The Federal Trade Commission has "substantial concerns about the privacy practices of Facebook." A bipartisan group of 37 state attorneys general are "profoundly concerned" about Facebook's stewardship of users' data. Three separate congressional committees have asked Mark Zuckerberg to personally testify about the company's data policies. Calls from the UK legislature have been similar.

What? How did we get here in one short week? FB was supposed to be that happy network with the goal of making meaningful connections for 2.1 billion monthly active users? You know, the place where you post the picture of your kittens.

Well, pressure had been mounting on the company for months amid reports that Russia was purchasing advertisements on the platform for the purpose of sowing discord and potentially with the desire to influence our 2016 presidential election. Then came Cambridge Analytica. The third party who improperly obtained 87 million users' data from an app developer without their knowledge or consent.

The controversy stems from a company policy in place prior to 2015 which allowed developers to obtain access to a consenting user's "social graph." The social graph not only contained the consenting user's personal information but also that of their friends. Information like birthday, address, and user likes. In the recent case that has sparked the controversy, the app developer took advantage of the policy and through use of the social graph was able to expand its access to the 270 thousand consenting users' data into 87 million non-consenting users' data. Then improperly sold that data to a third party.

The good news, at least in terms of this uproar, is that developers no longer have access to the social graph. But the real question is whether users care? Don't users already realize that in exchange for a highly successful free service, they are giving something up, i.e., the data that is collected from their use of that platform?

The stock's price movement seems to indicate that users may care (and therefore stricter regulation on the types, amount and usage of that data). From March's peak price to trough, FB shares were down 17.8%.

Moving forward, what is important to investors is twofold. Are users exiting in mass? Less eyeballs on the platform makes advertisers less likely to spend. Further, less users begets less users - the network effect can work in reverse. Second, will more regulation follow the fallout. Additional regulation will hamper FB's ability to collect data in volume like it currently does. And the less ways FB can slice and dice the data makes it more difficult to target users with such specificity. The less ways FB can target users, the less valuable the platform is for advertisers.

Reports from The Wall Street Journal seem to indicate neither: "Many advertisers say privately they are content to remain on the platform in the wake of the latest data-handling controversy, while monitoring the situation, largely to see whether the crisis sparks an exodus of Facebook users."[1]

So, it looks like Facebook is still THE place to go in order to advertise to that thirty-year-old female construction worker, from California, who likes to smoke that certain type of cigarette only when she isn't eating at McDonalds on Fridays - and the future valuation of Facebook will depend on how well they can continue to target that user and how sticky the platform remains for the user.

As for our investment, we will continue to stay invested, but with a watchful eye on both user count and digital advertising market share. If either one slips meaningfully, we will take a closer look. Until now, we have faith in Zuckerberg and COO Sheryl Sandberg when they say, “We have a responsibility to protect your data – and if we can’t, then we don’t deserve to serve you." Otherwise, the consequence is existential.

[1] Bruell, Alexandera. “Facebook Pledges Actions As Some Advertisers Exit.” **The Wall Street Journal**, Saturday, March 24, 2018: Page A13

On Taxes:

The recent changes to the corporate tax structure are a significant tailwind to stock prices.

Warren Buffett's summarization of this was best. He explained that on top of every company's ownership structure there is a super owner. This super owner always gets paid when there is a profit. Regardless of the disbursement of the other profits, this super owner always gets his share. For every $1 of earnings he gets 35 cents.

Then on December 22, 2017, this owner's super dividend changed. Instead of 35 cents on every dollar earned, he now gets 21 cents. Companies now keep 14 cents more on every dollar earned. This is a 21.5% increase in the amount of profits they retain! Does that mean a company's valuation increases 21.5%?

On tariffs:

Tariffs are bad on stock prices.

I am pleased to announce *The Jensen Opportunity Fund, LLC* had another quarter of outperformance. The fund was up 4.56%, while the benchmark S&P 500 index was down -1.17% - a differential of 573 bps.

Until next time,

Todd Shorb