The TANDEM Report

TANDEM Investment Advisors

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MARKET SCORECARD:

S&P 500:

***Annualized returns**:*

1 year ended 3/31/06	*9.68%*
3 years ended 3/31/06	*15.14%*
5 years ended 3/31/06	*2.22%*
7 years ended 3/31/06	*0.09%*
10 years ended 3/31/06	*7.21%*

MARKET COMMENTARY:

A GOOD START TO THE NEW YEAR, BUT ARE WE RELIVING THE SEVENTIES?

As the great wordsmith Yogi Berra once said, "It's déjà vu all over again". Oil prices are sky-rocketing. The Middle East is in turmoil. OPEC meetings are front page news. Gas guzzling American cars are being traded in for fuel efficient imports. The Federal Reserve keeps hiking interest rates to fight inflation. The stock market is so uninspiring that it is barley news-worthy. Can you name the decade?

If you said the '70's, you win. If you said the 2000's, you win again! The similarities are startling. We are in an unpopular war, concerned about energy prices and inflation, and the stock market is stagnant. And perhaps equally noteworthy, both decades followed periods of prolonged excesses.

During the 70's, the stock market experienced its worst performance for any decade since the depression, until now. For only the second time in six years, the market had a positive return for the first quarter. While many believe that a good start foretells a good year (and we certainly

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S&P 500	Closing Value	Earnings	PE	Dividend	Dividend Yield
December 31, 1999	1,469.25	$51.68	28.43	$16.69	1.14%
March 31, 2006	1,294.83	$78.47	16.50	$22.79	1.76%
Difference	-11.87%	51.84%	-41.96	36.55%	54.39%

COMMENTARY:

A COUPLE OF THOUGHTS

First of all, the price of gas is absurdly high, but why does that automatically mean that someone "needs to do something about it"? Congress can't fix it. The President can't fix it. The oil companies can't even fix it.

It occurs to me that if oil companies actually set the price of gasoline, and had it within their means to lower prices, that surely one of them would try to undercut the rest to capture more customers. After all, that strategy worked for Wal-Mart.

The fact of the matter is that oil companies make about 10 cents per gallon of gas sold. And most do not even own the gas

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TOP TEN HOLDINGS

AS OF MARCH 31, 2006

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 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.

Market value is determined by the number of shares of a company we own in a composite multiplied by the share price. Percentage of composite 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.

EQUITY COMPOSITE

Rank by Market Value	% of Composite
1. BB&T	7.01%
2. FMC Technologies	5.87%
3. BP, plc	5.39%
4. Altria Group	4.75%
5. Exxon Mobil	4.02%
6. Home Depot	3.99%
7. FMC Corp	3.78%
8. T. Rowe Price	3.58%
9. Johnson & Johnson	3.46%
10. Amgen	3.31%
Total	**45.17%**

EQUITY INCOME COMPOSITE

Rank by Market Value	% of Composite
1. Home Depot	5.32%
2. General Electric	5.30%
3. Johnson & Johnson	4.97%
4. T. Rowe Price	4.50%
5. Microsoft	4.36%
6. Allied Capital	4.28%
7. Amgen	4.17%
8. Boston Properties	4.11%
9. BP, plc	4.03%
10. Abbott Labs	3.74%
Total	**44.78%**

COMPOSITE UPDATES

EQUITY COMPOSITE

All things oil related posted solid returns for the first quarter, led in our portfolios by FMC Technologies. Other strong performers were Thor, Expeditors International, Kensey Nash, Tractor Supply Company and General Dynamics. Health Care and Banks were laggards.

We added Harris & Harris (TINY) (a nanotechnology investment company), Legg Mason (LM), Motorola (MOT) and Multi Fineline Electronics (MFLX) and sold Cisco Systems (CSCO), Engineered Support (EASI) and Cooper Companies (COO). Cisco is focusing more now on the consumer market. While they may ultimately be successful, this is a new focus for the company, and we would rather watch from the sidelines. Cooper (COO) warned Wall Street about earnings again. Engineered Support (EASI) was bought out in a cash and stock transaction, and we did not wish to own stock in the acquiring company (DRS Technologies).

EQUITY INCOME COMPOSITE

Surprisingly, our real estate stocks were the strongest performers in our equity income portfolios, led by Boston Properties again. Equally surprising was the positive quarter for telephone stocks. SBC acquired AT&T and kept the name. The new AT&T, as well as Verizon, posted double digit gains. General Dynamics, T. Rowe Price and the oil stocks all were strong as well. Again, Banks and Health Care were drains on performance for the first quarter.

Our sales during the quarter were essentially the same as for the equity composite. Our purchases were Bank of America and Dominion Resources in selected accounts.

The accounts that comprise a composite are not necessarily identical. Some contain positions that Tandem did not buy. For more information on Tandem's composites, please visit www.tandemadvisors.com.

MARKET STATISTICS *AS OF MARCH 31, 2006*

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	**1,294.83**	**3.73%**	**9.68%**	**52.66%**	**11.59%**	**100.59%**
DJIA	**11,109.32**	**3.66%**	**5.77%**	**39.00%**	**12.46%**	**98.84%**
NASDAQ 100	**1,703.66**	**3.55%**	**14.92%**	**67.25%**	**8.29%**	**179.43%**

Yield table				
	Current	**3 months ago**	**6 months ago**	**1 year ago**
3-month T-Bill	**4.60%**	**3.99%**	**3.53%**	**2.77%**
5-year Treasury	**4.83%**	**4.32%**	**4.15%**	**4.17%**
10-year Treasury	**4.86%**	**4.35%**	**4.30%**	**4.48%**
Prime Rate	**7.75%**	**7.25%**	**6.75%**	**5.75%**
Fed Funds Rate	**4.75%**	**4.25%**	**3.75%**	**2.75%**

PERFORMANCE BY SECTOR WITHIN THE S&P 500

THROUGH MARCH 31, 2006 ***(SOURCE: S&P 500 GICS SECTOR SCORECARD)***

Sector	**% of S&P 500**	**Return 2006 YTD**	**Return 2005**
S&P 500	100%	3.7%	3.0%
S&P 500 (Growth)	49.74%	2.5%	1.9%
S&P 500 (Value)	52.06%	4.9%	4.1%
Consumer Discretionary	10.25%	2.7%	-7.4%
Consumer Staples	9.30%	1.0%	1.3%
Energy	9.81%	8.6%	29.1%
Financials	21.04%	2.6%	3.7%
Health Care	12.99%	0.9%	4.9%
Industrials	11.59%	6.5%	0.4%
Information Technology	15.43%	4.0%	0.4%
Materials	3.08%	6.8%	2.2%
Telecommunication Services	3.33%	13.4%	-9.0%
Utilities	3.18%	-2.0%	12.8%

MARKET COMMENTARY (CONTINUED)

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hope so), the fact is that the S&P 500 is still below where it entered the decade despite a plethora of good financial news.

The table on the first page illustrates just how lethargic this market has been. So far this decade, earnings for the S&P 500 are up 52%, dividend payouts are up 36%, the dividend yield is up 54% and PE's are down 42%. And how has the S&P performed? Down 11.87%.

To be sure, the 90's are to blame for a big part of the market's malaise. Stock prices reached levels never before seen, and the hangover from that big party was sure to be a killer. But seven years later?

One of our favorite market valuation tools is represented by the table below. The correlation between interest rates, in this case the yield on the 10-year U.S. Treasury, and the "earnings yield" for the S&P 500 gives insight into the relative valuation of stocks. Not surprisingly, stocks are undervalued in this model.

To explain a bit, the S&P 500 has "earnings", which, in essence, is the aggregate earnings for the 500 individual stocks that comprise the index. How much investors are willing to pay for those earnings can be measured by the earnings yield, which is earnings divided by price. Historically, the S&P's earnings yield has been slightly less than the yield of the 10-year Treasury. There are many reasons for this, but suffice it to say that this is logical.

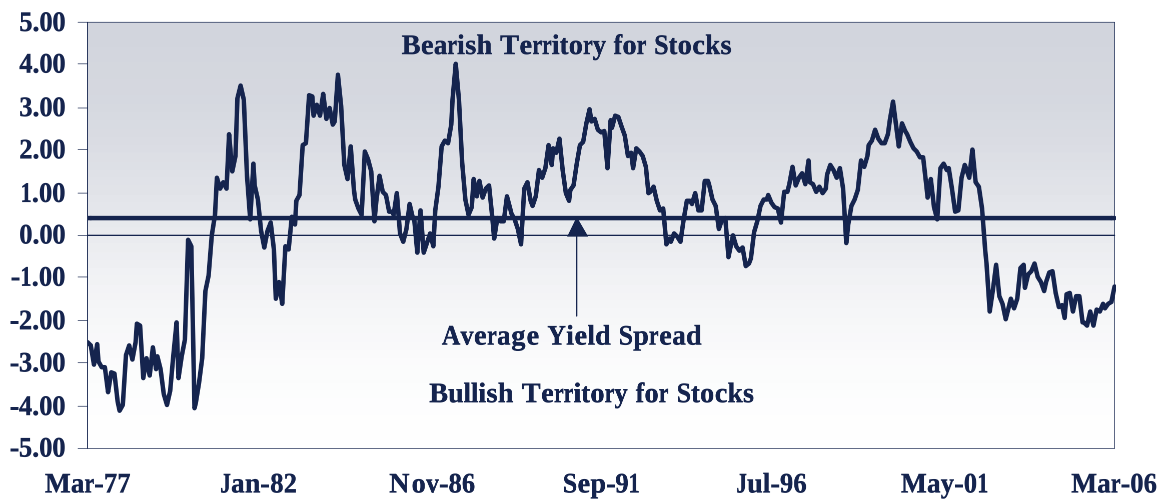
In July of 2002, the earnings yield became greater than the Treasury yield, and has remained that way since. Such a move typically indicates that the market is undervalued relative to the Treasury. In fact, by the summer of 2005 the market had become nearly as *undervalued* as it was *overvalued* in 1999. Although the spread has narrowed slightly since last summer, the market remains considerably undervalued.

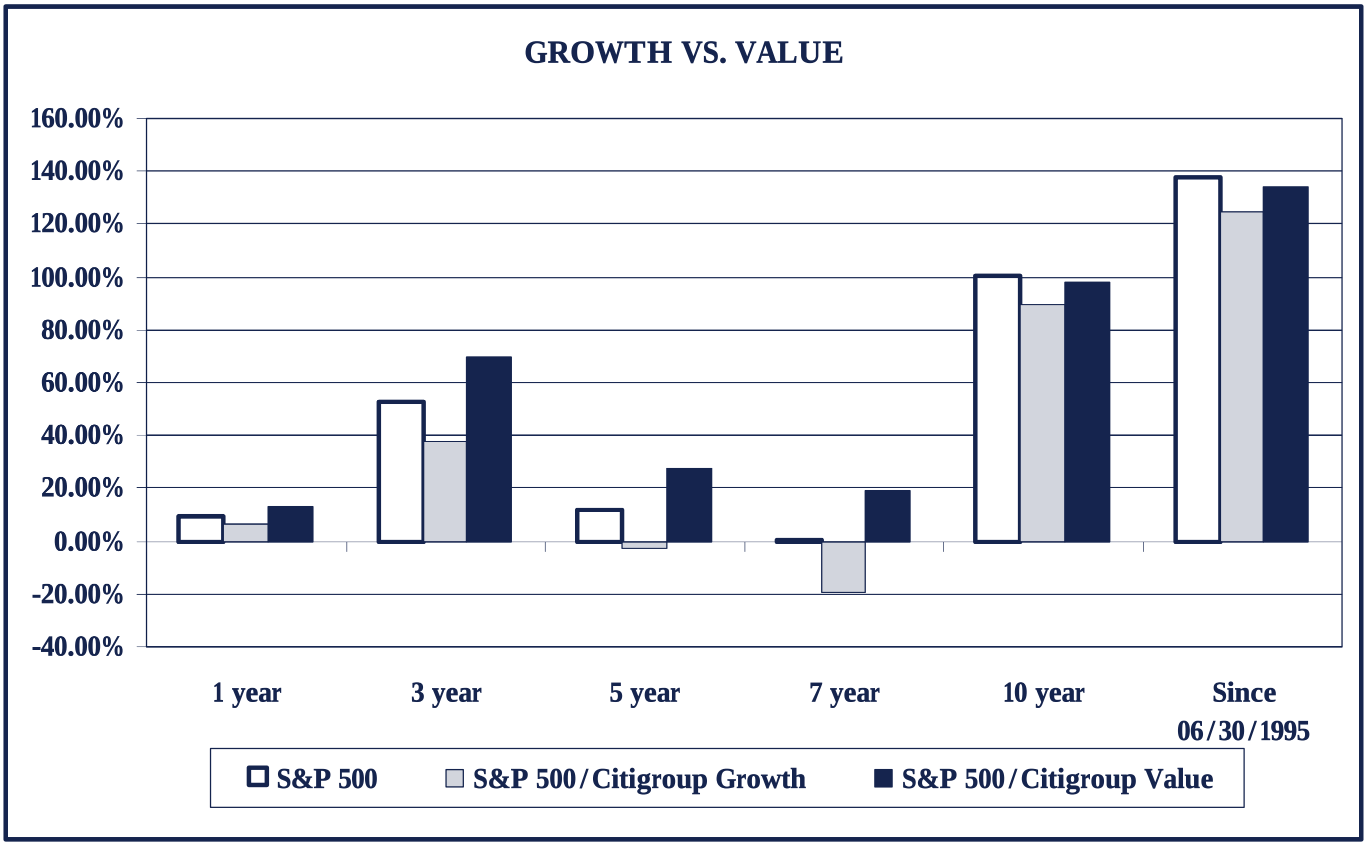
While this tool is a great indicator of the stock market's relative valuation, one can plainly see that stocks can remain both under– and overvalued for considerable periods of time. For the gap to narrow, interest rates must continue to rise, stock prices must rise, or both. Unfortunately, this tool does not tell us when that will happen.

Indeed, there are many similarities between the 70's and the present decade. But even the 70's ended with a positive return for the market. So don't despair. And after all, the best thing about the 70's was the 80's. Periods of prolonged undervaluation end up being great opportunities. Here's to the 'teens! We're ready.

Relative Valuation of the S&P 500

Stock Market Earnings Yield vs. 10-Year Treasury Yield





COMMENTARY (CONTINUED)

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stations that sell their brand. Prices at the pump are set by local businesses based on what they had to pay for the gas. What they had to pay for it is determined by the world markets for oil and gas.

There is no great conspiracy here. Sure oil companies are making record profits. But guess what. We are *using* record amount of gas. Go figure.

Some, like Tom Friedman in his current bestseller *The World Is Flat*, actually advocate *higher* prices to curb demand. Sounds great unless you are the commuter that has to drive 50 miles round trip every day and you have to choose between gas and groceries.

If we want to see gas prices go down, any one or combination of three things needs to happen. First, we can consume less to decrease demand. Second, we can produce more by building more refineries (the last one constructed in the U.S. was in 1976). Lastly, an ingenious entrepreneur can invent an alternative. As I have stated before, it is simple supply and demand. Increase supply and/or decrease demand, and the price will go down. Nothing else will work, so let's hope nobody on Capital Hill tries.

The next topic is another one visited here regularly. The gap between growth and value continues to widen. As you know, we are growth investors. So the logical question is, *are we crazy*?

I'd like to think the answer to that is no. History (long-term history, that is) tells us that there is no discernable advantage to one style over the other. Both growth and value have performed similarly over time. This is somewhat obvious, because if one style were clearly advantageous to the other, why wouldn't everyone choose the more rewarding style and be done with it?

But the last six years are really trying to undermine a century of data. Value's sustained outperformance over that time is unprecedented. Of course, this is very frustrating to us. Large Cap Growth stocks are the single most undervalued asset class we can find, period. Nothing else one can invest in at this time is as attractive to us. So we will stay the course. It is *not* different this time. Us growth addicts will have our day again! Keep the faith.

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Tandem Investment Advisors, Inc. was founded in 1990 to provide professional portfolio management with uncompromising service to investors. For more than fifteen years, we have worked in Tandem with our clients to attain their investment goals. If we can provide further assistance, please contact us.

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