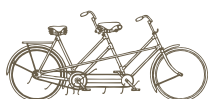


Quarterly Outlook

OCTOBER 2014

Historically, equity valuations have remained unaffected in the early stages of a rising rate environment.



TANDEM
WEALTH ADVISORS

Third Quarter 2014

Equities posted gains in the third quarter, with the S&P 500 rising by 0.6% and setting several new highs. While the Federal Reserve Board announced its intention to discontinue Quantitative Easing (QE) in October, that decision has not yet had a material impact on interest rates. The benchmark 10-year US Treasury note fell to 2014 lows of 2.33% in September, ending the quarter at 2.52%.

Geopolitical turmoil escalated in the Middle East, as the US initiated airstrikes against Islamic militants in Iraq and Syria. Fragile truces held in the wake of Israeli-Palestinian and Russian-Ukrainian conflicts. The markets and the US economy have taken these events (along with the Scottish vote for independence, rate cuts by the European Central Bank and an economic slowdown in China) in stride – evidence of underlying economic resilience.

Unemployment continued to fall during the third quarter, holding at yearly lows of 6.1% in August, with the baseline trend of job creation remaining solid. GDP growth is reflective of the improving job market and overall positive economic news, as growth rates for the second quarter were revised upward, with a 4.2% growth rate following a -2.1% decline in the first quarter.

Going Forward: Tandem's Outlook

Although some pundits are wringing their hands about market overvaluation, there are also metrics that suggest that equities have room to rise. We question both. Historically, equity valuations have remained unaffected in the early stages of a rising rate environment. Markets can certainly continue to peak into a rate hike and it's sensible to remember that while interest rates will eventually increase, they will rise from a very low level.

As interest rates increase – which could occur as early as next year – Tandem expects the US dollar to continue to strengthen. A stronger dollar bolsters the case for sustained growth in the US economy, driving down prices of hedge metals such as gold or industrial metals such as palladium.

Despite – and, in some cases, in response to – global unrest, uncertainty and risks, the US economy and markets remain a preferred destination for capital around the world. Tandem remains optimistic about the continued prospects for US economic recovery and growth. In this environment of growth amid geopolitical instability, the firm will continue to monitor both apparent and unapparent risks in the final quarter of 2014.