

THE TANDEM REPORT

Volume XI, Issue 3 July, 2010



“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 superior investment performance. 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 on our web-site. Please visit www.tandemadvisors.com. We hope you find this report informative.

Respectfully,

John B. Carew
President,
Chief Investment Officer

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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.

COMMENTARY:

HAS A GENERATION OF INVESTORS THROWN IN THE TOWEL? INDIVIDUALS BAIL OUT OF THE MARKET AND PILE INTO BONDS. WE THINK THERE IS A BETTER WAY.

Evidence suggests that the last decade of negative stock market returns and extreme volatility has chased away the individual investor. According to data compiled by the Investment Company Institute, investors have withdrawn more money from U.S. stock mutual funds in the last three years than they have added. This marks the first three year period of net withdrawal since 1979 - 1981. Then as now, a decade of futility resulted in exodus. Not coincidentally, the stock market found its footing in 1982 and the greatest bull market in modern history began.

The individual investor has a reputation for getting it wrong. Unfortunately, history tells us the reputation is well-deserved. Not only did we see capitulation at the market bottom in 1981, but money flowing into

U.S. stock mutual funds peaked at the end of the 1990's, just as the market reached historically high levels. Today, as money continues to flow out of U.S. stock funds, bond funds are experiencing a record inflow of funds while interest rates are at record lows. Is history repeating itself?

This behavior, while perhaps unfortunate, is certainly understandable. The stock market trades today at levels first seen a dozen years ago. For the last 10 years, the stock market is down while bonds have produced positive returns. In the great sell-off of 2008-2009, nearly every asset class other than bonds performed the same - poorly. The desire to find stability is certainly logical.

We think we have a better way to find sta-
(Continued on page 3)

TANDEM NAMED “BEST OF THE BEST”: INDEPENDENT DATABASE OF MANAGERS* RANKS TANDEM 1ST AMONG PEERS FOR PERIOD ENDED MARCH 31, 2010

Tandem works hard to deliver consistently superior returns and less risk to our clients. It goes without saying that to be honored by PSN* for both is particularly gratifying given the extreme volatility the market has experienced the last three years.

Tandem manages three basic equity styles for clients: Large Cap Core, Equity and Mid Cap Core. All are based on the same

principals and model, yet each has its differences. Large Cap Core requires that companies pay a dividend. Equity has no such requirement while Mid Cap is the same discipline as Equity but applied to mid-cap companies. Large Cap is typically defined as companies with market values exceeding \$10 billion. Mid Cap is defined as \$2 billion to \$10 billion. Tandem was honored for the performance of Large Cap Core.

**PSN, a division of Informa Investment Solutions, Inc., ranked Tandem best among all Large Cap Core Managers in their database for the 5 Star Category for the period ended 3/31/2010. To achieve a 5 Star ranking, a manager must outperform the benchmark (S&P 500 for Tandem) for the 3 most recent 3-year periods, have a lower Standard Deviation (less risk) than the median standard deviation of the peer group for the most recent 5-year period and have an R² (correlation to the benchmark) greater than 0.80. Managers are then ranked by their most recent 3-year returns. Tandem was named “Best of the Best” for this category.*

MARKET COMMENTARY:

WITH SO MUCH DAMAGE ALREADY DONE OVER THE PAST DECADE, HAVE WE LOST THE ABILITY TO IMAGINE A BRIGHTER FUTURE?

All the news is bad. Unemployment remains near 10%. There are five applicants for every one job opening. The Gulf of Mexico has been destroyed. Banks won't lend. The Bush tax cuts are set to expire. Corporations are evil. Government is too big. Europe is collapsing. Our debt is too high. We are headed for a double-dip recession. What a difference 10 years makes.

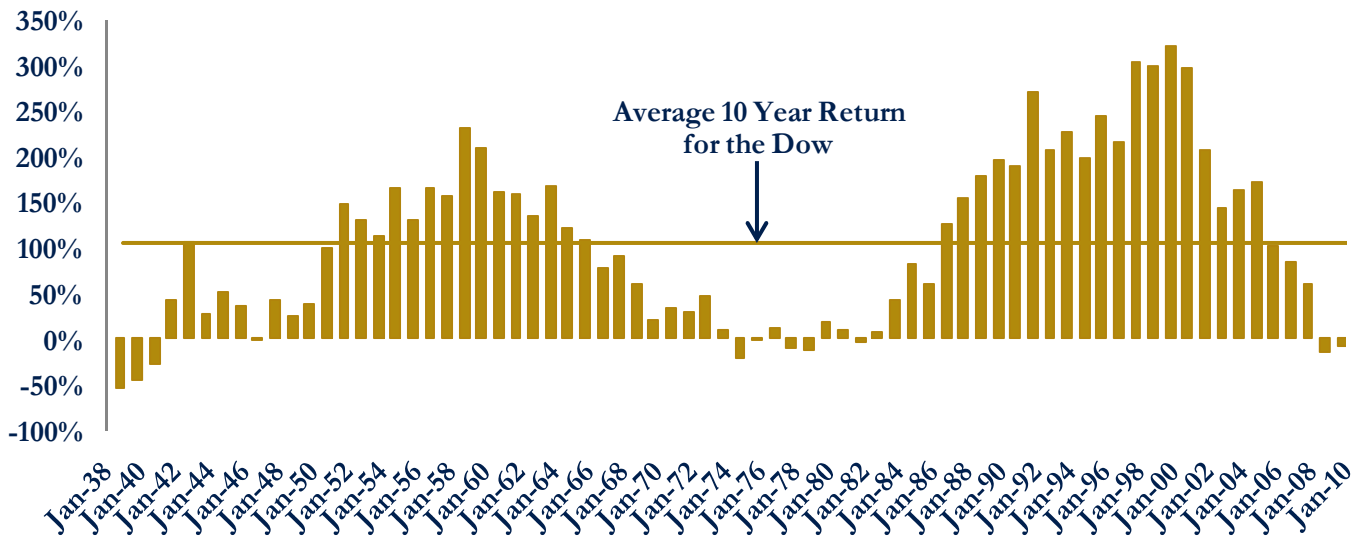
At the dawn of the new century, unemployment was historically low, our government enjoyed a surplus, tax rates were

headed lower, stocks were racing to unprecedented new highs and economic growth was robust, reflecting of our tremendous prosperity. What a great time that must have been to invest! Right? Hardly.

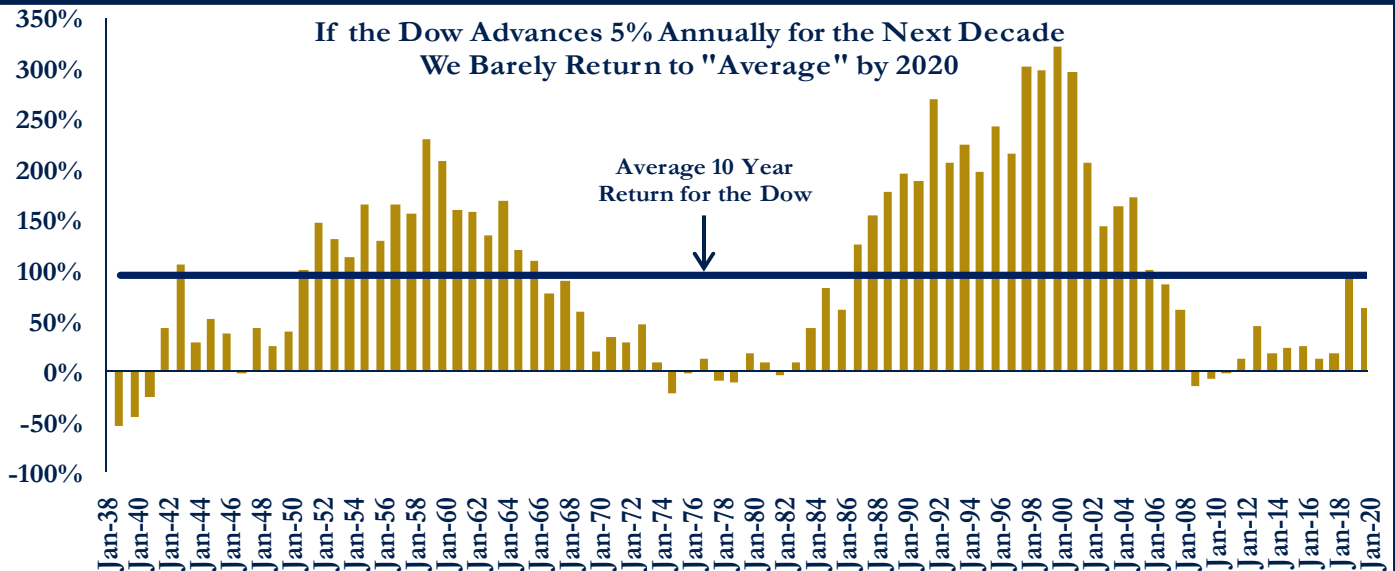
Maybe there is a lesson to be learned here. When things are so good they can't get better, they don't. Now that things are the worst that we can remember, do they get worse still? That seems to be what the market is telling us lately. Investors have become so accustomed to bad news that they can

(Continued on page 4)

10 Year Returns for the Dow Jones Industrial Average
10 Year Periods Begin Jan. 1929 and end Jan. 2010



If the Dow Advances 5% Annually for the Next Decade
We Barely Return to "Average" by 2020



COMMENTARY (CONTINUED)

(Continued from page 1)

bility while avoiding these manic moves driven by ever-changing investor sentiment. For nearly twenty years, we have managed money with the belief that companies able to produce consistent earnings and dividend growth can perform for shareholders regardless of what the stock market does. What better time period to study than the last 10 years? We will now examine the data we have compiled.

The table below illustrates that not all stocks behave like the market. We have taken the 15 largest holdings as of June 30,

2010 in both our Large Cap Core and Equity styles and tracked earnings (EPS), dividends and price growth for the last 10 years. At the bottom, we provide the same information for the S&P 500. The highlighted gold bars show the *average* change in earnings, dividends and price for the stocks of each style. The S&P 500 experienced earnings growth of 32.93%, dividend growth of 36.76% and a price change of -29.14%. It is fair to say that the stocks that make up our 15 largest holdings blew this performance away.

(Continued on page 4)

Earnings and Dividend Growth for the 15 Largest Holdings in Tandem's Large Cap Core and Equity Styles over the last 10 years show that not all stocks behave like the Stock Market. We believe there is a strong correlation between growth in earnings/dividends and share price performance, regardless of stock market performance. The columns on the right show the percentage changes for Tandem's holdings and for the S&P 500.

<u>LARGE CAP CORE</u>		06/30/00			06/30/10			% CHANGE		
	1 ST PURCHASE	EPS	DIV	PRICE	EPS**	DIV	PRICE	EPS	DIV	PRICE
ABBOTT LABS	05/24/02	\$1.29	\$0.76	\$41.68	\$2.94	\$1.76	\$46.78	127.91%	131.58%	12.24%
JOHNSON & JOHNSON	07/10/97	\$1.54	\$0.64	\$50.94	\$4.72	\$2.16	\$59.06	206.49%	237.50%	15.94%
SYSCO CORP	04/03/09	\$0.69	\$0.24	\$21.06	\$1.94	\$1.00	\$28.57	181.16%	316.67%	35.66%
COCA COLA	04/18/07	\$1.26	\$0.68	\$57.44	\$3.31	\$1.76	\$50.12	162.70%	158.82%	-12.74%
COLGATE PALMOLIVE	11/20/03	\$1.59	\$0.63	\$59.88	\$4.64	\$2.12	\$78.76	191.82%	235.44%	31.53%
ITT CORP	03/17/08	\$1.37	\$0.30	\$15.19	\$3.91	\$1.00	\$44.92	185.40%	233.33%	195.72%
HARRIS CORP	04/23/09	\$0.48	\$0.10	\$15.50	\$4.43	\$0.88	\$41.65	822.92%	780.00%	168.71%
ENTERPRISE PRODS	11/22/05	\$1.30	\$1.00	\$11.25	\$1.93	\$2.27	\$35.37	48.46%	127.20%	214.40%
APTARGROUP	02/16/06	\$0.71	\$0.10	\$13.50	\$2.24	\$0.60	\$37.82	215.49%	500.00%	180.15%
BECTON DICKINSON	04/23/09	\$1.56	\$0.37	\$28.69	\$5.11	\$1.48	\$67.62	227.56%	297.85%	135.69%
STRYKER	07/08/09	\$0.39	\$0.03	\$21.88	\$3.11	\$0.60	\$50.06	697.44%	1,718.18%	128.79%
MICROSOFT*	07/10/97	\$0.86	\$0.24	\$36.00	\$2.06	\$0.52	\$23.01	139.53%	116.67%	-36.08%
NEXTERA ENERGY	07/27/07	\$2.10	\$1.08	\$24.75	\$4.16	\$2.00	\$48.76	98.10%	85.19%	97.01%
PRAXAIR	03/20/07	\$1.44	\$0.31	\$18.72	\$4.34	\$1.80	\$75.99	201.39%	476.92%	305.93%
PIEDMONT	07/10/97	\$0.99	\$0.77	\$13.28	\$1.62	\$1.12	\$25.30	63.64%	45.08%	90.51%
AVERAGE		\$1.17	\$0.48	\$28.65	\$3.36	\$1.40	\$47.59	238.00%	364.03%	104.23%
<u>EQUITY</u>										
COGNIZANT TECH	05/25/07	\$0.05	\$0.00	\$2.77	\$1.95	\$0.00	\$50.06	3,800.00%	NA	1,707.22%
COLGATE PALMOLIVE	12/16/97	\$1.59	\$0.63	\$59.88	\$4.64	\$2.12	\$78.76	191.82%	235.44%	31.53%
THERMO FISHER	06/22/07	\$0.70	\$0.00	\$21.06	\$3.37	\$0.00	\$49.05	381.43%	NA	132.91%
REPUBLIC SERVICES*	03/20/07	\$0.72	\$0.04	\$10.67	\$1.55	\$0.76	\$29.73	115.28%	1,800.00%	178.63%
SYSCO CORP	04/03/09	\$0.69	\$0.24	\$21.06	\$1.94	\$1.00	\$28.57	181.16%	316.67%	35.66%
STRYKER	04/03/09	\$0.39	\$0.03	\$21.88	\$3.11	\$0.60	\$50.06	697.44%	1,718.18%	128.79%
NEXTERA ENERGY	10/14/08	\$2.10	\$1.08	\$24.75	\$4.16	\$2.00	\$48.76	98.10%	85.19%	97.01%
ABBOTT LABS	03/26/09	\$1.29	\$0.76	\$41.68	\$2.94	\$1.76	\$46.78	127.91%	131.58%	12.24%
HARRIS CORP	04/23/09	\$0.48	\$0.10	\$15.50	\$4.43	\$0.88	\$41.65	822.92%	780.00%	168.71%
BECTON DICKINSON	04/23/09	\$1.56	\$0.37	\$28.69	\$5.11	\$1.48	\$67.62	227.56%	297.85%	135.69%
LILLY ELI	08/16/07	\$2.47	\$1.04	\$99.88	\$4.51	\$1.96	\$33.50	82.59%	88.46%	-66.46%
COCA COLA	04/18/07	\$1.26	\$0.68	\$57.44	\$3.31	\$1.76	\$50.12	162.70%	158.82%	-12.74%
MICROSOFT*	03/10/97	\$0.86	\$0.24	\$36.00	\$2.06	\$0.52	\$23.01	139.53%	116.67%	-36.08%
ITT CORP	03/17/08	\$1.37	\$0.30	\$15.19	\$3.91	\$1.00	\$44.92	185.40%	233.33%	195.72%
APTARGROUP	08/07/07	\$0.71	\$0.10	\$13.50	\$2.24	\$0.60	\$37.82	215.49%	500.00%	180.15%
AVERAGE		\$1.16	\$0.40	\$33.37	\$3.38	\$1.17	\$45.03	495.29%	497.09%	192.60%
S&P 500		55.2	16.32	1454.6	73.38	22.32	1030.71	32.93%	36.76%	-29.14%

* FIRST DIVIDEND PAID IN 2003

** EARNINGS INCLUDE 2Q 2010 ESTIMATES

COMMENTARY (CONTINUED)

(Continued from page 3)

Performance of individual stocks should not be construed as portfolio performance. But it does highlight why we have performed well enough to be honored as the “Best of the Best” while doing so with less risk in a very difficult environment. The challenge we face as portfolio managers is to identify these companies while they are still performing in this manner. As you can see, we did not own all of them for the entire 10-year period. We certainly do not always get it right. However, of the 10 stocks we *did* own for the last 10 years, the same picture emerges (see table below). The average stock experienced share price appreciation of 48.35% while the S&P 500 declined -29.14% .

While our performance is driven by our ability to identify these companies in a timely manner and to own them in the appropriate weightings within a portfolio, we believe data

suggests that we have a logical strategy that works regardless of market conditions.

We often fear most what we understand least. Investors don’t understand two market declines exceeding 50% within one decade, excessive volatility, sophisticated trading programs and flash crashes. If they think the deck is stacked against them, they will leave.

We believe we have a better way that is neither a bull nor bear market strategy. It is simply a logical one that our clients understand. It does not require timing the market and it does not require a cooperative market either (although that certainly helps). The market may well decline 29% again for the next 10 years. Maybe the individual investor really does have it right this time. We would rather take our chances on companies that grow earnings and dividends than move about like sheep to slaughter.

EARNINGS, DIVIDEND AND PRICE GROWTH OF 10 STOCKS TANDEM OWNED FOR THE LAST 10 YEARS

LARGE CAP CORE	06/30/00			06/30/10			% CHANGE		
	EPS	DIV	PRICE	EPS**	DIV	PRICE	EPS	DIV	PRICE
ABBOTT LABS	\$1.29	\$0.76	\$41.68	\$2.94	\$1.76	\$46.78	127.91%	131.58%	12.24%
COCA COLA	\$1.26	\$0.68	\$57.44	\$3.31	\$1.76	\$50.12	162.70%	158.82%	-12.74%
EXXON MOBIL	\$1.77	\$0.88	\$39.25	\$5.06	\$1.76	\$57.07	185.88%	100.00%	45.40%
PROCTER & GAMBLE	\$1.48	\$0.64	\$28.40	\$4.12	\$1.93	\$59.98	178.38%	201.25%	111.20%
JOHNSON & JOHNSON	\$1.54	\$0.64	\$50.94	\$4.72	\$2.16	\$59.06	206.49%	237.50%	15.94%
PIEDMONT	\$0.99	\$0.77	\$13.28	\$1.62	\$1.12	\$25.30	63.64%	45.08%	90.51%
MCDONALDS	\$1.46	\$0.20	\$32.94	\$4.22	\$2.20	\$65.87	189.04%	1028.21%	99.97%
T. ROWE PRICE	\$1.08	\$0.26	\$21.25	\$2.25	\$1.08	\$44.39	108.33%	315.38%	108.89%
MICROSOFT*	\$0.86	\$0.24	\$36.00	\$2.06	\$0.52	\$23.01	139.53%	116.67%	-36.08%
SCANA	\$1.79	\$1.15	\$24.13	\$2.91	\$1.90	\$35.76	62.57%	64.93%	48.20%
AVERAGE	\$1.35	\$0.62	\$34.53	\$3.32	\$1.62	\$46.73	142.45%	239.94%	48.35%
S&P 500	55.2	16.32	1454.6	73.38	22.32	1030.71	32.93%	36.76%	-29.14%

* FIRST DIVIDEND PAID IN 2003

** EARNINGS INCLUDE 2Q 2010 ESTIMATES

MARKET COMMENTARY (CONTINUED)

(Continued from page 2)

no longer embrace the notion that things could improve.

Not to be Pollyannaish, but so much damage has already been done to the markets and investor psychology that we wonder if we might be discounting the chance that prosperity may one day return. The selling must abate at some point. After all, who is left to sell stocks? Individual investors have fled, pension funds and endowments have spent the last decade diversifying away from U.S. stocks and new money seems to flow only to bonds.

The damage done to the market this decade is historic. The charts on page 2 show just how extensive the carnage is.

The first shows 10 year returns for the Dow beginning in 1929. As you can see, we are well below the “average” 10-year return since the Great Depression and have experienced two consecutive negative 10-year periods. The second chart indicates that if the Dow advances only 5% annually, we don’t approach “average” for a full decade!

While this analysis is not a reliable forecasting tool, it does seem to suggest that investor sentiment is being guided by what has gone before rather than what may await us. Such hind-sightedness is often the indication of a change in market direction rather than the continuation of one.

Markets ultimately follow trends. The chart to the left

(Continued on page 5)

POLITICS & INVESTING

SHOULD INVESTORS ROOT FOR THE GOP IN NOVEMBER?

Investors constantly seek data to help better read the tea leaves. We have found a real pearl. While we attempt to steer clear of politics in this newsletter, this one is too good to pass up.

Current polls indicate that the public doesn't trust our political leaders. There is definitely an anti-incumbent sentiment, and many would suggest it isn't party-specific. Republicans argue that the Democrats' agenda hurts business. Democrats contend that Republicans got us into this mess by pursuing policies that only benefit the rich. So who has it right? Will Republicans reign in spending and lead us to prosperity? Or will Democrats hold on to power with a solid mandate for continued regulation and reform? Which party is truly better for investors?

We have ninety years worth of data to suggest that both political parties are bad for the stock market! It seems that

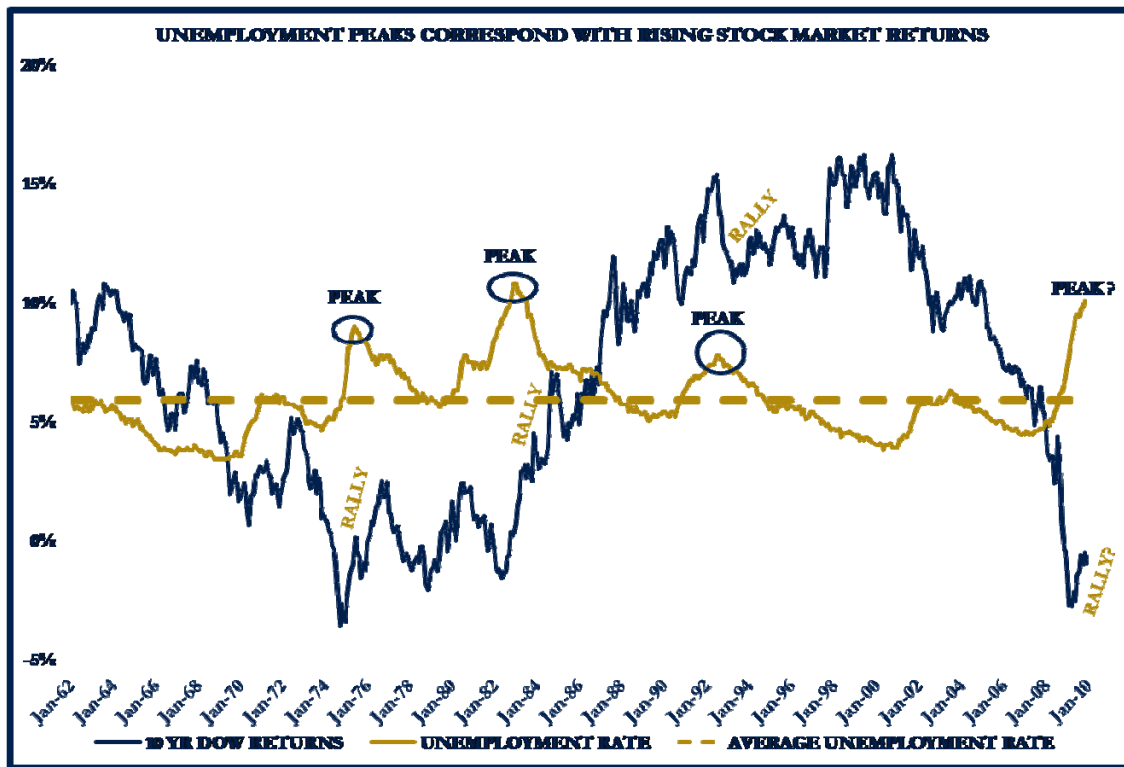
the stock market has *always* been distrustful of government and that this is by no means a new phenomenon. The table below shows that the average 10-year return for the Dow is 104.69%. However, that average return plunges to 62.98% when one political party controls both Congress and the White House for at least half the 10-year period. It doesn't matter which party, either. Yet when we have divided government at least half the time for a 10-year period, the average return is an eye-popping 131.23%.

The best 10-year period came when we had divided government, up 322.33%. The worst? You guessed it - one-party control gave us -54.72%.

Perhaps the best government policy is gridlock. We suggest investors bear this in mind as they head to the polls for mid-term elections in November. And we say this with our tongue only slightly in cheek. You can't make this stuff up.

DOW JONES INDUSTRIAL AVERAGE 10-YEAR RETURNS SINCE 1929								
ALL TIME PERIODS			ONE-PARTY CONTROL			DIVIDED GOVERNMENT		
AVERAGE	BEST	WORST	AVERAGE	BEST	WORST	AVERAGE	BEST	WORST
104.69%	322.33%	-54.72%	62.98%	166.04%	-54.72%	131.23%	322.33%	-22.06%

MARKET COMMENTARY (CONTINUED)



(Continued from page 4)

clearly shows that trends in unemployment correspond with market direction. We suggest that unemployment does not need to be low. It simply needs to be lower. Economic growth does not need to be robust. It simply needs to be positive. Improving trends will take the market higher.

The 2000's have decimated this country's savings. Recovery will be a long process. Yet it will surely come, won't it? As we have often said, it is not different this time.

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MARKET REPORT CARD

YIELD TABLE				STOCK MARKET INDEX DATA				
	Current	3 months ago	1 year ago	Stock Market Indices	6/30/10 Close	% Change 1 Year	% Change 5 Years	% Change 10 Years
3-month Treasury Bill	0.12%	0.16%	0.18%	S&P 500	1,030.71	12.12%	-13.48%	-29.14%
5-year Treasury Note	2.00%	2.55%	2.71%	Dow Jones Industrial	9,774.02	15.71%	-4.88%	-6.45%
10-year Treasury Note	3.20%	3.84%	3.72%	Russell 1000	567.37	12.96%	-12.16%	-26.28%
30-year Treasury Bond	4.13%	4.72%	4.52%	Russell 3000	607.92	13.50%	-11.59%	-23.67%
Prime Rate	3.25%	3.25%	3.25%	Russell 2000	609.49	19.91%	-4.72%	17.84%
Federal Funds Rate	0-0.25%	0-2.25%	0-0.25%	GLOBAL MARKET INDEX DATA				
Discount Rate	0.75%	0.75%	0.50%	Hang Seng	20,128.99	9.52%	41.74%	24.59%
3-Month LIBOR	0.54%	0.29%	0.62%	Shanghai	2,398.37	-18.96%	121.88%	24.39%
				Nikkei 225	9,382.64	-5.78%	-19.00%	-46.11%
				Brazilian Bovespa	60,936.00	18.40%	143.25%	264.28%
				London FTSE 100	4,916.90	15.71%	-3.84%	-22.11%
				German Xetra DAX	5,965.52	24.06%	30.07%	-13.32%

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.

Returns are cumulative, not annualized.