

# The TANDEM Report

Volume XXIII, Issue 3, July 2022



*"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](http://www.tandemadvisors.com) or upon request. We hope you find this report useful.

Respectfully,  
John B. Carew  
President & Founder

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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.

## Market Commentary

*The first half of the year was the worst since 1970. What now?*

**T**he first half of the year is now in the books, and with that comes a welcome new quarter. The previous six months have been especially tough for many investors. In fact, 2022 had the worst opening half to a year since 1970. Previous market leaders like Amazon, Meta (formerly Facebook), Alphabet (formerly Google), and Apple all fell by the wayside as tech and growth was sold off for much of the quarter. To add insult to injury, the bond market, which is usually a welcome reprieve during equity selloffs, has underper-

formed as well. Even supposed safe havens like Gold (down 7.5% for the quarter) or Bitcoin (down 60%) could not be saved.

At its lowest point last quarter, the S&P 500 had fallen 24.52% from its January 4<sup>th</sup> high – its largest decline since March of 2020 during the initial COVID outbreak. During the COVID bear market, tech stocks helped dull the pain felt by many investors as growth-oriented stocks outperformed the broader indices. This time, tech

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## Commentary

*Finding the discipline to buy low and sell high.*

**P**erhaps the single biggest key to a successful investment experience is exercising the discipline required to buy low and sell high. This seems so obvious that it shouldn't even need to be mentioned, yet it is practiced so little in the real world that it merits our attention. Buying low and selling high does not require undertaking market timing and lots of trading. It simply

requires discipline and patience.

Too often investors are influenced by the market's direction as they make investment decisions. They see the market going higher, hitting all-time highs, and they perceive there to be less risk. So they buy. With the benefit of hindsight, we now know that the market was never riskier than on Jan-

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## Commentary (continued)

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uary 4<sup>th</sup> of this year. As of this writing, that was the day the S&P 500 hit its last record high. In the moment, few were discussing risk. Instead, everything seemed to be working, and investment dollars flowed into the market. Investors were buying high.

And when the market subsequently fell, how did investors react? By selling, of course. They perceived risk to be increasing and they wanted out. They sold low. They thought they were avoiding risk, but perhaps the better time to avoid risk would have been at higher valuations. From our perspective, cheaper stocks are generally less risky than expensive ones.

The market's volatility too often drives investor behavior, leading to unfortunate experiences of buying high and selling low - the very opposite of what one should hope to accomplish. Investors fear missing out on something big as the market rises, so they want in. Investors are fearful of mounting losses as the market falls, and they want out. Emotions drive their decision-making, and rarely are emotional decisions our best.

Without delving too deeply into investor psychology, it seems there is a preoccupation with trying to know when to get out of the market. This notion of in vs. out is a false choice. If you are an investor, you should always be in the market. Stocks have an upward bias. They go up way more often than they go down.

During the bear market brought on by the Pandemic in 2020, the S&P 500 fell 34% in 22 trading days. Investors who got out before the bottom no doubt felt relief. But unless they got back in below where they got out, what was the point? On the 23<sup>rd</sup> trading day, the S&P soared more than 9% and never revisited the prior day's low. The bear market was over, and the S&P was off to the races. Those that got out of the market likely fared worse than if they had simply stayed invested. Market tops and bottoms are impossible to time, so why try?

The best times to buy and the best times to sell do not exist simultaneously. A year ago in these pages we used a real estate analogy to illustrate this point. Some markets are buyers' markets and some are sellers' markets. A wise investor accepts this premise and behaves accordingly. When the market is willing to pay you more for something than you think it is worth, let it! This is a gift. What will you do with the proceeds? It's not relevant. The appropriate decision is to simply accept overpayment and figure out what to do with the proceeds later. Opportunities will present themselves eventually. Similarly,

when the market is willing to sell you something for less than you think it is worth, buy it!

Sometimes there are more things to sell than buy. Sell and be patient. The cash reserves in your portfolio will rise, and that is ok. It means you have the ability to strike when valuations become more compelling. Eventually there will be more things to buy than sell, and cash reserves will decline. This is the discipline of buying low and selling high.

It is impossible to buy low and sell high if you remain fully invested at all times. Yes, you may find opportunities to buy low, but you must also sell something low if you did not proactively sell high and build a cash reserve. Or you may find an opportunity to sell high, but if you reinvest those proceeds in something that is similarly high, what advantage have you gained?

If you would like to see how this discipline is put into practice, look no further than your Tandem portfolio. If you were with us at the end of last summer or early fall, you may recall that cash reserves in your portfolio were pretty high. For some of you, those levels were too high. But we believed then, and certainly do now, that reducing our exposure to overvalued securities, even with no place other than cash to park those reserves, reduced the overall risk to your portfolio. Yes, as the market was hitting all-time highs, we were certainly underperforming in the moment. But look how your portfolio has stood up since then.

We proactively reduced our exposure to those things with valuations we thought were unsustainably high. We were content to be patient. As valuations for attractive companies became more compelling, we were able to add to some of our existing holdings, as well as buy several companies for the first time. And now the cash in your portfolio is substantially less than it was 9 - 12 months ago. This is how it is supposed to work! We are buying low.

We are willing to be different. When others were buying a year ago, we happily sold our overvalued securities to them. Now that others are selling, we are finding value in companies we wish to own. This is what buying low and selling high looks like. Sometimes it gets a little lonely, but if we didn't proactively sell high and build a cash reserve, would you send us more money to take advantage of bargains when stock valuations decline? Probably not! So it is our job to manage your portfolio for times such as these. When opportunity finally does present itself, we will be ready.

In this way, we hopefully are able to keep you in the  
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# Tandem News

**W**e have a new addition to the Tandem team to acknowledge and welcome. Ariel Davis joined us in June as an Investment Management Associate. A native of South Carolina, Ariel earned a B.S. in Finance and a minor in History from the College of Charleston Honors College. Prior to Tandem, Ariel spent four years with Raymond James. For her first 18 months, she was an analyst in the Raymond James Accelerated Development Program before joining the Investor Relations and Financial Planning & Analysis team. Welcome Ariel!

We also have some folks with new titles that recognize their significant contributions to Tandem. Elaine

Natoli and Ben Carew have been named Vice Presidents of Tandem. Billy Little, who recently celebrated his 16<sup>th</sup> anniversary with the firm, is now Senior Vice President. Congratulations to all 3. We thank you for your hard work, dedication and passion for all things Tandem. Go Team!

As we near our 32<sup>nd</sup> anniversary as a business, we are grateful for the partnership and support of our fantastic financial advisors and loyal clients. You permit us to do what we most love to do, every day. Thank you. It has been a remarkable (and remarkably fast) 32 years. We look forward to the next 32. Cheers.

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## Commentary (continued)

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market at all times. We simply manage the amount of risk we take at any given moment. As risk rises we want to reduce our exposure to those companies that are most susceptible to a downturn. Overvalued and fundamentally flawed securities tend to perform worse in down markets than sound, fairly priced companies.

Most investors are what we call trend aware. This is not meant derogatorily in any way. It is simply to say that most seek to identify some trend in the market, the economy, a particular sector, or a company that looks positive and worth participating in. There is nothing wrong with this approach, but it does make it harder to buy low and sell high, in our view.

As a refresher, Tandem has no view of the market, the economy, or any other macro trend. Every decision we make is company specific for fundamental and valuation reasons only. We seek companies that have demonstrated the ability to grow through any economic environment. That eliminates a lot of great companies from consideration. If we hope to limit the volatility of a portfolio, owning volatile companies would not be the best way to do that. Economically sensitive companies do not have the ability to control their own destiny because they are dependent on too many factors beyond their control. Companies that are less economically cyclical also tend to be less volatile. If we own a company that ceases to grow, our discipline requires us to sell it.

Once we have identified those companies that meet our very stringent fundamental criteria, we then look for opportunities in the ones that the market has “mispriced”. In this sense, we are mean-reversion aware, as opposed to trend aware. Most valuations fall within a fairly well-defined range, and the middle of this range is called the mean. It makes sense that

most valuations are within a predictable range because in a free marketplace, where buyers and sellers meet every day, most things are fairly priced. But not always.

Sometimes we find valuations that fall outside of this well-defined range. We know that, statistically speaking, there is a very high probability that these outlier valuations are unsustainable, and will revert back toward the mean. When a valuation in our view is unsustainably overvalued, we perceive this as a gift. The market is offering us more than we believe a particular company is worth, so we gladly accept this gift. We want to reduce our holding in an unsustainably overvalued security, thereby reducing risk to the portfolio. This is how we hope to proactively sell high. We sell a portion of what we own in an unsustainably overvalued security.

Most probably, that valuation will revert back toward the mean as the security moves back toward its normal valuation range. Sometimes valuation goes too far and overshoots the mark, becoming unsustainably undervalued. When this happens, we consider adding to an existing holding, or perhaps buying for the first time if we don't own the company. And this is how we seek to buy low.

Staying invested is important. To do so, one must buy and be vigilant. Reduce risk as it rises and take on risk as it decreases. Sell high in order to buy low. This requires discipline, patience, a willingness to hold cash when few compelling opportunities present themselves, and a willingness to buy as prices decline.

In vs. out is a false choice. Stay invested and manage the risk. At Tandem, our discipline is rooted in math, not opinion, interpretation or bias. Sometimes our process may feel a little uncomfortable. Just know that we follow our discipline. Buy low and sell high.

## Market Commentary (continued)

(Continued from page 1)

stocks have not been spared. At its recent low, the Nasdaq had registered a 34.83% decline from its November all-time high - its steepest drop since the depths of the Financial Crisis.

A potent combination of inflation and a Federal Reserve looking to tame said inflation has given investors a fit for much of the year. Inflation has come for nearly all asset classes. The few bright spots have been commodities, whose soaring prices create the very inflationary environment the Fed is looking to fight, and Energy stocks. These oil and gas related energy companies have benefitted throughout the year from supply chain constraints stemming from the Russian and Ukrainian war. As Russian oil has been banned from our shores, a key global supplier of oil has been effectively removed from the marketplace. As economics 101 tells us, if demand remains unchanged in the face of a decline in supply, prices will rise. And oh boy, have they. Recall, at one point during COVID, oil was trading at a negative price per barrel. Today, that price has surpassed \$100 per barrel and in early June even exceeded \$120 once more. With OPEC, one of the largest suppliers of oil and who is reportedly pumping oil at their max capacity, unable to add to global supply, there seems to be no end in sight for oil prices. Except, as economics 101 also tells us, should demand fall, price too, will fall.

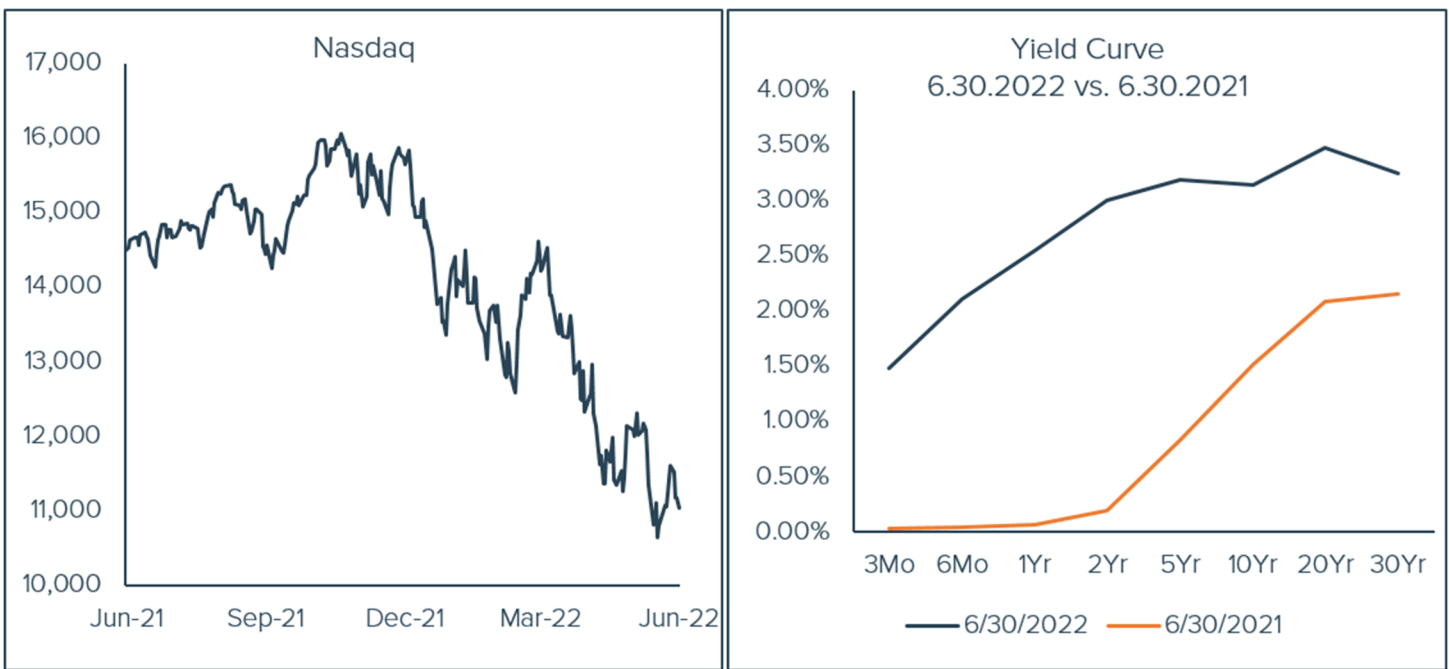
Inflation has dominated the news cycle for much of the past 6 months. However, within the past few

weeks, the oft-discussed inflation has been replaced by recession. Though inflation is still present, the Federal Reserve's effort to stamp out inflationary effects is leading many investors, politicians and consumers to fear that a recession is around the corner. The most common and technical definition of a recession is that there have to be two consecutive quarters of negative growth in real GDP. Real GDP shrunk in the first quarter. The Atlanta Federal Reserve is also predicting another negative real GDP number to be reported for the second quarter. It seems that the fear of an approaching recession is misplaced. We are likely already in one.

Recessions can be a bit like forest fires. A forest fire is always a horrible sight to see. But the dead and overcrowded brush is what burns. This ultimately clears the way for the healthy and enduring growth to thrive in newfound space. The destruction the fire brings breeds future healthy growth in the forest. Recessions, though always painful, produce future opportunities.

Out of recession comes opportunity for growth. Healthy companies thrive in the fresh space that is created with the exit of the unhealthy and weak. Recessions and bear markets actually create opportunities for those prepared to seize them. Good businesses can be bought at very reasonable valuations. For the prepared, regardless of market backdrop, there are always opportunities to be found - even in the midst of a recession.

Ben Carew, CFA



Please check our other commentary at <https://tandemadvisors.com/commentary/>. Billy Little writes the monthly **Observations**, Ben Carew writes the fortnightly **Notes from the Trading Desk**, and everything is recorded by Margaret White. We also have a podcast called **Tandem Talk**, so please give us a listen!

## 5 Year Annualized Dividend Growth for Tandem's Holdings by Strategy from Q2 2017 to Q2 2022

Tandem's average dividend-paying holding has increased its dividend 10.91% on an annualized basis for the last 5 years.

Large Cap Core 5 Yr. Annualized Dividend Growth		Equity 5 Yr. Annualized Dividend Growth		Mid Cap Core 5 Yr. Annualized Dividend Growth	
Company	Dividend Growth	Company	Dividend Growth	Company	Dividend Growth
Abbott Laboratories	17.11%	Abbott Laboratories	12.14%	Akamai Technologies	NA
AbbVie, Inc.	12.14%	AbbVie, Inc.	17.11%	ANSYS	NA
Accenture Plc	9.90%	Accenture Plc	9.90%	Becton, Dickinson	3.57%
Amphenol	12.78%	ANSYS	NA	Brown-Forman CI B	8.71%
Automatic Data Processing	20.11%	Automatic Data Processing	12.78%	Brown & Brown	5.24%
Becton, Dickinson	3.57%	Becton, Dickinson	3.57%	CBOE Global Markets	13.94%
BlackRock	5.24%	BlackRock	14.31%	Check Point Software Tech	NA
Brown & Brown	14.31%	Brown & Brown	8.71%	Church & Dwight	6.68%
Brown-Forman CI B	8.71%	Brown-Forman CI B	5.24%	Essential Utilities	7.00%
CBOE Global Markets	13.94%	CBOE Global Markets	13.94%	ExlService Holdings	NA
Church & Dwight	6.68%	Check Point Software Tech	NA	Expeditors International	9.79%
Comcast	11.38%	Comcast	11.38%	FactSet Research	9.71%
Costco	12.47%	Costco	12.47%	Fiserv	NA
Dollar General	16.17%	Dollar General	16.17%	Five Below	NA
Essential Utilities	9.79%	Essential Utilities	7.00%	Henry Schein	NA
Expeditors International	9.71%	Expeditors International	9.79%	Hormel Foods	8.87%
FactSet Research	8.87%	FactSet Research	9.71%	J.M. Smucker	5.71%
Hormel Foods	13.70%	Fiserv	NA	Jack Henry & Associates	9.59%
Intercontinental Exchange	9.59%	Five Below	NA	Laboratory Corp of America	NA
J.M. Smucker	6.11%	Henry Schein	NA	MarketAxess Holdings	16.23%
Jack Henry & Associates	17.37%	Hormel Foods	8.87%	NV5 Global Inc.	NA
Johnson & Johnson	16.23%	Intercontinental Exchange	13.70%	O'Reilly Automotive	NA
MarketAxess Holdings	9.71%	Intuitive Surgical	NA	Qualys	NA
Mastercard	11.59%	J.M. Smucker	5.71%	Republic Services	7.53%
Microsoft	11.12%	Jack Henry & Associates	9.59%	ResMed	4.94%
NextEra Energy	4.94%	Johnson & Johnson	6.11%	SEI Investments	7.39%
Nike	12.12%	Laboratory Corp of America	NA	Stryker	10.34%
Republic Services	7.53%	MarketAxess Holdings	16.23%	T. Rowe Price	16.05%
ResMed	7.39%	Microsoft	9.71%	Tyler Technologies	NA
Roper Technologies	5.71%	NextEra Energy	11.59%	UMB Financial Corp	7.73%
SEI Investments	10.34%	O'Reilly Automotive	NA	Verisk Analytics	NA
Stryker	16.05%	PayPal Holdings	NA	Waste Connections	13.90%
T. Rowe Price	17.84%	Qualys	NA	<b>Average</b>	<b>9.10%</b>
Verisk	NA	Republic Services	7.53%		
Visa	4.95%	ResMed	4.94%		
Walgreens Boots Alliance	13.90%	SEI Investments	7.39%		
Waste Connections	7.00%	Stryker	10.34%		
<b>Average</b>	<b>11.00%</b>	T. Rowe Price	16.05%		
		Tyler Technologies	NA		
		Verisk Analytics	NA		
		Visa	17.84%		
		Walgreens Boots Alliance	4.95%		
		Waste Connections	13.90%		
		<b>Average</b>	<b>10.60%</b>		

Companies not paying a dividend on 6.30.2017, or that have restructured since then, are NA. All companies in Large Cap Core currently pay a dividend.

The list of holdings above for Tandem's 3 strategies are as of 6.30.2022. 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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### Questions?

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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				KEY MARKET DATA				
	Current	3 months ago	1 year ago		6/30/2022 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
3-month Treasury Bill	1.49%	0.44%	0.04%	S&P 500	3,785.38	-11.92%	28.68%	56.20%
2-year Treasury Note	3.00%	1.91%	0.20%	Dow Jones Industrial	30,779.71	-10.79%	15.71%	44.17%
5-year Treasury Note	3.19%	2.11%	0.84%	NASDAQ	11,028.74	-23.96%	37.75%	79.61%
10-year Treasury Bond	3.14%	2.13%	1.52%	Russell 2000	1,707.99	-26.08%	9.02%	20.68%
30-year Treasury Bond	3.25%	2.41%	2.16%	S&P 500 VIX	28.71	81.36%	90.38%	156.80%
Prime Rate	4.38%	3.37%	3.25%	FTSE Asia Pacific	312.65	-23.04%	0.46%	3.26%
Federal Funds Rate	1.21%	0.20%	0.08%	FTSE Europe	5,786.18	-6.03%	3.66%	1.35%
Discount Rate	1.38%	0.37%	0.25%	FTSE World	708.83	-16.32%	15.60%	30.18%
				Crude Oil	\$106.22	44.58%	170.49%	130.71%
				Bitcoin	\$19,938.00	-43.10%	85.56%	723.65%
				U.S. Dollar Index	104.46	13.02%	9.20%	9.48%
				Euro/Dollar*	1.05	-11.58%	-7.79%	-8.24%

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.

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

