THE TANDEM REPORT

Volume XV, Issue 4 October 2014

TANDEM Investment Advisors

"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 useful.

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:
34 RECORD CLOSES FOR THE S&P 500. WILL THERE BE 35?

Ordinarily this column addresses the quarter just completed. This time, we need to extend beyond September because things really got interesting as we were preparing this report.

On September 18th, for the 34th time this year, the S&P 500 closed at a record high. Will 2014 witness a 35th record?

The S&P entered 2014 on an epic run, having backed up a 16% gain in 2012 with a 32% gain in 2013. Through September 18th, the S&P was up nearly 9% for the year. Yet there were signs that all was not right in the stock world.

As we have noted previously in these pages, we found reason for caution. The index's gain had far outpaced economic growth. Key indicators suggested that perhaps the market had decoupled from reality. Q1 GDP was negative. Q2 GDP was robust, but possibly just a snap back phenomenon. Wage growth has stagnated. The consumer has been struggling. The labor participation rate continues to decline. Corporate earnings have too often failed to meet expectations.

It has been our view that none of these indicators pointed in any way to Armageddon. After all, economic growth and corporate earnings have largely been positive. Just not as positive as the stock market's response. We have maintained that economic fundamentals need time to catch up to the market. That can mean the market corrects, but it could also mean that the market simply pauses for a time.

Perhaps the most telling sign of market confusion was that the S&P appeared to be marching to a different beat than

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COMMENTARY:
NOT INVESTED "IN THE MARKET"

We understand that the stock market makes people nervous. It makes people nervous when it goes up and it makes people nervous when it goes down. Given that it has gone up a lot the last few years and down a little bit the last few weeks, there are more than a few nervous folks out there. We hope you are not among them, but if you are, this is for you.

It is important to understand that as our client, you are not invested in "the stock market". You are invested in companies that succeed or fail on their own accord, not because something happened in "the stock market".

October's arrival has brought the return of volatility, so we thought this would be a good time to review some of the stocks you own and how they behave compared to "the market". Replicating "the market" is what index funds do. We aim to show you how little your portfolio looks like an index.

As a reminder, we try to buy companies that grow their businesses through any economic cycle. By their very nature, companies that tend to control their own destiny in this manner are generally less volatile than the index. Think about it. If a company is in the business of doing something that relies upon a

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good economy, its fortune is likely to boom or bust as the economy does. But if a company is in the business of providing something we all need every day, and it does a good job of it, it is less likely to see its fortunes tied to the health of the economy.

We have listed below the top 10 stock holdings in each of our portfolio styles and the top 10 holdings of the corresponding index each style is compared to. Please note that as of September 30th there is absolutely no overlap among our 10 largest holdings and those of the

Top 10 Holdings as of 9.30.2014		
S&P 500	**Tandem Large Cap Core (LCC)**	**Tandem Equity**
Apple Inc	EcoLab	Thermo Fisher Scientific
Exxon Mobil	Abbvie	EcoLab
Microsoft Corp	Resmed	Resmed
Johnson & Johnson	Wabtec	Ametek
General Electric	Costco	Wabtec
Berkshire Hathaway'B'	TJX Cos.	FMCTechnologies
Wells Fargo	Qualcomm	Qualcomm
Procter & Gamble	Walgreen	Costco
Chevron Corp	Enterprise Products Partners	O'Reilly Automotive
JPMorgan Chase & Co	CSX	Walgreen
Russell Mid Cap	**Tandem Mid Cap Core**	
Netflix	Thermo Fisher Scientific	
Crown Castle International	EcoLab	
Vertex Pharmaceuticals	Fiserv	
Kroger	Signature bank NY	
Applied Materials	ITT	
AON	Ross Stores	
Sempra Energy	Ametek	
Cardinal Health	Resmed	
Intuit	Wabtec	
Twitter	Core Labs	

appropriate index. Tandem does not have a single holding in our 10 largest holdings that also appears in the index's 10 largest components.

At the bottom of the page, we carry the comparison a step further. What makes most people the most nervous is the market's volatility - the big moves up or down. There are two common ways to measure volatility. One is a measurement called beta. Beta compares the movements of a stock price or portfolio valuation to an index. We use the S&P 500 as the basis to measure beta. The S&P has a beta of 1.00. If a stock or portfolio has a beta greater than 1.00, it is more volatile than the S&P. For example, a beta of 1.10 means the stock or portfolio is 10% more volatile than the S&P 500. If a beta is less than 1.00, that stock or portfolio is less volatile than the S&P. Tandem's betas are considerably less than both the S&P 500 and the Russell MidCap.

Another measurement of volatility is standard deviation. A portfolio with wide swings in returns will have a high standard deviation. You will note that Tandem's portfolios have substantially lower standard deviations than do the S&P 500 and the Russell MidCap. This means that Tandem does not experience the same severity of swings in returns that the indices do. Tandem provides a much more consistent experience.

So we have illustrated three different measures of comparison - holdings, beta and standard deviation. We know that these terms are not part of your everyday vocabulary but hopefully the pictures tell an important story for you. Tandem doesn't look like "the market".

Now to be clear, your portfolio, no matter which of our styles you use, is influenced by the *direction* of the market. When the market goes up, your portfolio will likely go up. And when the market goes down, your portfolio will likely

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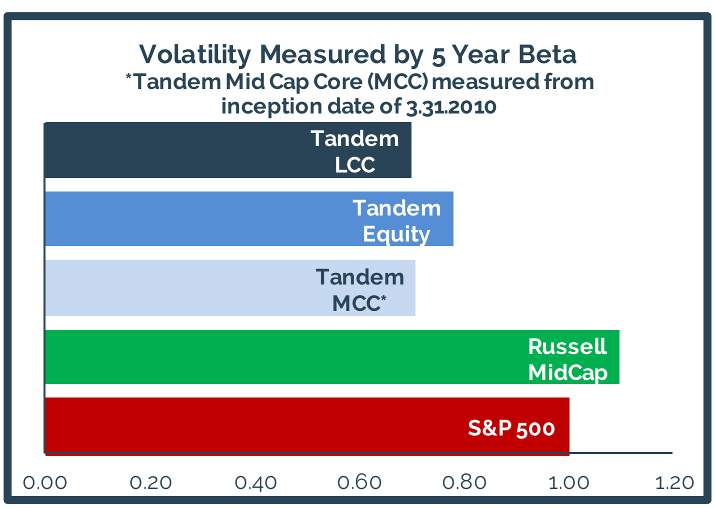

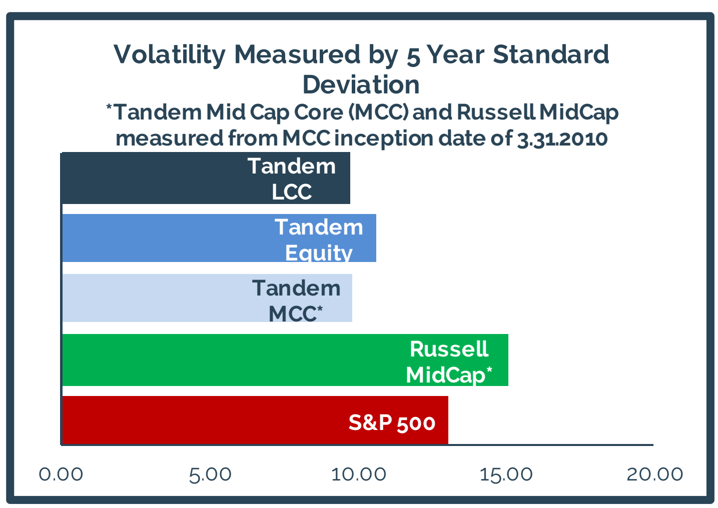

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go down. But the data we have shared with you should show that your portfolio behaves differently and experiences less drama than the market incurs.

We believe that the first rule to making money is to stop losing it. In order to accomplish that, we cannot allow your portfolio to experience the wild rides that the market sometimes takes. Hopefully we have shown you that you are not invested in "the market". You own a portfolio of stocks that behave for their own sets of reasons over the long run. Don't be nervous. And if you are, give us a call.

To act like "the market", it helps to look like "the market". Tandem looks very little like "the market" when holdings are compared. This table shows the 10 largest holdings for Tandem's Large Cap and Equity styles and the S&P 500 at year-end for the last 4 years. The highlighted holdings for Tandem indicate stocks in the S&P's top 10 as well. Note that Equity has no overlap and Large Cap Core has very little. We don't look like "the market".

S&P 500		Tandem LCC		Tandem Equity	
2013					
Apple Inc	2.87%	Cash	14.54%	Cash	7.26%
Exxon Mobil	2.52%	EcoLab	4.51%	Thermo Fisher Scientific	4.71%
Google Inc'A'	2.13%	Wabtec	4.03%	EcoLab	4.34%
Microsoft Corp	1.78%	Walgreen	3.89%	Cognizant Technology	4.07%
Berkshire Hathaway'B'	1.66%	TJX Cos.	3.36%	Wabtec	3.74%
General Electric	1.61%	CSX Corp	3.35%	Walgreen	3.70%
Johnson & Johnson	1.47%	Wal-Mart Stores	3.16%	O'Reilly Automotive	3.49%
Wal-Mart Stores	1.46%	Enterprise Products Partners	3.08%	Ametek	3.47%
Chevron Corp	1.37%	Costco	3.07%	TJX Cos.	3.12%
Wells Fargo	1.36%	Qualcomm	3.05%	CSX Corp	3.07%
2012					
Apple Inc	3.67%	Cash	13.30%	Cash	8.96%
Exxon Mobil	2.90%	Abbott Labs	4.67%	Cognizant Technology	3.95%
Google Inc'A'	1.70%	EcoLab	3.61%	EcoLab	3.93%
Wal-Mart Stores	1.68%	Wal-Mart Stores	3.29%	Thermo Fisher Scientific	3.52%
Microsoft Corp	1.65%	Walgreen	3.00%	Abbott Labs	3.51%
General Electric	1.63%	Qualcomm	3.00%	Ametek	3.33%
Berkshire Hathaway'B'	1.62%	Coca Cola	3.00%	O'Reilly Automotive	3.21%
Intl Bus. Machines	1.61%	Praxair	2.95%	Walgreen	3.14%
Chevron Corp	1.55%	Enterprise Products Partners	2.86%	Qualcomm	3.01%
Johnson & Johnson	1.43%	Microsoft	2.85%	Republic Services	2.95%
2011					
Exxon Mobil	3.40%	Cash	12.97%	Cash	10.24%
Apple Inc	3.15%	Abbott Labs	4.37%	O'Reilly Automotive	4.18%
Microsoft Corp	1.83%	Coca Cola	3.98%	Cognizant Technology	3.77%
Intl Bus. Machines	1.81%	AptarGroup	3.43%	Ebay	3.56%
Chevron Corp	1.77%	EcoLab	3.40%	Waste Connections	3.44%
Google Inc'A'	1.75%	Wal-Mart Stores	3.37%	Abbott Labs	3.31%
Wal-Mart Stores	1.71%	Waste Connections	3.34%	Coca Cola	3.29%
General Electric	1.58%	Praxair	3.26%	TJX Cos.	3.08%
Berkshire Hathaway'B'	1.58%	TJX Cos.	3.04%	AptarGroup	3.02%
Procter & Gamble	1.54%	Enterprise Products Partners	2.90%	Novartis	2.94%
2010					
Exxon Mobil	3.08%	Cash	8.34%	Cognizant Technology	5.93%
Apple Inc	2.47%	Abbott Labs	3.84%	Colgate Palmolive	3.78%
Microsoft Corp	2.00%	Coca Cola	3.76%	Thermo Fisher Scientific	3.54%
Berkshire Hathaway'B'	1.66%	AptarGroup	3.40%	Becton Dickinson	3.38%
General Electric	1.63%	Enterprise Products Partners	3.39%	O'Reilly Automotive	3.34%
Wal-Mart Stores	1.61%	ITT	3.26%	Coca Cola	3.32%
Google Inc'A'	1.59%	Sysco	3.25%	Stryker	3.13%
Chevron Corp	1.54%	Becton Dickinson	3.22%	Nextera Energy	3.08%
Intl Bus. Machines	1.52%	Microsoft	3.12%	Teva Pharmaceutical	3.07%
Procter & Gamble	1.51%	Praxair	2.98%	Sysco	3.06%

Past performance is no guarantee of future results. Indices like the S&P 500 are unmanaged and not available for direct investment. They are shown or referred to in these pages for illustrative purposes only and do not represent the performance of any specific investment. The above results do not indicate investment performance. Investment carries risk.

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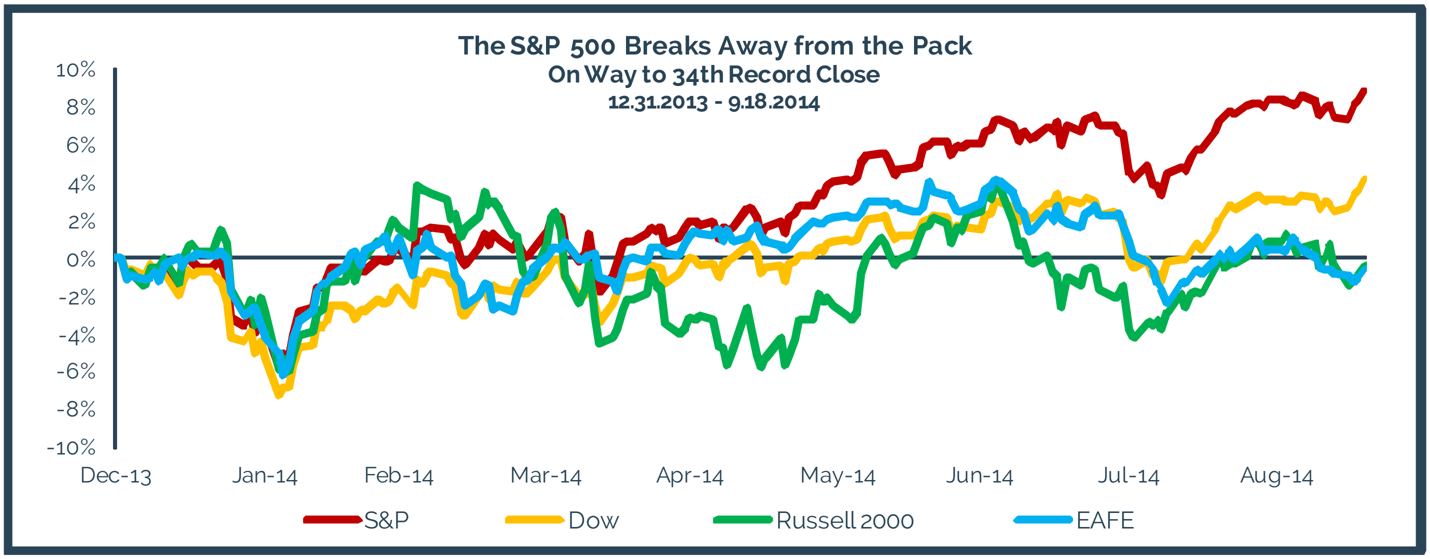
other market indices. There is an old Wall Street adage that says to *"sell in May and go away"*. While the Dow, the Russell 2000 (small cap index), and the EAFE (global index) have basically gone nowhere since May, the S&P reached 26 record closes after May 1st. The chart below shows the S&P's departure from other common market measurements.

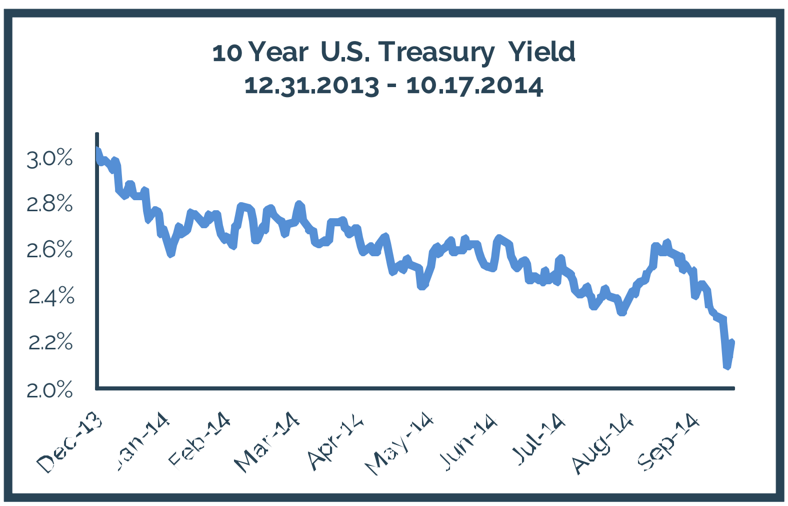


have to sell their currencies and buy dollars to buy U.S. bonds, thereby sending the value of the dollar higher.)

It could also be argued that rates are declining because investors anticipate a weaker economy, or at least a more turbulent stock market. It suggests that bond investors do not believe the Fed's work is done and that the economy is not yet strong enough to stand on its own.

Another indication that the S&P might be out on a limb came from the bond market. The Federal Reserve is on track to end QE3 this month. Most observers believed that 2014 would be the year that interest rates finally rose. With less Fed interference and an improving economy, interest rates would surely go back to a more "normal" level. This would open the door for the stock market to go to new highs. And it did.

But the bond market failed to live up to expectations. Instead of seeing rates rise this year, they did the exact opposite. The 10-year U.S. Treasury is a reasonable proxy for the bond market. We use the chart to the right to illustrate that the high interest rate for the year was on January 3rd. Until the most recent events in October, rates declined steadily throughout the year.



Declining interest rates can mean many things. For years now they have been declining largely because of Fed policy. But this year the Fed has made clear its intention to cease its bond purchases. And rates still went lower. One conclusion that can be drawn is that our rates in the U.S., although historically low, are still higher than those offered in other developed nations, attracting foreign investment to our shores. There is much evidence this is happening, as the dollar has strengthened considerably in 2014. *(Foreign investors*

To be certain, the Fed's presence in the bond market has provided a measure of comfort to stock investors and fueled much of the market's advance. The implication is that the Fed will backstop the economy if it stumbles again. But this was supposed to be the year that the economy could advance on its own and stock prices anticipated a robustness that has yet to materialize. So who had it right? The stock market or the bond market?

Right now, as we right this article, it would appear the

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S&P ignored all the signs the other indices took note of. Since September 18th, the last record close, the S&P has declined 6.2% through October 17th. The 10 Year Treasury rate has dropped from 3.03% on December 31st to around 2.2% now. It is too soon to know which market had it right. But if you have been a regular reader of our reports, you know we think the stock market had it wrong.

Let's be absolutely clear. A 6.2% decline in the S&P 500 is insignificant. The S&P is still up over 2% for the year. Given the run we have had in recent years, is 2% terrible? Even if the S&P were to end the year lower, is that bad?

The fear investors have displayed as a result of a little down tick is troubling, although understandable. Since 2011, the stock market has risen without interruption. With 2008 still fresh in the minds of many, any decline may feel like another catastrophe. But a bump in the road shouldn't cause anyone to rush for the exit (at least not in our view).

Stock markets aren't *supposed* to go up in a straight line. Corrections are healthy when they occur. One just hasn't occurred in awhile. In 2011, as the Fed exited QE2, the S&P fell nearly 20%. Does anyone remember that? It certainly didn't signal the end of a bull market. Quite the contrary. It shook out the nervous folks and gave the rest of us some great buying opportunities. That is what corrections do.

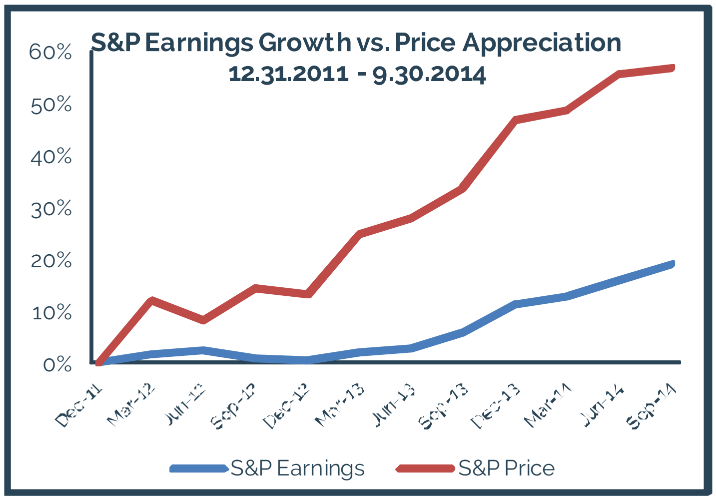
We don't know if the S&P's October stumble will lead to a correction. We hope it will, but we are skeptical. A correction is defined as a decline of between 10% and 20%. As you know, we have been preparing for better opportunities by selling when prices are expensive and being patient with our cash reserves. If this is a correction, we welcome it.

Every time the Fed has ended QE, the market has stumbled. We expect nothing different this time. QE is scheduled to end in October. If the Fed is true to its word, the market will likely correct again. Maybe this is it. So far, each time the market has corrected after the end of QE, the Fed has announced a new QE. The Fed seems more uneasy with market corrections than they should.

One other concern among investors that we hesitate to address but is possibly the elephant in the room is Ebola. Ebola is a scary virus that our authorities do not yet seem to have a handle on. In no way do we dismiss the real human suffering this virus has already caused. If not contained, it will be much worse. However, our job is to assess its economic impact.

Ebola certainly has many concerned. It could impact air travel, restaurants and hotels, hospitals and even certain drug companies adversely. But could it derail an entire economy? We think not. And as you review your portfolio, please note that we own no companies that would be directly impacted by an Ebola outbreak. Emotion often drives stock prices, but eventually prices in a free market reflect reality, not fear.

So what is the market's reality? Where do we go from here? No clue! What is clear to us, however, is that earnings must catch up to prices. The chart below shows earnings growth and price appreciation for the S&P 500 since the end of 2011. Earnings have grown at a decent rate, up more than 19% over the last 3 years. Not exactly robust growth, but positive nonetheless. However, prices seem to be anticipating something better. The S&P's price has increased 57% over this span, or essentially 3 times more than earnings. We do



not view this as a sustainable trend.

One of three things must happen for us to see real value in the market: earnings must see more growth, prices must decline or prices must stall while earnings catch up. None of these suggest any reason to cause alarm. Rather, we simply view this as a market that requires patience in order to get out of it what we want.

October has gotten off to an interesting start, with the S&P declining a little over 4%. We hope you view this as the opportunity we see. Lower prices in the short run add value over the long run. The market needs to slow down or back up. We are prepared for that. If the market declines more, the doomsayers will dominate the news cycle. You need to be prepared for that. Emotion is the undoing of great plans. Fear causes markets to decline faster than greed causes them to rise. But there is nothing happening in the market that we haven't discussed for the past year. This is the market you hired us for.

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Market Report Card

Yield Table

	Current	3 months ago	1 year ago
3-month Treasury Bill	0.02%	0.02%	0.01%
5-year Treasury Note	1.76%	1.63%	1.38%
10-year Treasury Bond	2.49%	2.53%	2.61%
30-year Treasury Bond	3.20%	3.36%	3.69%
Prime Rate	3.25%	3.25%	3.25%
Federal Funds Rate	3.00%	0.03%	1.00%
Discount Rate	0.75%	0.75%	0.75%
30 yr Fixed Mortgage	3.78%	3.72%	3.82%

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

	9/30/14 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	1,960.23	17.29%	74.32%	86.58%
Dow Jones Industrial	16,826.60	12.65%	56.17%	75.48%
NASDAQ	4,408.18	19.14%	86.03%	111.71%
Russell 2000	1,192.96	2.60%	71.03%	82.31%
German Xetra DAX	9,833.07	10.24%	72.20%	66.94%
London FTSE 100	6,743.94	2.48%	29.14%	29.00%
Shanghai Composite	2,036.51	8.70%	0.20%	-14.95%
Crude Oil	105.37	-10.92%	15.10%	29.10%
Gold	1,315.00	-8.29%	-24.91%	22.18%
CRB Index	308.22	-2.45%	-6.57%	7.39%
U.S. Dollar Index	79.78	7.12%	9.06%	12.02%
Euro/Dollar*	136.94	-6.65%	-5.66%	-13.73%

** Negative return represents dollar strength, positive return represents dollar weakness.*

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