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Big Tech's Three Identical Strangers

Dear fellow investors,

The U.S. government must determine how to deal with the negative consequences of some of the last decade's most successful internet-based businesses. Alphabet, Facebook and Amazon grew up as strangers and have developed monopolies in search, social media and in e-commerce. The stock market has been very excited about the control over people they have attained and the "big data" they use in advertising and e-commerce. In many ways, these tech behemoths are "three identical strangers."

The arms race in streaming content created a flourishing environment for documentaries. Humans are learners and the stories told in documentaries teach us about subjects we might not have learned otherwise. On a recent flight, I watched *Three Identical Strangers*, it's the story of three identical triplets separated at birth. Each one of these boys was adopted by a different family and those families had no idea the other two brothers existed.

The happen chance reunion of these brothers became a national media story amid a frenzy of excitement. They were very much alike in ways other than the obvious genetic match. For a few years, their separation was a "feel good story." Nobody knew the story behind the story. As bottom-up stock pickers, we continually search for the story behind the story, and that's why these identical strangers matter so much.

In the documentary, we learn that the adoption agency and a psychiatrist had colluded to separate twins and triplets at birth for the benefit of studying parenting. It was the big "nature versus nurture" debate which rages to this day. The problem with the adoption agency and the psychiatric study was that the families involved did not know that their lives and families were going to be forever affected by the downside of the experiment. By playing God with these lives, it is possible that irreparable damage was done to these siblings separated from those closest to them.

The circumstances for Alphabet, Facebook and Amazon work much like the separation of the siblings because they were all born from the same parent, the internet. If Alphabet controls 65% of searches and gets 85% of the profits in the industry, they will know more about people than anyone other than God. Facebook and its Instagram subsidiary have connected users to each other as they have voluntarily given up their privacy. Amazon finds more and more ways to get people to use their "Prime membership" and in the process they learn the intimate details of how their customers spend their money.

The problem with these tech behemoths isn't that they don't give people something they want or need, but rather the downside of using their relationship with their customers to deceive and manipulate them. These are the ethical questions which must be asked by the U.S. government, because our antitrust and commerce

laws were all written before the introduction of the internet. President Teddy Roosevelt might argue that our democratic capitalistic economic system may not work if three companies gain more power over society than the government “for the people by the people.”

Was it good that these kids got adopted? The answer is yes. Was it good that these identical babies got separated from their siblings? No. Was it a crime that the birth parents and adoptive parents didn’t know the kids were being manipulated for the benefit of social science? Is what we learn about parenting from tearing up the lives of these babies at birth really justifiable? Isn’t it unethical not to tell the parents what was being done?

When you do an Alphabet search or friend someone on Facebook or buy something on Amazon you are unknowingly volunteering to allow them to manipulate your life just like the identical triplets and the three families which adopted them were manipulated by the study. By now you should wonder two things. First, where are the political leaders on both sides of the aisle? Second, can our economy survive the level of concentrated economic power which the use of the internet has created?

This matters in portfolio management, because these three identical stranger companies have garnered a very large part of the gains in the S&P 500 Index over the last five years. And they are being valued as if the U.S. government won’t wake up and realize that the unethical side of what they are doing is important to the ongoing success of our democratic capitalist economy. Massive amounts of capital are twisted up in these “identical strangers” via indexes, ETFs and growth mutual funds in a way we’ve only seen in the late 1990s tech bubble and the 1972 “Nifty Fifty” growth stocks.

If and when the government asserts itself into this discussion, there could be a rearranging of popularity in the U.S. stock market. If that happens, we believe the public has no idea how damaging it would be to share prices and the cascading effect a negative feedback loop could have. We intend to be ready whenever it does as we practice our stock picking discipline. 🦅

Warm regards,



William Smead

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