

THE TANDEM REPORT

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MARKET COMMENTARY: WILL RISING INTEREST RATES DETER THE TECHNOLOGY REVOLUTION?

To paraphrase the great orator Winston Churchill, is this the beginning of the end, or merely the end of the beginning? In its ongoing war with inflation (real or imagined), the Federal Reserve has raised interest rates 6 times in the last 12 months. As rising interest rates have historically spelled trouble for stocks, the market has responded in predictable fashion.

To argue the merits of the Fed's action at this point is fruitless. Attempting to ascertain the resulting impact on the economy and the market requires perspective. Two relevant points should be considered. First, hearken back to 1994, when the Fed last went on an anti-inflation crusade. The market staggered, growth slowed, and pundits pronounced the great bull market terminally ill. But reports of the bull's demise were premature, and the market went on to record five consecutive years of significant returns. Which brings us to

point two. While it appears that economic growth is indeed slowing, this Federal Reserve cannot and will not impede the extraordinary technological revolution taking place. History will view this era to be every bit as pivotal as the printing press, the industrial revolution and manned space flight. The fundamental underpinnings of this economy are perhaps even more sound than they were in 1994.

Thus, we are left to conclude that we can expect a rebound in stock prices paralleling the one we enjoyed in 1995. Technological innovation is allowing companies to sustain earnings growth at rates higher than any of us have seen in our lifetimes. And as yet we have been able to harness a mere fraction of the benefits technology will accrue to the economy and the companies we own.

Five years ago, the internet was like the new world. We knew it was there and that it was important. But we didn't

know *how* it was important. Many attempts to define the use of this medium have been met with unbridled euphoria. As dot-com mania abates, a clearer picture of the future's landscape is emerging. Although many paper fortunes were made, most have now been erased. What we are left with are viable companies with sound business plans capable of delivering the promise technology offers.

So as the economy slows as a result of rising interest rates, we must keep in mind that the strong companies survive, and in fact become stronger. The picture of the future is gaining clarity, and we maintain that this is merely the end of the beginning.

THE FIRST EDITION: WE HAVE GIVEN OUR MARKET LETTER A NEW LOOK

If you have grown attached to our market letter that accompanies your statement each quarter, please forgive us. In keeping with the theme of our commentary above, we have unlocked the secrets at our disposal to offer you a new, hopefully more informative

piece for you to anxiously await. In this space, we will provide discussion on particular stocks, the economy, current events and answers to frequently asked questions, in addition to our always insightful commentary.

As this is the first edition, there will obviously be room for improvement. But this format allows us to cover more topics of interest in the same amount of space. In an effort to provide a quality service, we are requesting your input.

(Continued on page 3)

SPOTLIGHT ON DOVER CORP.

DOVER CORP. (NYSE: DOV)

Dividend Yield: 1.0%	Earnings Yield: 5.4%	Recent Price: 45	P/E Ratio on 2000 EPS: 18.4
Earnings Per Share:	1998	1999	2000(E) 2001(E)
	1.45	1.95	2.45(E) 2.83(E)

Dover Corp. has broken into Tandem's Top 10 holdings, but is not a widely recognized name. Dover is a well-run, diversified company operating nearly 50 separate businesses divided into 4 divisions. The most dynamic division is Dover Technologies, which accounts for approximately 30% of sales. This group has a history of being quite cyclical, but recorded a 55% earnings gain in 1999. There are multiple units under the banner of Dover Technologies, ranging from circuit board assembly equipment to electronic components and ink-jet printing equipment. With the technological revolution the world economy is currently undergoing, the Technologies division should fuel corporate earnings growth for the foreseeable future.

But Dover Technologies isn't the only division that should make one optimistic about Dover's future. The other three divisions are Dover Industries, Dover Diversified and Dover Resources. Each has compiled an impressive record of growth. Products and services offered by these three include transportation, food service, machine tool, and waste handling equipment (Industries), can-making machinery, compressors and food refrigeration and display cases (Diversified), as well as equipment for the automotive, fluid-handling and petroleum industries (Resources).

Dover is in possession of an impressive portfolio of companies. And Dover has managed the portfolio admirably since 1955. In that time, earnings growth has averaged about 14% annually. In the 1990's, earnings growth annualized at about 18%. This performance history makes us optimistic about Dover's prospects going forward. Further, it is rare to find a company of this quality and dependability trading at a P/E roughly equivalent to the rate of earnings growth. Few stocks we follow are that reasonably priced.

Dover represents the type of company we like to own as a core holding in our portfolios. Management has produced impressive earnings and dividend growth through strategic planning and implementation, and by owning businesses that dominate their respective fields. While we do not expect to see Dover capturing headlines in other publications, we felt it appropriate to highlight the tenth largest holding in our composite here.

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THE TOP 10 HOLDINGS IN OUR COMPOSITE:

AS OF 6/30/00

Tandem reports returns for a composite that includes all growth accounts that we manage with full discretion. We thought it might be informative to share the largest holdings in the accounts that make up the composite.

As you can see, these are well known, quality companies. We enjoy some concentration in the best technology and pharmaceutical names, and have achieved solid results without becoming speculative. Composite returns are available upon request.

2. General Electric
3. Merck & Co.
4. Cisco Systems, Inc.
5. Pfizer, Inc.
6. AES Corp.
7. Johnson & Johnson
8. Applied Materials
9. IBM
10. Dover Corp.

1. AMGEN, Inc.

THE NEW LOOK MARKET LETTER

(Continued from page 1)

At your convenience, please take a moment to complete and clip the reply form below. We have provided you with a return envelope. It is our hope that with your input, we can cover topics that will make this interesting and worthwhile. Let us know what you think of the new format, if there are any topics you would like to see covered and

if there are any questions we might answer in the next edition. Further, let us know if there is anyone who might benefit from a complimentary copy.

Thank you for your assistance. We are committed to making this a valuable service.

“In an effort to provide a quality service, we are requesting your input.”

RESPONSES ARE WELCOME

Thank you for taking the time to help us make this letter useful to you. Feel free to write additional comments .

What do you think of the new format? _____

General Comments? _____

Is this helpful? _____

Any suggestions for future topics? _____

Any questions we can answer? _____

Anyone we can send a copy to? _____

Thanks.

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Tandem Investment Advisors, Inc. was founded in 1990 to provide professional portfolio management to investors. Today, we manage in excess of \$30 million in assets for over 100 relationships. If you would like more information on our firm, please contact one of us at the following:

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