The TANDEM Report

Volume 5, Issue 1, January, 2004

MARKET COMMENTARY:

INSIDE THIS ISSUE:

MARKET SCORECARD:

S&P 500:

Annualized returns:	
1 year ended 12/31/03	**-1.55%**
3 years ended 12/31/03	**-12.50%**
5 years ended 12/31/03	**-2.98%**
7 years ended 12/31/03	**5.48%**
10 years ended 12/31/03	**8.02%**

To paraphrase an old television commercial, how do you spell relief? R-A-L-L-Y! And what a rally indeed. On October 9, 2002, the S&P 500 closed at 776.76, its lowest close since January 20, 1997. At that level, the S&P had fallen 48.9% from its high of 1520.77 on September 1, 2000. As of June 30, 2003, the S&P was at 974.50. While that is still 35.9% from its high, it is also 197.74 points and 25.46% above its October low. Traditionally, a bull market is defined as an advance of more than 20%. If so, let us welcome the return of an old friend. Perhaps now we don't need the R-O-L-A-I-D-S.

It remains to be seen whether this rally can sustain itself, but there is little doubt that the environment for stocks has vastly improved since October 9th. The war with Iraq has come and gone, and the world would seem to be a safer place today than it was nine months ago. As a result, the travel industry has improved. Many airlines actually enjoyed a profitable quarter, and hotel bookings are improving.

Corporate earnings are meeting or exceeding expectations for the first time in a while. Even more encouraging, earnings are growing as a result of increased revenue rather than decreased expenditures.

Always a good economic indicator, advertising spending in print, radio and television has improved. Not only is this positive for the earnings of media companies, it implies a greater willingness on the part of businesses to invest. Advertising typically precedes capital expenditure, and capital expenditure has been lacking since 2001. Perhaps in anticipation of increased business spending, tech and telecom stocks have been among the market's best performers over the last nine

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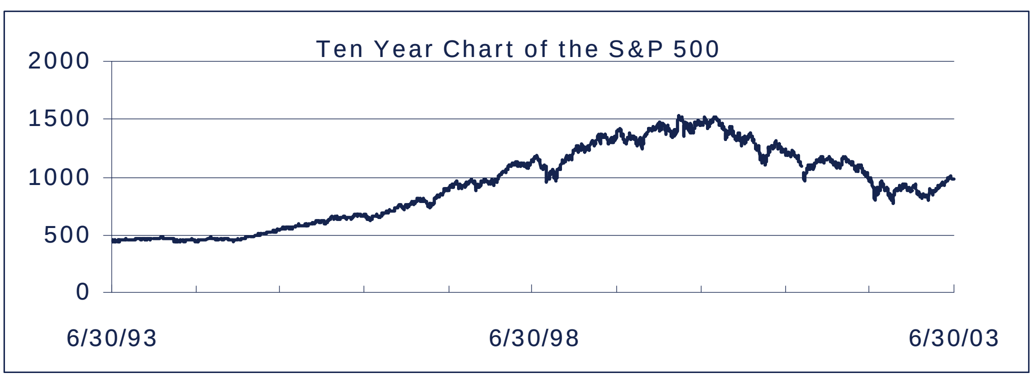


Top Ten Holdings in the Tandem Equity Composite

As of December 31, 2003

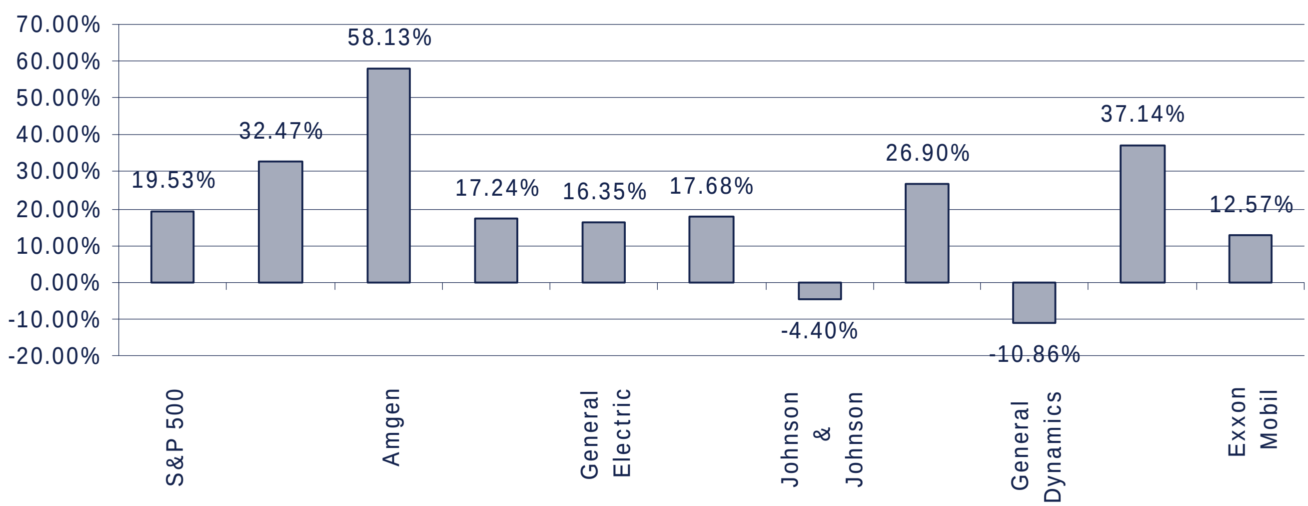
As always, the list that follows represents our ten largest holdings ranked by total market value in the accounts that make up our Tandem Equity Composite. These are not recommendations for purchase. Rather, the list is simply intended to provide some insight to how we manage accounts.

Rank by Market Value	**Original Purchase**
1. Microsoft Corp.	12/06/96
2. General Electric	07/08/94
3. Amgen	10/31/96
4. General Dynamics	11/13/01
5. Pfizer, Inc.	12/18/96
6. Applied Materials	03/07/96
7. Home Depot	06/03/99
8. Allied Capital	
9. Exxon Mobil	11/08/94
10. Cisco Systems	

Rank by Performance for 2003

Company	Appreciation	Dividend	Total Return
Cisco Systems	84.96%	$0.00	84.96%
Applied Materials	72.22%	$0.00	72.22%
Home Depot	47.75%	$0.26	48.83%
Allied Capital	27.71%	$2.28	38.16%
General Electric	27.23%	$0.77	30.39%
Amgen	27.82%	$0.00	27.82%
Exxon Mobil	17.34%	$0.98	20.15%
Pfizer	15.57%	$0.60	17.53%
General Dynamics	13.88%	$1.26	15.47%
Microsoft	5.88%	$0.24	6.81%

Price Appreciation for the S&P 500 and the Top 10 for the Nine Months ended June 30, 2003



Income Investors Face Quite a Delimina

	2.00%	4.00%	6.00%	8.00%	10.00%	12.00%
$100,000	$2,000.00	$4,000.00	$6,000.00	$8,000.00	$10,000.00	$12,000.00
$250,000	$5,000.00	$10,000.00	$15,000.00	$20,000.00	$25,000.00	$30,000.00
$500,000	$10,000.00	$20,000.00	$30,000.00	$40,000.00	$50,000.00	$60,000.00
$750,000	$15,000.00	$30,000.00	$45,000.00	$60,000.00	$75,000.00	$90,000.00
$1,000,000	$20,000.00	$40,000.00	$60,000.00	$80,000.00	$100,000.00	$120,000.00
$1,250,000	$25,000.00	$50,000.00	$75,000.00	$100,000.00	$125,000.00	$150,000.00
$1,500,000	$30,000.00	$60,000.00	$90,000.00	$120,000.00	$150,000.00	$180,000.00
$1,750,000	$35,000.00	$70,000.00	$105,000.00	$140,000.00	$175,000.00	$210,000.00
$2,000,000	$40,000.00	$80,000.00	$120,000.00	$160,000.00	$200,000.00	$240,000.00
$3,000,000	$60,000.00	$120,000.00	$180,000.00	$240,000.00	$300,000.00	$360,000.00
$5,000,000	$100,000.00	$200,000.00	$300,000.00	$400,000.00	$500,000.00	$600,000.00
$10,000,000	$200,000.00	$400,000.00	$600,000.00	$800,000.00	$1,000,000.00	$1,200,000.00

TAX LAW CHANGES CONTINUED

MARKET COMMENTARY CONTINUED

(Continued from page 1)

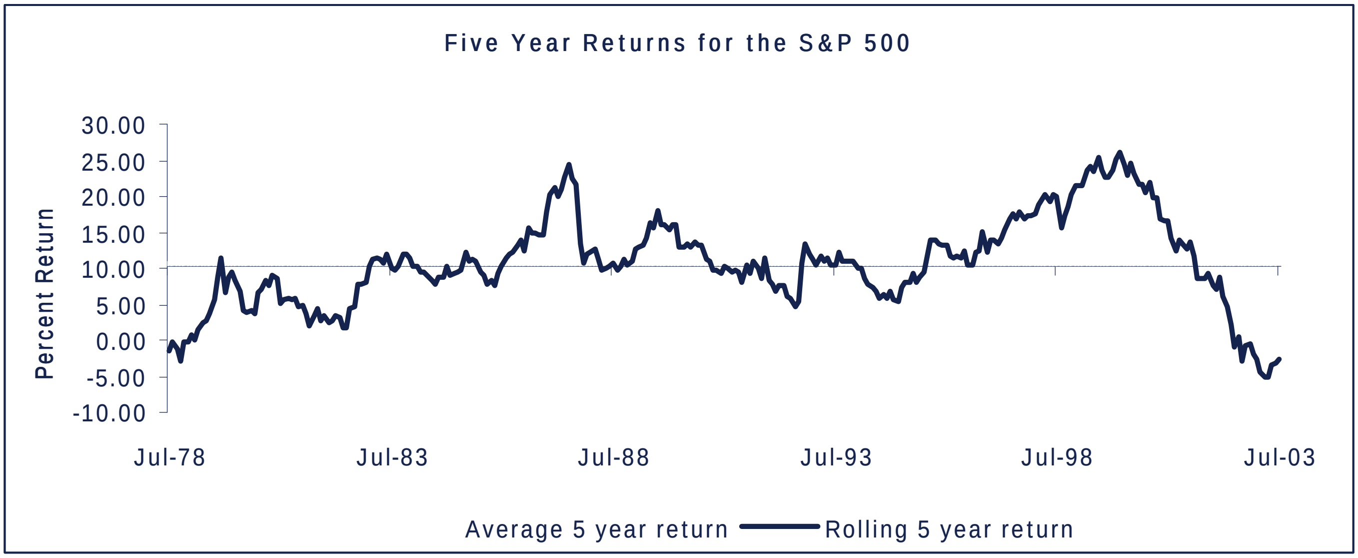
months.

The tax package passed in May also provided quite a boost to stock prices. Companies with attractive dividends have seen their shares appreciate in value. Consumer stocks are benefiting in anticipation of increased spending as a result of the child tax credit. And most importantly, corporations are changing their attitudes regarding their dividend policies. Cash flow has become as important as growth.

After another interest rate cut by the Federal Reserve, rates remain at historic lows. Consequently, investors are taking money out of low-yielding fixed income investments in search of higher returns. With real estate prices at stratospheric levels, stocks have been the beneficiary of this inflow of investment dollars.

Indeed, the environment for stocks has vastly improved since the market bottomed nine months ago. How far the rally goes from here is anyone's guess. But what is clear is that the economy is on sound footing and corporate earnings are growing. We may not be out of the woods yet, but, at present, there are very few investments as appealing as stocks.

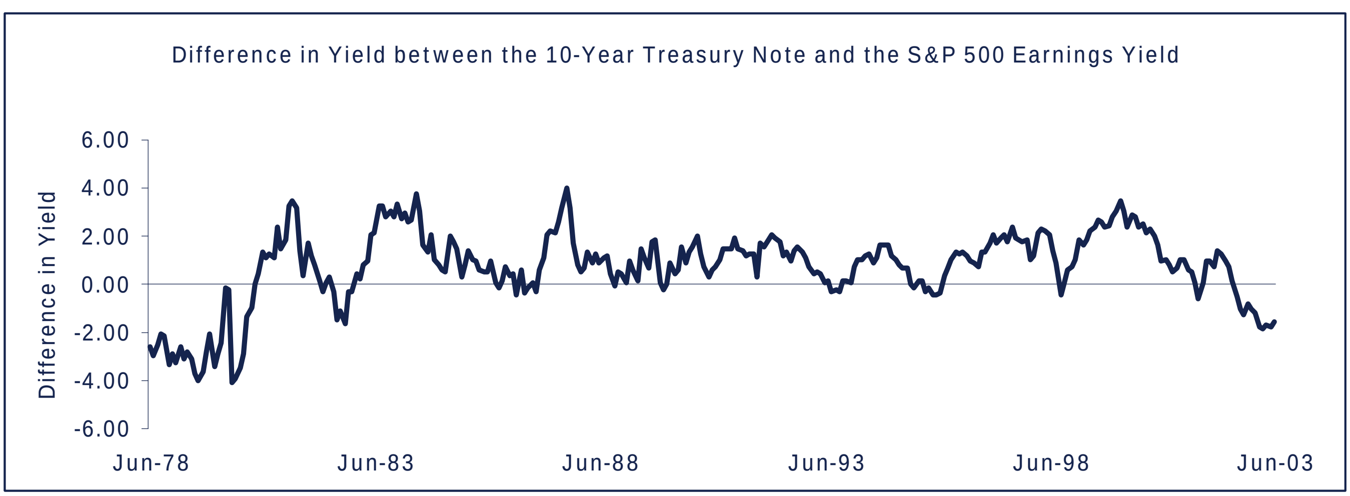
After a Nine Month Rally, How do Stocks Look Now?



The chart above reflects the five year return for the S&P 500 over the last twenty-five years. At the beginning of July, the annualized five year return was -2.60%. The highest five year return over the last twenty-five years was recorded in December, 1999, at 26.18%. The lowest five year return, -5.04%, was in April of this year. Prior to that, the low was -2.97% in October, 1978. Clearly, we are a lot closer to the low than the high. It should be noted that the average five year return for the last twenty-five years is 10.78%.

We introduced the chart below in the January issue. This is a tool we use to help determine the relative value of individual stocks, but it also works well for the market as a whole. Essentially, we compare the earnings yield of stocks to interest rates. The chart below reflects the difference in the two yields. When the difference is high, stocks have historically been overvalued. The difference today is near historic lows, when stocks have traditionally been undervalued.

Unfortunately, these charts do not predict the next move. They simply provide some insight as to where we have already been, and help us better anticipate future trends. As to where we go from here, what do the charts tell you?



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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 a decade, 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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