The TANDEM Report

TANDEM Investment Advisors

Volume 8, Issue 3, July, 2007

INSIDE THIS ISSUE:

MARKET SCORECARD:

S&P 500:

Annualized returns:

1 year ended 3/31/07	*9.73%*
3 years ended 3/31/07	*8.05%*
5 years ended 3/31/07	*4.37%*
7 years ended 3/31/07	*-0.76%*
10 years ended 3/31/07	*6.50%*

Russell 3000 Growth:

Annualized returns:

1 year ended 3/31/07	*6.53%*
3 years ended 3/31/07	*7.22%*
5 years ended 3/31/07	*3.81%*
7 years ended 3/31/07	*-5.30%*
10 years ended 3/31/07	*5.54%*

TVM:

It is here, and It is Working

In recent issues of ***The TANDEM Report***, we have introduced the concept and background of our **Tandem Valuation Model**, or **TVM**. Now it is time to explain it and demonstrate why we love it.

After spending nearly nine months building, testing and refining TVM, we made our first investment decisions based on the final version of TVM in March. Since that time, we have made numerous other decisions based on the model, and the results have affirmed our confidence in TVM. Of course the ultimate success of TVM can't be known for some time, but early indications are impressive. On the inside pages of this issue, we list all of our TVM purchases and their results, and will devote considerable attention to this. But first we will attempt to explain, hopefully in plain language, how our unique valuation model works.

TVM is a proprietary investment valuation model created by us exclusively for our own use in managing client portfolios. It is designed to identify stocks with strong earnings growth that are mispriced by the market. TVM screens for securities that meet our strict growth criteria and assigns a rank to each one. Rankings range from a 4 for uncommon value to a 1 for overvalued. We then perform the same detailed fundamental analysis we have always employed and buy the stocks that pass the test and are ranked 4. Similarly, we sell a portion of any holding that is ranked 1.

Two things make TVM special. First, because this is an entirely automated process that ranks our universe of over 3,000 stocks regularly, our information is timely, allowing us the opportunity to act before

(Continued on page 4)

Market Commentary:

Volatilty Returns as Market Climbs

The second quarter of 2007 was a good one for stock investors, in spite of worries largely centered around interest rates, bad loans and the impact the two might have on the markets and the economy. In our view, the two biggest numbers to digest at quarter's end are the level of the S&P (1,503.35, up 5.8% for the quarter) and the level of the 10-year Treasury (5.08%, up from 4.62% three months prior). Why these two? Because rarely do interest rates and the stock market move in the same direction.

Rising interest rates are indicative of a healthy, robust economy, which intuitively seems to be good news for stocks. Yet as rates rise, more investors find a higher fixed rate enticing, which can diminish

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Top Ten Holdings

As of June 30, 2007

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	6.71%
2. FMC Technologies	5.97%
3. FMC Corp.	5.07%
4. BP, plc	5.02%
5. Exxon Mobil	4.75%
6. Altria	4.49%
7. T. Rowe Price	3.16%
8. Home Depot	3.09%
9. Genentech	2.74%
10. ConocoPhillips	2.59%
Total	**43.59%**

EQUITY INCOME COMPOSITE

Rank by Market Value	% of Composite
1. General Electric	5.23%
2. Exxon Mobil	4.83%
3. Microsoft	3.72%
4. BP, plc	3.08%
5. Home Depot	3.05%
6. T. Rowe Price	2.94%
7. Johnson & Johnson	2.84%
8. Enterprise Products Partners	2.81%
9. Colgate Palmolive	2.59%
10. American Express	2.51%
Total	**33.60%**

Composite Updates

EQUITY COMPOSITE

After taking a bit of a break in the first quarter, Energy stocks have again emerged as the market leader. Financial stocks are struggling with the burden of the fallout from the housing sector.

We established holdings in Avery Dennison, Coca Cola, Cognizant Technology Solutions, Kohl's, Paychex and Thermo Fisher Scientific, while adding to existing positions in Advisory Board, Genentech, Harris & Harris and Walgreen's. All of these purchases save for Harris & Harris were the result of TVM rankings.

We sold some of our BP, Capital One, Exxon Mobil, Hershey, Home Depot, Johnson & Johnson, T. Rowe Price and Wells Fargo because TVM showed them as being overvalued. We also reduced our positions in BB&T, Microsoft and Pfizer because our expectations for them are somewhat limited.

EQUITY INCOME COMPOSITE

We were not as active on the buy side as we were in the Equity Composite accounts. Stocks with hefty dividends are too expensive, so we elected to be patient.

We made initial purchases of Avery Dennison, Coca Cola, Health Care Properties, and Paychex, and we added to our Walgreen's holdings.

We reduced our holdings in Abbott, BB&T, BP, Citigroup, Enterprise Products, Exxon Mobil, General Dynamics, Hershey, Home Depot, Johnson & Johnson, Pfizer, T. Rowe Price, SCANA and Wells Fargo.

The accounts that comprise a composite are not necessarily identical. Some contain positions that Tandem did not buy. The Equity Composite is designed to produce principal growth, while the Equity Income Composite is designed for principal and income growth. For more information, please visit www.tandemadvisors.com.

MARKET STATISTICS *AS OF JUNE 30, 2007*

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	1,503.35	6.00%	18.36%	31.78%	51.88%	69.84%
Russell 3000 Growth	2,634.14	8.22%	18.84%	29.39%	51.88%	54.14%
DJIA	13,408.62	7.59%	20.25%	28.49%	45.06%	74.76%
NASDAQ 100	1,934.10	10.09%	22.78%	27.53%	84.15%	102.04%

YIELD TABLE				
	Current	3 months ago	6 months ago	1 year ago
3-month T-Bill	4.77%	5.04%	4.97%	4.99%
5-year Treasury	4.97%	4.49%	4.64%	5.15%
10-year Treasury	5.08%	4.62%	4.65%	5.19%
Prime Rate	8.25%	8.25%	8.25%	8.25%
Fed Funds Rate	5.25%	5.25%	5.25%	5.25%

PERFORMANCE BY SECTOR WITHIN THE S&P 500

THROUGH JUNE 30, 2007 ***(SOURCE: S&P 500 GICS SECTOR SCORECARD)***

Sector	% of S&P 500	Return 3 Months	Return 2007 YTD	Return 2006	Return 5-Yr Annual
S&P 500	100.00%	5.8%	6.0%	13.6%	8.7%
S&P 500/Citigroup Growth	48.43%	6.3%	5.8%	9.4%	7.0%
S&P 500/Citigroup Value	51.57%	5.4%	6.1%	18.0%	10.4%
Consumer Discretionary	10.20%	3.4%	2.4%	17.2%	7.4%
Consumer Staples	9.29%	2.1%	3.7%	11.8%	4.0%
Energy	10.79%	14.3%	16.3%	22.2%	19.5%
Financials	20.77%	1.5%	-2.0%	16.2%	7.6%
Health Care	11.67%	4.6%	5.2%	5.8%	5.1%
Industrials	11.43%	9.2%	9.9%	11.0%	9.7%
Information Technology	15.45%	10.2%	9.0%	7.7%	10.0%
Materials	3.12%	6.6%	15.5%	15.7%	11.8%
Telecommunication Services	3.75%	6.8%	13.6%	32.1%	10.4%
Utilities	3.51%	-1.1%	7.2%	16.9%	10.2%

COMMENTARY (CONTINUED)

(Continued from page 1)

the market corrects its inefficiencies. Being able to identify these mispriced securities before the market does has proven to be a major key to TVM's early success.

Second, the formulas we have created for TVM deliver a result that is unique and readily implementable. TVM measures a stock's price relative to its past and future rate of earnings growth and dividend yield. Our research reveals that stocks typically trade within a well-defined valuation range relative to earnings growth and dividend yield. Occasionally they stray beyond these parameters, and when they do, our data indicates that the stock has *always* reverted back to trading within the range. TVM finds these stocks when they are priced outside of the range, affording us the opportunity to purchase or sell before valuation returns to the norm.

TVM is an extremely discriminating model, yielding very few "Buys" at any given time. However, TVM evaluates *all* stocks that meet our stringent growth criteria, resulting in useful rankings for every company we follow. Stocks do not need to be underpriced to be worth owning. Fairly priced securities can continue to perform well. They often move beyond a fair price to a level of overvaluation. TVM is guiding our decision making process every step of the way.

Now to the fruits of our labor. By quarter's end, we made 14 purchases in our Equity Composite accounts, and 11 of them had produced gains larger than a parallel investment in the S&P 500 (*please see disclaimer below for complete explanation of performance*). The average TVM purchase had increased in value by 5.73%, while the average S&P investment would have only netted a gain of 2.18%. As a result, the typical TVM holding outgained the S&P by 3.54% The results for the Equity Income Composite accounts are slightly better. While we only made 7 purchases, 5 of them outperformed. The average gain for TVM stocks was 6.29%, compared to an average gain of only 2.54% for the S&P 500. The average outperformance was a sizable 3.74%.

The data for the Equity Composite purchases is detailed in the table at the top of the page on the right, while the lower table provides the details for the Equity Income Composite purchases. We compare the purchase price of a TVM stock to the value of the S&P 500 on the same day, and the far right column indicates the appreciation of the TVM stocks relative to that of the S&P 500 for the same time period.

These gains are similar to those we discovered as we began to test TVM. Even though we have only four months of actual data, TVM has been rigorously tested going back fifteen years. While this is not by any means a perfect predictor, it is certainly a very valuable one. As long as the gains TVM yields exceed the losses, our clients win. In time, as more and more TVM names are added to our portfolios, we fully expect that the positive impact on performance will be exciting.

As of June 30, TVM decisions have impacted about 25% of a typical Tandem portfolio. That is a profound influence in such a short period of time. We look forward to applying this process over a longer period, and are confident that we are at the beginning of an almost revolutionary period in Tandem's history. Our clients deserve the best, and we believe strongly that we are delivering it. We invite you to study the data in the tables to the right to draw your own conclusions.

Disclaimer: The tables to the right are in no way intended to imply overall portfolio performance. The impact these purchases have on overall performance is a function of the weighting of each stock within a specific portfolio. The cost column in the TVM section indicates the cost per share actually paid, including commissions, on the purchase date. The S&P 500 cost is the closing value of the S&P 500 on the purchase date. Dividends, unless otherwise noted in the table, are not included in price change calculations. Further, these purchases should not be construed as general recommendations. The TVM Model is the property of Tandem Investment Advisors, Inc., and is to be used solely by Tandem in making investment decisions for accounts Tandem manages.

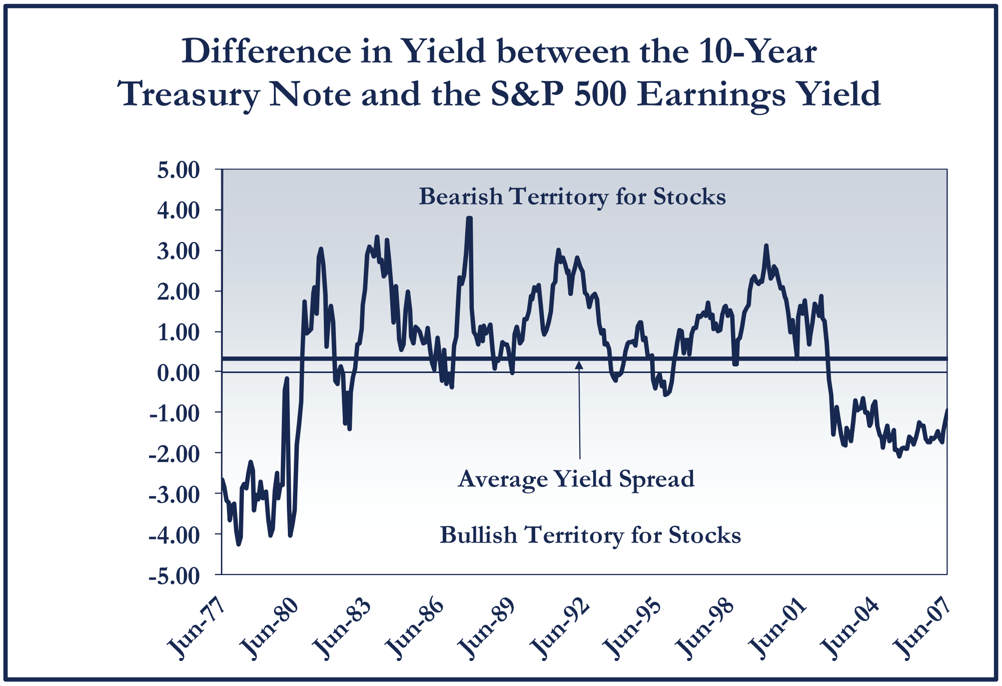
We would like to acknowledge our gratitude to Thomson Financial for supporting the creation of TVM, the hours of consulting they contributed to this project, the software and hardware that runs TVM and the timely and reliable data that fuels the model. We are particularly in debt to Chip Carew for his willingness to share with us his ingenuity in guiding TVM through obstacles others had deemed insurmountable. Without his skill, intellect and generosity, TVM might have become an idea abandoned for want of technical knowhow. TVM has been, and continues to be, a team effort. We believe that our assembled team has created something uniquely valuable to our efforts to serve our clients.

Purchase Date	PRICE CHANGE RELATIVE TO THE S&P 500 OF TVM STOCKS IN THE TANDEM EQUITY COMPOSITE TVM Buys	Cost	6/30/07 Price	TVM Price Change	S&P 500 Value on Purchase Date	S&P 500 Value on 6/30/07	S&P Price Change	Price Change Relative to the S&P 500
3/20/07	Brown Forman*	62.47	73.08	16.98%	1410.94	1503.35	6.55%	**10.43%**
3/20/07	Praxair	62.85	71.99	14.54%	1410.94	1503.35	6.55%	**7.99%**
3/20/07	Republic Service Group	27.27	30.64	12.36%	1410.94	1503.35	6.55%	**5.81%**
3/20/07	Advisory Board	51.16	55.56	8.60%	1410.94	1503.35	6.55%	**2.05%**
4/18/07	Coca Cola	51.74	52.31	1.10%	1472.50	1503.35	2.10%	**-0.99%**
4/25/07	Advisory Board	48.08	55.56	15.56%	1495.42	1503.35	0.53%	**15.03%**
4/26/07	Paychex	36.90	39.12	6.02%	1494.25	1503.35	0.61%	**5.41%**
4/26/07	Avery Dennison	63.64	66.48	4.46%	1494.25	1503.35	0.61%	**3.85%**
5/11/07	Kohl's	72.53	71.03	-2.07%	1505.85	1503.35	-0.17%	**-1.90%**
5/25/07	Cognizant Technology	75.46	75.00	-0.61%	1515.73	1503.35	-0.82%	**0.21%**
6/22/07	Thermo Fisher	51.53	51.72	0.37%	1502.56	1503.35	0.05%	**0.32%**
6/22/07	Genentech	75.36	75.66	0.40%	1502.56	1503.35	0.05%	**0.35%**
6/26/07	Kohl's	68.91	71.03	3.08%	1492.89	1503.35	0.70%	**2.38%**
6/26/07	Walgreens	43.81	43.54	-0.62%	1492.89	1503.35	0.70%	**-1.32%**
Averages			**TVM Stock Return**	**5.73%**		**S&P 500 Return**	**2.18%**	**3.54%**

* The cost of Brown Forman is adjusted lower to reflect a special dividend of $1.66 per share on 5/10/2007.

Purchase Date	PRICE CHANGE RELATIVE TO THE S&P 500 OF TVM STOCKS IN THE TANDEM EQUITY INCOME COMPOSITE TVM Buys	Cost	6/30/07 Price	TVM Price Change	S&P 500 Value on Purchase Date	S&P 500 Value on 6/30/07	S&P Price Change	Price Change Relative to the S&P 500
3/20/07	Brown Forman*	62.47	73.08	16.98%	1410.94	1503.35	6.55%	**10.43%**
3/20/07	Praxair	62.85	71.99	14.54%	1410.94	1503.35	6.55%	**7.99%**
4/18/07	Coca Cola	51.74	52.31	1.10%	1472.50	1503.35	2.10%	**-0.99%**
4/26/07	Paychex	36.90	39.12	6.02%	1494.25	1503.35	0.61%	**5.41%**
4/26/07	Avery Dennison	63.64	66.48	4.46%	1494.25	1503.35	0.61%	**3.85%**
6/26/07	Health Care Ppty	28.50	28.93	3.08%	1492.89	1503.35	0.70%	**2.38%**
6/26/07	Walgreens	43.81	43.54	-0.62%	1492.89	1503.35	0.70%	**-1.32%**
Averages			**TVM Stock Return**	**6.29%**		**S&P 500 Return**	**2.54%**	**3.74%**

* The cost of Brown Forman is adjusted lower to reflect a special dividend of $1.66 per share on 5/10/2007.



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demand for stocks. This may ultimately prove to be the case, but it certainly isn't right now.

In our last ***Report***, we discussed our concern that a low global interest rate environment has produced a liquidity bubble. Because of the low cost of borrowing, investors have leveraged themselves dramatically and inflated the value of assets. The unwinding of such a liquidity expansion can be painful, and have a short-term detrimental impact on stocks.

Yet the chart above (one of our favorites and a regular in ***The TANDEM Report***) lends some comfort. We believe there is a relationship between the value of stocks and the level of interest rates. This chart tracks the earnings yield of the S&P 500 relative to the rate of the 10-year Treasury. As you can plainly see, stocks are still attractively valued relative to bonds. For this indicator to return to more normal levels, stocks prices must go up, stock earnings must go down, interest rates must rise, or some combination of these events must take place. Two of these three possibilities are positive for stocks (an earnings decline being the lone exception).

Thus, even as rates rose during the quarter, stocks were able to continue their advance. But by June, worries about the fallout from housing woes found their way into the stock market. At first, we simply saw all stocks directly related to housing suffer. But then we learned about something called "sub-prime mortgages" threatening the viability of certain hedge funds. Sub-prime mortgages are non-conventional mortgages sold to many home buyers with less than sterling credit. These mortgages were then pooled, packaged and sold to investors, including hedge funds. As the number of mortgage defaults increased, these packaged investments took a hit. Hedge fund losses were magnified because they used borrowed money to invest.

Then came the spillover to the banks and brokerage firms. Investors began to wonder about the institutions that had loaned money to the struggling hedge funds. Pretty soon, nearly all financial stocks began to decline, whether they had exposure to the sub-prime market or not.

None of these worries have seemed to bother the stocks of companies with real assets like industrial, technology and energy companies. And maybe they won't. But they could, and here is why.

So many things having a positive effect on stock prices can be traced back to interest rates. First, low rates make stocks relatively more attractive. If interest rates are only 2%, most investors will choose to buy stocks. If rates are at 5%, some will be tempted to take the safer return over stocks. If rates are 10%, even more will elect to abandon stocks in favor of a fixed return. And so on as rates rise. The low rate environment has definitely benefitted stocks.

Second, because borrowing costs are so low, many large investors have elected to buy stocks with borrowed money. This creates a greater demand for stocks than

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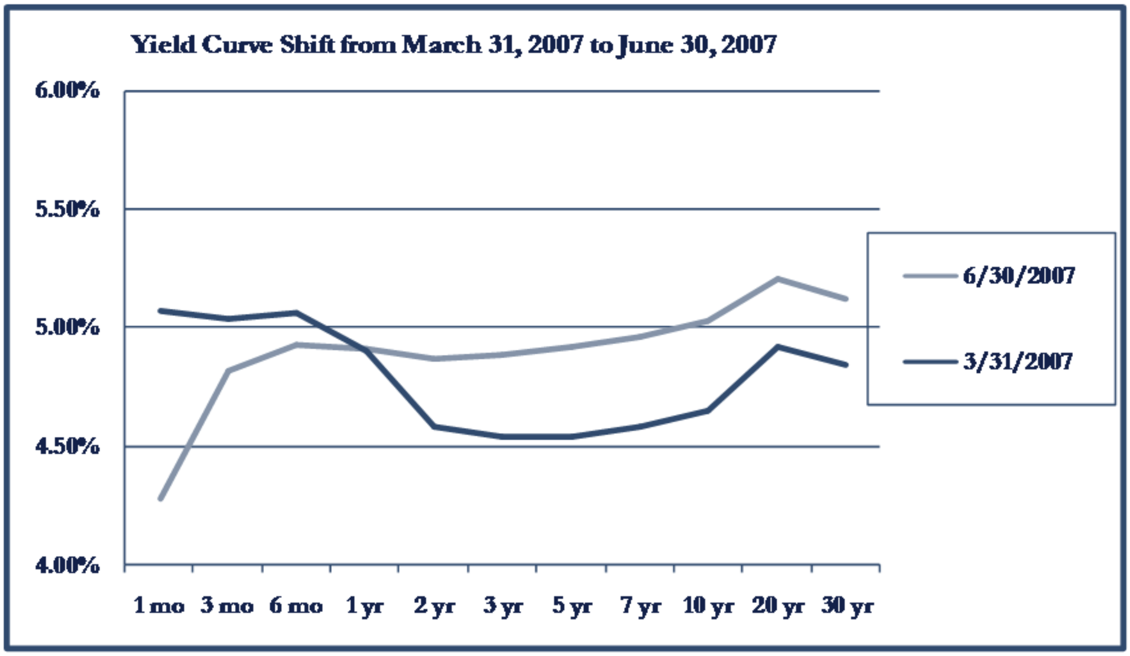
might otherwise be the case, and increased demand increases prices.

Third, Private Equity has used borrowed money to buy companies and take them private. This drives up stock prices by shrinking the supply of stock and increasing speculation about which stocks might get bought out.

There are other, even more esoteric, ways that low rates influence the price of stocks, and all of this is reflected in our favorite chart on the preceding page. But as we enter the third quarter, there is another chart that could be influencing stocks to the negative.



In some respects, economic growth is self-policing. If investors anticipate that a strong economy could become an inflationary economy, they will demand higher interest rates on loans they make. Higher rates slow economic growth. The chart above clearly indicates this scenario is underway. In just 3 months, longer-term interest rates have moved up dramatically, even as short-term rates have declined. These lines reflect what is called the "yield curve" at two different times. The darker line is the yield curve from March, and the lighter line is today. This is a fairly meaningful shift up in rates over a short period of time. And as an aside, the March 31 yield curve is called "inverted", meaning shorter term rates are higher than longer term rates. An inverted yield curve is said to be predictive of a recession.

Are we predicting a recession? No, but we haven't ruled one out either. And which types of stocks suffer most in a recession? Exactly the same ones that haven't been hit yet by the sub-prime threat. They are hit hardest because they are cyclical in nature, experiencing rapid growth as the economy expands and significant contraction as the economy cools.

But remember on page one we said that stocks and interest rates rarely move in the same direction? This means that only one market is likely to be predictive, and it could be the stock market. Maybe the stock market has it right and the bond market is nervous about nothing. We think this scenario is equally likely. If the stock market does in fact have it right, then most of the band market's worries will dissipate, and stock earnings and prices will grow to the point that normalcy is restored to our favorite chart.

One thing is certain: we have absolutely no idea which market has it right. But it doesn't really matter to us. Of course we would love to see stocks go higher forever in uninterrupted fashion It just never seems to work out that way. If the bond market's worries come to fruition, we take comfort in knowing that stocks are still relatively cheap, and thus will have some support.

What we do know is that our stocks are moving higher, we have sold some that we have less than strong conviction about, and we continue to hold a fair amount of cash in accounts (the wonderful thing about cash is that it can't go down in value). Until further notice, we will straddle the fence between cautiously optimistic and optimistically cautious.

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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.

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