The TANDEM Report

Volume XXI, Issue 1, January 2020

"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 consistent and superior investment performance over time. 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

In This Issue

Market Commentary: A Fantastic Finish to a Memorable Decade

The stock market closed out a successful decade with a very successful year. Unless, of course, you're a stickler for the rules of the Gregorian Calendar, in which case 2020 is actually the final year of the decade. But let's not quibble. Either way, it has been a rewarding 10 years.

Before we discuss the decade that was, let us put a bow on the year that just concluded. Aside from a little turbulence in the Spring and Summer, the market produced an increase greater than, and nearly as consistent as, its ascent in 2017. The S&P 500 produced a total return of 31.49% for 2019, marking it's best calendar-year return since 2013.

We trailed the S&P in 2019 but had a very good year nonetheless, on the heels of a solid gain in 2018 when the market's return was negative. As you will read in *Commentary* (below), slow and steady wins the race. Selling when prices are high is not always a popular strategy in the moment. But doing so gives us a distinct advantage when prices are lower.

In 2019, we simply found more opportunities to take profits than we found

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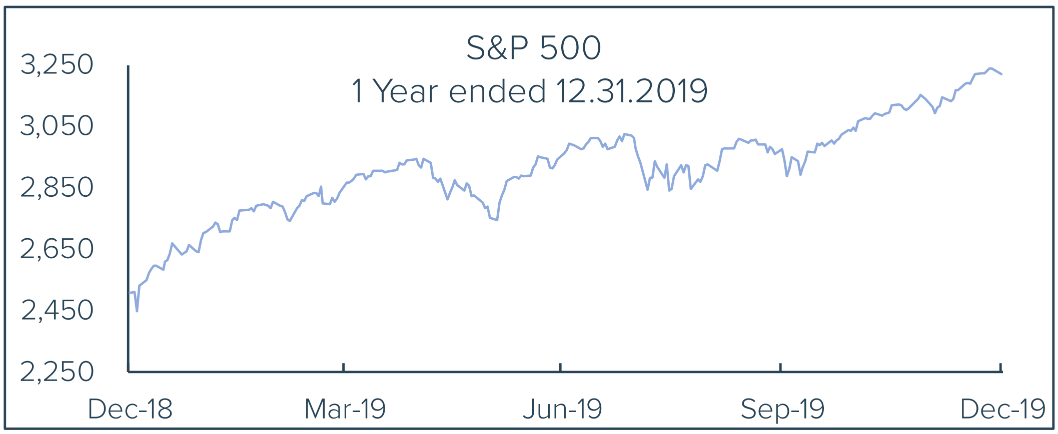

Commentary: The Importance of Staying Invested

Let's be clear, 2019 will be a year to remember for equity investors. Not only did the S&P 500 return more than 30%, but it grew more than 8.5% in Q4 alone! What a difference a year makes. One year ago, the S&P 500 was staring down the barrel of a 14% drop in Q4 and a 20% drop from all-time highs set in September of 2018. Fear was running rampant. The Federal Reserve was thought to be misfiring and guiding us directly into a recession, while the trade war was grinding global economies to a screeching halt. The S&P 500 dropped 9.18% in December alone, finally bottoming on Christmas Eve. Happy Holidays indeed!

However, the real tragedy did not lie in the 9% December decline, nor even in the 20% fall from all-time highs. Surely those losses hurt investors far

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and wide. But, no, the real tragedy lay in the fact that in December of 2018 there were net outflows for equity investments. In other words, people were selling at or near the bottom! Investors are supposed to sell high, but too often emotion gets in the way and they do the wrong thing.

Here is some data worth noting. According to Morningstar, December 2018 was the worst period in terms of monthly outflows for U.S. equity funds since October 2008. For those keeping score at home, October 2008 was the worst month the S&P had seen since Black Monday in October of 1987. The December 2018 drop was the worst decline for the S&P 500 since the Financial Crisis.

To state the tragedy clearly, investors were selling their stocks at unprecedented rates during two of the biggest monthly declines in over 30 years. Somewhere along the way investors must have forgotten that people ought to buy low and sell high. Historically, one of the best times to buy is when the market is gripped by fear. Similarly, periods of excessive optimism, like the ones we witnessed in stocks in the late 90's or in housing in the mid-2000's, are the perfect times to sell risky or overvalued assets.

It's a bit of a contrarian notion to sell when others are buying and buy when others are selling. But it is the only way to *proactively* buy low and sell high! To do otherwise and act after the market moves is *reactionary*. Reacting to what has already passed rarely prepares us for what may come.

Intellectually we all know this. Yet time and again most fail to comprehend their error in the moment. Emotion gets in the way. When prices are high and rising, most tend to feel better about the market and so they perceive less risk because the market is going up. When prices fall, investors react as if risk were actually increasing. In fact, lower prices equal less risk, but fear can make this hard to act upon.

All sorts of studies show that too often the worst enemy of investors is themselves. Investors repeatedly succumb to fear – both of missing out and of further losses. The fear of missing out is evident in the increased buying typically witnessed at market tops. Attempts at market timing by the average investor often cause them to miss out on a lot of return over the long-term.

According to a recent report by the research firm Dalbar, Inc., the average equity fund investor at the end of 2017 realized an annualized return of 5.29% for the previous 20 years. This trailed the S&P 500's return by nearly 2 full percentage points. Let's consider a hypothetical scenario. Investing $100,000 at a 5.3% rate of return for 20 years would lead to a portfolio worth $280,910. Not bad! However, investing $100,000 at a 7.3% rate of return for 20 years would lead to a portfolio of more than $400,000!

The cost of attempted market timing cannot be understated! Per Morningstar, from 1997-2017 the S&P 500 grew at an annualized rate of 7.2%. However, if you missed the 10 best up days during those 20 years, you would have only earned 3.5%. If you had missed the 50 best up days, you would have lost money at an annualized rate of -4.5%! It is amazing to consider that being absent for the 50 best up days of the market would result in a negative 20 year return.

Worse still, most of the best up days occur near market bottoms. In other words, those investors that attempt to time rarely do so successfully. For those that panic and sell at the bottom, their losses are magnified. Had they simply waited a few months, most of their losses would have been recovered. The chart below shows the market's extreme decline in 2008 and early 2009. Most of the selling occurred in October of 2008. Had investors simply stayed the course, most of their losses would have been recovered with-

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in the next 24 months.

The same is true for the market sell-off in 2018. Again, the heaviest selling was at an inopportune time - in December. As the chart on this page indicates, those that sold in December may have felt better initially, but they missed out on a wonderful 2019!

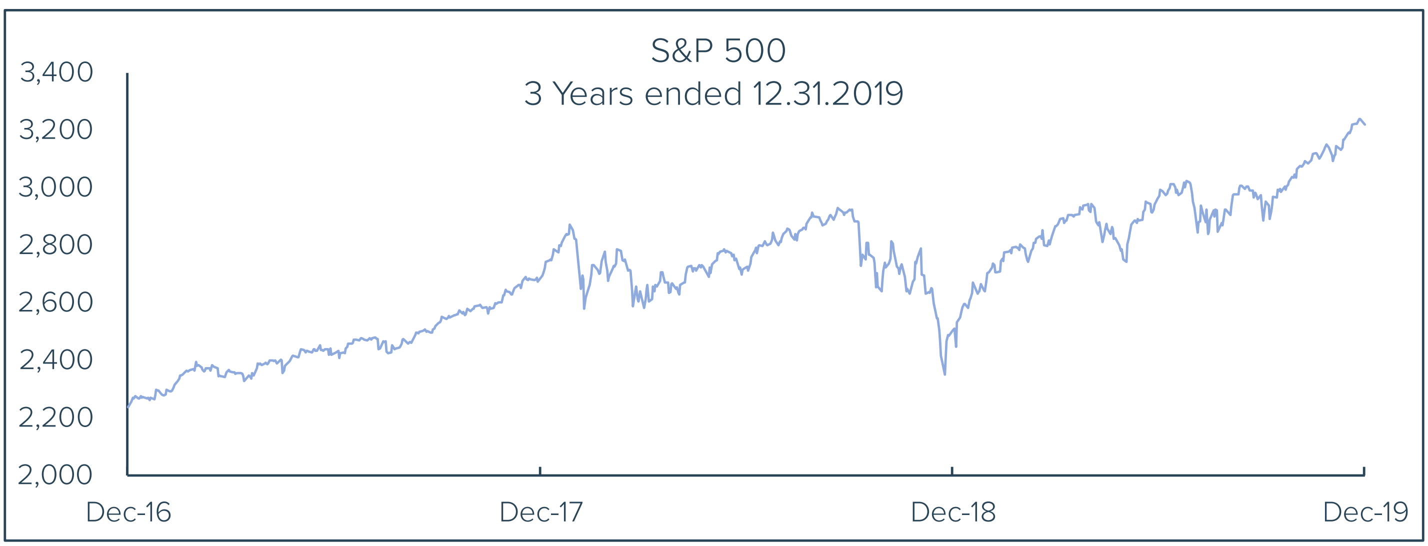
However, it is not all bad news. For one thing, we are merely discussing averages and the average retail investor. That surely does not include the readers of this newsletter! Second, studies also show that what investors struggle mightily with is volatility. According to the aforementioned Morningstar study, the difference between actual investor returns and market returns is the best when investors hold funds with low volatility. Not surprisingly, the difference between actual and market returns is the worst when investors rely upon highly volatile funds.

Volatility is the enemy of the average investor because it makes us all want to do the wrong thing at the wrong time for the wrong reason. But what do we mean by volatility? Simply put, it is a measurement of price fluctuation. The more dramatically the price of an investment moves, the greater the volatility of that investment. Sometimes volatility results from prices going dramatically higher. This would certainly seem to be a good thing, and it is for those who already own the investment as the price rises. The problem lies in the temptation for those that do not already own the investment to get on board after that train is well down the tracks! That is why people too often buy high - because they are following what has already happened. Unfortunately, when volatility is to the downside, the same sort of temptation to get on board doesn't seem to exist, and so investors shun the opportunity to buy low. But if they own the investment that has declined considerably, the temptation to get rid of it rises. And so they sell low.

In other words, if a fund, or portfolio, exhibits limited volatility, an investor is more likely to stay invested in the strategy and experience all of the investment's return. More highly volatile funds are more likely to find investors entering and exiting at inopportune times, and therefore the typical investor experiences returns less than the investment's actual performance.

At Tandem, we strive to produce market-like (or better) returns with less volatility. We think that over time, achieving market-like returns with less volatility will allow individual investors to more fully participate in the upside that equities offer. Lower volatility will make investors less likely to capitulate and give in to the emotional decisions that cause investors to sell low or buy high. If one is invested in a less volatile portfolio, there is no need to fret over the Dow being down 500 or even 1,000 points. Because if you are less volatile, you will not look like, nor act like, the Dow, the S&P 500 or any other index. You will be able to remain calm while others panic.

Investing can be a bit like the Tortoise and the Hare. Trying to mimic the Hare might give one a big lead out of the gate. However, just as the Hare stops for a nap and gives up its lead, the market often gives up its lead as well. So, while the Tortoise might not always be the in-vogue choice, time and again slow and steady wins the race.



By strictly adhering to our discipline, Tandem strives to produce a consistent and repeatable experience for our clients. There are times when we will surely trail the market (see 2019) and there are times where we will beat the market (see 2018). However, over time, our consistency has allowed our clients to stay invested and experience the long-term returns that too many investors seem to miss. Staying invested is the key to investment success. Limiting volatility is the key to staying invested.

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to commit new capital. This typically happens in times when stock valuations are stretched, and that is certainly the case as we begin the New Year.

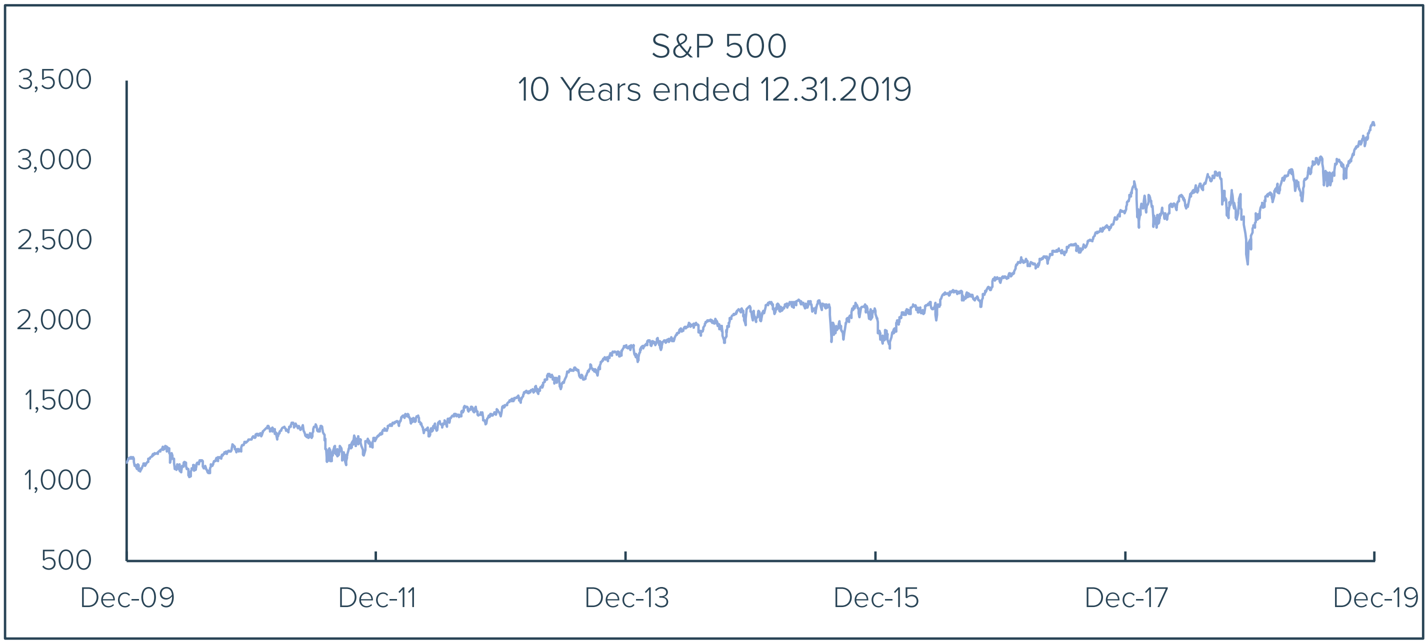
As a result, cash levels in our clients' portfolios rose. This did not happen because we became cautious. Cash levels are simply a by-product of our investment process. Decisions are made one stock at a time and we have no opinion regarding the market that influences our portfolio decisions.

We added to several positions during the year, but trimmed from an even greater number. We parted ways with a few names that no longer met our criteria; one because it failed to grow its dividend and two others because they hired a new CEO from outside the company. We also had a company acquired so we sold it after the news. With patience, we will find opportunities to re-deploy these gains. Buying when prices are high, just to be more fully invested, is not a sound strategy. Buying at attractive prices is a surer path to long-term prosperity. We shall see what gifts the New Year brings us.

It is important to keep perspective as an investor. Paying a steep price may in fact have positive results in the short run. Over-priced assets often become even more over-priced for a time. In 1998, many viewed stocks as expensive, but they just kept going up. So more and more investors piled in, thinking the elevator was still a long way from the top floor. And for nearly two years they were right. And then they weren't. Eventually overpaying leads to lower returns over the long run. Those who bought in 2001 and 2002 got much better deals than those that bought in 1998, 1999 or 2000. Where does 2019 fit in the spectrum? Only history will tell us. For us, 2019 was a great party. We just wanted to stay near the door.

Now for the discussion of the past decade. The 10 years ended in December saw the S&P nearly triple in price, from 1,115.10 at the end of 2009 to 3,221.29 at the end of 2019. A handsome return indeed. For the last nine decades, the one just ended produced the 4th best return, surpassed only by the 1950's, 1980's and 1990's (not in that order).

For us, the decade will be remembered more for the actions of Central Banks than for the action of the stock market. The stock market bottomed in March 2009 during the financial crisis. The S&P 500 hit an intraday ominous low of 666 and then rallied sharply by year-end to close 2009 at 1,115.10. That was a 10 month gain of more than 67%. For those of you that stayed in the market, congratulations! You had already made a good portion of your money back and were poised to take advantage of the decade that was about to begin. The decade of Central Bank experimentation was worth hanging around for.



Few could have predicted the effect Central Banks would ultimately have at the time. But the effect has been quite meaningful. As you can see from the chart above, the stock market had a few stumbles these past 10 years, but the Federal Reserve and its brethren would appear just in time with a new or changed policy to right the ship. There is an old adage on Wall Street - don't fight the Fed. How prescient that proved to be for the 2010's.

As we look to the year and decade ahead, the short term appears to be relatively smooth sailing for stock investors. There seems to be a belief that the Fed has put a floor under stock prices. Further out, will it become apparent that the Fed has also placed a ceiling over prices? Stay tuned!

TANDEM NOTES

We are excited to welcome Jordan Watson to the Tandem team. Jordan joined us in November. He is a College of Charleston graduate and sits on our trading desk as Ben's right hand. We are thrilled to have him here.

It is worth noting that Jordan is our first hire in over 3 years, even though we have more than tripled in size since then. When we welcomed Allison and Elaine in 2016 after Libby left us, splitting one role into two, we managed approximately $250 Million. At the time Jordan began here, we were managing more than $800 Million. We have a very different business model here at Tandem. It is one based on systems overseen by intelligent and hard-working people. It doesn't take as many hands, which enables us to remain a small, approachable team even as we grow.

And speaking of hard working people, please remember that Elaine Natoli is here to help you consume Tandem information in your preferred medium. In addition to this quarterly report, we also publish the monthly *Observations*, the bi-weekly *Notes From the Trading Desk*, *Tandem Talk* (our new webinar series) and just about anything else you could want. Please let her hear from you at ENatoli@tandemadvisors.com

Please check here next quarter for some big news.

5 Year Annualized Dividend Growth for Tandem's Holdings by Strategy
from Q4 2014 to Q4 2019

Tandem's average dividend-paying holding has increased it's dividend by 10.56% on an annualized basis for the last 5 years. This growth is the result of strong and growing earnings, cash flow and revenue.

Large Cap Core 5Yr. Annualized Dividend Growth	
Company	Dividend Growth
Abbott Laboratories	8.45%
AbbVie, Inc.	19.22%
Accenture Plc	9.42%
Becton, Dickinson	5.66%
Brown & Brown	9.10%
Brown-Forman Cl B	6.70%
C. H. Robinson Worldwide	6.06%
Comcast	13.30%
Costco	12.86%
Dollar General	NA
Dominion Energy	8.87%
Ecolab Inc.	7.33%
Expeditors International	9.34%
FactSet Research	13.05%
Hormel Foods	13.21%
Intercontinental Exchange	16.17%
J.M. Smucker	6.58%
Johnson & Johnson	6.30%
Microsoft	10.47%
National Retail Properties	4.16%
NextEra Energy	11.51%
NIKE	11.84%
Republic Services	7.66%
ResMed	6.85%
Signature Bank NY	NA
Stryker	10.76%
T. Rowe Price Group	11.55%
TJX Companies Inc	21.32%
Tractor Supply	16.95%
United Technologies	4.49%
Walgreens Boots Alliance	6.27%
Waste Connections	16.29%
Average	10.39%

Companies not paying a dividend on 12.31.2014 are NA. All companies in Large Cap Core currently pay a dividend.

Equity 5 Yr. Annualized Dividend Growth	
Company	Dividend Growth
Abbott Laboratories	8.45%
AbbVie, Inc.	19.22%
Accenture Plc	9.42%
Becton, Dickinson	5.66%
Brown & Brown	9.10%
Brown-Forman Cl B	6.70%
C. H. Robinson Worldwide	6.06%
Check Point Software Tech	NA
Comcast	13.30%
Costco	12.86%
Dollar General	NA
Dollar Tree	NA
Dominion Energy	8.87%
eBay	NA
Ecolab Inc.	7.33%
Euronet Worldwide	NA
Expeditors International	9.34%
FactSet Research	13.05%
Hormel Foods	13.21%
Intercontinental Exchange	16.17%
J.M. Smucker	6.58%
Johnson & Johnson	6.30%
Laboratory Corp of America	NA
Microsoft	10.47%
NextEra Energy	11.51%
NIKE	11.84%
O'Reilly Automotive	NA
PayPal Holdings	NA
Republic Services	7.66%
ResMed	6.85%
Signature Bank NY	NA
Stryker	10.76%
T. Rowe Price Group	11.55%
TJX Companies Inc	21.32%
Tractor Supply	16.95%
Tyler Technologies	NA
United Technologies	4.49%
Verisk Analytics	NA
Walgreens Boots Alliance	6.27%
Waste Connections	16.29%
Average	10.61%

Mid Cap Core 5 Yr. Annualized Dividend Growth	
Company	Dividend Growth
Becton, Dickinson	5.66%
Brown & Brown	9.10%
Brown-Forman Cl B	6.70%
C. H. Robinson Worldwide	6.06%
Check Point Software Tech	NA
Dollar Tree	NA
Ecolab Inc.	7.33%
Euronet Worldwide	NA
ExlService Holdings	NA
Expeditors International	9.34%
FactSet Research	13.05%
Fiserv	NA
Henry Schein	NA
Hormel Foods	13.21%
J.M. Smucker	6.58%
Laboratory Corp of America	NA
National Retail Properties	4.16%
O'Reilly Automotive	NA
Republic Services	7.66%
ResMed	6.85%
Ross Stores	20.59%
Signature Bank NY	NA
Stryker	10.76%
T. Rowe Price Group	11.55%
Tractor Supply	16.95%
Tyler Technologies	NA
UMB Financial Corp	5.70%
Verisk Analytics	NA
Waste Connections	16.29%
Yum! Brands, Inc.	NA
Average	9.86%

The list of holdings above for Tandem's 3 strategies are as of 12.31.2019. These lists do not constitute investment advice, nor do they represent performance of any Tandem investment product. FactSet is the data source for the above calculations.

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Past performance is no guarantee of future results. Indices are unmanaged and not available for direct investment. They are shown or referred to for illustrative purposes only and do not represent the performance of any specific investment.

Yield Table

	Current	3 months ago	1 year ago
3-month Treasury Bill	1.57%	1.93%	2.41%
2-year Treasury Note	1.61%	1.65%	2.68%
5-year Treasury Note	1.68%	1.57%	2.68%
10-year Treasury Bond	1.86%	1.70%	2.83%
30-year Treasury Bond	2.30%	2.16%	3.10%
Prime Rate	4.75%	5.15%	5.35%
Federal Funds Rate	1.55%	2.04%	2.27%
Discount Rate	2.25%	2.65%	2.85%

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

	12/31/2019 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	3,230.78	28.88%	44.31%	56.92%
Dow Jones Industrial	28,538.44	22.34%	44.41%	60.12%
NASDAQ	8,972.60	35.23%	66.68%	89.45%
Russell 2000	1,668.47	23.72%	22.94%	38.50%
German Xetra DAX	13,249.01	25.48%	15.40%	35.12%
London FTSE 100	7,542.44	12.10%	5.59%	14.87%
Shanghai Composite	3,050.12	22.30%	-1.72%	-5.71%
Crude Oil	$ 61.06	34.46%	13.66%	14.62%
Gold	$ 1,523.10	16.05%	25.65%	20.37%
CRB Index	185.79	9.42%	-3.49%	-19.21%
U.S. Dollar Index	96.06	0.34%	-6.09%	5.97%
Euro/Dollar*	1.12	-2.25%	6.62%	-7.33%

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

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