

# Notes from the Trading Desk

Tandem Investment

Advisors

## Market Movers & Shakers

Finally a reprieve from the sluggish trading days this Summer has brought the markets thus far. Rising tensions between the US and North Korea prompted a VIX resurrection on Thursday as the S&P sold off nearly 1.5% on the back of Trumps “Fire and Fury”. A 1.5% move is not a crazy move — however it does need to be put into perspective. This is the second largest downside move we have seen YTD, and only the third YTD trading day that closed down over 1%. This time last year, we had already seen 19 days close lower than 1%, and 4 days close lower by 2% or more. The lack of volatility this year has been incredibly muted — and incredibly well-noted.

Not to beat a dead horse, but lets talk about volatility for a minute. Thursday marked the 8th largest single day VIX move in history. Trump’s comments sparked a 45.5% move in the VIX. WTD, the VIX closed up 54.6%. This past week was the 7th highest weekly move in the VIX. The Chinese currency devaluation in August of 2015 caused the VIX to surge a record 118%. The flash crash caused the VIX to rise 85.7% — the second largest weekly move. The third largest weekly move in the VIX occurred towards the end of 2014 as Crude broke massive support levels and closed at 5 1/2 year lows — having dropped from nearly \$100 to \$58 in a matter of 4 months. The next largest move coincided with an early crack in the market foundation that served as a precursor to the start of the Great Recession. The Shanghai market fell 9% and the Dow closed down over 400 points. The fifth largest move was in December of 2015 — preceding the 10% correction we witnessed to start 2016. Finally, the sixth largest move was in October of 2008 — a stretch that marked one of the worst during the Financial Crisis as the S&P fell 18% in one week. It seems to me, that with the exception of the 2014 oil-inspired VIX surge and maybe the March 2007 move, all of these increases preceded rather tumultuous times in the equity markets.

A key difference between this VIX move, as compared to other moves, is that many are pointing towards the rising geopolitical tensions causing the move, while all of the other moves were induced by weakness in the financial markets. The threat of a nuclear war surely would cause the “fear gauge” to rise, but the probability of this actually occurring seems next to none as it would result in the annihilation of North Korea’s current regime. (Famous last words? Sure hope not.) Maybe occurrences like this past week serve as rude awakenings to investors to remind them that we are highly elevated in terms of valuation, and that the fall might be harder from the current lofty perch. One thing does seem for sure, investors do seem to be weary of the potential first domino falling — only time will tell if the week of August 11th will have any sort of historical significance like some of the other VIX surges do. I am certainly not calling for this week to be a momentous point in history — only hindsight will tell. I merely found a historic move in the VIX to be of interest and one that should be noted.

I will be out of office at the end of next week. Due to this, *Notes from the Trading Desk* will not be published next week.

## Upgrades & Downgrades

- **CERN** — upgraded to equal-weight from underweight at Morgan Stanley, target of \$62
- **CTSH** — upgraded to buy from hold at Berenberg, target of \$85
- **DG** — Assumed neutral at Buckingham, target of \$75
- **DLTR** — Assumed buy at Buckingham, target of \$8
- **EBAY** — reinstated underperform at Mizuho Securities, target of \$34

## Portfolio News

A few quick hits on the portfolio front. We finished our liquidation of Aptargroup. We had been in the process of liquidation for a while, and finally got our chance to finish this past week. We also sold half our position in the Bank of the Ozarks, per the decision made with regards to them earlier in the week. Other than that, it was a fairly quite week with regards to portfolio action.

Thursday's selloff did present the opportunity to put some new money to work. We bought 7 positions in transition accounts in the last two days of trading this week — with most of that action occurring on Thursday. We purchased Brown & Brown, Expeditors (who got beat up on earnings), FactSet, MEDNAX, Signature, Scana, Tractor, and Wabtec. For the most part, we have continued to be aggressive in the names that we feel have been beaten up by the marketplace.

We had some notable underperformers this week in our Core holdings. Expeditors got crushed, down over 8% this past week on the back of weak earnings. Tractor continued its downward march, as did Scana and MEDNAX. Signature and Ozarks were both noticeably weak through the week.

There was not a ton of action on the news-side of things either. United continues to be in talks of taking over Rockwell Collings — though the two firms seem to be haggling over proper price as UTX's initial offer of \$140 was lower the COL was hoping for. Shareholders of CR Bard approved the BDX proposed merger. Also in the healthcare world, Goldman is helping Thermo sell 8.77m shares priced at \$171/share. Lastly, on a piece of news that impacts both Tandem and our holding of T. Rowe — the Labor Department is proposing to delay the implementation of the fiduciary rule to 2019, rather than 2018.

	WTD	MTD	QTD	YTD
Dow Jones	-1.1%	-0.1%	2.4%	10.6%
S&P 500	-1.4%	-1.2%	0.7%	9.0%
Nasdaq	-1.5%	-1.4%	1.9%	16.2%
Russell 2000	-2.7%	-3.6%	-2.9%	1.3%

Buy	Accumulate	Sell	Liquidate
DLTR**	ABBV	ACN	ITT
ORLY	CERN	MSFT	KO
	CTSH	NEE**	OZRK
	DG	RSG	TMO
	FDS**	SYK	
	NNN	WCN**	
	TJX		
	TSCO		

\*\*Denotes a position that is either +3% in the case of a buy/accumulate, or less than 1.5% in the case of a sell  
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## Earnings Calendar

Date	Time	Ticker
8/15/2017	Pre-Market	TJX
8/17/2017	Post-Market	ROST

## Core Holding Performance

Performance					
Ticker	WTD	MTD	QTD	YTD	1 Yr.
ABBV	-0.5%	1.0%	-2.6%	12.8%	5.1%
ABT	-1.5%	-1.3%	-0.1%	26.4%	7.8%
ACN	-1.5%	-0.5%	3.7%	9.5%	13.4%
ATR	-0.3%	1.5%	-5.4%	11.8%	8.7%
BDX	1.7%	-0.5%	2.7%	21.0%	15.2%
BF.B	-0.2%	-1.9%	-0.3%	7.8%	-1.1%
BRO	-1.2%	-2.4%	1.1%	-2.9%	19.3%
CERN	-1.5%	-3.5%	-6.6%	31.1%	-6.5%
COST	0.1%	-1.2%	-2.1%	-2.2%	-7.3%
CTSH	-0.8%	1.9%	6.3%	26.0%	21.3%
D	-0.9%	0.3%	1.0%	1.0%	1.9%
DLTR	-0.8%	2.0%	5.1%	-4.8%	-23.7%
EBAY	-1.6%	-1.9%	0.4%	18.1%	13.5%
ECL	-2.3%	-1.4%	-2.2%	10.7%	6.0%
EXPD	-8.6%	-7.5%	-3.6%	2.8%	6.2%
FDS	-3.1%	-5.0%	-4.5%	-2.8%	-8.1%
FISV	-0.2%	-4.4%	0.4%	15.6%	18.8%
HRL	1.0%	-0.5%	-0.3%	-2.3%	-8.2%
ICE	0.3%	-2.5%	-1.4%	15.2%	16.7%
ITT	-4.3%	-2.0%	0.0%	4.2%	15.7%
KO	0.2%	-0.5%	1.6%	10.0%	3.5%
MD	-3.7%	-9.0%	-29.2%	-35.9%	-35.0%
MSFT	-0.2%	-0.3%	5.2%	16.7%	25.1%
NEE	0.3%	0.7%	5.0%	23.2%	16.1%
NKE	-1.3%	-0.1%	-0.1%	16.0%	4.5%
NNN	-1.4%	-0.2%	2.1%	-9.7%	-22.1%
ORLY	-3.0%	-2.6%	-9.1%	-28.6%	-30.6%
OZRK	-5.0%	-3.6%	-11.3%	-20.9%	11.6%
PYPL	-1.4%	-0.9%	8.1%	47.0%	50.7%
RMD	-3.4%	-5.9%	-6.8%	16.9%	3.0%
ROST	-0.5%	0.4%	-3.8%	-15.3%	-12.0%
RSG	-1.2%	-0.4%	0.4%	12.1%	23.7%
SBNY	-5.9%	-7.3%	-10.5%	-14.5%	9.2%
SCG	-4.9%	-5.7%	-9.4%	-17.2%	-17.1%
SJM	0.7%	0.3%	3.3%	-4.5%	-20.0%
SNI	-0.7%	-0.9%	26.9%	21.4%	37.0%
SYK	-1.6%	-2.0%	3.9%	20.3%	24.8%
TJX	1.3%	1.1%	-1.5%	-5.4%	-14.2%
TMO	-1.8%	-1.3%	-0.7%	22.8%	11.4%
TROW	0.0%	0.1%	11.6%	10.0%	20.5%
TSCO	-6.1%	-4.7%	-1.3%	-29.4%	-38.1%
UTX	-3.8%	-1.4%	-4.3%	6.6%	7.4%
VRSK	-2.7%	-7.6%	-4.4%	-0.7%	-1.0%
WAB	-2.5%	-3.4%	-20.4%	-12.3%	1.9%
WBA	-0.4%	0.1%	3.1%	-2.5%	-3.1%
WCN	-1.5%	-1.5%	-0.6%	22.2%	22.5%
YUM	0.7%	0.1%	2.4%	19.3%	16.8%
YUMC	1.8%	5.6%	-4.1%	44.7%	
Avg.	-1.5%	-1.7%	-1.1%	6.5%	4.5%
SPX-SPX	-1.4%	-1.2%	0.7%	9.0%	11.8%