SFS Investment Update

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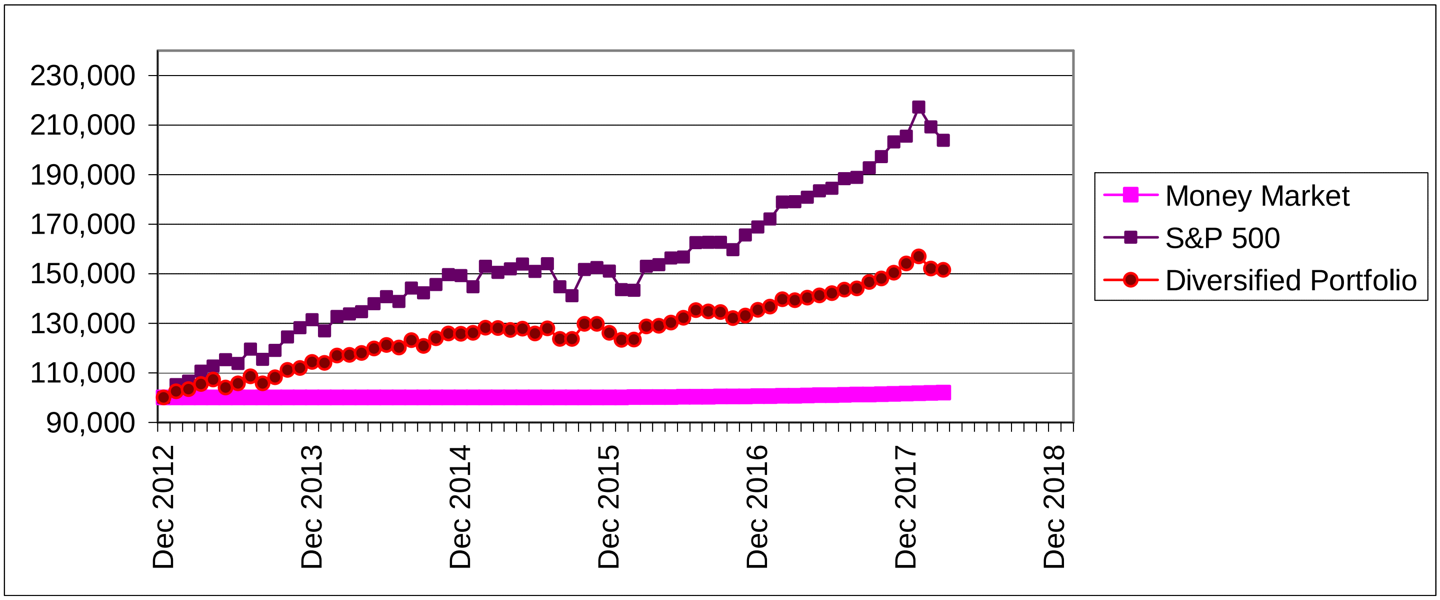
Privacy, Trade and Tweets

In a very similar replay of the last newsletter, for the most part March was a reasonable month for the investment markets. We will review that first and then go into the problems we saw materialize in the last days of the month. Those issues carried into the sharp stock losses of April 2.



	March	Year-to-Date	Annualized Since 1/1/2013
Diversified Portfolio	**(0.34)**	**(1.61)**	**8.24**
Index Components			
U.S. Stocks	(1.98)	(0.62)	15.43
International Stocks	(0.63)	(0.47)	6.94
Bonds	0.63	(1.48)	1.62
Real Estate	3.83	(8.14)	7.39
Money Market	0.14	0.37	0.41
S&P 500	**(2.55)**	**(0.79)**	**14.52**
Money Market	**0.14**	**0.37**	**0.41**

In general, March started to show some modest recovery. Interest sensitive investments in bonds, real estate and money markets all showed positive returns, with real estate showing the best gain of 3.83 percent. International stocks were down a modest 0.63 percent. The broad U.S. stock market was down 1.98 percent, with the S&P down 2.55 percent. This difference between the two measures showed that much of the on-going damage in our stock market was in large cap firms where the growth was in 2017.

Facebook became the poster child of that phenomena, or maybe it is more accurate to say it exaggerated that effect. On March 17, it was revealed that Facebook data had been taken by Cambridge Analytica, a British firm with a history of providing services to political campaigns worldwide.

The breach of privacy angered government officials, users of social media and investors. Facebook stock was pounded, losing almost 15 percent over the last two weeks of the month.

The larger damage was the collateral losses in the social media group. Google, Netflix and Twitter all saw sharp drops. The investor concern was that regulators would start to place tighter controls on the firms. Further, as these were among the leaders in the technology group, which in turn was the leading market gainer, their downward move impacted the entire market. When the leaders fall, the rest tend, at least in the short term, to follow.

Trade issues again raised their ugly heads. As the U.S. instituted steel and aluminum tariffs, the markets worried that this was just the start of a trade war and reacted accordingly by selling. This reinforced the downward pressure coming from the social media issues. Unfortunately, it seems as though this worry will continue to be with us. China initially announced retaliatory tariffs in late March, and then our government countered with a larger round of tariffs against China concerning intellectual property. As this letter is being completed on April 4, China retaliated again with an equal dollar amount of tariffs aimed at cars, chemicals and agricultural products.

And then we have the tweet war against Amazon. President Trump began tweeting negatively about Amazon in regards to taxes and its contract with the Post Office. This resulted in an approximate decline of 15 percent for Amazon from when the tweets began. As with the Facebook issue, Amazon impacted the technology sector and further the whole market. The concern: not so much as to who is right but the ability of the executive branch to play favorites (or enemies) among individual companies and the resulting impacts on both business and stock prices.

So, we have three distinct pressures on the stock markets, all of which are negative. Volatility increased sharply and we had the extreme swings in the market on April 2.

Of the three, the privacy issues raised by the Facebook data loss stands to have the longer term implications. Social media has evolved very quickly and in ways that we are only beginning to understand. The different impacts of social media upon news media and public discourse point not to a world where truth automatically runs free and wins out but one where more dubious actors manipulate emotions to further agendas that may not be favorable to our values and democracy. It seems to me that some level of regulation is called for, most pointedly in the realm of advertising. One writer pointed out that banks are required to “know their customer,” to know who they are dealing with in their transactions. Why shouldn’t Facebook be required to know who they are selling advertising to, and have some idea as to what companies like Cambridge are doing with their data? I think the internet is now old enough we can move past all the Wild West actions of anything goes.

The other two issues are hopefully more short-term and fixable. I do not believe tariffs are a good idea as was discussed in the last newsletter. While both the U.S. and China will claim we are not in a trade war, it sure looks like one from where I sit. John Harwood wrote yesterday on CNBC.com that 99.999 percent of economists see tariffs as bad policy and the one who does not see that is Peter Navarro, a trade advisor to the president. I certainly agree that the consensus can sometimes be wrong, but in this case I would rather see us develop policy within what is orthodox economics. Hopefully, as we go forward, cooler heads will prevail.

The tweeting is simply not helpful. If the government has an issue with a firm, it should deal with the firm directly and not run a P.R. campaign against it. Otherwise, it looks like the government is playing favorites and doing so not necessarily on sound business reasons but on personal vendettas against CEOs who also own the Washington Post. Creating such uncertainty is not the way to grow a better economy.

As always, we welcome your thoughts and comments.

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