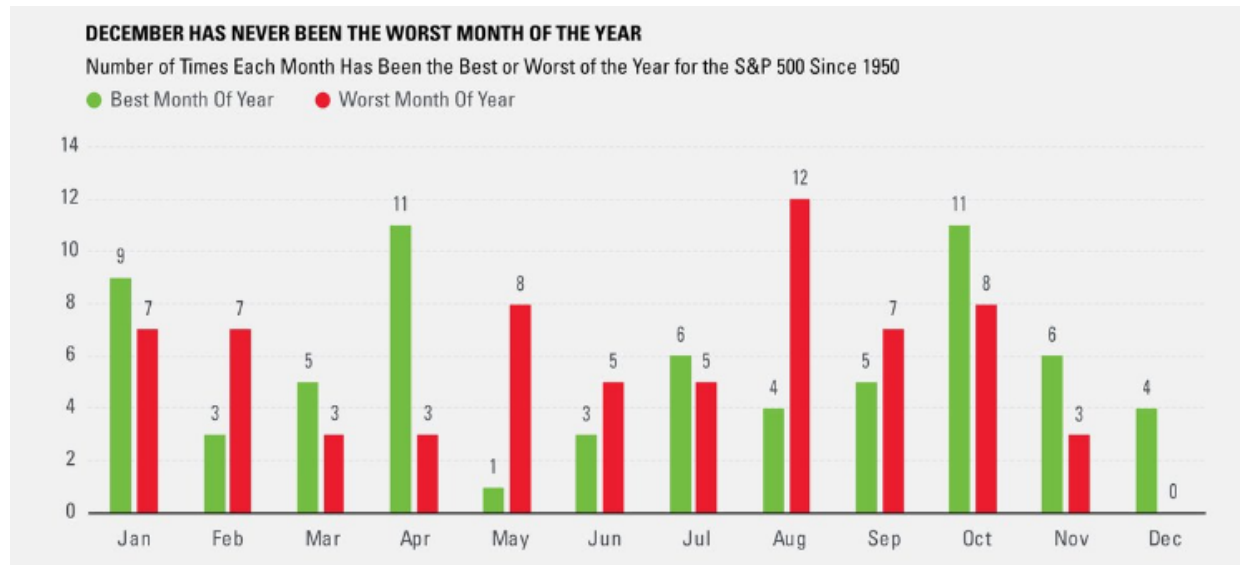


Financial Markets Review

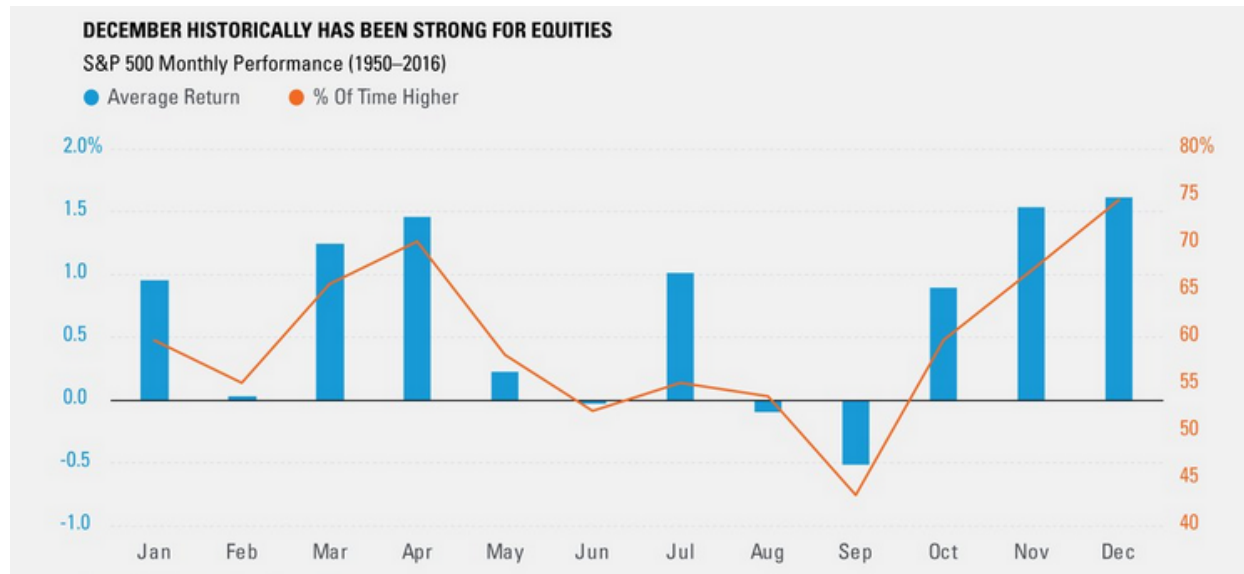
Equity markets around the world continued their ascent higher through November. The MSCI All-Country Index rose for its 13th consecutive month, which is the longest uninterrupted monthly streak on record. Domestically, the S&P 500 Total Return Index advanced 3.07% to also log its 13th consecutive month of gains. This is longest streak for the S&P 500 going back to the late fifties. Lastly, I'd be remiss if I didn't touch on the Dow Jones. The Dow cracked 24,000 for the first time ever and set an all-time high for the 63rd time this year.

As we head into the last few weeks of the year, the seasonality of the stock market is on our side. There are a couple of interesting facts worth noting. First, going back to 1950, December has never been the worst month of the year for the S&P 500. Why is this good? Because, the worst month so far in 2017 was March with a -0.04% return on a price basis and 0.12% on a total return basis. If this record holds, we are likely to see at worst a flat market in December.



Source: LPL Research, Ryan Detrick, CMT

In addition, December has historically been the strongest month for the S&P 500 and the most consistent as well. Going back to 1950, the average return in December has been 1.6% and up 75% of the time.



Source: LPL Research, Ryan Detrick, CMT

Even though all signs point to further gains ahead, there are plenty of reasons one could say that caution may be warranted. Recently, macroeconomic reports showing expansion, which has trickled down to growth in company earnings, can certainly explain the advances in the stock market. However, it could also easily be argued that valuations may have moved too far too fast. And, if you were to couple this with extreme investor sentiment readings, the argument for a healthy correction could be made. Either way, there is always something worth owning regardless of what the market may or may not do. It's just important to remember that every investment has a risk and you need to be comfortable assuming that risk. Sometimes this is hard to remember in a market that only goes in one direction!

For a quick read on current earnings and valuations, please read the December 1st edition of *Notes from the Trading Desk* in our Commentary section on the web site.

Tandem Strategy and Investment Discipline Review

November was a quiet month at the composite level. In fact, it has been 17 months since the last time we had zero activity at the firm level among all three of our styles – Large Cap Core, Equity, and Mid Cap Core. It's very rare for us, or any active manager for that matter, to do nothing over the course of an entire month. And, that is what makes us different! We don't buy and sell for the sake of buying and selling. If there is nothing to do, we will do just that – nothing. At least nothing that is visible to the outsider. However, over the course of the past month, several new companies have made their way onto our watch list. Some because their prices are becoming more compelling, others because their fundamentals are improving faster than their share price. We are now just tasked with maintaining patience and staying committed to our investment discipline before we invest our clients' cash in any of these new names.

In a world where equity markets only go in one direction, it can be a source of frustration to see cash sitting in a money market earning a measly 1% these days. Trust me, I get it! But, choosing whether to be fully invested or hold onto some cash is not a decision we make and certainly not how we manage money. Many of you have heard me say this before, but I think it bears repeating - we don't invest for the sake of investing.

The cash allocation is not a decision, but rather a result. We don't get together and try to predict where we think the market is going and then set a cash target. Cash is always the end result of our investment process. Cash decreases when we have more stocks to buy than sell. Cash increases when we have more stocks to sell than to buy. That's it! Over the course of the past market cycle in our Large Cap Core strategy, we have gone from 8.4% (September 2007) to 25.5% (September 2008), back down to 6.2% (March 2011) and back up to 33.9% (September 2016). Most recently, our Large Cap Core strategy has a cash allocation of 26.9%. At no time did we target a cash level. We simply followed our process one stock at a time.

Over the past few years our cash level has risen to current levels due to high valuations and decelerating fundamental growth. Our process correctly anticipated the earnings recession that we went through in 2015; however, the market never gave us much of an opportunity to redeploy the cash. For the first time in history, the market did not decline materially during an earnings recession. Then coming out of the earnings recession, valuations were at levels that have rarely been seen, which made it tough to opportunistically put cash to work. That doesn't mean we haven't been able to find anything to invest in. Over the past year, we have taken the opportunity to establish new positions in the following companies:

- CVS Health (CVS)*
- Dollar General (DG)*
- Factset (FDS)**
- Hormel (HRL)**
- Verisk Analytics (VRSK)***

In addition, we were able to take advantage of opportunities to add to our existing positions in the following:

- Abbott Labs (ABT)*
- Brown Forman (BF.B)**
- National Retail Properties (NNN)****
- T. Rowe Price (TROW)**
- JM Smucker (SJM)****
- TJX Companies (TJX)*
- O'Reilly Automotive (ORLY)***
- Signature Bank (SBNY)***
- Dollar Tree (DLTR)*****
- Ross Stores (ROST)*****

These were all specific stock stories that caused the prices of these companies to fall to a point where our model saw value. Hopefully, we get more of these opportunities in the near future. In the meantime, we will remain patient, abide by our process, and let our disciplines dictate the level of cash in our clients' portfolios.

Events on Tap

- December 8th – Non-farm payrolls report – the expectation is for an increase of 190,000 jobs and the unemployment rate to remain steady at 4.1%.
- December 8th – the temporary funding of the government ends, and a shutdown is on the table if an extension can't be negotiated.
- December 10th – Ravens vs. Steelers on Sunday night – Steelers are favored by 7, but this has never mattered in the past.
- December 13th – FOMC meeting announcement – the market is currently pricing in a 0.25% increase in the Federal Funds rate
- Sometime in the month – the House and Senate will attempt to come together and approve a tax bill. Seeing how dysfunctional Washington DC has become over the past decade, it would truly be a Christmas miracle!

-Billy Little, CFA

"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

DISCLAIMER: This writing is for informational purposes only. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Tandem Investment Advisors, Inc. does not represent that the securities, products, or services discussed on, or accessible through, this site are suitable for any particular investor. You acknowledge that your requests for information are unsolicited, and the provision of any information through this site shall not constitute or be considered investment advice, or an offer to sell, or a solicitation of an offer to buy any product, service, or security. 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. No data in this writing should be construed in any way as performance of any Tandem investment product. For complete performance information and disclosures, please contact John Carew at jcarew@tandemadvisors.com

From time to time Tandem may discuss select purchases and/or sales within this report. All past portfolio purchases and sales are available upon request. Any portfolio transaction discussed here does not constitute advice or a recommendation. Please consult your financial advisor before making any investment decisions. For information regarding past purchases and sales, please contact John Carew at jcarew@tandemadvisors.com.

** Bought across Tandem Large Cap Core and Equity.*

*** Bought across Tandem Large Cap Core, Equity, and Mid Cap Core.*

**** Bought across Tandem Equity and Mid Cap Core.*

***** Bought across Tandem Large Cap Core and Mid Cap Core.*

****** Bought across Tandem Mid Cap Core.*