THE TANDEM REPORT

Volume XI, Issue 1 January, 2010

"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 on our web-site. Please visit www.tandemadvisors.com. We hope you find this report informative.

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:

A CHALLENGING ENVIRONMENT ON ALL FRONTS, BUT UNEMPLOYMENT HOLDS THE KEY TO RECOVERY

The best stock markets often emerge when they are least expected. With mounting concerns about growing government debt, political interference, potential inflation, rising interest rates, high unemployment and questionable economic growth, only the most hopeful could forecast a long and sustained stock market rally.

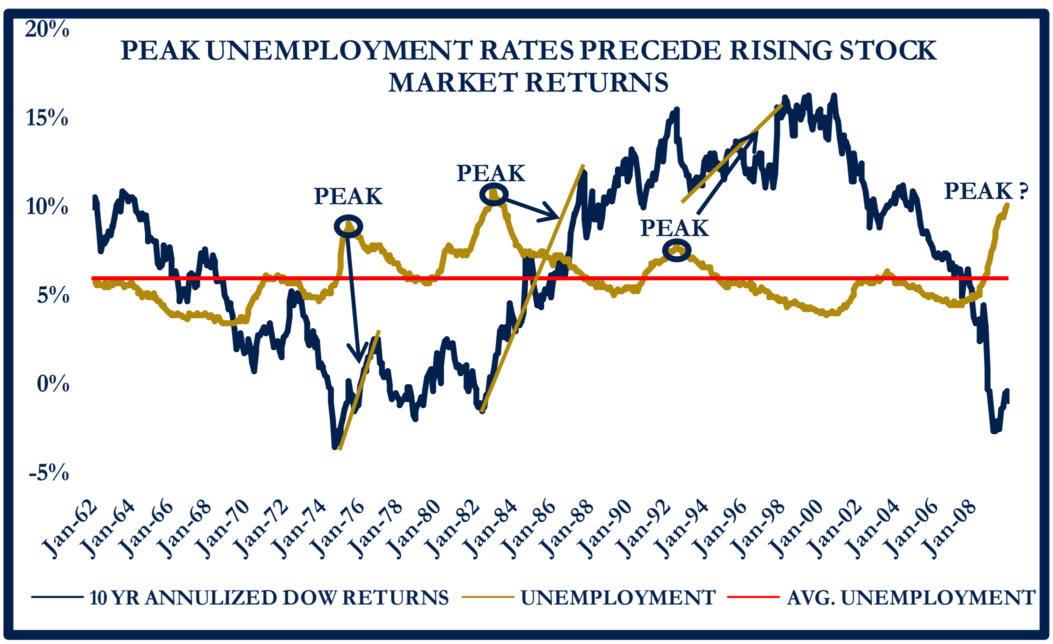
Yet our research has uncovered something positive from this mess that we didn't entirely expect. Peaks in the unemployment rate precede meaningful stock market rallies. The chart below clearly demonstrates this correlation.

Since 1962, unemployment has peaked 3 times at levels well above its average rate, and each time the market rallied. The peak we presently await will be the fourth time and the correlation will be tested. Yet in 1975, unemployment peaked at 9% and was followed by an impressive stock market rally. In 1982, unemployment reached 10.8% before a recovery began. The ensuing market rally lasted well into the next decade, although there were a few hiccups along the way. Finally, in 1992, unemployment peaked at 7.6% and the market rallied through the end of the decade.

Today's unemployment rate is 10%. Some say that true unemployment is as high as 17%. And there certainly is no confirmation that unemployment has peaked. Yet the previous four decades certainly seem to illustrate that the deeper the decline in employment, the stronger the market recovery. If this correlation holds true once more, better days await investors.

Coming off the heels of the market's worst decade of performance since the 1930's, a little optimism might be a good thing. On the surface, the relationship between unemployment and stock market returns may seem counter-intuitive. One would hope that what is good for the populous is good

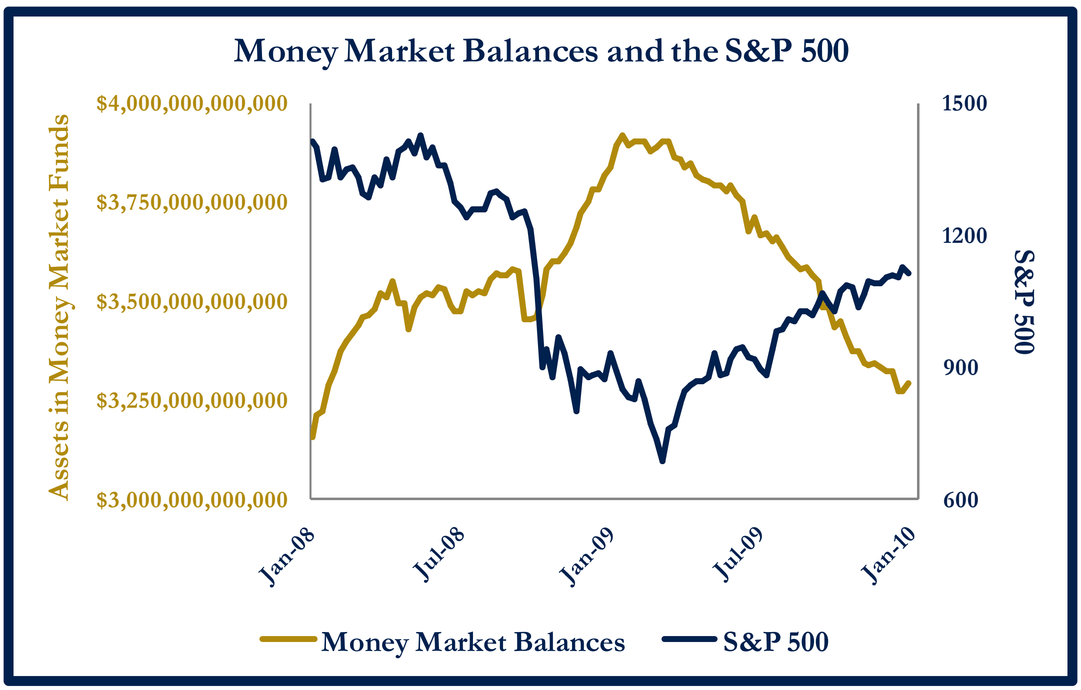
(Continued on page 3)



COMMENTARY:
WHAT DID WE LEARN (RATHER, CONFIRM) IN 2009? DON'T TIME THE MARKET. RELY ON DISCIPLINE.

Emotion clouds judgment. As humans, we often struggle with the delicate balance between instinct and intellect. Few emotions are stronger than the fear of losing money. In 2009, most investors were forced to confront this fear head-on. We similarly faced such a challenge, and we will now use this year-end wrap-up to reflect.

In case there is any doubt that the greatest number of investors succumb to fear at precisely the wrong time, the chart below shows that money market balances peaked in March, 2009 at the same time the S&P 500 bottomed. The gold line, representing assets in money market funds, spikes most dramatically as the market (the blue line) finds its footing.



The relationship between the assets in money market funds and the S&P 500 is a meaningful indicator. Stock sales increase money market balances while stock purchases have the opposite effect. Thus, when investors are nervous, it is reasonable to expect money market balances to increase, as was the case in March 2009.

What interests us most about this data is not that emotional investors get it wrong. Rather, what systems do we have in place that allow us to avoid emotional urges to sell and ensure that we act rationally on behalf of our clients? Emotion makes investors try to time the market. As the data above suggests, very few time correctly.

While it is difficult for investors to be good sellers, it is equally challenging for most to put money back to work. Buy signals after steep declines are hard to discern because investors are still gripped by the fear that brought about their selling. How do we know the market has finished going down?

Further complicating efforts, steep market declines are often accompanied by recessions, making stocks, even at much lower prices, appear expensive. Future profits are called into question as economic growth slows or contracts.

The chart on the next page indicates that market bottoms often have the highest PE's. Recall that PE's are valuation measures. Price divided by Earnings per Share (PE) produces a ratio that many investors use to determine whether stocks are fairly valued. High PE's mean that stocks are expensive. Investors relying on this measure in 2009 missed a significant rally.

It is our view that trying to time the market is folly. We believe the data in these charts backs this up. Most investors make timing decisions based on emotion or instinct. This is not a reliable, repeatable tool.

Our process, which we call TVM, is repeatable. TVM carefully prescribes how buy and sell decisions are made. By steadfastly relying on a time-tested discipline that we trust, we are able to be proactive, not reactive. As tough as the first three months of 2009 were, our review of the year shows that we were buyers of stocks, not sellers. Had we allowed emotion into the equation, it is unlikely that any of us at Tandem would have been bold enough to try to identify the market bottom in March, much less the top in 2007.

We were not sellers of stock throughout 2008 because we successfully identified a market top. Instead, we were sellers because our methodology identified more stocks to sell than buy. Further, by employing "stops" (prices at which we will sell if stocks fall to that level), we began selling as stocks ran out of steam. Similarly, at the end of 2008 and in early 2009,

(Continued on page 3)

MARKET COMMENTARY (CONTINUED)

(Continued from page 1)

for the market. Is it possible that the market prefers hardship?

It is important to remember that the market is forward looking. When unemployment is high and the economy is struggling, the market begins to anticipate a brighter future. Conversely, when unemployment bottoms and the economy is humming along, the market begins to doubt the sustainability of economic nirvana. Our conclusion is that the market does not prefer hardship. Rather, it is fueled by improving expectations. And expectations are highest as a recovery gets underway.

Make no mistake. We are not offering this analysis as a market forecast. We simply point out that unemployment is perhaps more important than we previously realized.

Whether employment gains are the cause or the result of economic expansion is less obvious. Employers don't hire until they believe prospects are brighter. But more people in the workforce means more spending and more investment - ingredients essential to economic expansion.

The market bottomed in March, 2009 - even as unemployment continued to rise. The ensuing rally began in anticipation of better economic news. However, unless we see gains in employment soon, it is unlikely the present market advance is sustainable. We need job growth to fuel the expansion and replace government stimulus.

The days and months ahead will prove interesting, as the center of the financial world will likely remain in Washington. Will politicians pursue populist policies that pit one group against another, or will they get out of the way of private industry to allow for meaningful private-sector job growth as Bill Clinton and Ronald Reagan did previously?

Our economy will always be a cyclical one. It is the nature of capitalism. Unfortunately for those suffering, capital reallocation after a trough does not happen instantly. But it does happen! Washington will either help or hinder the process, but they cannot halt recovery when capital is allowed to flow freely to its best use. Job growth may take time, but when it comes, we now know what to expect. A healthy stock market recovery. See keep your eye on the unemployment rate. Everything else is just noise.

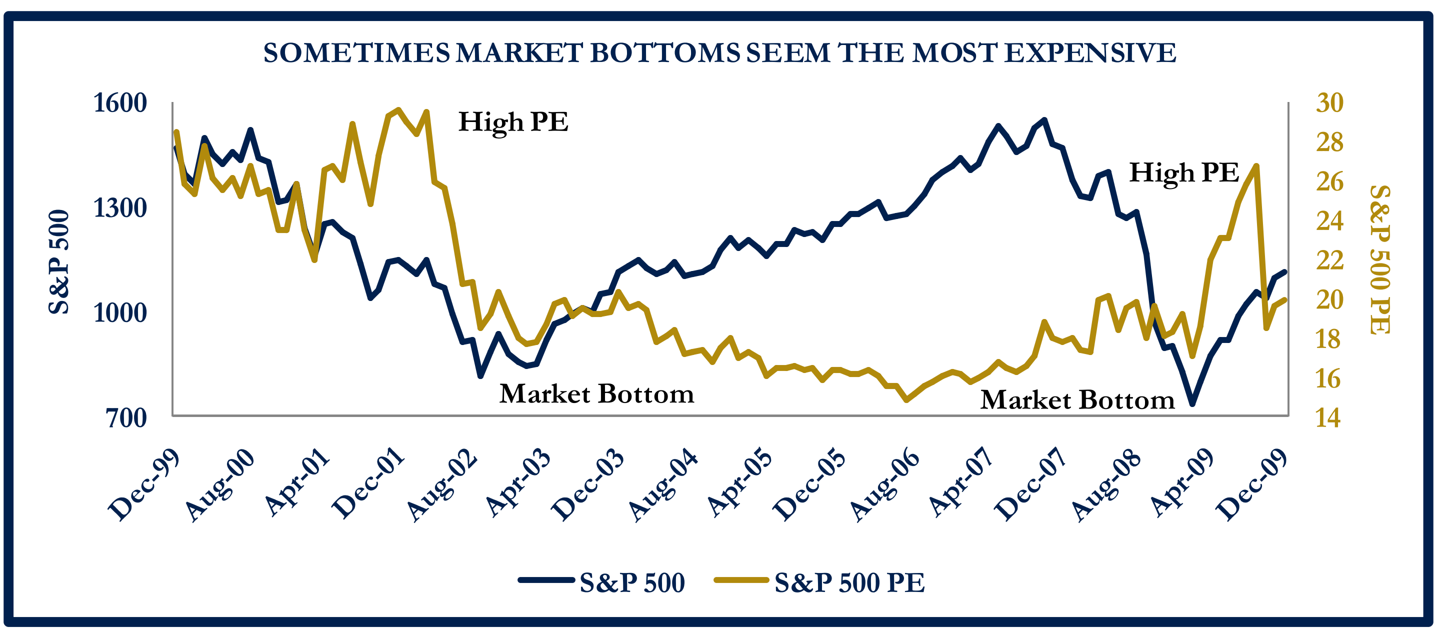
COMMENTARY (CONTINUED)

(Continued from page 2)

our discipline enabled us to look beyond the immediate and identify cheap stocks, even if they appeared expensive. As a result, we bought stocks as prices fell to attractive levels. We stuck to our discipline as stocks fell, and then again as stocks began to improve ahead of the economy. There was no timing or emotion involved.

Each year we conduct a thorough review of what we did right, and more importantly, what we did wrong. We take what we learn and factor that into TVM. This year, we learned (or rather, had reinforced) that we must trust our process. It works.

Our methodology is designed to produce repeatable results by eliminating emotion and timing. TVM produced exactly what we expected it to yield in 2009, just as it had done in 2008 and before. We continue to monitor our results every day. Our conclusion for 2009 is that we got it right.



Contact Information:

Tandem Investment Advisors, Inc.

145 King Street
Suite 227
Charleston, SC 29401

(800) 303-8316
(843) 720-3413

www.tandemadvisors.com

MARKET REPORT CARD

YIELD TABLE

	Current	3 months ago	1 year ago
3-month Treasury Bill	0.05%	0.12%	0.51%
5-year Treasury Note	2.34%	2.37%	1.50%
10-year Treasury Note	3.59%	3.40%	2.18%
30-year Treasury Bond	4.49%	4.19%	2.87%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Rate	0-0.25%	0-0.25%	0.25%
Discount Rate	0.50%	0.50%	0.50%
3-Month LIBOR	0.25%	0.30%	1.41%

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.

STOCK MARKET INDEX DATA

Stock Market Indices	12/31/09 Close	% Change 1 Year	% Change 5 Years	% Change 10 Years
S&P 500	1,115.10	23.45%	-7.99%	-24.10%
Dow Jones Industrial	10,428.05	18.82%	-3.29%	-9.30%
Russell 1000	612.01	25.47%	-5.99%	-20.31%
Russell 3000	653.13	25.46%	-5.84%	-17.67%
Russell 2000	625.39	25.22%	-4.02%	23.90%
GLOBAL MARKET INDEX DATA				
Hang Seng	21,872.50	52.02%	53.71%	28.95%
Shanghai	3,277.14	79.98%	158.76%	NA
Nikkei 225	10,546.44	19.04%	-8.20%	-27.26%
Brazilian Bovespa	68,588.00	82.66%	161.83%	301.29%
London FTSE 100	5,412.90	22.07%	12.43%	-21.89%
German Xetra DAX	5,957.43	23.85%	39.97%	-14.38%

Returns are cumulative, not annualized.

TANDEM
Investment Advisors