Greetings,

Shares of Facebook saw a sharp drop of nearly 20% yesterday after releasing quarterly earnings. With the heightened volatility in the stock, we want to share our thoughts on the company. For your awareness, we own a modest size position of Facebook stock in our more growth-oriented portfolio strategies. We do not own it in our dividend-focused strategy, as it does not pay a cash dividend to shareowners.

It was back in March when we first shared our thoughts on Facebook with our clients. Then, the company came under pressure when it was revealed that roughly 50 million Facebook users' data were inappropriately mined. The information was allegedly used to influence voting patterns that paved the way for Trump into the White House. Similar to yesterday's action, Facebook shares pulled back some 20% from its previous highs (albeit spread over a couple of weeks) while it battled through the controversy.

We opined that Facebook was facing a public relations crisis, not a performance one. CEO Zuckerberg, in various public appearances and testimony in front of Congress, pledged to provide better privacy protection for their users. As the media heat on Facebook started to dissipate, its shares made an impressive rebound, recovering all $134 billion lost during the scandal, and then some.

This time was a little different. Facebook's latest quarterly earnings result revealed an uncharacteristic miss. The quarter was a little soft on several fronts, but analysts were mostly caught off guard when the company guided down its revenue and margin projections for the second-half of this year.

While the report was definitely a black-eye for the company, our ownership thesis of the stock remains unchanged. The company continues to disrupt whole industries and invest heavily for its future. With Facebook, Instagram, Messenger, and WhatsApp in its portfolio, the company has four of the most widely used social media platforms in the world. Ironically, higher regulation from the data breach scandal can be a benefit to established companies by forming a barrier to entry. The trend in advertising is shifting away from linear TV and on to other digital media platforms, and Facebook is uniquely positioned to continue to benefit from this secular development.

It is also worth our while to take things in perspective. Facebook shares had went up in a straight line after the data breach scandal, returning over 30% from trough to peak. The stock has been a strong performer for several years now, and was trading at all time highs as recent as the day of its earnings release. While the sharp plunge post-earnings was perhaps a little excessive in our opinion, it is not entirely unexpected for the stock to give back some of its gains. As of time of writing, Facebook shares are essentially flat for the year. The stock will likely face some near-term pressure as the market digests this news, but we remain confident on the company's long-term prospects. It is not often that Facebook trades this cheaply, and our inclination is this presents more of a buying opportunity than a selling one.

Respectfully submitted,

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