THE TANDEM REPORT

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"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 Friendly Fed Drives Prices to More Record Highs

What a difference six months can make. In 2018, the only two asset classes that produced positive returns were Cash and Fixed Income. Everything else had negative returns. The U.S. stock market, represented by the S&P 500, lost 4.38% in 2018. Through the 1st half of 2019, the same S&P was up 18.54%. That represents quite a turnaround.

Stocks are certainly climbing a wall of worry. Despite trade concerns, escalating geopolitical tensions and a toxic political environment, stock prices have maintained their assault on the record books. This ability to shrug off concern is seemingly always the case in a bull market - particularly when the market's gains are fueled by a benevolent Federal Reserve.

The past eighteen months have been a roller coaster for investors. In 2017, the S&P was up 21.83%. Since that time, the S&P is up a much more modest 10.03%. Yet the market at one point was down 12.06% from its 2017 close, and it is up 25.12% from its Christmas Eve low. We

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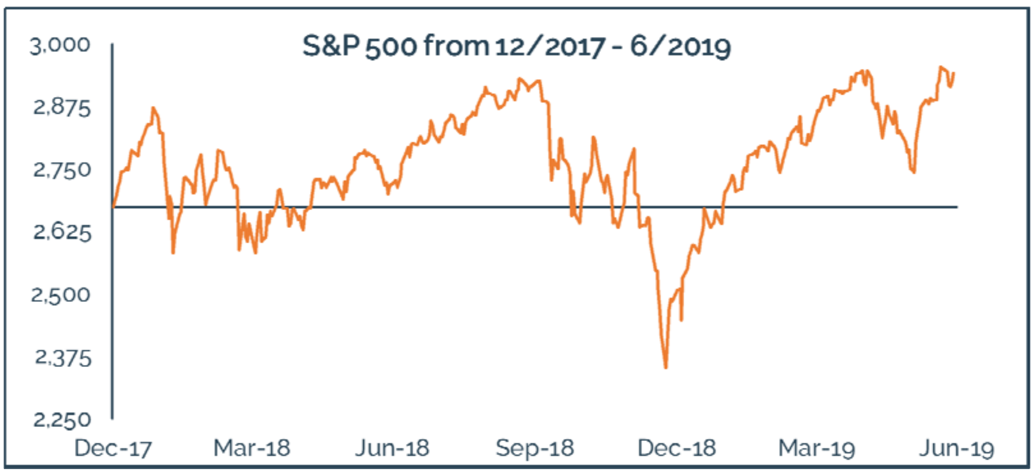

COMMENTARY:
Bad News is Good News in a TINA World

In the real world, good news is good news, and bad news is not. In the often bizarre world of Wall Street, this logic does not always apply. Now is one such time.

The stock market is rallying to all-time highs again, and it is doing so at a time of growing concern about the economy, trade wars and slowing corporate profit growth. On the surface, this makes little sense. One would think that an uncertain future might put the brakes on stocks prices.

In the second half of last year, the domestic economy appeared to be quite strong. So strong, in fact, that markets widely perceived several more interest rate hikes by the Federal Reserve to be in the cards. The Fed had already been hiking for awhile and the market had accepted that. After all, rates had been

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nearly zero for a decade. Hiking from zero wasn't scary. But by the summer of 2018, rates had finally risen to a level not seen in years. Rates this high could potentially choke off economic growth, and perhaps worse, present an attractive alternative to stocks. By the time the Fed hiked again in December, the stock market was in full tantrum mode.

Not surprisingly, after the stock market's dramatic December correction, the Fed blinked. They were scared they could bring an end to this 10-year economic and stock market expansion. So they halted. And over time, they began to indicate a willingness to not only pause future rate hikes, but actually begin to lower rates. In recent commentary, Fed officials have expressed growing concern about a potential economic slowdown, and rate cuts now would seem imminent. And so the market has rallied in anticipation of slower growth - and lower rates.

The chart below, from the Philadelphia Federal Reserve, indicates expectation of future economic growth. It is clear that expectations turn negative each time the U.S. economy has entered recession. It is also clear that the index does not presently point toward imminent economic contraction. But it is undeniable that the index's trend is lower.

Slower growth isn't really the driver of higher stock prices. Rate cuts are. Often times, as economic expansions or bull markets get a little long in the tooth (and this one is now more than 10 years old), it is natural for economic and profit growth to slow, or even go negative. And yet this doesn't signal the immediate end of a bull market. Typically, economic growth drives profits, and profits drive stock prices. But in the absence of these factors, the Federal Reserve's actions might support price gains through lowered interest rates.

Oddly, in times of exceedingly low interest rates such as now, a slowing economy is hardly a concern to investors. Instead, lower rates might serve to re-stimulate economic growth. Even if they fail to do so, lower rates still make stocks seemingly more compelling than alternative investments. In a world where

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The Federal Reserve Leading Index for the United States
June 1989—May 2019

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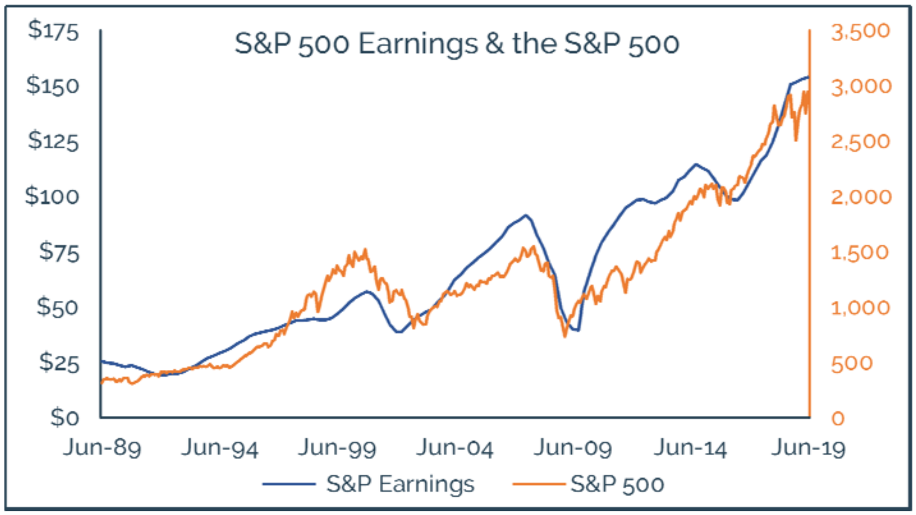
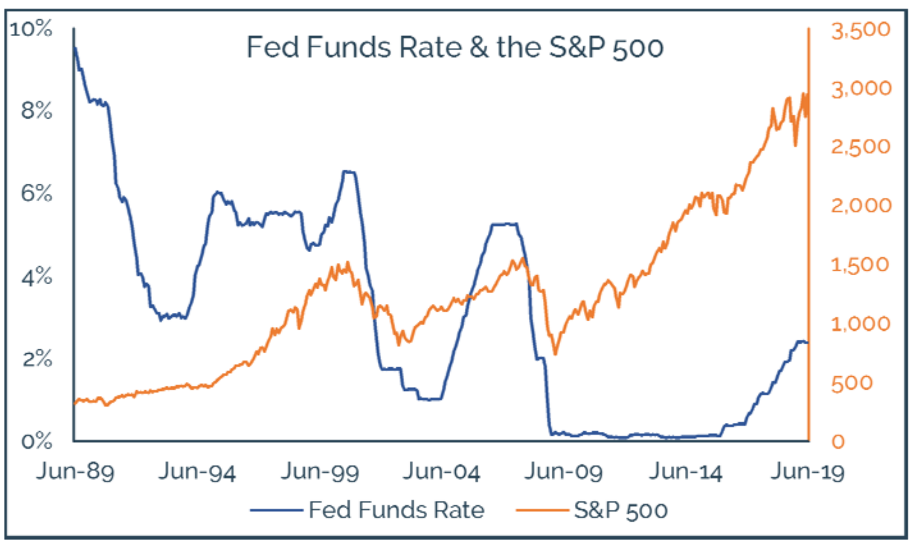
stocks have little or no competition for investment dollars, stock prices can rise even when there are few fundamental reasons for them to do so. This phenomenon is know as TINA - There Is No Alternative. And we now find ourselves in a TINA world.

Whenever the market counts on lower rates to drive stock prices higher, bad news becomes good news. Bad economic data increases the likelihood that rates will be lower longer. Conversely, when data presents a picture of strength, as was the case last year and then again in May of this year, stocks sell off because rate cuts are less likely, and hikes become a possibility. Higher rates in this scenario could hold stock prices back. And thus, good news is actually bad news for the stock market. These historically low rates make for some confusing times.

Low rates may in fact be here to stay for awhile. And if so, then stock prices will certainly be buoyed by this. Yet eventually, low rates in and of themselves will not be enough to sustain prices. Earnings growth must ultimately follow. The upper chart to the right expresses the high degree of correlation between earnings and prices for the S&P 500. When earnings rise, prices follow, and when earning contract, prices go down as well. Earnings are still growing, but the rate of growth has certainly flattened recently.

Similarly, lower interest rates, as expressed by the Fed Funds rate in the chart to the right, also correlate to stock prices. Stock prices can certainly rise while the Fed is raising its Fed Funds rate, but only for a time. Invariably the Fed raises for too long, the economy starts to lag, and stock prices fall. The data to the right indicates, upon close examination, that the Fed has usually ceased hiking prior to the market's top, but that rate cuts have come too late to sustain the bull market. In other words, Fed rate cuts historically come too late.





We often say in these pages that it is never different this time. We still believe that. Yet in the world of TINA, bulls can make a pretty good case for prices to continue higher. Bad news could conceivably force the Fed to lower rates repeatedly. Lower interest rates make competing investments less attractive, and could ultimately reignite the economy before the market corrects. This is a heck of a needle to thread, and there is little history of the Federal Reserve successfully doing this. But there is little history of what happens to stock prices when rates are near zero for a prolonged period of time. The Fed is making it pretty clear that rates are going lower, and thus stock prices will likely go higher for the foreseeable future.

TINA will work in favor of stock prices until and unless earnings collapse. Bulls hope that the Fed can continue to stimulate growth. This is already the longest economic expansion in at least the last century. Some like to say that bull markets don't die of old age. But they do. Cycles run their courses. The Fed can influence the duration of these cycles, but not do away with them. The business cycle has not been eliminated by Fed policy. If it has, it really is different this time. In the short run, the old Wall Street adage *"don't fight the Fed"* likely applies. In the long run, Ben Graham's adage is more apropos - *"In the short run the market is an adding machine. In the long run it is a weighing machine"*. It may be different for a while, but it is never different this time.

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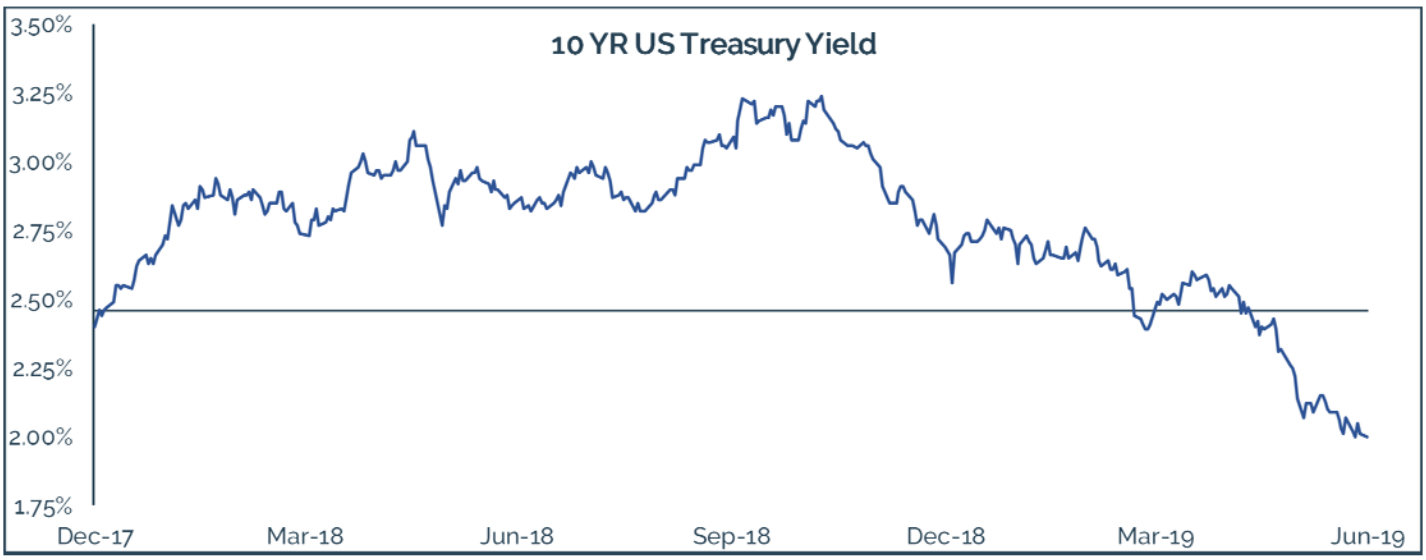
cautioned that the up-every-month market of 2017 was an anomaly. This volatility more closely resembles normal market activity.

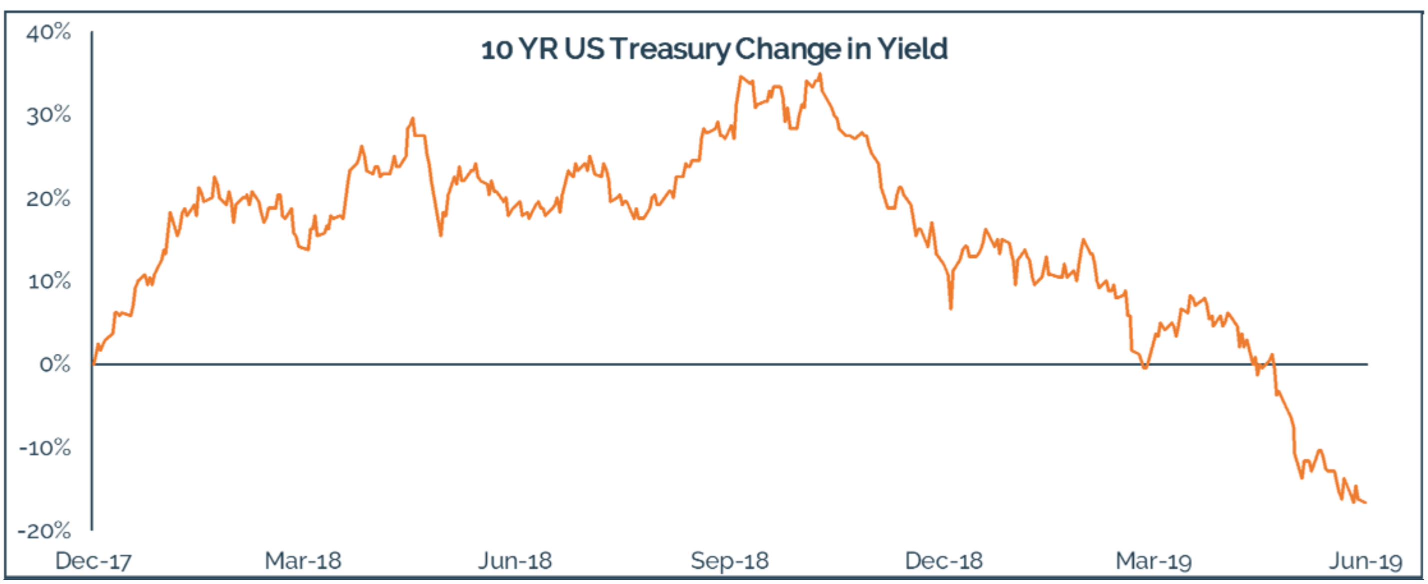
Interest rates really paint a nice picture of the volatility investors have faced. The 10-year Treasury is often used as a benchmark for rates, and in the last 18 months, the 10-year yield rose from 2.40% at the end of 2017 to a high of 3.24% on November 8^{th}. This move in less than 11 months was pretty dramatic, representing a 35% increase in yield. Stock prices bore the brunt of this spike. The market perceived a robust economy, a possible return of inflation, and Fed rate hikes as far as the eye could see.

The rise in rates ended as quickly as it began. By the end of June, the 10-year yield had fallen to 2.00%, for a 30.27% decline from the November high yield.

Declining interest rates, even in the absence of improving fundamentals, will sustain a stock market rally for a time. We have approached this market with caution, to be sure. Yet we have still been able to find value, albeit not nearly as much as 6 months ago. The rise and fall of interest rates and stock prices has created opportunities to add to our portfolio as prices decline, and to realize some hard-won profit when prices escalate. The volatility has indeed been a gift so far.

It is important to recognize that, at least to an extent, this volatility has been triggered by the divergence of expectation and reality. The further apart the two drift, the more violent the ultimate reconciliation will likely be. We are concerned that in this benevolent interest rate environment investors may become too complacent, inferring that rising prices imply reduced risk. In reality, low rates point to slowing growth. Slowing growth and rising stock prices can only coexist for so long before risk becomes obvious. Indices like the S&P 500 often reflect sentiment more than value. Sentiment rarely prices risk appropriately. If it did, Las Vegas oddsmakers would be out of business.





Tandem Notes

Since we last spoke, some of us here at Tandem have had reason to celebrate. In April, the University of Virginia men's basketball team won its first national championship. In May, the men's lacrosse team won it's eighth. And in June, the University's men's athletics program won its second Capital One Cup. 2019 has been a great year to be a Cavalier. To honor these achievements, many of the charts in this issue are in UVA blue and orange. Wahoowa!

Also since we last spoke Tandem has surpassed $725 Million in Assets Under Management. We are humbled by the confidence our clients and partners continue to place in us. While we cannot promise to repeat past results, we do commit to doing our very best.

In other news, we told you last time that Tandem is now managing a mutual fund for Castle Investment Management. The Fund is called the Castle Tandem Fund and it is off to a good start. It is managed in our Large Cap Core style. If you would like to learn more please contact the good people at Castle Investment Management at (703) 260-1921. The Castle Tandem Fund is distributed by Rafferty Capital Markets, LLC. We are thrilled to be a part of this and wish to thank all of you that have supported the Fund.

5 Year Annualized Dividend Growth for Tandem's Holdings by Strategy
from Q2 2014 to Q2 2019

Tandem's average dividend-paying holding has increased it's dividend by 11.38% 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	7.78%
AbbVie, Inc.	20.57%
Accenture Plc	9.44%
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Cl B	7.43%
Comcast	13.30%
Costco	12.86%
CVS Health	12.70%
Dollar General	NA
Dominion Energy	8.87%
Ecolab Inc.	10.84%
Expeditors International	9.34%
FactSet Research	13.05%
Hormel Foods	16.00%
Intercontinental Exchange	16.17%
Microsoft	10.44%
National Retail Properties	4.30%
NextEra Energy	11.51%
NIKE	12.89%
T. Rowe Price	11.55%
Republic Services	7.60%
ResMed	8.16%
Signature Bank NY	NA
J. M. Smucker	7.94%
Stryker	11.26%
TJX Companies Inc	21.32%
Tractor Supply	16.95%
United Technologies	4.49%
Walgreens Boots Alliance	6.91%
Waste Connections	15.75%
Average	**11.26%**

Companies not paying a dividend on 6.30.2014 are NA. All companies in Large Cap Core currently pay a dividend.

Equity 5 Yr. Annualized Dividend Growth	
Company	**Dividend Growth**
Abbott Laboratories	7.78%
AbbVie, Inc.	20.57%
Accenture Plc	9.44%
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Cl B	7.43%
Celgene	13.30%
Comcast	12.86%
Costco	12.70%
CVS Health	NA
Dollar General	NA
Dollar Tree	8.87%
Dominion Energy	NA
eBay	10.84%
Ecolab Inc.	NA
Euronet Worldwide	9.34%
Expeditors International	13.05%
FactSet Research	16.00%
Hormel Foods	16.17%
Intercontinental Exchange	NA
Microsoft	10.44%
NextEra Energy	11.51%
NIKE	12.89%
O'Reilly Automotive	NA
PayPal Holdings	NA
T. Rowe Price	11.55%
Republic Services	7.60%
ResMed	8.16%
Signature Bank NY	NA
J.M. Smucker	7.94%
Stryker	11.26%
TJX Companies Inc	21.32%
Tractor Supply	16.95%
Tyler Technologies	NA
United Technologies	4.49%
Verisk Analytics	NA
Walgreens Boots Alliance	6.91%
Waste Connections	15.75%
Average	**11.50%**

Mid Cap Core 5 Yr. Annualized Dividend Growth	
Company	**Dividend Growth**
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Cl B	7.43%
Covetrus	NA
Dollar Tree	NA
Ecolab Inc.	10.84%
Euronet Worldwide	NA
ExlService Holdings	NA
Expeditors International	9.34%
FactSet Research	13.05%
Fiserv	NA
Hormel Foods	16.00%
Laboratory Corp of America	NA
National Retail Properties	4.30%
O'Reilly Automotive	NA
T. Rowe Price	11.55%
Republic Services	7.60%
ResMed	8.16%
Ross Stores	20.59%
Henry Schein	NA
Signature Bank NY	NA
J. M. Smucker	7.94%
Stryker	11.26%
Tractor Supply	16.95%
UMB Financial Corp	NA
Tyler Technologies	5.92%
Verisk Analytics	NA
Waste Connections	15.75%
Yum! Brands, Inc.	NA
Yum China Holdings, Inc.	NA
Average	**10.80%**

The list of holdings above for Tandem's 3 strategies are as of 6.30.2019. 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	2.17%	2.40%	1.90%
2-year Treasury Note	1.81%	2.41%	2.53%
5-year Treasury Note	1.83%	2.37%	2.78%
10-year Treasury Bond	2.07%	2.57%	2.91%
30-year Treasury Bond	2.57%	2.98%	3.05%
Prime Rate	5.50%	5.50%	4.98%
Federal Funds Rate	2.38%	2.41%	1.82%
Discount Rate	3.00%	3.00%	2.39%

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				
	6/30/19 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	2,941.76	8.22%	40.16%	50.07%
Dow Jones Industrial	26,599.96	9.59%	48.35%	58.08%
NASDAQ	7,671.07	8.95%	73.64%	99.28%
Russell 2000	1,566.57	-4.66%	36.00%	31.32%
German Xetra DAX	12,398.80	0.75%	28.09%	26.09%
London FTSE 100	7,425.63	-2.77%	14.16%	10.11%
Shanghai Composite	2,978.88	4.62%	1.68%	45.43%
Crude Oil	$ 58.47	-21.15%	20.98%	-44.51%
Gold	$ 1,395.15	8.61%	2.74%	-1.68%
CRB Index	181.04	-9.66%	-5.99%	-41.26%
U.S. Dollar Index	95.67	1.40%	-0.56%	19.87%
Euro/Dollar*	1.14	-2.70%	2.39%	-16.96%

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

TANDEM INVESTMENT ADVISORS