The TANDEM Report

Volume XXIV, Issue 3, July 2023

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 consistent 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 & Founder

In This Issue

Market Commentary

A tale of two markets

The first half of 2023 is officially in the books, and what a remarkable start to the year it has been. The Nasdaq experienced its best start to the year since the early 80s, surging 32% in the first 6 months of 2023. The S&P 500's move felt a little muted compared to the Nasdaq's blistering pace, though it too was up 16%. Despite the large moves in major indices, it really has been a tale of two markets.

The impressive return year-to-date has been spurred on by just a few names and underlying trends. Technology and AI related stocks have experienced quite a boom, while the rest of the market has been left behind. This year's market leaders, dubbed "The Magnificent Seven" (which consists of Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia, and Tesla), account for more than 80% of the Nasdaq Composite's total gain in market cap through the first 6 months.

So, if one were to look only at the headline numbers, they would see a tech-centric market that was up 30+% and a broader average that was up

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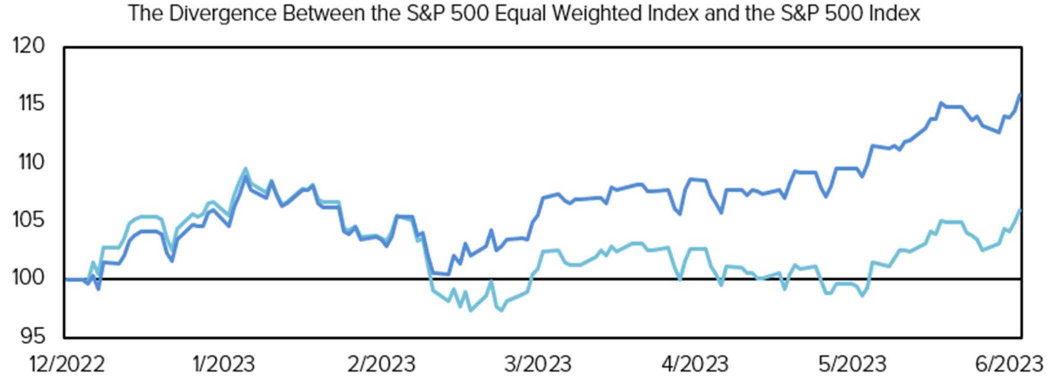
The Divergence Between the S&P 500 Equal Weighted Index and the S&P 500 Index



Source: FactSet

Commentary

Aim small, miss small

In the movie *The Patriot*, Mel Gibson stars as a father trying desperately to keep his family untouched by the Revolutionary War taking place all around them in South Carolina. To his dismay, his eldest son, played by Heath Ledger, joins the Continental Army and is subsequently captured by the British. In an attempt to rescue his captured son, the father and two of his younger boys ambush the British captors. The young boys have never fired a gun at a person before and were concerned they might not be able to hit their targets. To help them focus on the task at hand, Gibson's character instructs the boys to "aim small, miss small". This advice, along with the boys' shots, proved to be spot on.

Sometimes it is difficult to make sense of the big picture. Emotion, perception, and opinion can impair judgment. We

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know what we think, but that doesn't always translate readily into how we should act.

As investors, we are bombarded daily by events or circumstances that could have a very real effect on our investments. We read about the markets on social media, or follow minute-to-minute on CNBC, Fox Business or Bloomberg. There are countless talking heads expressing opinions ranging from brilliant to boneheaded, but how are we to know which is which?

We worry about rising interest rates, inflation, Artificial Intelligence, China, Russia, the Federal Reserve, the next election, and so on. We may have strong opinions about some of these things. We may enjoy discussing, or even debating, these topics du jour. But are our opinions actionable? Should they be?

The point to be made here is that we are surrounded by noise. Having opinions about the noise is one thing, but having conviction is quite another. Investing based on opinion is no different than gambling. You wish for an outcome and hope it to be so. It is emotional. Emotional decisions are rarely our best decisions.

Some of the best minds on Wall Street make a living distilling all of this information down to a working investment thesis that they confidently share with investors. They make recommendations based on their world views. Interestingly, the same data often results in conflicting views among these 'in the know' types. How are we to know who is right? The person that got it right last time?

There is nothing wrong with investing based on the big picture. But you better get it right. If your view is that the market will fall and you invest based on that premise, being wrong could be very costly. Many professionals invest this way successfully. Many don't. Placing a few large bets based on big picture things requires that you be right far more often than you are wrong, because the cost of being wrong is dear. If you implement your macro-themed investment strategy by selecting those sectors of the economy you believe to be the potential winners, there are only eleven to chose among. If your strategy is to determine large companies vs. medium companies vs. small companies, there are only three choices. If your strategy is to decide between growth and value, there are only two.

We believe this type of approach can take on unnecessary risk. We don't mean to criticize those that invest this way. We simply have a very different approach. We would prefer to make a lot of smaller investments rather than a few large ones. A Tandem portfolio today holds somewhere between 32 and 43 companies, depending on the strategy (see page 5). Being wrong hurts less, and we have many more choices than a big picture investor.

To us, all the headlines and topics of conversation are simply noise - white noise to be tuned out. Big picture topics are great, but it is hard to make investment decisions based on them. We like to say that it is easier to have conviction about a company than an economy. Artificial Intelligence or the next election cycle may be topical, but they have very little to do with how much SPAM® Hormel (a Tandem holding) will sell next year.

Readers of this newsletter may recall the story of the Fox and the Hedgehog (www.tandemadvisors.com/timeless/the-fox-and-the-hedgehog/) from the July 2020 edition. The hedgehog is our corporate mascot. He and the fox regularly do battle. The clever fox schemes up countless ways to prevail against his nemesis, only to fail each time. You see, the fox knows many tricks, while the hedgehog only knows one. But it is a really good one! He simply rolls up into a spiky ball until the fox gives up and goes away.

Like the hedgehog, we only know one trick, but we think it is a very big trick. We believe that it is our job to limit volatility in our portfolios while actually practicing the discipline of buying low and selling high. Yes, this may seem like obvious common sense, but it is rarely practiced. Most investors instinctively buy something anytime they sell something, or vice versa. The compulsion to stay fully invested at all times within a portfolio makes little sense to us, but it is common practice in our industry.

As an aside, why is it that we seem to understand that there are buyers' markets and sellers' markets in real estate, but not in stocks? The best times to buy and the best times to sell rarely coexist. Stocks actually offer a huge advantage over real estate. In a sellers' market in real estate, you must sell the entire property. You can't just sell the kitchen and dining room. But in stocks, if we own 100 shares of a company that we like but think is too expensive, we can sell 25 shares and keep 75 shares. It doesn't have to be all or nothing.

Now back to our hedgehog concept. In our view, volatility is the enemy of every investor, professional and individual alike. Volatility makes us want to behave emotionally. We see the market going higher, we perceive there to be less risk, we are afraid of missing out on a great opportunity, and so we buy - high. We see the market going lower, we get scared, we perceive risk to be rising, and we want out, so we sell - low.

Our desire to limit volatility through the discipline of buying low and selling high is our core reason for being. Hopefully, it keeps investors invested. If you are invested in equities, we presume it is because you need growth to achieve your financial goals. Because

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Market Commentary (continued)

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more than 16%. Not a bad start to the year according to those numbers. Except it doesn't tell the full story. The average stock is having a much tougher year than the members of the Magnificent Seven. The S&P 500 equal weighted index, which can be a better indicator for the "average" stock, was up less than 6% in the first half.

The disparity in returns is even more obvious when looking at a style box. Growth has performed better than value, and larger stocks have performed better than smaller stocks. Last year was nearly the exact opposite. The size of the company was less important, but the tilt between growth versus value was vital for investors. 2022 punished growth stocks as interest rates soared. This year's market has been more like the post-COVID market that was hyper-focused on growth related names.

YTD Returns	Value	Blend	Growth	2022 Returns	Value	Blend	Growth
Large Cap	11.97% (IVE)	16.78% (IVV)	21.05% (IVW)	Large Cap	-5.43% (IVE)	-18.11% (IVV)	-29.46% (IVW)
Mid Cap	7.08% (IJJ)	8.80% (IJH)	10.34% (IJK)	Mid Cap	-7.14% (IJJ)	-13.11% (IJH)	-19.03% (IJK)
Small Cap	4.93% (IJS)	6.01% (IJR)	6.90% (IJT)	Small Cap	-11.33% (IJS)	-16.18% (IJR)	-21.30% (IJT)

We noted in January that it wouldn't be surprising to see a strong bounce back in 2023 given the terrible sentiment towards the end of 2022 – which is more or less exactly how the market has played out so far. Last year's worst performing stocks are among this year's leaders. Last year's worst performing pocket in the market (large cap growth) is clearly this year's best. So, the positive performance in the first half of the year is not totally surprising.

Stocks have also received a helping hand from the cooling of inflation. The price of goods has continued to rise, but the rise is at a slower and slower pace. This in turn has led to a hope for investors that the cooldown in inflation would be met with a relenting Federal Reserve. The Fed, which has had two feet on the brakes for the better part of 15 months as they raised interest rates again and again, is finally showing signs of easing up. Between the less hawkish Federal Reserve and the slowdown in inflation, longer-dated interest rates have largely stopped rising. According to FactSet, the 10-year U.S. Treasury was yielding 3.88% at the end of 2022. At the end of June, the yield was 3.81%. Generally, as yields fall, large cap growth stocks will benefit. This year, large cap growth stocks haven't even needed yields to fall. They've just needed a break in the non-stop rise that was 2022.

Looking forward, it would seem that we are reaching an inflection point of sorts where one of two outcomes seem most likely. The "average" stock could begin to participate more to the upside, closing the gap between the rest of the market and the Magnificent Seven. This would be ideal and more indicative of a healthy bull market. Or, the Magnificent Seven could catch up to the rest of the market by means of retreating. This would likely lead to a more volatile market than that which we saw in the second quarter. The answer will likely depend on the direction of the economy – specifically the labor market. The market has traded like there will be no recession. However, there have been a few companies and a few trends that have indicated that not all is well under the hood. Ultimately, only time will tell the direction in which we are headed.

Ben Carew, CFA

Tandem News

We've grown again. On June 15th, Paisley Lewis joined our team as an Investment Management Associate. Paisley graduated from The College of Charleston (like half of our staff) with a B.S. in Finance and a Minor in Business Administration. While at C of C, Ms. Lewis enjoyed a leadership position in the College of Charleston's School of Business Investment Program, an organization focused on developing skills in analytical asset valuation and portfolio management. She makes the fourth member of Team Tandem to have benefitted from that program. When she is not in the office, Paisley is an accomplished artist and enjoys spending time painting abstract artwork. Please join us in welcoming Paisley Lewis to Tandem.

Tandem also recently achieved a somewhat major milestone for us. We now manage over $3 Billion in client assets. We hope the market allows us to stay there! It has been a long, wonderful road and we owe it all to our great financial advisor partners and clients that allow us to work every day for them doing what we truly love. We are humbled, and eternally grateful. Look for more announcements next issue!

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of the average investor's tendency to behave emotionally and buy high and sell low, few investors actually achieve the same returns as the investments they select. They meddle. They buy too high, sell too low, and as a result, the average investor routinely underperforms the market. If our approach can help keep you invested, that is a win.

Reducing volatility begins with investment selection. Economies can be very volatile, but not every company is. We try to identify businesses that grow through *any* economic environment, including a financial crisis, a global pandemic, and whatever it is that we are in right now. Businesses with a track record of growth through all of these difficult environments have a tendency to produce more consistent, repeatable, less volatile experiences for their shareholders. If we can identify these companies, we can limit the overall volatility in the portfolio.

Specifically, we value growth in terms of earnings, revenue, and cash flow. These rates of growth are easily knowable. If we own a business that no longer grows these metrics, we can't own it anymore. We must part ways. For those businesses that do meet our criteria, we rely on a simple mathematical process called mean reversion to try to buy low and sell high. In statistics, we learn that most populations, experiences, or in the case of stocks, valuations, fall within a fairly well defined pattern of distribution. That means that most of the time stocks are fairly priced. But not always.

When a valuation falls outside of this range, statistics informs us that there is a very high probability that this valuation is unsustainable and will ultimately revert back to the mean, or fair value. So if we own a company that meets our criteria but has become unsustainably overvalued, we will sell a fraction of our holdings. Similarly, if we own a company that meets our criteria but is unsustainably undervalued, we will add to our holdings. And if we don't own it, we will buy.

And this is how we try to limit volatility through buying low and selling high. It seems like common sense to us, but it is so rarely practiced. Identify companies with track records of consistent growth through any economic environment, rely upon the simple statistical principle of mean reversion to buy, hold, or reduce, and get rid of any company that ceases to grow. Hopefully this produces a consistent repeatable experience that can help keep investors invested. Aim small, miss small. *JBC*

Cash Deployment and Cash Management:

Treating cash with the respect it deserves

Despite the market's persistent strength, investors are still flush with cash. The largesse of Central Banks and governments can be credited (or blamed) for this phenomenon. And it leaves many with an interesting conundrum - how do we deploy all this cash?

The temptation to chase the market higher is tough to pass up for many, although hopefully reading *Commentary* will help crush that impulse! But for cash that ultimately belongs in stocks, we believe that market timing is folly. So how does one put money to work in the market effectively and efficiently.

At Tandem, we are position builders. We do not presume to know the best price, so we will buy a stock multiple times before we are fully invested in that company. This is very different from dollar cost averaging, or DAC. With DAC, the notion is to systematically add money to your portfolio in pre-determined intervals. So on every fourth Monday (or whatever the interval) money goes into every name in the portfolio. The problem with this approach is that it buys indiscriminately. Not every name in the portfolio is attractive, yet every name is being bought.

At Tandem, we deploy cash by paying prices we think are reasonable to pay, as they occur, not at some predetermined interval. When we establish a portfolio for a new client in a true Separately Managed Account, we build the portfolio over time, buying businesses that meet our criteria at prices we think reasonable. We do the same when a meaningful amount of money is added to an existing portfolio. We believe this to be the most prudent approach, and it really doesn't matter to us what the market is doing. We aren't investing in the market.

Sometimes, Tandem portfolios hold what some consider to be a lot of cash. We tend to view the cash as an escrow account waiting to be invested in equities as opportunities present themselves. It is still our job to provide the best return on that cash we can. If we believe the return on the money market account in your portfolio is inadequate, we will buy 30-day Treasury bills to enhance the return in cash.

Please explore the rest of our content by visiting our website: https://tandemadvisors.com/commentary/. Billy Little writes the monthly **Observations***, Ben Carew writes the fortnightly* **Notes from the Trading Desk***, and everything is available in audio format as well. 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 2018 to Q2 2023

Tandem's average dividend-paying holding has increased it's dividend 9.93% on an annualized basis for the last 5 years. The S&P 500 has experienced an annualized increase of 4.98% for the same period.

Large Cap Core 5 Yr. Annualized Dividend Growth

Company	Dividend Growth
Abbott Laboratories	12.74%
AbbVie, Inc.	9.04%
Accenture Plc	10.99%
Amphenol	12.80%
Automatic Data Processing	12.62%
Becton, Dickinson	3.94%
BlackRock	11.66%
Brown & Brown	8.92%
Brown-Forman Cl B	5.40%
CBOE Global Markets	13.12%
Church & Dwight	4.61%
Comcast	8.83%
Costco	12.34%
Dollar General	15.26%
Essential Utilities	6.99%
Expeditors International	8.92%
FactSet Research	8.90%
Hormel Foods	7.96%
Intercontinental Exchange	11.84%
J.M. Smucker	5.51%
Jack Henry & Associates	7.04%
Johnson & Johnson	5.75%
MarketAxess Holdings	11.38%
Mastercard	17.92%
Microsoft	10.12%
NextEra Energy	11.00%
Nike	11.20%
Republic Services	7.49%
ResMed	4.68%
Roper Technologies	10.60%
SEI Investments	7.47%
STERIS Plc	8.68%
Stryker	9.80%
Terreno Realty	12.70%
Verisk Analytics	NA
Visa	16.47%
Waste Connections	12.74%
Average	9.93%

Companies not paying a dividend on 6.30.2018, or that have restructured since then, are NA. All companies in Large Cap Core currently pay a dividend.

Equity 5 Yr. Annualized Dividend Growth

Company	Dividend Growth
Abbott Laboratories	12.74%
AbbVie, Inc.	9.04%
Accenture Plc	10.99%
Akamai Technologies	NA
ANSYS	NA
Automatic Data Processing	12.62%
Becton, Dickinson	3.94%
BlackRock	11.66%
Brown & Brown	8.92%
Brown-Forman Cl B	5.40%
CBOE Global Markets	13.12%
Check Point Software Tech	NA
Comcast	8.83%
Costco	12.32%
Dollar General	15.26%
Essential Utilities	6.99%
Expeditors International	8.92%
FactSet Research	8.90%
Fiserv	NA
Five Below	NA
Henry Schein	NA
Hormel Foods	7.96%
Intercontinental Exchange	11.84%
Intuitive Surgical	NA
J.M. Smucker	5.51%
Jack Henry & Associates	7.04%
Johnson & Johnson	5.75%
Laboratory Corp of America	NA
MarketAxess Holdings	11.38%
Microsoft	10.12%
NextEra Energy	11.00%
O'Reilly Automotive	NA
PayPal Holdings	NA
Qualys	NA
Republic Services	7.49%
ResMed	4.68%
SEI Investments	7.47%
STERIS plc	8.68%
Stryker	9.80%
Tyler Technologies	NA
Verisk Analytics	NA
Visa	16.47%
Waste Connections	12.74%
Average	9.59%

Mid Cap Core 5 Yr. Annualized Dividend Growth

Company	Dividend Growth
Akamai Technologies	NA
ANSYS	NA
Becton, Dickinson	3.94%
Brown & Brown	8.92%
Brown-Forman Cl B	5.40%
CBOE Global Markets	13.12%
Check Point Software Tech	NA
Church & Dwight	4.61%
Essential Utilities	6.99%
ExlService Holdings	NA
Expeditors International	8.92%
FactSet Research	8.90%
Fiserv	NA
Five Below	NA
Henry Schein	NA
Hormel Foods	7.96%
J.M. Smucker	5.51%
Jack Henry & Associates	7.04%
Laboratory Corp of America	NA
MarketAxess Holdings	11.38%
NV5 Global Inc.	NA
O'Reilly Automotive	NA
Qualys	NA
Republic Services	7.49%
ResMed	4.68%
SEI Investments	7.47%
STERIS plc	8.68%
Stryker	9.80%
Terreno Realty	12.70%
Tyler Technologies	NA
Verisk Analytics	NA
Waste Connections	12.74%
Average	8.22%

The list of holdings above for Tandem's 3 strategies are as of 6.30.2023. 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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All performance figures, data points, 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.

YIELD TABLE

	Current	3 months ago	1 year ago
3-month Treasury Bill	5.16%	4.69%	1.49%
2-year Treasury Note	4.64%	4.30%	3.00%
5-year Treasury Note	3.95%	3.82%	3.19%
10-year Treasury Bond	3.75%	3.66%	3.14%
30-year Treasury Bond	3.87%	3.77%	3.25%
Prime Rate	8.25%	7.82%	4.38%
Federal Funds Rate	5.08%	4.65%	1.21%
Discount Rate	5.25%	4.82%	1.38%

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