THE TANDEM REPORT

Volume XX, Issue 1, January 2019

"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

Dear Clients,

Tandem is committed to the preservation of your wealth by minimizing risk while adding value through consistent and superior investment performance over time. This issue of **The TANDEM Report** provides a summary of our views pertaining to the investment landscape and subjects that influence our decision making. More information about our firm, including our investment style and process, is available at www.tandemadvisors.com or upon request. We hope you find this report useful.

Respectfully,

John B. Carew
President

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All performance figures, charts and graphs contained in this report are derived from publicly available sources believed to be reliable. Tandem makes no representation as to the accuracy of these numbers, nor should they be construed as any representation of past or future performance.

MARKET COMMENTARY:
Should We Worry About Events, or Fatigue?

Technically speaking, a bear market occurs when the price of an index closes 20% or more below its high price. On September 20th, the S&P 500 closed at 2,930.75, its all-time high. On Christmas Eve the index closed at 2,351.10, down 19.78% from its high hit just three months earlier. The index has not closed lower since. This was a sudden fall to be sure, but is this a bear market? Or just a bull market correction? And does it matter either way?

For the year, the S&P 500 entered correction territory (defined as at least a 10% decline) in February. From there it recovered and reached all-time highs by August. By fall, volatility returned with a vengeance, producing mighty price swings. And then came the December swoon that flirted with bear territory.

At its September high, the S&P had risen 9.62% for the year. At its Christmas Eve low the market was down 12.06% year-to-date. For the entire year, the S&P lost 6.24% of its value.

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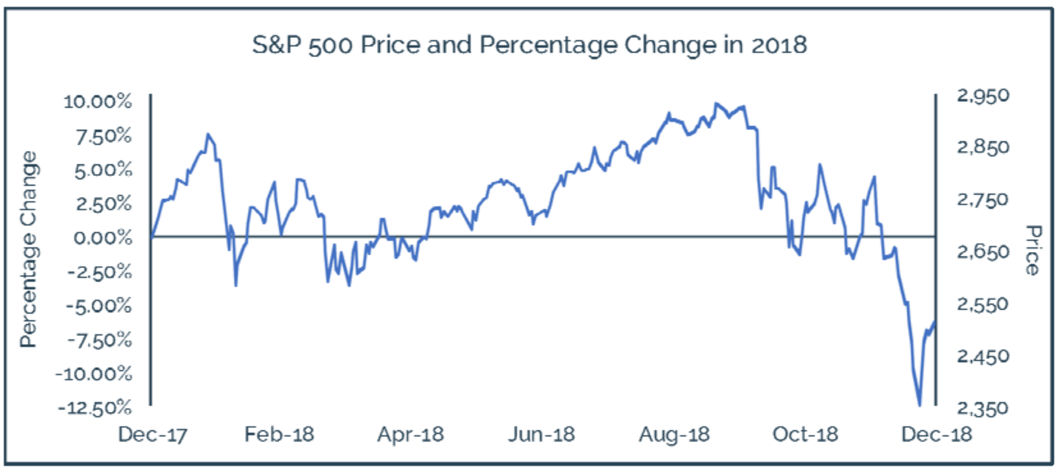

COMMENTARY:
This is How Cash is Supposed to Work

Few would argue with the premise that the most basic principal of successful investing is buying low and selling high. Yet the actual execution of this most basic principal is far more challenging than many realize.

The concept seems obvious, doesn't it? Buy low. Sell high. To most, that means buy when prices are their least expensive and sell when prices are at their peak, just before they fall. The problem with this notion of what it means to buy low and to sell high is that, absent a crystal ball, a bit of guesswork is required.

How low is low? If prices are falling, are they likely to keep falling? And how high is high? If you sell today and prices go higher tomorrow, did you sell too soon? Timing, reading tea leaves

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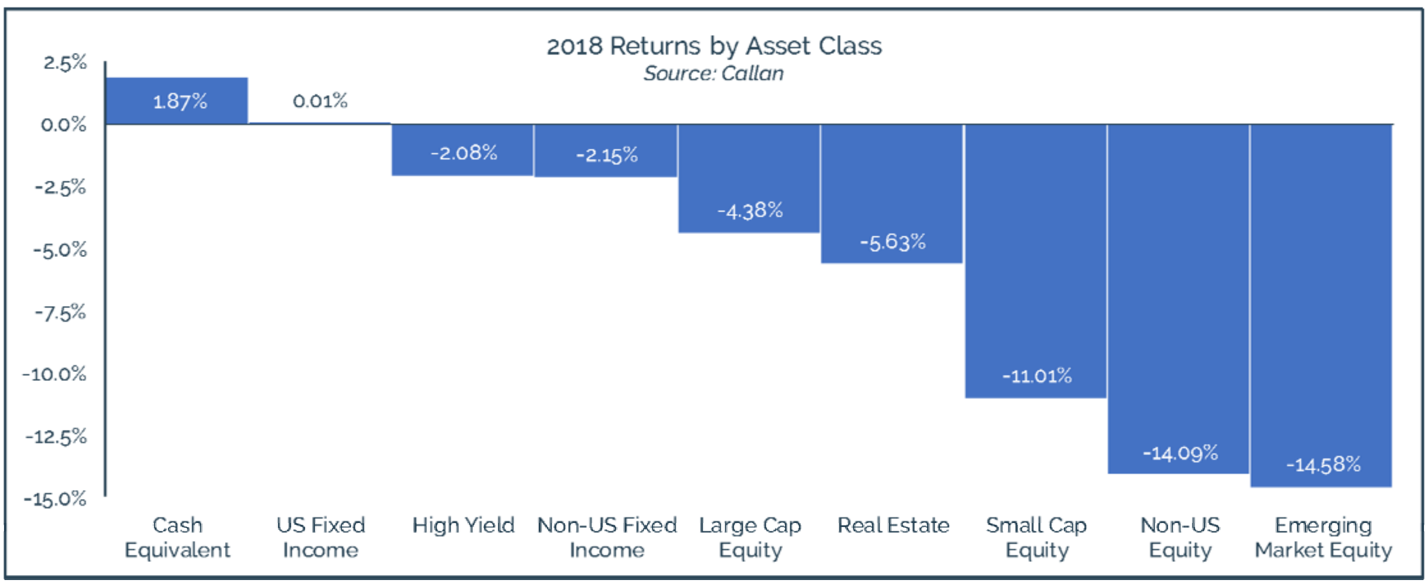
Most other market indicators reached bear market status. In fact, when the S&P hit its low for the year, nearly 2/3 of the stocks that comprise the index had already declined at least 20%. But the Dow and S&P never officially closed in bear territory.

For nearly every major asset class, 2018 was not a good year. In fact, Cash was the only asset class that enjoyed an appreciable positive return. Non-U.S. investments really struggled when compared to their U.S. counterparts. Last year was just not a great year for investors. The question we must now face is this: Did 2018 mark an end to a 9+ year bull market, or was it merely a bump in the road?

As we enter 2019, many concerns weigh on the stock market. As a result of the corporate tax cut passed in 2017, 2018 corporate earnings were spectacular. 2019 will certainly be less spectacular, but how much less? Will trade wars, the government shutdown, a strong dollar and higher interest rates send us careening toward recession, or simply a slower (but positive) rate of economic and earnings growth? If all these concerns can be resolved positively, will our market return to lofty heights? Or if resolutions seem unfavorable, is negative growth a reasonable expectation?



One noteworthy item perhaps getting less attention than it should is the shrinking of the Federal Reserve's balance sheet. During the Financial Crisis the Fed lowered interest rates. When that failed to have the desired effect, the Fed then decided to buy trillions of dollars worth of bonds. The theory was that by shrinking the amount of bonds available to the public, the Fed could keep interest rates lower for longer while forcing investors to take on greater risk than they might otherwise have chosen to do. It's hard to retire on fixed income when rates are zero. Investors were forced to be more risky in search of higher returns.

The Fed's policy worked. Rates have remained very low for a very long time, and the stock market appears to have been a great beneficiary of the policy. The top chart on the next page shows the expansion of the Fed's balance sheet corresponding with the rise in the value of the S&P 500. However, now that the Fed has begun to reverse this policy, the market is no longer on a clear upward trajectory.

Much has been made of the recent hikes in interest rates. President Trump has certainly made his displeasure known, and many on Wall Street have begun to share the sentiment that the Fed has gone too far too fast with interest rate increases.

Rising rates tend to slow economic growth and hurt corporate profits. And in fact, most recessions have been Fed induced, or at least Fed aided, by raising rates too high. One pretty reliable recession predictor is the spread, or difference, between the interest rate of the 10-year U.S. Treasury and that of the 2-year U.S. Treasury. Whenever this spread has turned negative, the yield curve is said to have inverted, and recession most often has ensued.

The Yield Spread chart on the next page indicates that the curve inverted in 2006. A recession did indeed follow, as did a stock market collapse. The spread is presently getting very close to zero, but has yet to invert. Should investors be worried?

The truth is that investors should always be worried, about all of these things. But not to the extent that worry results in bad decisions. Being too conservative

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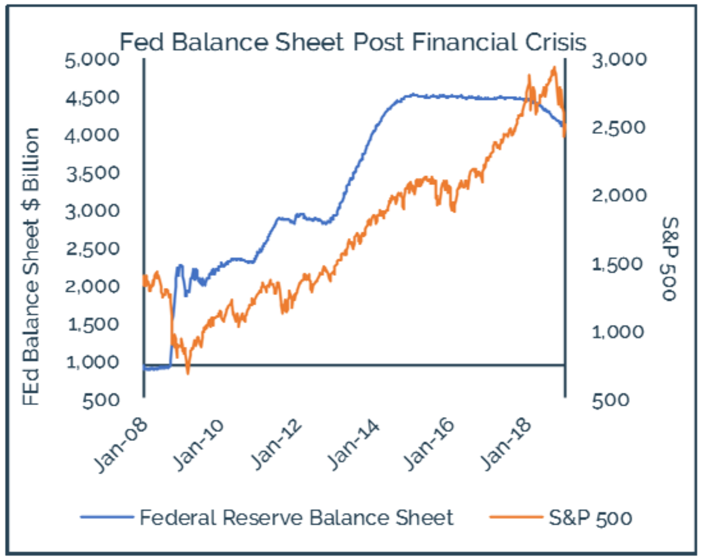
can be as harmful over time as being too aggressive.

The good news, at least from Tandem's perspective, is that we are not invested in the *"stock market"*. We are invested in the stocks of individual businesses that have demonstrated their ability to grow through any economic environment. The stocks of these businesses, over the long run, rise or fall based on the merits of the businesses themselves, not the stock market.

2018 ended with more questions for investors than answers. We must remind ourselves that the last two bear markets were extremes, not the norm. After the tech bubble burst in 2000 and then the Twin Towers fell in 2001, the market lost nearly half its value. The Financial Crisis ended with similar market declines.

Yet not every bull market ends in catastrophe. And this bull market that began in 2009 will likely not end because of a trade war, rising interest rates, slowing profit growth or a strong dollar. But it could potentially end as a result of all of those things.

After 9+ years, who isn't in this market yet that wants to be? Aren't we all on board? And when that's the case, aren't we then subject to a little investor fatigue? In such a case, no one particular risk speaks to us all. Rather, several risks speak to many in different ways. But 9+ years means many are quicker now than they were before to protect what they have gained. And thus a market can fall 20% in 3 months. But it doesn't have to be 20% on its way to 50%. Not every bear market is a crisis. But they do all create opportunities!



COMMENTARY (CONTINUED)

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and on-the-fly market analysis can enter into the decision-making process. More often than not, human emotion plays a role as well.

Too frequently, the average investor actually ends up buying high and selling low - the exact opposite of the obvious goal. When prices are falling, it can be very scary. Most aren't thinking about the opportunity that is unfolding. Instead, they are thinking about the money they are losing. They decide they can't afford to lose any more and so they sell - when prices are low.

It can be very exciting when prices are rising. Investors are making money, and they want to make even more. So they continue to buy stocks (or at least hold on to them) as prices rise. This strategy may work for awhile, but ultimately buying stocks as they get more expensive results in.....you guessed it - buying high. So you see, buying high and selling low is actually very easy. It is practically second nature for the average investor. Buying low and selling high is more complicated.

Judgement can be unduly influenced by recent experience. If prices are falling, aren't they likely to continue falling? And if prices are rising, surely they will continue to do so. In fact, buying low and selling high requires the discipline to look forward, not backward. To do so successfully, one must remove sentiment from the process and focus on what is knowable. Tandem's investment discipline does precisely that.

Buying low should not mean buying at the absolute low. Similarly, selling high doesn't require knowing the absolute high. High is high. Even if prices go higher.

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There are many acceptable tools for valuation analysis. The most common is PE, or Price/Earnings ratio. Tandem utilizes its own proprietary ratio. It really doesn't matter what metric is used as long as discipline is exercised.

From Tandem's perspective, when a company is trading at an historically low valuation, and the fundamentals of the company remain appealing, the stock is cheap and should be bought. Can it get cheaper? Of course it can. Undervalued things often become even more undervalued until order is restored. Buying low does not require buying lowest. Low is okay. Paying a reasonable price increases the likelihood of a profitable return as the market cycle turns higher.

While buying low requires discipline, selling high might actually be harder. It certainly requires discipline. It can also require patience. For clients that were with us throughout 2017, patience was indeed required. The stock market continued to hit all-time highs month after month while our cash levels remained historically high. But our cash levels were high with good reason - most stocks were expensive. There were more opportunities to take profit (sell high) than there were to put money to work (buy low). As a result, cash levels rose. With so much cash in a market making all-time highs, we underperformed in 2017.

We were not concerned by this. We do not invest your money simply for the sake of being invested. We take seriously our commitment to buy low and sell high, and to have the patience and discipline in between. The best opportunities to buy and sell do not occur simultaneously. When there are more things to sell than buy, cash levels in client portfolios rise. Conversely, when there are more things to buy than sell, cash levels will decline. To us, this is the way it is supposed to be.

The patience of those with us in 2017 was rewarded in 2018. The market peaked in January and then corrected. We had plenty of cash to take advantage of the situation and we were able to buy some stocks at compellingly low valuations. We put some of our clients' cash to work. The market recovered to new highs, and then sold off nearly 20% in the 4th quarter. Cash ended up being beneficial to our portfolios two ways. As stock prices were declining, the value of our cash was not! And by still having cash on hand, we were able to take advantage of the market's opportunities once again. Tandem enjoyed a solid 2018 and patience was rewarded.

The chart below traces the meanderings of the S&P 500 through the two bear markets and two bull markets following the bursting of the tech bubble in

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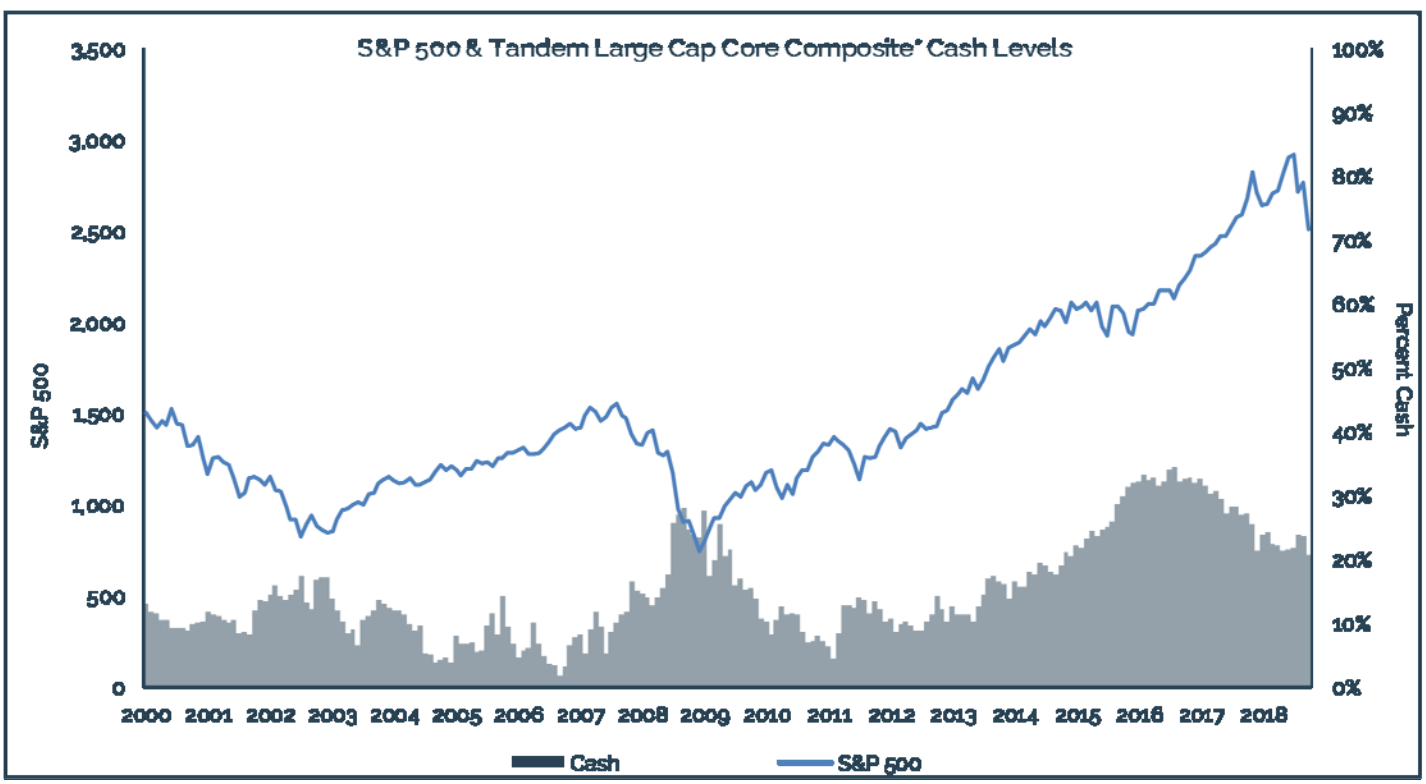

** Tandem's Large Cap Core Composite consists of all discretionary, fee-paying (if applicable, non-fee paying) accounts that are managed to Tandem's Large Cap Core strategy (LCC) with a minimum account size of $100,000 at the time the account is eligible for the composite. Information about Tandem's Composites is available upon request. Nothing on this page should be construed as representing past or future performance.*

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March 2000. Whether we remain in a bull market or have entered a bear market now remains to be seen. The chart below left also illustrates the ebbs and flows of cash levels in Tandem's Large Cap Core Composite. While the correlation of cash to the price of the S&P is not perfect, it is clear that Tandem's cash levels generally are declining coming out of market bottoms and rising as the market approaches tops. In other words, Tandem is putting money to work when prices are cheap (buying low) and taking money off the table when prices are high (selling high).

Most of our peers tend to believe that their job is to remain fully invested at all times, leaving the decision of when stocks are cheap and when they are expensive to others. We simply cannot operate this way. It is not in our DNA to hold without taking some profit, or even worse buy, overvalued securities. We work hard to make profitable investments on behalf of our clients. It is our responsibility to protect those profits when appropriate. For those of you that have now been with us through market ups and subsequent market downs, hopefully you see that we do what we told you we would do.

5 Year Annualized Dividend Growth for Tandem's Holdings by Strategy
from Q4 2013 to Q4 2018

Tandem's average dividend-paying holding has increased it's dividend by 11.54% on an annualized basis for the last 5 years. This growth is the result of strong and growing earnings, cash flow and revenue.

Large Cap Core 5Yr. Annualized Dividend Growth	
Company	Dividend Growth
Abbott Laboratories	7.78%
AbbVie, Inc.	21.75%
Accenture Plc	9.44%
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Cl B	7.43%
Cognizant Tech Solutions	NA
Comcast	14.27%
Costco	12.95%
CVS Health	12.70%
Dollar General	NA
Dominion Resources	8.22%
Ecolab Inc.	10.84%
Expeditors International	8.45%
FactSet Research	12.83%
Hormel Foods	13.40%
Intercontinental Exchange	13.05%
Microsoft	10.44%
National Retail Properties	4.30%
NextEra Energy	10.96%
NIKE	12.89%
T. Rowe Price	13.00%
Republic Services	7.60%
ResMed	8.16%
Signature Bank New York	NA
J. M. Smucker	7.94%
Stryker	11.26%
TJX Companies Inc	21.88%
Tractor Supply	18.98%
United Technologies	4.49%
Walgreens Boots Alliance	6.91%
Waste Connections	15.75%
Average	11.20%

Companies not paying a dividend on 12.31.2013 are NA. YUM and YUM China restructured and are listed as NA because they do not have 5-year data that reflects restructuring. All companies in Large Cap Core currently pay a dividend.

Equity 5 Yr. Annualized Dividend Growth	
Company	Dividend Growth
Abbott Laboratories	7.78%
AbbVie, Inc.	21.75%
Accenture Plc	9.44%
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Cl B	7.43%
Celgene	NA
Cognizant Tech Solutions	NA
Comcast	14.27%
Costco	12.95%
CVS Health	12.70%
Dollar General	NA
Dollar Tree	NA
eBay	NA
Ecolab Inc.	10.84%
Euronet Worldwide	NA
Expeditors International	8.45%
FactSet Research	12.83%
Hormel Foods	13.40%
Intercontinental Exchange,	13.05%
Microsoft	10.44%
NextEra Energy	10.96%
NIKE	12.89%
O'Reilly Automotive	NA
PayPal Holdings	NA
T. Rowe Price	13.00%
Republic Services	7.60%
ResMed	8.16%
Signature Bank NY	NA
J.M. Smucker	7.94%
Stryker	11.26%
TJX Companies Inc	21.88%
Tractor Supply	18.98%
Tyler Technologies	NA
United Technologies	4.49%
Verisk Analytics	NA
Walgreens Boots Alliance	6.91%
Waste Connections	15.75%
Average	11.56%

Mid Cap Core 5 Yr. Annualized Dividend Growth	
Company	Dividend Growth
Becton, Dickinson	7.16%
Brown & Brown	9.86%
Brown-Forman Class B	7.43%
Cognizant Tech Solutions	NA
Dollar Tree, Inc.	NA
Ecolab Inc.	10.84%
Euronet Worldwide	NA
ExlService Holdings	NA
Expeditors International	8.45%
FactSet Research	12.83%
Fiserv	NA
Hormel Foods	13.40%
National Retail Properties	4.30%
O'Reilly Automotive	NA
T. Rowe Price	13.00%
Republic Services	7.60%
ResMed	8.16%
Ross Stores	21.49%
Henry Schein	NA
Signature Bank NY	NA
J. M. Smucker	7.94%
Stryker	11.26%
Tractor Supply	18.98%
Tyler Technologies	NA
Verisk Analytics	NA
Waste Connections	NA
Yum! Brands, Inc.	NA
Yum China Holdings, Inc.	NA
Average	10.13%

The list of holdings above for Tandem's 3 strategies are as of 12.31.2018. These lists do not constitute investment advice, nor do they represent performance of any Tandem investment product. FactSet is the data source for the above calculations.

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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.

Yield table

	Current	3 months ago	1 year ago
3-month Treasury Bill	2.37%	2.13%	1.32%
2-year Treasury Note	2.68%	2.77%	1.84%
5-year Treasury Note	2.68%	2.89%	2.18%
10-year Treasury Bond	2.83%	3.00%	2.40%
30-year Treasury Bond	3.10%	3.15%	2.77%
Prime Rate	5.35%	5.03%	4.40%
Federal Funds Rate	2.27%	1.95%	1.30%
Discount Rate	2.85%	2.53%	1.90%

The data used to compile the above tables come from publicly available sources. Tandem believes it to be reliable, but makes no such assertions. Such data is not meant to imply past or future performance for Tandem or any securities market.

Key Market Data

	12/31/18 Close	% Change 1 Year	% Change 3 Years	% Change 5 Years
S&P 500	2,506.85	-6.25%	22.65%	35.63%
Dow Jones Industrial	23,327.46	-5.63%	33.87%	40.72%
NASDAQ	6,329.97	-1.04%	37.81%	76.22%
Russell 2000	1,348.56	-12.18%	18.72%	15.89%
German Xetra DAX	10,558.96	-18.26%	-1.71%	10.54%
London FTSE 100	6,728.13	-12.48%	7.78%	-0.31%
Shanghai Composite	2,493.90	-24.59%	-29.53%	17.86%
Crude Oil	$ 45.41	-24.84%	22.60%	-53.86%
Gold	$ 1,281.30	-1.91%	20.84%	6.61%
CRB Index	169.80	-12.41%	-3.60%	-39.39%
U.S. Dollar Index	95.735	4.26%	-3.05%	19.39%
Euro/Dollar*	1.1470	-4.40%	5.62%	-16.56%

** Negative return represents dollar strength, positive return represents dollar weakness. Returns are cumulative, not annualized.*

TANDEM
INVESTMENT ADVISORS