

THE TANDEM REPORT



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MARKET COMMENTARY:

Two years removed from its peak in March of 2000, the market's erratic behavior makes it difficult to determine whether the bulls or bears are winning the tug of war for the soul of investors. A recent series of television commercials for an on-line broker illustrates this point. Featuring a talking bull and bear, the two exchange insults and opinions as the voice-over implores us to invest no matter what our outlook.

Why is sentiment so divided that a broker must make its appeal to both sides? With no clear market direction, there is ample evidence to make a case for both positive and negative scenarios. As a result, there is no consensus view.

A significant component of a less optimistic viewpoint is our tendency as humans to project the recent past into the future. We observed the raised expectations of investors after years of double digit returns, and how that left many ill-prepared for the ensuing bear market. Not surprisingly, many have now revised downward their expectations of the future in light of this painful experience.

Beyond the well-documented troubles of the economy and the market, recent world events have conspired to cast a cloud of uncertainty as well. Not knowing when or how the next surprise will present itself, many investors remain worried and cautious. Having been burned by two years of

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MARKET SCORECARD:

S&P 500:

<i>1 year ended 03/31/02</i>	-1.12%
<i>3 years ended 03/31/02</i>	-3.47%
<i>5 years ended 03/31/02</i>	8.66%
<i>7 years ended 03/31/02</i>	12.57%
<i>10 years ended 03/31/02</i>	11.00%

CURRENT EVENTS

Only a few months ago, much of this nation and our allies rallied around what we now call the Bush Doctrine. Simply stated, it put forth the assertion that terrorism will not be tolerated anywhere, at any time, and either you are for us or against us. Its simplicity was its brilliance.

Things aren't quite so simple any more. Israel's response to the Palestinian homicide bombers has exposed the less avid supporters of this doctrine. The European Union and the Saudis have openly criticized Presi-

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TOP TEN HOLDINGS IN THE TANDEM GROWTH COMPOSITE

AS OF MARCH 31, 2002

The first quarter was marked by the market's struggle to find direction. Unlike the previous quarter, technology did not emerge as a leader. In fact, that sector was extremely mixed, as big names such as IBM, Sun, Cisco, Intel and Microsoft gave up ground. Those declines were offset somewhat by the advance of Applied Materials, up 35.3%. Other names that fared well were Johnson & Johnson, Exxon Mobil and T. Rowe Price. The only stock that really suffered was Tyco, declining 45% in value on fears of Enronitus. As a result of this decline, and some selling on our part, Tyco was replaced in the Top 10 by T. Rowe Price.

The S&P 500 was basically flat for the quarter. Like the market, most industries we follow were mixed. The notable exceptions were Energy and Finance.

1. Johnson & Johnson
2. Pfizer, Inc.
3. General Electric
4. Merck & Co.
5. Applied Materials
6. Microsoft Corp.
7. Exxon Mobil Corp.
8. AMGEN
9. Home Depot
10. T. Rowe Price

More detailed information about the Tandem Growth Composite, its performance, and the accounts that comprise it are available upon request.

MARKET COMMENTARY (*CONTINUED*)

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seemingly endless bad news, are some now blind to the possibility of better times in the future?

For those inclined to embrace a more optimistic view of the future, there is enough good news to keep hope alive. Buried beneath the headlines lies evidence that not all the news is bad. For instance, as of this writing, 330 of the 500 companies that comprise the S&P 500 have reported earnings for the first quarter. Of those reporting, only 15% failed to meet Wall Street's expectations. An astounding 61% exceeded expectations, while 24% were in line. These are exceptional numbers, and clearly point to some positive undercurrents. But is it possible that these results were easier to achieve in light of reduced expectations?

Another difference of opinion stems from the implications of a budget deficit. It has been widely reported that the federal government is now running a deficit, and many interpret this as a worsening of events. The opposing view is that while deficit spending is no cause for celebration, it is an important tool in the government's arsenal to combat economic downturns.

Clearly there is sufficient evidence to sustain either case, and the market will likely continue without direction until one view begins to take hold over the other. While there is great reason for caution and concern, there is also much good that has occurred below the radar screen. In time, the market will sort all this out and find direction. Until then, the debate will continue.

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SPOTLIGHT ON HOME DEPOT, INC.

(APRIL, 2002)

Home Depot, Inc. (NYSE:HD)

RECENT PRICE: 48.61

52 Week Price Range: 30.30 – 53.73

Dividend Yield: 0.4 %

Earnings Yield: 3.7%

P/E Ratio on 2003 EPS: 26.7

Earnings Per Share: 2000
1.102001
1.292002
1.53(E)2003
1.82(E)Long Term Growth Rates:

Next 5 years - Median: 19.1%

Last 5 years—Actual: 23.6%

Description:

Home Depot, Inc. is the world's largest home improvement retail chain, operating more than 1,300 stores in the United States, Canada and Latin America. Targeting the "do-it-yourself" market, Home Depot has perfected the warehouse

concept for its stores, offering building materials, lumber, plumbing, floor & wall covering, paint, furniture, electrical supplies, tools, hardware and a garden center. The company also runs more than 40 upscale EXPO Design Center stores.

Comments:

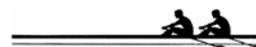
Home Depot has been in our Top 10 for five consecutive quarters. The stock has held up well when others have failed, appreciating better than 12% over the last twelve months.

Headquartered in Atlanta, the company has rung up an impressive record of double-digit sales and earnings growth. As important, the tenure of new CEO Robert Nardelli has seemingly re-focused the company.

Much of HD's future growth will come from expansion. There is some risk to this strategy for investors. Earnings can grow as a result of new store

openings rather than sound management and improving sales at existing stores. At is imperative that management continue to grow same store sales, because there is a finite number of new stores that can be opened.

Relatively speaking, the stock is as inexpensive as it has been in some time. Earnings growth is expected to slow from the high 20% range annually to the high teens in the coming years. Therefore, a lower valuation seems reasonable. That said, this stock remains well off its 2000 high of \$70/share,

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HOME DEPOT, INC. (CONTINUED)

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and has essentially traded flat for the last year-and-a-half. With an economic recovery appearing more likely, this stock represents a decent value. The potential economic risk to the price of the stock is the threat of rising interest rates.

One more factor that makes Home Depot attractive is the strength of the Home Building industry. New home construction has been on a tear as of late. When this trend abates, home improvement

will likely pick up.

Home Depot has demonstrated its ability to prosper regardless of the economic environment. We are pleased with the existing management team, and take comfort that management and insiders own more than 5% of the company's stock. We expect performance to pick up with the economy, and look for Home Depot to be a vital component of our Top 10 holdings for the foreseeable future.

SPOTLIGHT UPDATES

The three updates this quarter have all experienced their own Enron issues since we initially spotlighted them. We remain confident in General Electric, cautiously optimistic with AES, and disenchanted with Tyco.

AES Corp. - Since our spotlight in the July, 2001 issue at a price of \$36.68, the market has expressed its concern over AES' future by cutting the stock price to \$9/share as of 3/31/02. Faced with growing doubt over the future of many of its operations in South America, AES has been forced to focus on liquidity and debt reduction by selling off some assets, abandoning much of its immediate plans for expansion. To be certain, this is no longer the growth company it used to be. That said, we believe much of the stock's decline is attributable to the post-Enron environment, and that AES can right the ship within the next twelve months. We continue to hold the stock.

General Electric - Believe it or not, even the venerable General Electric has succumbed to the pressures of the post-Enron stock market. At \$37.45/share, down from 45 when spotlighted in January 2001, we view this as a solid company with bright prospects representing a compelling value. This management team is as deep as any, and has our confidence that it can navigate GE through this temporary turbulence.

Tyco International - Featured in our April, 2001 issue at a price of \$50/share, we no longer view Tyco as a core holding. As of 3/31/02, Tyco was trading at \$32.32/share. In our opinion, the company lost focus when it decided to break itself into four units, and then fell victim to accounting concerns. It is our belief that the accounting issues do not pose a major threat to the health and viability of the company, and that the market has overreacted. That said, we would avoid the company until a clearer picture of its future emerges.



MARKET COMMENTARY (*CONTINUED*)

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What is less debatable is that there is another story emerging from this directionless market. Not all stocks are created equal. From March 31, 2000 to March 31, 2002, the S&P 500 declined more than 23%. But that is just an average. Some sectors, such as technology, fared considerably worse. Cisco and Microsoft, to name but two tech behemoths, were down 78% and 43% respectively during the same period. But, obviously, some sectors had to perform better than the S&P.

The recently maligned pharmaceuticals performed surprisingly well during the market's decline. While Merck was down about 7%, Pfizer and Wyeth (formerly American Home Products) each recorded gains of more than 20%, and Johnson & Johnson advanced 85%. Big names in other industries racked up impressive gains as well. Exxon Mobil was up better than 12%, Mellon Financial and 3M were up about 30%, and General Dynamics approximately doubled. All of

these gains occurred during a bear market.

What is instructive about this anecdotal evidence is that regardless of what the market does as whole, stocks can move for their own reasons. Certainly these successes were more the exception than the rule, but stocks do often succeed on their own merits.

What does the future hold for the market? Who knows. One could argue that it really isn't even important. What is important is how the companies in your portfolio perform. It is difficult to imagine a scenario in which technology does not play a significant role in our future. Healthcare and drug discovery will play critical roles for an aging population. Prospects for the defense industry appear bright in light of the world's turmoil, and the consumer has remained strong throughout. While the bulls and bears continue their debate, investors must uncover those companies with good prospects regardless. Maybe the commercial was right. Your point of view is less important than the actions you take.

CURRENT EVENTS (*CONTINUED*)

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dent Bush for not putting more pressure on the Israelis to withdraw. The President's confusing response to the crisis in the Middle East has muddied what was once crystal clear. Will our supply of oil now be threatened? How has our ability to carry out our own war on terrorism been affected?

Who remembers the oil embargo of the 1970's, and the ridiculous gas lines? What about the inflation that higher oil prices wrought? Well, it is a vastly different world now, and the Arab coun-

tries won't have anyone to sell their oil to if they pursue an embargo. Russia is now a viable option to replace Saudi oil. And perhaps the biggest surprise is that the threat of rising oil prices is no longer viewed as inflationary, but rather recessionary. We should not fear these threats, for they have less bite than they once held.

It is essential, both politically and economically, that the United States remain focused on its objectives. Diplomacy has its place, but not at the expense of principals. We had it right for awhile. Let us hope we can get back there quickly.



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*...working in tandem with you to
attain your investment goals*

Tandem Investment Advisors, Inc. was founded in 1990 to provide professional portfolio management with uncompromising service to investors. For more than a decade, we have worked in Tandem with our clients to attain their investment goals. If we can provide further assistance, please contact one of us at the following:

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