OBSERVATIONS

TANDEM INVESTMENT ADVISORS | WILLIAM "BILLY" LITTLE, CFA

MAY | 2020

FINANCIAL MARKETS REVIEW

Has the new bull market begun or is this just a bear market bounce? That question is being debated endlessly right now. The reason for such voracious financial news media coverage is because of the dichotomy between the economy and equity prices.

The S&P 500 has soared nearly 35% since the lows on March 23rd after falling 35% and is now within 13% of its all-time high set 10 weeks ago. The market posted its biggest monthly gain since January 1987 on the back of utterly dismal economic data. First quarter GDP contracted by 4.8% with current estimates pointing toward a 30% decline for the second quarter. Over 30 million people have filed for unemployment, which represents 18% of the working population. March pending home sales and housing starts both fell over 20%. Consumer spending declined a record 7.5%, while consumer confidence also posted its record monthly drop, and the Leading Economic Indicators Index dropped a record 6.7% in March. The saying, "the stock market is not the economy" could not have rung more true than in April.

In many cases, the best returns in equity markets are generated when sentiment is overly pessimistic. Reason being, the monetary and fiscal policy is expansionary and the data at the root of the issue goes from bad to a little less bad. Fortunately, we were able to check all of these boxes this past month. Equity allocations fell to the lowest level since March 2009, which was the same month the stock market indices bottomed during the Financial Crisis. The Federal Reserve came in hot doing everything they could to support the federal, state, and corporate fixed income markets; flooding the market with so much liquidity that some are predicting the Fed's balance sheet will be as much as $12 trillion, nearly 50% of U.S. GDP by year-end. On the fiscal side, Congress has passed over $2.5 trillion of stimulus for those most affected by the coronavirus – small businesses, hospitals and the unemployed. It would appear, the coronavirus outbreak has trended from bad to less bad in several hotspots. There has been encouraging news of a potential treatment. And, more than half the states have lifted some of their restrictions setting the stage for an eventual reopening of their economies.

As much relief as we have felt in our portfolios over the past five weeks, there is still equal, if not more, uncertainty ahead. We do not have a playbook for what we have gone through and are continuing to endure as a nation: a complete shutdown of the economy and the ensuing recession is unprecedented. Never in U.S. history have so many people lost their jobs over such a short time period. Some of the recently unemployed will go back to work when the economy opens back up. However, many people will unfortunately not have a job to go back to. Countless businesses will be structurally changed if not gone for good. On the bright side, new industries will emerge and businesses that we can not even fathom right now will be created. It is the "circle of life" as Mufasa once told a young Simba in The Lion King, and can you tell I have been stuck at home way too long?

On a more serious note, millions of lives have been changed. As much as we want the economy to open so we can get back to "normal", the truth is there is still a lot of uncertainty as to what will be "normal" moving forward. We are all flying blind at this point – medical professionals, consumers, corporations, and government officials. To this I say, stop worrying about what letter the S&P 500 is going to make with its chart; stop contemplating if the S&P 500 has begun a new bull market or is in the throes of a bear market rally. We will not know the answer for quite some time. What we do know is the economic data over the next few months will get worse before it gets better, which will keep equity volatility heightened for the foreseeable future. As we have said many times before, volatility breeds opportunity. It makes no difference to us what type of market we are in – bull market or bear market. There will be opportunities in any market to buy undervalued companies and sell overvalued companies. It is imperative to stick with your process and discipline and not take an "all-in" or "all-out" approach based on the letter or animal that best describes the market.

Continued on Page 2

TANDEM STRATEGY UPDATE

The activity within our strategies was much more subdued this past month as compared to March. The opportunities we witnessed and took advantage of to put cash to work were not as abundant in April. But rather different opportunities popped up and we were able to trim back overvalued positions or liquidate companies that no longer met our fundamental criteria.

Over the past few weeks, we took advantage of rising equity prices to sell 25% of our position in Abbott Labs (ABT), Ecolab (ECL) and Costco (COST). All three companies got the signal from our quantitative model to sell for valuation reasons.

In addition to the valuation sales, we liquidated Carrier Global (CARR) and OTIS Worldwide (OTIS). As mentioned last month, CARR and OTIS were both spinoffs from the United Technologies and Raytheon merger. These companies were the more cyclical businesses of legacy United Technologies and as stand-alone businesses they did not meet our fundamental criteria of consistent revenue, earnings, and cash flow growth through any economic cycle.

Lastly, we also liquidated EBAY (EBAY) in our Equity strategy and Dollar Tree (DLTR) within our Equity and Mid Cap Core strategies. After several months under the leadership of an interim CEO, EBAY finally announced they would go outside the company to hire their next CEO. Ever since DLTR purchased Family Dollar, they have struggled to successfully integrate the two businesses. After four years of ups and downs, DLTR has now failed to successfully pass through our quantitative model, which is a fundamental violation and cause for liquidation.

BILLY LITTLE, JR., CFA

Billy Little is a shareholder, Vice President and Lead Portfolio Manager for Tandem Investment Advisors, Inc., directing all of Tandem's quantitative and fundamental research. Mr. Little also oversees Tandem's internship program. Having begun his career in the investment industry in 2004 as a Financial Advisor with Ameriprise Financial in Baltimore, Maryland, Mr. Little is a regular member of the CFA Institute and past President of the CFA Society South Carolina. Mr. Little graduated from the College of Charleston with a Bachelor of Arts degree in Business Administration with a concentration in Finance.

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