Supply	165.5%	442.86%
Wabtec	220.3%	1300.00%
Waste Connections	58.1%	389.25%
YUM! Brands	25.3%	89.13%
Average	**84.6%**	**171.9%**

The list of holdings above for Tandem's 3 strategies are as of 12.31.2015. These lists do not constitute investment advice, nor do they represent performance of any Tandem investment product. Certain companies have been excluded from these lists because corporate spinoffs resulted in incomplete data. Companies excluded from Large Cap Core are Abbott Labs, Abbvie and ITT. Companies excluded from Equity are Abbott Labs, Abbvie, Ebay, ITT and PayPal. The company excluded from Mid Cap Core is ITT. FactSet is the source of data for the above calculations. Current year earnings include estimates provided by FactSet.

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perch. For awhile, anyway.

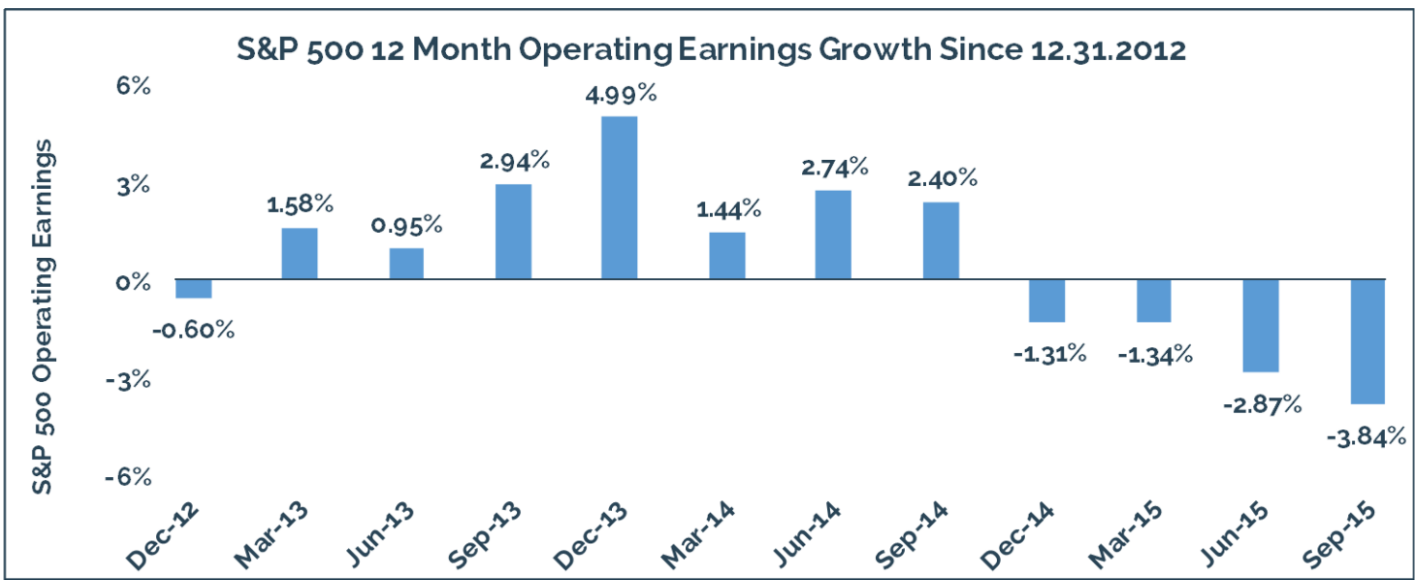
It turns out the Federal Reserve finally did raise rates for the first time in 10 years at their December meeting. That brought the market back down to earth and it ended the year almost exactly where it had begun. In fact, with the exception of the brief tantrum the market threw in August and September, the S&P never really traded more than 3% up or 3% down for the year! It felt like quite a ride, but we ultimately went nowhere.

The S&P 500 ended the year down a meager 0.73%. However, if you account for dividends, the index ended the year in positive territory, up 1.38%.

You may recall in these very pages we predicted that the Fed would not raise rates until 2017. Now you see why we rarely make predictions. It only took two months for us to be wrong. Smart people might quit while they are behind. When you find yourself in a hole, stop digging, or something like that. But not us! We are doubling down.

But all is not as it should be. There is not broad participation across industries. In fact, only 4 of the 10 major industrial sectors experienced price gains in 2015. The other 6 were in the red for the year. This is certainly not broad participation. And while corporate profits had been growing (to a large extent due to unwise corporate share repurchases instead of actual growth) they no longer are. The large chart above shows that we are in fact in the midst of an earnings recession! Perhaps when December earnings are tallied things will be different. Perhaps not. The S&P has experienced 4 consecutive quarters of trailing 12 month earnings declines. We can find no time previously that the S&P experienced such an earnings recession without the economy experiencing a recession as well. Maybe this can be the first time. But maybe not.

S&P Sector	Price Gain
Consumer Discretionary	8.4%
Consumer Staples	3.8%
Energy	-23.6%
Financials	-3.5%
Health Care	5.2%
Industrials	-4.7%
Information Technology	4.3%
Materials	-10.4%
Telecommunication Services	-1.7%
Utilities	-8.4%



While the Fed did indeed raise rates in December, from 0.00% to 0.25%, we think they are going to end up having to take that hike back. They may in fact hike again before they do. But we remain convinced that we are not in an environment conducive to interest rate hikes.

A healthy economy, one deserving of higher interest rates, is one that enjoys broad participation. Across all types of industries, companies and employees. This economy, in our view, just doesn't fit the bill. Yes some industries have thrived. Yes some corporate profits have grown. And yes, we have experienced consistent job growth and unemployment now stands at just 5%.

Finally, unemployment now stands at 5%, down from 10% at the height of the Great Recession. But this num-

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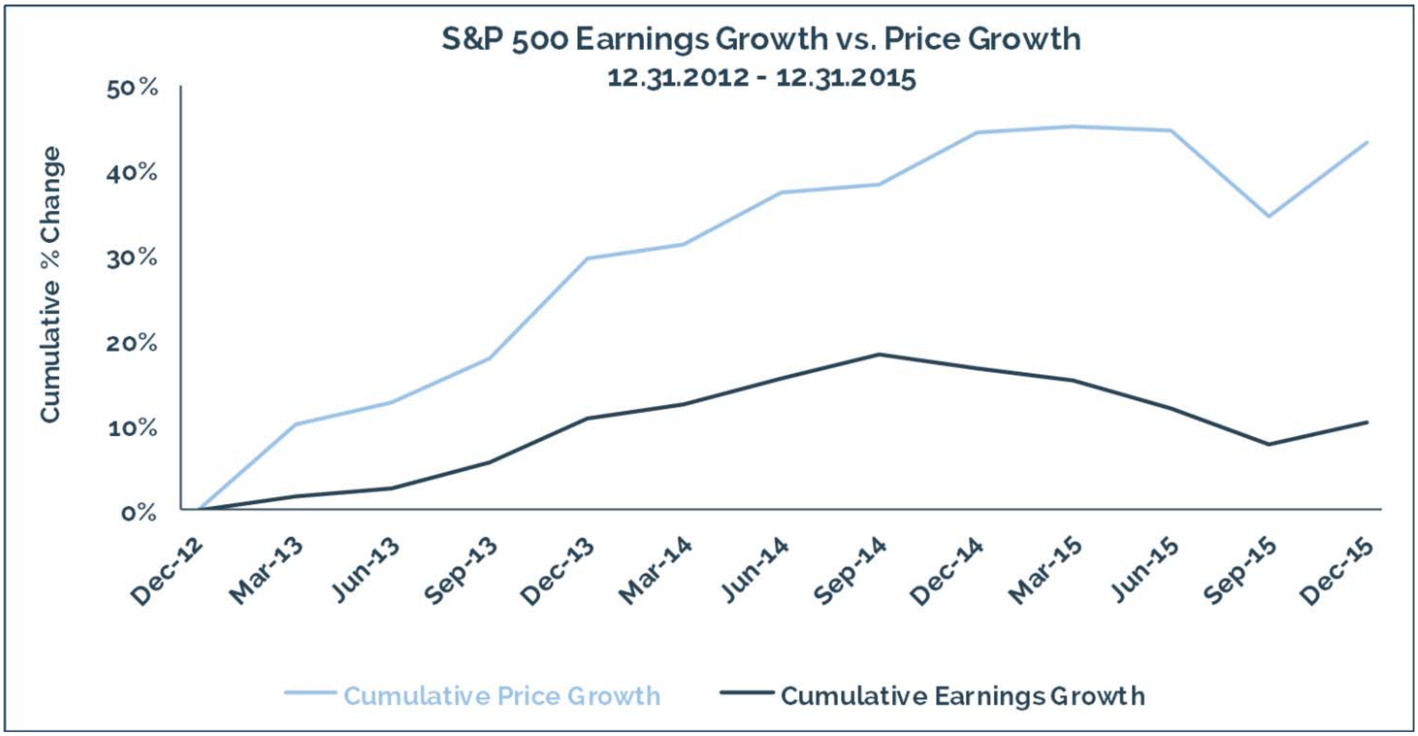
ber is not real. Participation in the workforce among us citizens is at a multi-generational low. It hasn't been this low since women entered the workforce in a major way. This leaves many to ask 5% of what? Are we to believe that people are as employed as they wish to be? Certainly the Boomers are retiring and the millennials are not yet filling the void so participation naturally declines a bit. But some of the participation decline is due to people just giving up. Retirement was not their first choice, but it turned out to be their best one. And many in the workforce are working multiple part time jobs instead of one full-time career. Lastly, we can tell by the overall lack of wage growth that the jobs that people are taking are not of the high-paying variety.

Whatever economic growth has been generated, this economy does not enjoy broad participation. So where do we go from here? Who knows. No more predictions from us though. It is easy to see, with this mixed bag, why the market went nowhere in 2015, despite a pretty healthy tug-of-war between Bulls and Bears.

The stock market has historically been a leading indicator. What it told us in 2015 was that there is probably a lot of uncertainty in front of us. We have said many times and as recently as our last writing that corporate earnings growth had to catch up with stock price growth before the market could sustain a move to higher levels.

There are a few ways for earnings growth to catch price appreciation, and not all of them are painful to investors. The easiest way is to have prices become stagnant or pull back slightly while earnings grow. This certainly would be the preferred method for most of us, and indeed prices cooperated in 2015. But profits sadly did not. The chart below illustrates that while earnings may enjoy a minor uptick if December earnings estimates are to be believed, the general trend has been lower. Price is trying to do its job, but Earnings needs to get on the stick.

And until earnings materialize, stock prices are going to be volatile. The chart clearly indicates that stock prices have gotten way ahead of earnings the last three years. The likelihood is increasing that prices will have to do all the work and pull back to become more in line with earnings. And if earnings were to actually contract, like they tend to do in a recession, that pullback could be a decent one.



Wall Street has lots of old adages, or saws as some call them. Most tend to be true. A Bull might pull out *markets climb a wall of worry*, meaning if we aren't worried, we are probably too euphoric and headed for a bubble. There is certainly plenty of worry to go around, which provides a solid grip for a stock market climb.

We think the more appropriate adage at this time is *markets hate uncertainty*. Last year and the beginning of this have left us more uncertain than we ought to be if we expect a healthy economy and a healthy stock market in 2016. Until data matches prices, we are likely to remain in a world where uncertainty reigns.

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Yield Table

	Current	3 months ago	1 year ago
3-month Treasury Bill	0.23%	0.02%	0.03%
2-year Treasury Note	0.98%	0.71%	0.64%
5-year Treasury Note	1.70%	1.49%	1.64%
10-year Treasury Bond	2.24%	2.17%	2.21%
30-year Treasury Bond	2.97%	2.95%	2.83%
Prime Rate	3.37%	3.25%	3.25%
Federal Funds Rate	0.24%	0.14%	0.12%
Discount Rate	0.87%	0.75%	0.75%
30 yr Fixed Mortgage	3.96%	3.89%	3.86%

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

	12/31/15 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	2,043.94	-0.73%	43.31%	62.52%
Dow Jones Industrial	17,425.03	-2.23%	32.97%	50.51%
NASDAQ	5,007.41	5.73%	65.84%	88.75%
Russell 2000	1,135.89	-5.71%	33.74%	44.95%
German Xetra DAX	10,743.01	9.56%	41.13%	55.38%
London FTSE 100	6,242.30	-4.93%	5.84%	5.80%
Shanghai Composite	3,539.18	9.41%	55.97%	26.04%
Crude Oil	37.13	-30.59%	-59.56%	-58.67%
Gold	1061.00	-10.31%	-36.66%	-25.37%
CRB Index	176.14	-23.40%	-40.29%	-47.07%
U.S. Dollar Index	98.69	9.32%	23.72%	24.88%
Euro/Dollar*	1.09	-9.92%	-20.44%	-18.66%

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