

Notes from the Trading Desk

Tandem Investment Advisors

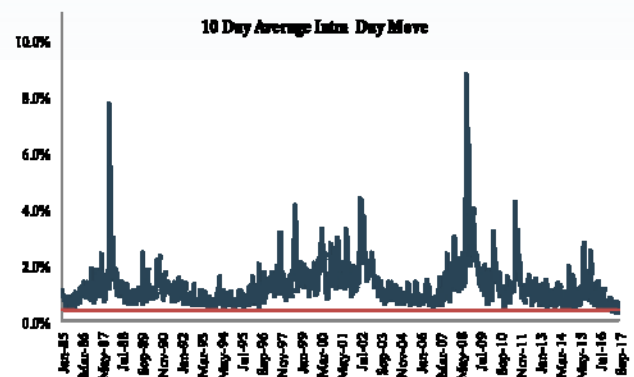
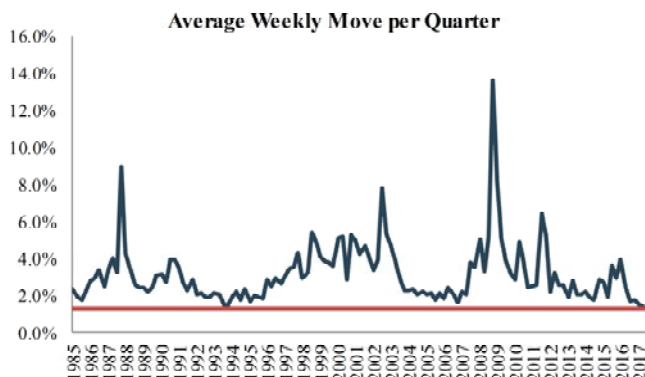
September 29, 2017

Market Movers & Shakers

Well another quarter is behind us and Mr. Market was able shake off what many would have thought to be considerable headlines with apparent ease as he made his way above 2,500 on the S&P and 22,000 on the Dow. A slew of missiles were tested throughout the quarter by North Korea — including two that were launched over Japan. Three major hurricanes made landfall in the US — Harvey having devastated Houston in August, Irma hitting Florida in September, and Maria decimating Puerto Rico most recently. Many Americans credit was compromised in one of the largest and greatest data breaches in history as details of the Equifax leak began to emerge. Republicans continue to impress with their complete ineptitude and inability to agree on anything and everything. Lastly, the Fed officially announced the inception of quantitative tightening in the reduction of its balance sheet. Pick your poison, any one of those should be enough to shake confidence — let alone all of them combined — but the market did not even blink.

In hind sight, if the quarter seemed to have been a bit dull, its because it was! The lull in the marketplace was of historic proportions. Yes, we did close up 4% this quarter on the S&P. But, we are currently experiencing the lowest 10 Day Average for Intraday moves in the past 32 years (see the bottom right chart below). This quarter also marks the lowest average weekly move over the course of a quarter dating back to '85 as well (see bottom left). No matter how you cut it, the moves in the market have been downright lethargic. September, a historically volatile month, witnessed the lowest monthly close on the VIX in the last 30 years.

There are a couple of developments that could derail this inchworm of a market that just keeps inching higher. First, as noted above, the Fed has announced that QT (quantitative tightening) is set to begin in October. The Fed is starting off the unraveling of their giant \$4.5 trillion balance sheet in a minute manner. For the first three months, they will allow \$6 billion of Treasuries and \$4 billion of MBS to run off — this \$10 billion total runoff will increase by another \$10 billion every three months till this time next year, when the Fed will supposedly allow \$50 billion to runoff monthly till 2022. Second, as we have previously discussed much in depth, a disturbance in the bond market such as an inverted yield curve, or even just a continued flattening of the yield curve could cause pause in our upward ascent. Rising geopolitical tensions should without a doubt be cause for concern. The problem with all of these issues is that they have all been present now for months and the market does not seem to care! Sure, the Fed has not yet begun the reduction of their balance sheet, but we have known it was coming since June. The yield curve has been steadily tightening since 2014 and North Korea has been launching missiles for years. Mr. Market has his blinders on and just cannot be bothered! Maybe Mr. Market is right though, take a look at earnings. According to Standard and Poor's, the S&P 500's LTM Operating Earnings grew 3.7% quarter over quarter. This is the third highest print since 2013. Keep a close eye on earnings as it seems to be what is currently driving this market. The dollar though has strengthened over the course of the last month and this year long tail wind for large cap stocks might just be what turns the tide.



Upgrades & Downgrades

ABBV — downgraded to neutral from buy at UBS due to their recent runup, target of \$79, down from \$92

BDX — initiated outperform at Wells Fargo with a target of \$225

BF.B — upgraded to neutral from sell at Goldman, target increased to \$56 from \$51

CVS — remains outperform at Raymond James, target revised to \$90 from \$85

EBAY — initiated outperform at Wells Fargo with a target of \$45

TJX — revised target at JPM to \$82 (from \$83), remains overweight

TROW — upgraded to buy from neutral at Goldman, target increased to \$100 from \$85

ROST — upgraded to overweight from neutral at JPM, target increased to \$74 from \$65

WBA — downgraded to market perform from outperform at Raymond James

Earnings Calendar

Date	Time	Ticker
10/5/17	Post-Market	COST
10/5/17	Post-Market	YUMC

Portfolio News

Let's talk about the elephant in the room, SCG. Scana witnessed a flurry of news and promptly traded off over 12% this week. We circulated a note this week about SCG, so thankfully I won't spend too much time rehashing their mishaps here, instead I will just hit the lowlights. The South Carolina AG has requested a criminal investigation of the nuclear project. Scana then sold the rights to their Toshiba payment to Citi for \$0.92 on the dollar. The state of South Carolina then filed for a rate relief against Scana going forward and if anything unconstitutional is found to have taken place, SCG should make credits to future bills or refunds to customers for prior revised rate collections.

Our portfolio is not entirely in the doldrums though, so now that the gloomy is out of the way, let's talk about the bright spots. FactSet reported stellar numbers, gapped higher and is currently knocking on the door of their 52 week highs. Ross Stores jumped 6% on the backs of its JPM upgrade — its up 21% since our purchase in mid-August. T. Rowe continues its rip higher on its way to its first ever 9 handle. TROW broke out of what was basically a triple-top in the mid-80s that has served as its ceiling since 2014. AbbVie also continued its move higher this week, closing up 18% for the month, as ABBV and AMGN finally agreed to settle their patent dispute over Humira. Abbot also saw a nice pop as it broke out to all-time highs following the FDA's approval of their less-invasive glucose monitoring system. Their FreeStyle Libre Flash Glucose Monitoring System reduces the need for the finger-pricking test by using a small wire inserted under the skin that continuously measures glucose levels. All in all it was a strong September for the average Tandem stock. Tandem's average stock over the last month closed up 3.1% compared to a paltry 1.9% for the S&P.

	WTD	MTD	QTD	YTD
Dow Jones	0.2%	2.1%	4.9%	13.4%
S&P 500	0.7%	1.9%	4.0%	12.5%
Nasdaq	1.1%	1.0%	5.8%	20.7%
Russell 2000	2.8%	6.2%	5.4%	9.9%
Industry				
C.D.	0.6%	0.8%	0.5%	10.8%
C.S.	-0.1%	-1.1%	-2.0%	4.4%
Energy	1.9%	9.8%	6.0%	-8.6%
Fins	1.5%	5.1%	4.8%	11.0%
H.C.	0.1%	0.9%	3.2%	18.7%
Ind.	0.2%	3.8%	3.7%	12.3%
I.T.	1.0%	0.6%	8.3%	26.0%
Mats	0.4%	3.3%	5.5%	14.1%
Utes	-0.5%	-3.0%	2.0%	9.0%
REITs	0.3%	-2.0%	0.0%	4.5%

Buy	Accumulate	Sell	Liquidate
KR	CTSH	MSFT	ITT
	CVS	NEE**	KO
	DG	WCN	SNI
	DLTR**		
	FDS**		
	NNN		
	SJM		

**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

Core Holding Performance

Performance					
Ticker	WTD	MTD	QTD	YTD	1 Yr.
ABBV	1.6%	18.0%	22.5%	41.9%	41.5%
ABT	1.6%	4.8%	9.8%	38.9%	28.8%
ACN	-2.1%	3.3%	9.2%	15.3%	11.0%
BDX	1.5%	-1.7%	0.4%	18.4%	11.1%
BF.B	0.1%	2.4%	11.7%	20.9%	15.3%
BRO	1.6%	7.2%	11.9%	7.4%	29.3%
CERN	2.4%	5.2%	7.3%	50.6%	15.9%
COST	1.8%	4.8%	2.7%	2.6%	11.4%
CTSH	0.7%	2.5%	9.2%	29.5%	31.9%
CVS	2.1%	5.1%	1.1%	3.1%	-9.2%
D	-0.1%	-2.3%	0.4%	0.4%	2.9%
DG	4.4%	11.7%	12.4%	9.4%	16.9%
DLTR	2.6%	9.0%	24.2%	12.5%	12.2%
EBAY	0.4%	6.4%	10.1%	29.5%	19.1%
ECL	-2.1%	-3.5%	-3.1%	9.7%	6.5%
EXPD	2.9%	6.7%	6.0%	13.0%	16.6%
FDS	6.8%	14.6%	8.4%	10.2%	12.4%
FISV	2.2%	4.2%	5.4%	21.3%	29.3%
HRL	2.8%	4.6%	-5.8%	-7.7%	-15.2%
ICE	2.5%	6.2%	4.2%	21.8%	28.0%
ITT	-0.4%	9.7%	10.2%	14.8%	24.5%
KO	-1.1%	-1.2%	0.4%	8.6%	7.1%
MD	2.3%	-3.9%	-28.6%	-35.3%	-34.6%
MSFT	0.1%	-0.4%	8.1%	19.9%	29.8%
NEE	0.1%	-2.6%	4.6%	22.7%	18.5%
NKE	-2.6%	-1.8%	-12.1%	2.0%	-0.6%
NNN	-1.1%	-0.4%	6.5%	-5.7%	-18.8%
ORLY	2.8%	9.8%	-1.5%	-22.6%	-22.8%
PYPL	-1.6%	3.8%	19.3%	62.2%	58.5%
RMD	-0.5%	-0.8%	-1.2%	24.0%	19.9%
ROST	6.0%	10.5%	11.8%	-1.6%	1.9%
RSG	-0.3%	1.3%	3.7%	15.8%	31.9%
SBNY	5.2%	-0.2%	-10.8%	-14.8%	9.2%
SCG	-12.2%	-19.7%	-27.6%	-33.8%	-33.3%
SJM	0.3%	0.2%	-11.3%	-18.1%	-22.1%
SNI	-0.2%	0.3%	25.7%	20.3%	34.3%
SYK	0.8%	0.5%	2.3%	18.5%	22.7%
TJX	1.8%	2.0%	2.2%	-1.9%	-0.2%
TROW	4.6%	7.5%	22.2%	20.4%	38.3%
TSCO	3.6%	6.4%	16.7%	-16.5%	-7.3%
UTX	0.9%	-3.0%	-4.9%	5.9%	14.9%
VRSK	1.1%	2.6%	-1.4%	2.5%	2.6%
WAB	-0.7%	7.3%	-17.2%	-8.8%	-4.0%
WBA	-1.5%	-5.3%	-1.4%	-6.7%	-2.5%
WCN	0.1%	4.9%	8.6%	33.5%	40.1%
YUM	-3.1%	-4.2%	-0.2%	16.2%	14.0%
YUMC	0.7%	13.0%	1.4%	53.0%	
Avg.	0.8%	3.1%	3.7%	11.1%	11.7%
SPX-SPX	0.7%	1.9%	4.0%	12.5%	17.1%