ASCENT
WEALTH
PARTNERS

Greetings,

With the recent controversy surrounding Facebook, we thought it appropriate to share our thoughts on the matter. For your awareness, we own the stock in modest position size 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.

First, a little background on what happened. Roughly 50 million Facebook users' data were mined and exposed by a researcher who worked at Cambridge Analytica, which in turn worked for the Trump campaign. While laser-targeting users for advertisements based on their online surfing habits is nothing new, the allegation here is Cambridge Analytica improperly used the information to influence voting patterns that paved the way for Donald Trump to win the White House.

Although Facebook stock has come under pressure, and is some 20% off its recent highs, we think that current headlines, rather than fundamental business risk, are driving the near-term trading. Facebook is undergoing a public relations crisis, not a performance one. With Facebook, Instagram, Messenger and WhatsApp in its portfolio, the company has four of the most widely used social media platforms in the world, and the realm is not going away. The monopolistic, winner-take-all nature of digital businesses leave consumers with few other choices.

We believe the biggest risk to Facebook isn't the flight of users, but tighter regulatory and legal requirements. Facebook's CEO Mark Zuckerberg explicitly invited some form of regulation to the industry with his recent public comments. However, in matters of technology in particular, the slow timeline for the government to assess, investigate, and regulate competitive and/or consumer matters often results in market forces moving a situation beyond the initial condition that triggered government involvement in the first place.

Our sense is that Facebook will most likely face fines, increased oversight, and more stringent data protection requirements. As a direct result of heightened consumer awareness, we think there is likely to be an evolving trend of "Privacy 2.0" compliance requirements that affect social media and other on-line companies. Beyond that, it is (likely) continuing business as usual.

Remember, some regulation can be a benefit to companies. It forms a barrier to entry (how will a start-up ever compete with a Facebook if it can't mine data), and it tends to assure industry economics and enshrine established incumbents (tobacco). Consider that, in the aftermath of Dodd-Frank financial regulation, the biggest banks have a bigger, not smaller, share of the asset pie, partly due to the unit economics of compliance costs favoring the biggest companies.

Last, we can't lose sight of the secular trend in advertising overall, away from linear TV and on to other digital media platforms. Facebook is uniquely positioned to continue to benefit from that development. Ultimately, we believe that the need for advertisers to get their message to receptive users will continue to sustain Facebook and other related companies, including Alphabet (Google).

We will continue to monitor the situation as it evolves, and we may move to the sidelines should the regulatory and privacy matters become too big a hurdle for the company to overcome, and affect the company's fundamental business model.

Respectfully submitted,

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