Bendio Wealth Management

ON THE WATCH

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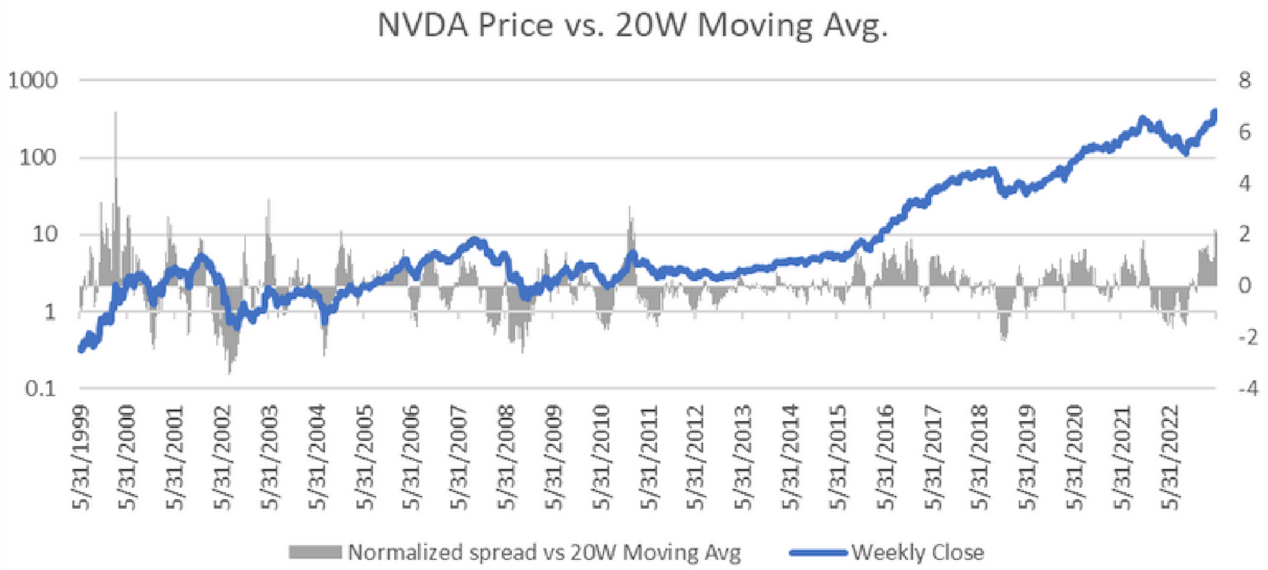

NVIDIA BUBBLE-TYPE ACTION? WE SAY NO

The recent performance of NVIDIA's stock has been truly remarkable, driven by strong earnings and optimistic projections for the impact of artificial intelligence. This upward surge has attracted the attention of both institutional investors and retail traders who are eager to participate in the potential gains.

However, amidst this impressive price action, concerns have been raised by analysts regarding the possibility of NVDA being in a bubble. They have pointed to inflated multiples such as Price/Earnings, Price/Sales, and Prices/FCF as indicators of a potential bubble formation.

THE CHART

To address these concerns, we have conducted a statistical analysis of the recent price movement in relation to the company's historical performance. In the chart below, we have plotted two lines for better visualization. The first one is the blue line which represents the weekly price (adjusted for dividends and splits) since 1999. The second one is the normalized spread between the price and a simple moving average of 20 weeks. This basically means how far or close the price is in relation to the average and we use it as a gauge of price extension. The normalized spread means expressing the movement in terms of number of standard deviations so that we can compare every move with its recent past.

THE OBSERVATIONS

From the chart above, it can be observed that the recent price surge represents a two-standard-deviation move, which, while on the upper end of the price action, is not among the most significant movements for Nvidia. Throughout the company's history, there have been instances where the spread between price and the moving average has exceeded two standard deviations, even reaching four to six standard deviations during the Dotcom bubble and the year 2011.

These extreme moves have sometimes acted as catalysts for deep corrections, as seen in November 2021, or as the starting point for further upward movement, as seen in November 2016 when the price continued to perform very well for several months.

IN CONCLUSION

In conclusion, there is no evidence to suggest that the recent move in NVDA is abnormal based on its historical performance. However, being on the upper side of the spectrum, a price correction, or a period of consolidation until the moving average catches up to the price could be expected.

In the realm of growth companies, market sentiments can push prices above expected levels, so any pullback or sideways movement should be seen as a potential buying opportunity, in our view.

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