THE TANDEM REPORT

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"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 informative.

Respectfully,

John B. Carew
President,
Chief Investment Officer

In This Issue

MARKET COMMENTARY:
DÉJÀ VU ALL OVER AGAIN

The stock market rally that began in the fall gained strength in the winter and roared into early spring. An impressive performance was turned in by all major market indicators. The Dow was up better than 8%, the S&P 500 was up 12% and the tech-heavy NASDAQ racked up an almost 19% advance. It was a truly impressive start to a year that many investors greeted with trepidation.

During the quarter just completed, fears of a European crisis and a global slowdown dissipated and markets began to focus on U.S. growth. There were reports of increased bank lending and corporate technology purchases that fueled enthusiasm for bank and tech stocks. In fact, the Financial and Information Technology sectors of the S&P each gained more than 21%. Consumer Discretionary stocks also advanced more than the S&P as retail and auto companies surpassed expectations.

S&P Industry Sectors	Q1 2011	Q1 2012
S&P 500	5.9%	12.0%
Consumer Discretionary	5.1%	15.5%
Consumer Staples	2.3%	4.8%
Energy	16.8%	3.4%
Financials	3.6%	21.5%
Health Care	5.6%	8.4%
Industrials	9.2%	10.7%
Information Technology	3.1%	21.1%
Materials	4.4%	10.6%
Telecommunications	3.4%	10.6%
Utilities	2.3%	-2.7%

Now we must determine if these economic trends are repeatable. It should be noted that through temporary tax incentives that expired at year-end, businesses were encouraged to make capital investments in things like computers and autos. Many of those corporate purchases may have been borrowed from future expenditures. The second quarter should shed light on that.

The table to the left offers Q1 performance for the S&P and its industry sectors for each of the last two years. History tells us that sustainable market rallies are generally supported by broad participation. This table makes clear that while all sectors save utilities in 2012 experienced gains, the majority underperformed the index.

Such narrow participation troubles us as we look forward to the balance of 2012. Only three of ten industry sectors in the

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COMMENTARY:
FIGHT THE FED, OR JUST IGNORE IT?

There's an old adage that you can't fight the Fed. The Federal Reserve and Central Banks around the globe have done their mighty best to prop up asset prices by driving interest rates lower and flooding markets with liquidity through massive bond purchases. Successful investors have been on the side of the Fed with every action they have taken while getting out of the way when the Fed pauses.

The question we must ask ourselves now, three years after the global financial meltdown, is how much more can the Fed realistically do? Richard Fisher, President of the Federal Reserve Bank of Dallas, re-

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cently appeared on CNBC and cautioned investors:

"A lot of investors, quote unquote, have counted on us to provide the tailwind, rather than do the hard work that one needs to do to just basically ascertain underlying valuation. I think the easy part for those that just rode on the jet stream of Federal Reserve accommodation is over now. Now they actually have to do the work, to do their analysis."

Lest you doubt that the Fed has created a jet stream, a look at the chart below shows just how significant the impact of Fed action can be on the stock market. The shaded areas indicate periods of extraordinary Fed policy initiatives. Quantitative Easing was announced in October, 2008 and lasted until March, 2010. During this time the Federal Reserve bought more than $1 Trillion of Treasury and Mortgage-Backed Securities in an effort to drive interest rates lower. The stock market, represented above by the S&P 500, responded with a significant rally from the low of March, 2009.

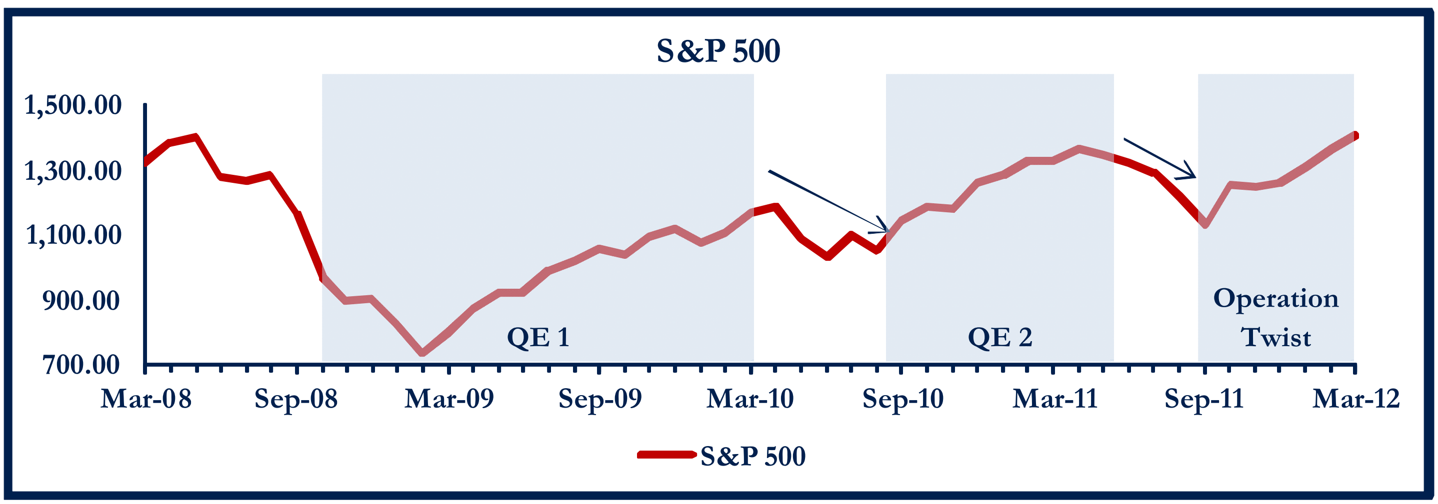
The cessation of what we now know as QE1 in the spring of 2010 caused the market to plunge by almost 12% until QE2 was announced in late summer. The second round of QE lasted until June, 2011 and resulted in another market rally. That too proved unsustainable when the Fed paused. From the April, 2011 peak until "Operation Twist" was announced in August, 2011, the S&P lost nearly 20% of its value.

Operation Twist introduced us to a new form of Fed easing (or reintroduced for those old enough to remember 1961). Instead of simply buying more bonds as had been done in the two phases of QE, Twist involved selling short-term bonds and using the proceeds to purchase longer term bonds. Operation Twist is scheduled to last until June of this year. What happens after that is anyone's guess.

All this interference in markets by the Fed and other Central Banks makes trying to invest extremely challenging. The chart of the S&P during Fed easing makes it clear that we can't fight the Fed, but how are we supposed to know what Chairmen Bernanke and Company will do next? Clearly the market has failed to sustain its gains when easing is withdrawn. Twist ends in June. It is reasonable to conclude from the recent past that without any announcement of further easing the market will most likely sell off before Operation Twist mercifully concludes.

President Fisher instructs us that it is time to do our homework. We hope he is right. A market driven by fundamentals is one that we can understand. So let's try to ascertain where fundamentals can lead us.

The S&P Performs Well When the Fed Intervenes but Struggles When Stimulus is Removed
Fed Action and Its Effect on the Stock Market: March, 2008 - March, 2012



We have observed many times in these pages that the stock market tends to trend in the direction of movements in the unemployment rate. With unemployment stuck above 8% and underemployment languishing in the mid-teens, this important indicator would seem to imply a sideways market at best absent intervention. Other broad fundamental measures are similarly neutral. Corporate earnings growth is slowing, GDP growth is modest, housing is moving in fits and starts from a deep bottom and the dollar is not in a clear uptrend.

We are left to conclude that the direction of the stock market is unclear but that the direction of individual stocks is more ascertainable. We have long made known our conviction that over time stocks ultimately move in the direction

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Earnings & Dividend Growth Drive Share Price Gains Regardless of the Market

Though there is much interest in today's macroeconomic environment and the external influences effecting stocks, we believe that company-specific fundamentals will more predictably drive prices of individual stocks over time. Tandem bases its investment philosophy on identifying companies that can consistently grow earnings and dividends through any economic environment.

The table below examines all dividend-paying stocks, regardless of investment style, held by our clients without interruption for the last five years. This tables illustrates that earnings growth and dividend growth led to share price appreciation, even though the overall market did nothing. The three highlighted right-hand columns show change in earnings, dividends and price per share from March, 2007 through March 2012. The two highlighted rows at the bottom of the table compare the "average" Tandem stock in the table to the S&P 500. As you can see, consistent earnings and dividend growth for individual companies lead to share price appreciation, even when the market doesn't exhibit the same characteristics. In this example, the average share price for the stocks listed appreciated 34.68% while the S&P's value actually declined 0.87%. Company-specific fundamentals matter, particularly in times of uncertainty.

	3/31/2007			3/31/2012			% CHANGE		
COMPANY	EPS*	DIV	PRICE	EPS*	DIV	PRICE	EPS	DIV	PRICE
Abbott Labs	$2.82	$1.30	$55.80	$5.01	$2.04	$61.29	77.66%	56.92%	9.84%
AptarGroup	$1.93	$0.44	$33.47	$2.90	$0.88	$54.77	50.26%	100.00%	63.64%
Brown Forman Cl. B	$2.58	$0.97	$52.45	$3.60	$1.40	$83.39	39.53%	44.63%	58.99%
Coca Cola	$2.70	$1.36	$48.00	$4.08	$2.04	$74.01	51.11%	50.00%	54.19%
Colgate Palmolive	$3.38	$1.44	$66.79	$5.39	$2.48	$97.78	59.47%	72.22%	46.40%
Dominion Resources	$2.58	$1.42	$44.38	$3.22	$2.11	$51.21	24.81%	48.73%	15.39%
Enterprise Products	$1.01	$1.87	$31.80	$2.43	$2.48	$50.47	140.59%	32.48%	58.71%
Exxon Mobil	$7.28	$1.40	$75.45	$8.29	$1.88	$86.73	13.87%	34.29%	14.95%
General Dynamics	$5.10	$1.16	$76.40	$7.32	$2.04	$73.38	43.53%	75.86%	-3.95%
McDonalds	$2.85	$1.50	$45.05	$5.72	$2.80	$98.10	100.70%	86.67%	117.76%
Microsoft	$1.49	$0.40	$27.87	$2.69	$0.80	$32.26	80.54%	100.00%	15.75%
National Retail Prop.	$1.87	$1.34	$24.19	$1.68	$1.54	$27.19	-10.16%	14.93%	12.40%
Piedmont Natural Gas	$1.44	$1.00	$26.38	$1.58	$1.20	$31.07	9.72%	20.00%	17.78%
Praxair	$3.62	$1.20	$62.96	$5.83	$2.20	$114.64	61.05%	83.33%	82.08%
Procter & Gamble	$3.04	$1.24	$63.16	$3.96	$2.10	$67.21	30.26%	69.35%	6.41%
Republic Services	$1.66	$0.43	$27.82	$2.00	$0.88	$30.56	20.48%	105.61%	9.85%
T. Rowe Price	$2.40	$0.68	$47.19	$3.26	$1.36	$65.30	35.83%	100.00%	38.38%
SCANA	$2.74	$1.76	$43.17	$3.16	$1.98	$45.61	15.33%	12.50%	5.65%
Average Tandem Stock							46.92%	61.53%	34.68%
S&P 500							18.47%	8.73%	-0.87%

***EPS are forward looking.**
The list above includes all stocks held continuously by Tandem in client accounts for the last 5 years. Client accounts may have employed differing styles. This data is not to be construed as being indicative of Tandem's performance for clients or any Composite, and cannot be substituted for Tandem's performance data.

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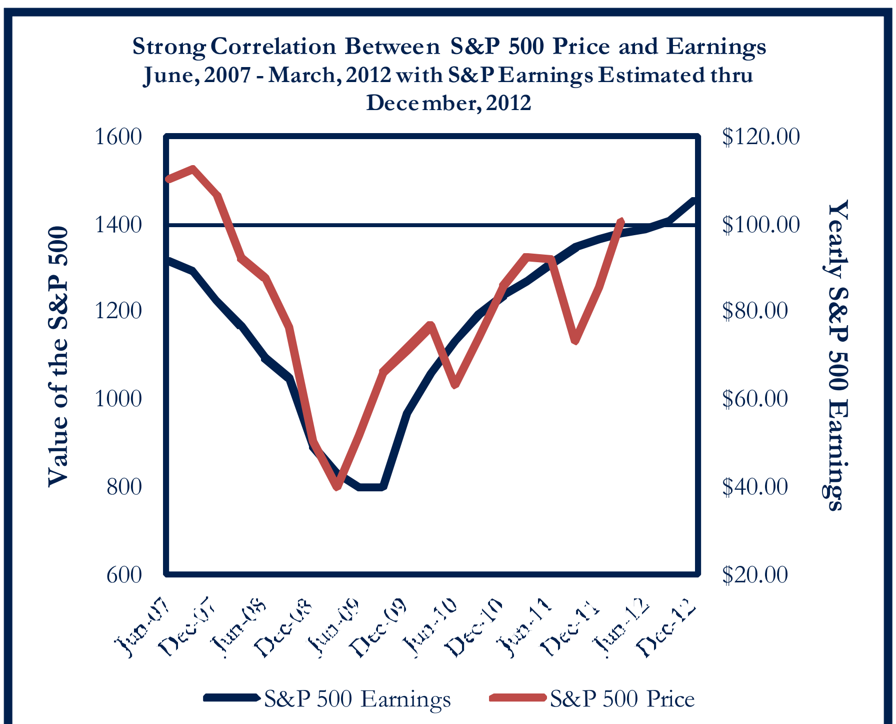
of their earnings, regardless of the behavior of broader measures. The chart at the bottom of the page tracks the price of the S&P 500 (left axis) and the earnings of the index (right axis) from mid-2007 through the present. They practically move together in lock-step, although price movement is a little more volatile. Essentially we are back to where we started before the crisis. Earnings estimates for the remainder of the year indicate that the price of the S&P isn't likely to do much as a result of earnings growth, unless the economy unexpectedly improves by year-end.

If broad earnings gains prove illusive, there remain many individual companies with earnings growth. And as the chart below clearly indicates, earnings growth and stock price tend to move together. The preceding page illustrates a list of stocks Tandem has held for its clients over the last five years. Each of these stocks has grown earnings, and as a result, the share price has moved up accordingly. The table to the right illustrates that performance of individual stocks that meet our strict criteria has little to do with the performance of the S&P 500 over shorter periods of time as well. Quarter-to-quarter experiences do not measure an investment's merit. Economic headwinds often prove detrimental to stock prices in the short run, but corporate fundamentals eventually win out.

We cannot predict when the Federal Reserve will intervene and when it will begin to be less accommodative. As we have demonstrated, fighting the Fed is futile. But ignoring it all together can be a good thing. We believe the only prudent way to invest in a market such as this is to identify companies like the ones on this page and the preceding one.

The jet stream of Fed accommodation may or may not be over. Either way, it is a good time to follow a discipline that identifies companies that can create their own positive momentum. In other words, don't fight the Fed, just ignore it.



1 Year Share Price Performance of Tandem Holdings & the S&P 500 thru 3.31.2012	
DOLLAR TREE	70.19%
ROSS STORES	63.39%
TJX COS	59.67%
O REILLY AUTOMOTIVE	58.98%
TRACTOR SUPPLY	51.29%
MCDONALDS	28.93%
MICROSOFT	27.02%
ABBOTT LABS	24.95%
BROWN FORMAN	22.09%
COLGATE PALMOLIVE	21.07%
ECOLAB	20.97%
EBAY	18.88%
WAL MART	17.58%
ACCENTURE	17.34%
ENTERPRISE PRODS PARTN	17.21%
SCANA	15.85%
DOMINION RES	14.56%
SMUCKER J M	13.97%
WASTE CONNECTIONS	12.99%
PRAXAIR	12.83%
SIGNATURE BK NEW YORK	11.77%
COCA COLA	11.56%
NEXTERA ENERGY	10.81%
FISERV	10.63%
AMETEK	10.58%
APTARGROUP	9.26%
PROCTER & GAMBLE	9.11%
S&P 500	**8.54%**
SYSCO	7.80%
NATIONAL RETAIL PPTYS	4.06%
HCP	4.01%
EXXON MOBIL	3.09%
PIEDMONT NAT GAS	2.37%
NOVARTIS	1.95%
REPUBLIC SVCS	1.73%
THERMO FISHER SCIENTIF	1.49%
PRICE T ROWE	-1.69%
UNITED TECHNOLOGIES	-2.02%
BECTON DICKINSON	-2.47%
HOLOGIC	-2.93%
GENERAL DYNAMICS	-4.15%
COGNIZANT TECH SOLUTNS	-5.47%
STRYKER	-8.75%
L-3 COMMUNICATNS	-9.63%
ORACLE	-12.77%
JACOBS ENGR	-13.73%
WALGREEN	-16.57%

The stocks listed above represent significant holdings for Tandem clients across all investment styles offered. Client accounts may have employed differing styles. This data is not to be construed as being indicative of Tandem's performance for clients or any Composite, and cannot be substituted for Tandem's performance data.

TANDEM NEWS

As a rule, we try not to bore you with our personal lives. Sometimes good news just needs to be shared. Allen Ouzts, a 15 year Tandem portfolio manager, and his wife Gamble are blessed with two wonderful daughters. Their older child, Gamble Augusta, graduates from Ashley Hall this year and will matriculate at the University of South Carolina in the fall. Although she received merit-based scholarship offers to several fine schools, we are excited to announce the following:

Gamble Augusta Ouzts has been named a Carolina Scholar, the most significant award given by the University of South Carolina to in-state students. Out of an applicant pool of over 8,800 students from the state of South Carolina, 50 finalists were chosen and invited to Columbia for a scholarship interview weekend. After the weekend, Gamble Augusta was one of the 20 selected as a Carolina Scholar. Congratulations to Gamble Augusta and her parents. This is quite an achievement!

MARKET COMMENTARY (CONTINUED)

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S&P managed to beat the index. This is eerily similar to the way 2011 began, with only two industry sectors beating the index in Q1 a year ago.

Although last year's first quarter was not as strong as this year's, it did manage to create great expectations for the balance of the year. However, the market ultimately gave way to economic concerns. The S&P ended the year with only a 2.11% gain, all of which was attributable to dividends. Interestingly, the table to the right comparing Q1 2011 performance with full-year performance shows clearly that the top performing sectors in Q1 did not finish the year that way. In fact, the worst performers of the quarter, Utilities and Consumer Staples, ended the year as the best performers. Energy gave back nearly all of its gains and Industrials finished with a negative return.

S&P Industry Sectors	Q1 2011	2011
S&P 500	5.9%	2.1%
Consumer Discretionary	5.1%	4.4%
Consumer Staples	2.3%	10.5%
Energy	16.8%	2.8%
Financials	3.6%	-18.4%
Health Care	5.6%	10.2%
Industrials	9.2%	-2.9%
Information Technology	3.1%	1.3%
Materials	4.4%	-11.6%
Telecommunications	3.4%	0.8%
Utilities	2.3%	14.8%

Last year's early rally was thwarted by the expiration of QE2 (see *Commentary* on page 1) and the crisis in Europe. As the second quarter of 2012 begins, similarities to the previous year are beginning to emerge. Operation Twist is due to expire in June and bond yields across southern Europe are spiking again. Many would argue that the U.S. has distanced itself from the threat of European contagion. That may be true. But we are left to wonder what will drive stock prices higher for the balance of the year in the absence of stimulus from the Federal Reserve and an economy growing slower than necessary to bring down high unemployment. Has the market perhaps gotten ahead of itself?

As we suggested in last quarter's ***The TANDEM Report***, this is likely to be the market's behavior for some time. Enthusiasm gives way to pessimism, which is overtaken by positive news that succumbs to economic concerns. The market lacks sufficient conviction, and most probably participants, to build a sustainable multi-year advance. Instead, we foresee an almost quarter-by-quarter tug of war that yields reasonable advances offset by occasional pullbacks.

It is precisely this type of market that has us enthused. Directionless markets create opportunities for the handful of companies that can generate their own positive momentum. Investors relying on broad trends will be disappointed. Those that do their homework can find reward with patience and diligence.

It is said that a rising tide lifts all boats. Without a rising tide, only the sea-worthy will sail. The table below is not a recommendation of any stock. Rather, it is a look at the forecasted earnings growth according to Thomson Reuters for Tandem's ten largest holdings and the S&P. These types of companies, we believe, will perform for investors regardless of how the S&P behaves. As 2012 unfolds, we are reminded of the famous Yogi Berra line, "it's like déjà vu all over again". We hope we are wrong, but it could be another 2011. While not a bad thing, it could be better. Patience!

Projected Earnings Growth over the Next 3 Years for Tandem's 10 Largest Holdings and the S&P 500

	S&P	Abbott Labs	Coca Cola	TJX	EcoLab	Micro-soft	Aptar	Waste Conn.	Tractor Supply	Praxair	Repub Services	Average Stock
2012	-0.55%	7.94%	6.49%	17.91%	19.29%	3.03%	8.24%	7.19%	21.26%	7.37%	1.52%	10.11%
2013	6.35%	6.56%	9.51%	11.39%	18.48%	11.76%	12.11%	12.08%	16.71%	13.72%	12.00%	12.35%
2014	-2.93%	5.78%	10.02%	8.71%	16.16%	10.86%	15.74%	16.77%	18.54%	13.88%	15.63%	12.94%

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MARKET REPORT CARD

YIELD TABLE

	Current	3 months ago	1 year ago
3-month Treasury Bill	0.07%	0.01%	0.05%
5-year Treasury Note	1.04%	0.88%	2.28%
10-year Treasury Bond	2.21%	1.95%	3.47%
30-year Treasury Bond	3.34%	2.98%	4.51%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Rate	0.10%	0.07%	0.09%
Discount Rate	0.75%	0.75%	0.75%
3-Month LIBOR	0.47%	0.58%	0.30%

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

	3/31/12 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	1,408.47	6.23%	76.53%	-0.87%
Dow Jones Industrial	13,212,04	7.24%	73.64%	6.94%
NASDAQ	3,091.57	11.16%	102.25%	27.66%
Russell 2000	830.30	-1.57%	96.40%	3.70%
German Xetra DAX	6,946.83	-1.34%	70.07%	0.43%
London FTSE 100	5,768.45	-2.37%	46.92%	-8.55%
Shanghai Composite	2,262.79	-22.72%	-4.65%	-28.93%
Crude Oil	$103.02	-3.47%	107.45%	56.40%
Gold	$1,662.50	15.53%	81.40%	176.30%
CRB Index	308.46	-14.18%	39.95%	-2.66%
U.S. Dollar Index	78.95%	3.88%	-7.75%	-4.80%
Dollar/Euro*	133.43	-5.84%	0.64%	-0.07%

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

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