

Notes from the Trading Desk

Tandem Investment

Advisors

Market Movers & Shakers

Markets were mixed this week and this week looked remarkably similar to last week. The S&P was barely up, the Nasdaq was slightly down. Meanwhile, the Dow was up over 1% and the Russell 2000 was off more than 1%. The Dow had what CNBC tried to push as a big hurrah moment when it passed 22k for the first time. Fins and Utes led the way, up 176 and 147 bps respectively. Industrials and Tech were also up. Energy was the real laggard, down 102 bps. It was followed by Materials, Health Care, Staples, Discretionary, REITs and Telecom on the downside as well. The DJ Transport, which has been markedly weaker than the Dow appears to be bouncing off its 200 day. A close lower would have made things interesting... It had a hard bounce back in May and then preceded to rally 11%.

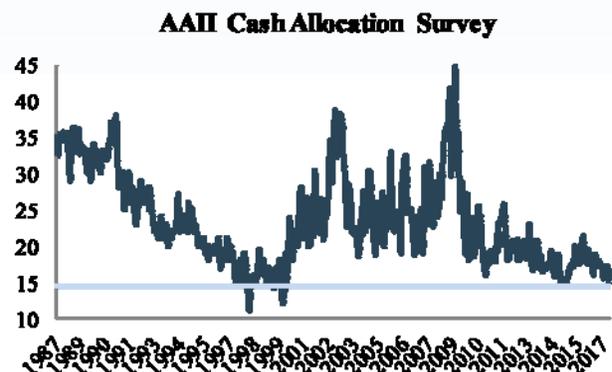
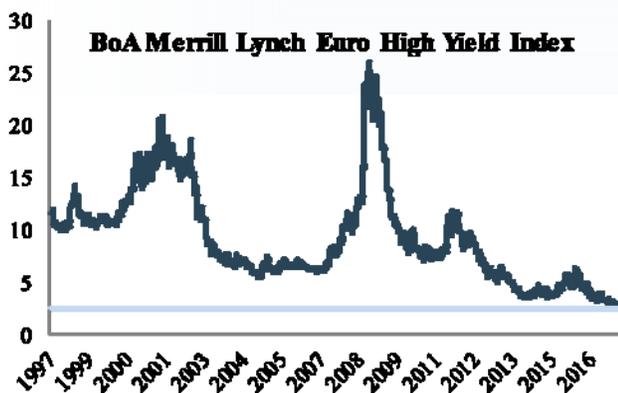
Last week we discussed the notably high level of bullish sentiment. In Billy's most recent *Observations*, he highlighted Charles Schwab's record number of retail accounts opening. This past week, AAI's asset allocation survey was released with the lowest cash allocation since 2000 (see bottom-right chart below). The only other lower readings, dating back to the survey's inception towards the end of 1987, occurred from January-April of '98 and November-January of '00. CNBC's mantra of retail cash on the sideline can no longer be said with any sort of truth to it. The retail investor is invested.

A few interesting things to note in our worldwide market place. First, BOAML's European High Yield Index has hit a multi-decade low (bottom left chart). In data going back to 1997, European Junk Yields, yielding 2.37%, have never been this low. Lets add a little perspective here, as of this morning, the US 10 year is yielding 2.26%. I know this is not an apples to apples comparison, but it surely signifies an extreme. The spread between the two yields has never been this low. In fact, the average spread between these two yields is typically greater than 530 bps. From 2005-2007, the yield was hovering between 100 to 150 bps. Finally, CNBC had a rather intriguing headline today...

'The bull market could continue forever' — strategist Jim Paulsen outlines conditions

CNBC · 2 hours ago

I concede that if you read the article, Paulsen admits that the caveat to this statement is that interest rates and inflation stay stable forever. That's not important, what is important is the attention grabbing headline that this market has potential to go on forever. To recap, investors have reached a significantly elevated level of bullishness, cash has left the sideline and has come into play, Schwab is opening their highest number of new accounts, and CNBC is suggesting that the bull market could continue.



Upgrades & Downgrades

- **ATR** — upgraded to hold from sell at Vertical Research Partners, target of \$77
- **CTSH** — upgraded to buy from hold at Loop Capital Markets, target of \$83
- **OZRK** — initiated overweight at Morgan Stanley, price target of \$54
- **RMD** — upgraded to buy from neutral at Citi. They were also downgraded to neutral from buy at BOAML. Credit Suisse also downgraded them from buy to neutral.
- **ROST** — target decreased to \$60 from \$70 at Credit Suisse
- **SCG** — upgraded to overweight from equal-weight at Barclays, target of \$73
- **Scripps** — upgraded to neutral from sell at Citi. SNI was downgraded from buy to hold at Needham and Argus
- **TJX** had their price target lowered at Credit Suisse from \$79 to \$72
- **VRSK** — downgraded to hold from buy at SunTrust, target remains \$85

Portfolio News

Another rather quite week is in the books. No composite activity again this week. However, we did have an active week on the transition front. We bought ABBV, ABT, BDX, EBAY, FISV, MD, MSFT, RMD, UTX, VRSK, and WAB. We also had a wide range in performance this week. Notable leaders this week were some of the names that have been very beat up of late. OZRK and SCG were both up over 4%. DLTR, CTSH, ORLY, and COST also helped lead the way in our portfolio. Mednax continued its recent weakness, dropping nearly 7% WTD. VRSK was also off 5%.

A few quick hits with regards to portfolio news. Scripps, as we all know, finally reached a deal with Discovery — \$90, 70% cash and the rest in Discovery Class C shares. Scana gained on their plan to cease construction and abandon their nuclear project — unfortunately they gave up most of those gains during the back half of the week. ICE is said to be in play for Virtu Financial's BondPoint. BondPoint could fetch roughly \$300m in a sale — though ICE and MKTX could begin a bidding war for the asset. Finally on the M&A front, UTX is said to be considering a deal for Rockwell Collins — though Bloomberg was unsure whether the two companies were actually in talks. Rockwell Collins is a manufacturer of communication and aviation electronic systems — they have a market cap just under \$20b.

The frenzy of earnings season is finally behind us. According to FactSet, 84% of all companies in the S&P 500 have reported. Blended growth, a combination of reported growth and the remaining companies' estimated growth, for the S&P 500 is roughly 10% (reported growth is a little over 11%). 83% of our core names have reported with a blended growth of approximately 14% and reported growth just over 15% (**note these numbers are not reflective of our portfolio weightings, they are equal-weighted). Many pundits are citing earnings growth as the key driver behind the markets performance QTD. However, it is interesting to note that of the ~420 companies that have reported in the S&P, 50 have issued negative guidance and only 33 have issued positive guidance. By my count, we have had 8 companies issue positive guidance and only 5 issue negative guidance during this quarter's earnings calls.

		WTD	MTD	QTD	YTD
DJI-DJX	Dow Jones	1.2%	0.9%	3.5%	11.8%
SPX-SPX	S&P 500	0.2%	0.3%	2.2%	10.6%
COMP-USA	Nasdaq	-0.4%	0.1%	3.4%	18.0%
RUT-RUX	Russell 2000	-1.2%	-0.9%	-0.2%	4.1%

Buy	Accumulate	Sell	Liquidate
DLTR**	ABBV	ACN	ATR
ORLY	CERN	ECL	ITT
TSCO	CTSH	FISV	KO
	DG	MSFT	PYPL
	FDS**	NEE**	TMO
	NNN	RMD	
	SBNY**	RSG	
	TJX	SYK	
	WBA**	WCN**	

**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
8/8/2017	N/A	EXPD

Core Holding Performance

Performance					
Ticker	WTD	MTD	QTD	YTD	1 Yr.
ABBV	0.8%	1.5%	-2.1%	13.4%	7.4%
ABT	-0.7%	0.2%	1.3%	28.2%	9.9%
ACN	1.4%	1.1%	5.3%	11.2%	14.5%
ATR	0.1%	1.8%	-5.2%	12.1%	7.3%
BDX	-2.4%	-2.2%	1.0%	19.0%	14.9%
BF.B	-3.0%	-1.8%	-0.2%	8.0%	0.2%
BRO	-1.2%	-1.2%	2.3%	-1.8%	20.7%
CERN	-2.4%	-2.0%	-5.1%	33.2%	-4.9%
COST	2.3%	-1.3%	-2.2%	-2.3%	-6.1%
CTSH	2.7%	2.7%	7.2%	27.0%	21.1%
D	1.4%	1.2%	1.9%	1.9%	2.2%
DLTR	3.2%	2.8%	6.0%	-4.0%	-22.9%
EBAY	-0.9%	-0.3%	2.0%	20.0%	14.7%
ECL	0.7%	0.9%	0.1%	13.4%	8.7%
EXPD	1.3%	1.2%	5.5%	12.5%	18.1%
FDS	-0.7%	-2.1%	-1.4%	0.2%	-5.3%
FISV	-2.5%	-4.2%	0.6%	15.8%	16.6%
HRL	-1.4%	-1.5%	-1.3%	-3.3%	-7.2%
ICE	-2.3%	-2.8%	-1.7%	14.9%	16.4%
ITT	2.5%	2.4%	4.5%	8.8%	28.4%
KO	-1.1%	-0.7%	1.4%	9.7%	4.6%
MD	-6.9%	-5.4%	-26.4%	-33.4%	-33.5%
MSFT	-0.5%	0.0%	5.4%	17.0%	26.6%
NEE	1.1%	0.5%	4.7%	22.8%	15.1%
NKE	1.9%	1.2%	1.3%	17.6%	9.1%
NNN	1.1%	1.3%	3.6%	-8.4%	-22.4%
ORLY	2.5%	0.4%	-6.3%	-26.3%	-29.0%
OZRK	4.8%	1.4%	-6.6%	-16.8%	23.5%
PYPL	-0.6%	0.5%	9.7%	49.1%	57.8%
RMD	-3.0%	-2.6%	-3.6%	21.0%	8.7%
ROST	1.8%	1.0%	-3.2%	-14.8%	-9.2%
RSG	0.7%	0.8%	1.6%	13.5%	27.3%
SBNY	0.0%	-1.5%	-4.9%	-9.1%	14.2%
SCG	4.1%	-0.9%	-4.8%	-13.0%	-14.2%
SJM	-0.8%	-0.4%	2.7%	-5.1%	-22.2%
SNI	0.4%	-0.1%	27.8%	22.3%	31.2%
SYK	-0.9%	-0.4%	5.6%	22.3%	27.6%
TJX	0.8%	-0.2%	-2.8%	-6.6%	-13.7%
TMO	0.2%	0.5%	1.1%	25.0%	12.7%
TROW	0.5%	0.1%	11.6%	10.0%	19.9%
TSCO	0.7%	1.6%	5.1%	-24.8%	-34.0%
UTX	2.2%	2.5%	-0.5%	10.8%	14.2%
VRSK	-5.1%	-5.0%	-1.8%	2.1%	2.2%
WAB	-0.5%	-1.0%	-18.4%	-10.1%	5.5%
WBA	1.8%	0.5%	3.5%	-2.1%	1.5%
WCN	-0.1%	0.0%	0.9%	24.0%	28.5%
YUM	0.0%	-0.6%	1.7%	18.5%	18.0%
YUMC	3.5%	3.7%	-5.8%	42.2%	
Avg.	0.2%	-0.1%	0.4%	8.0%	6.9%
SPX-SPX	0.2%	0.3%	2.2%	10.6%	14.4%