

The University of Virginia men's basketball coach Tony Bennett has built a successful program in Tandem's original hometown of Charlottesville, Virginia. Part of the key to success for the team has been Bennett's "five pillars": humility, passion, unity, servanthood, and thankfulness. Those pillars guide the team through good times, like winning a national championship, and through bad times, like when UVA became the first #1 seed to ever lose to a #16 seed during March Madness. Tandem has two such pillars when it comes to managing your money – though admittedly, they are a little wordier than Bennett's five.

Our first pillar is that Tandem strives to deliver a more consistent, repeatable, and less volatile investment experience. It is our belief that volatility is the enemy of most investors. A select few may keep an even keel through good times and the bad, but most of us succumb to human nature and the temptation to make emotional decisions during stressful periods. We believe that volatility in the stock market creates a more hectic and stressful environment that can cause investors to act emotionally. Personally, very few of my emotional decisions have been among my best.

The tendency for most investors, individuals and professionals alike, is to become a bit euphoric when things go our way, and to become somewhat frantic when the tide turns against us. The degrees of euphoric and frantic sentiment generally correlate with the size of the market's advance or decline. Bull markets are fun. We grow confident in them. We want more. We might even get a little FOMO (Fear Of Missing Out), which can cause some to chase markets higher. As a result of that over-confidence, or FOMO, some folks end up buying high – paying more than they should for something because they are convinced it will continue to go up and they don't want to miss the ride. On the other hand,

bear markets are not fun. We grow concerned. At some point in the decline, we just want out. The pain of seeing assets drop in value can be too much. And, as a result, some will panic and sell low – selling at lower prices because they have become convinced that markets will continue to go down indefinitely, and the stress has just become too much to bear.

In essence, it's volatility that can get the best of most investors. Volatile markets to the upside can cause people to pay high prices because they fear missing out. Volatile markets to the downside can cause people to panic and sell low because they don't want to see prices drop any further.

In 2009, Jack Bogle, the founder of one of the largest passive investing companies, Vanguard, published an interesting study on the average investor's performance. In it, Bogle compared the returns of individual investors versus the funds that the investors owned. The funds outperformed by 4.5% annually due to poor timing from the individual investors. This is a significant difference between expected and actual return. In other words, investors chased performance higher when the market was up, and they often sold following periods of poor performance within those funds. Long story short, Jack Bogle (who is the father of passive investing!) found that the average investor will buy high and sell low – the exact opposite of what one should do, which is buy low and sell high.

Need more proof of the poor timing of one's emotional decision making? According to the Investment Company Institute (ICI), stocks experienced massive inflows in 2000, which coincided with a major top in the stock market. Investors poured money into the market as it was setting its then all-time high. They bought high. Equities had outflows in 2002, 2008 and 2009 – all of which marked major market bottoms. They sold low. ICI proved that many investors routinely, in spite of themselves, bought high and sold low!

That brings us to our second pillar at Tandem. We truly attempt to practice the discipline of buying low and selling high. Shocker. It is Investing 101 after all. To make a profit, one needs to buy low and then sell high. If only it were so simple! What's shocking though is that it may not always be commonplace, as evidenced by Bogle's study. While it may not be commonplace, it certainly is commonsense. In our opinion, the best time to buy and the best time to sell do not always overlap. If they do not overlap, then one must have the discipline and patience to wait in between those two time periods.

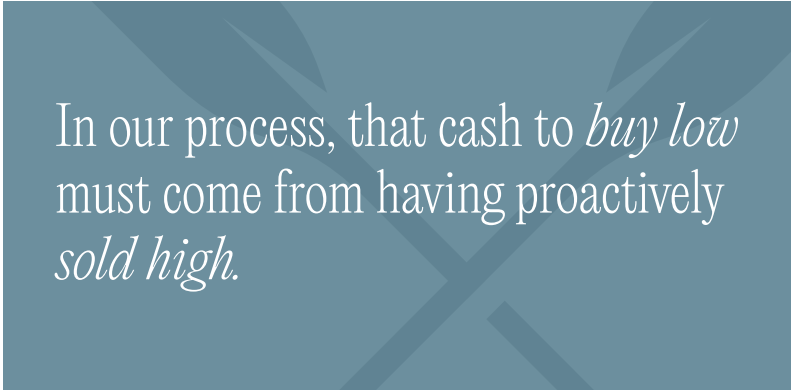
We believe that volatility in the stock market creates a more *hectic* and *stressful* environment that can cause investors to act *emotionally*.

Tandem will not buy something just because we sold something. Nor will we ever sell something just because we bought something. The decision to sell one stock is completely independent from the decision to buy another. If there are more stocks to sell than there are to buy, then cash will rise in a portfolio. If there are more stocks to buy than there are to sell, then cash levels will fall in a portfolio. That is how cash is managed within the Tandem portfolio. Never is there an overarching decision that cash and cash equivalents ought to be X% because of A, B, and C. Cash ends up where it ends up as a result of the individual decisions made within the portfolio.

Unfortunately, there is no such thing as a crystal ball for investing. There is no market timing panacea. In fact, it is our opinion that trying to time something is foolhardy. Instead, you must act when you believe probabilities are tilted in your favor. Probabilities do not equate to certainty. Just because something is probable, does not mean it will happen. It just means that it is more probable than not. So, when our model deems something to be “unsustainably overvalued” it does not mean the stock will begin trading lower immediately as it reverts back to its mean. It’s our belief that over time, the stock is more likely to mean-revert, so the prudent action is to take some money off the table. That is how we try to sell high. Now, our model is not a crystal ball. It is not perfect. As such, we can occasionally be early. That’s okay. We prefer to leave a party too early, rather than leave a party too late once there is a dash for the exit.

Naturally, if one is comfortable with the notion of leaving a party early, then one must be comfortable with the idea of missing out on some of the fun. Investing is no different. If your goal is to buy low, then the cash must come from somewhere. In our process, that cash to buy low must come from having proactively sold high. In short, to successfully buy stocks at attractive entry prices, one must have capital available to do so. Within our portfolios, we believe the best way to have that capital available is to have previously sold stocks at attractive exit prices.

Ultimately, in our effort to limit volatility in a client’s portfolio, we attempt to invest in more consistent and less volatile businesses while also practicing the discipline of buying low and selling high. To us, this is commonsense. But it is not for everyone. To do this, there are certain stocks that we may just not own. This does not mean that these companies are bad companies, but it does mean that we believe they will likely produce an experience contrary to the one we seek. If those stocks we do not own do well, so be it, we will not participate in that. If those stocks we do not own perform poorly, all the better for us as we will not be participating in that either.



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During a period of underperformance, a financial advisor partner asked us to explain our performance and what we might change moving forward. The answer was simple – nothing. We will not change our pillars. We attempt to do this one very specific thing – deliver a more consistent, repeatable, and less volatile investment experience. Sometimes that may cause some head scratching to watch as we leave a party early while attempting to sell high. It may be unnerving as we deploy capital in down markets in an attempt to buy low.

Tony Bennett did not change his five pillars following UVA’s first round exit, which was one of the largest upsets in college basketball history. Some folks in Charlottesville probably would have loved to see some change. Instead, Tony Bennett stayed the course. Ultimately, he reached the pinnacle of his profession, winning a national championship just twelve months later.

At Tandem, regardless of whether our portfolio is up or down, whether it is beating its benchmark or trailing, we make this promise: we will continue to practice our discipline. We will continue to adhere to our pillars as we will always strive to deliver a more consistent, more repeatable, and less volatile experience while practicing the art of buying low and selling high. Those two things are woven into our very being as a company. All of this, we hope, is able to keep our clients invested. After all, if investors had just stayed the course in Jack Bogle’s study, then they would have experienced performance more similar to that of the funds that they were invested in. We believe staying invested is key – which doesn’t necessarily always mean all in, or all out. We aim to keep investors invested while hopefully providing a more palatable investment experience.