



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Is It Too Late to Get in on NVIDIA?

This week I was at a party where I got to talking with a music teacher. When he learned that I was an investment advisor, he said, "I have just one question: Is it too late to get in on NVIDIA?" For some background, NVIDIA is easily the largest semiconductor company in the U.S., with a market cap of \$1.12 trillion. Its stock has become hugely popular during the last year, both because it makes products that are needed for artificial intelligence, and because its stock price has rocketed from \$108.05 last October to \$505.44 a few weeks ago.

Whenever someone asks me a question like this about a specific investment, my contrarian antennae always pop up immediately. I never get these questions after an investment has declined precipitously. For example, after the NASDAQ stock index declined by 85% after the Dot Com bust, no one asked me, "Is now a good time to buy tech stocks?" No, these questions are driven by [Fear of Missing Out](#) (FOMO).

FOMO is a burden that is borne by Dumb Money, who easily fall prey to [Recency Bias](#). They believe that the recent past will continue indefinitely into the future. For them, investing is like a horse race that continues after the horses cross the finish line, so they just bet on the winners. Thus, investing is easy—[anybody can do this game](#).

Before you invest a dime, you should first determine if you would be considered Dumb

Money by professional investors. The vast majority of Dumb Money investors have never even heard the terms Dumb Money or Smart Money, much less ever considered that they might be Dumb Money. In fact, thanks to the [Dunning-Kruger Effect](#), Dumb Money actually believes it's fairly savvy. Smart Money investors, on the other hand, know they aren't Dumb Money, but also think they have a lot to learn before they would consider themselves Smart Money. Note that the concept of Smart/Dumb Money can be applied to any other domain in life.

Why does Dumb Money repeatedly get sucked into these high risk, low-expected-return situations? In addition to the factors above, Dumb Money gets caught up in *stories*, which the financial media continually churns out. Stories are extremely powerful because for millennia, that was the only way that humans could transfer important information. Today, just like every other part of our body, our primitive brain has been hacked by the media, and now it's drenched in an ocean of vivid and compelling stories.

The question about NVIDIA is really just a version of the same basic question that has resulted in catastrophic consequences in other areas of life: “Can I get something of value quickly and with very little effort?” For example, people who want to improve their health would rather pop a pill than change their lifestyle. People who want to become wealthy would rather buy lottery tickets than set up automatic contributions to their investment account. Investors who want a high return would rather try to get rich quick by investing in one stock than get rich slowly by investing in a portfolio of dividend-paying stocks.

In the investment world, there is no free lunch; the same holds true for life in general. There are extremely few \$20 bills laying around on the sidewalk just waiting for you to come along and pick them up, especially in places where millions of people are looking for them. So stop wasting your time and effort looking for them—stop looking for shortcuts. Just do the (harder) work you know needs to be done to get what you want. Ironically, the fastest way to get what you want in life is to avoid the “shortcuts.”

Just for the heck of it, let's do a little fundamental analysis of NVIDIA. With a market cap of over \$1 trillion, it's a top holding of index funds like the S&P 500, not because it has a high expected return, but because of its size. So it's owned by a lot of Dumb (or Dumbish) Money investors who will sell it (along with the rest of their index fund) when they get scared enough by a stock market crash.

NVIDIA's Beneish M-score of -1.87 implies that management may be manipulating reported earnings, which can happen at the end of a bull run if management wants to keep the stock price high so they can qualify for a bonus, exercise their stock options, etc.

Based on a number of valuation metrics, the stock is currently fairly valued, which implies no potential abnormally large capital gain from holding it. Its tiny dividend yield of 0.04% is close to (at least) a 10-year low.

On a website popular with serious investors, over 536,000 of them are following the stock, one of the highest followings I've ever seen. Unfortunately, the odds that you will catch a nice-sized fish in this crowded fishing hole are thus very low.

So no, it's not too late to invest in NVIDIA . . . if you believe you can sell it later for a higher price to a greater fool. Maybe you'll be able to do so, and earn a large gain. Or maybe you're the greatest fool, and will be left holding the bag. When making a decision like this, self-knowledge and humility are key.

In closing, here's a little test you should use whenever you're thinking about making an investment: Ask yourself, "Does the thought of buying this security make me sick to my stomach?" If not, think twice. If it makes you feel giddy, run away.

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