



Mondays with Mallen—Edition 1

Facebook stock is on the decline. Should we avoid tech stocks? Do we have any exposure?

Needless to say we all received a bit of disturbing news last week when we discovered that Facebook has not, in fact, protected our personal information like we had hoped. If you haven't been following the story, news broke that Cambridge Analytica (a political consulting firm widely used in the 2016 election), was able to access personal data of over 50 million Facebook users without their permission or knowledge.

As privacy concerns continue to mount in our increasingly technological world, news like this leaves users and investors concerned about the future of tech giants like Facebook.

Given the privacy breach, Facebook undoubtedly has issues to work through, but perhaps, more importantly, this has given investors pause as to profitability of tech firms that will need to spend even more than planned on privacy protection. It has also stirred questions about regulation. Will tech companies like Facebook be able to continue to grow if regulators are forced to crack down on privacy policies? The answer isn't entirely clear; however, we don't think this a reason to run in the other direction.

Technology is here to stay and we still see plenty of opportunity in the sector. This tech pullback creates opportunity for companies that have potential for growth in 2018. Additionally, given the corporate tax cuts we could see an increase in business spending which could provide a nice bump for tech companies engaged in the business market.

To touch on the "what is our tech exposure" question, many of our clients own Harbor Capital Appreciation. Harbor Cap is one of our Large Cap Growth managers that happens to hold about 40% in technology companies down from over 50% in August of last year. While this may sound high to some of you, Harbor Cap manager Sig Segalas and his team were up nearly 37% in 2017. Technology certainly pulled its weight!

As our world continues to evolve and become more tech-central we are naïve to think we will not hit bumps in the road. We're certainly not defending Facebook's breach as we completely understand the severity of privacy protection, but exposure to the technology sector is necessary in our opinion and we must continue to select managers that have the ability to find companies with sound fundamentals and strong growth potential.

Given the new tariffs imposed on Chinese imports, are we headed for a trade war?

As many of you know President Trump signed a bill last week enacting roughly \$60 billion in tariffs on Chinese imports. While steel and aluminum tariffs led the discussions earlier this month, many were surprised to hear that it wasn't just these two commodities that will be affected by the tariffs. The new tariffs may affect 10-12% of Chinese imports and may include technology items such as computers and cellphones as well as intellectual property. Although the tariffs will now affect a much greater amount of Chinese imports the tariffs certainly aren't enough to devastate the Chinese economy. China's economy relies more heavily on domestic activity than on exports, and further, the US represents only 15% of China's exports.

Thus far, China's response has been tempered which is a good indication that a trade war isn't on the immediate horizon. China reportedly will impose tariffs on roughly \$3 billion of US imports including pork, fruit, nuts, wine, recyclable aluminum and steel pipes. While this is a modest response, should China choose to retaliate more fiercely, tensions could mount and ultimately lead to less than desirable global circumstances.

While we all want to know whether or not the retaliation ends here, we can only continue to monitor the situation. Needless to say, the less retaliation from China the better.

Sincerely,

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