



## *Don't buy into the hype behind chipmaker Nvidia; Comment*

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### **Body**

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Is Nvidia a bubble or is the hype around AI justified? The answer to both questions is a resounding "yes".

It's happening - friends and family I haven't heard from in ages are coming out of the woodwork asking me if it's too late to buy Nvidia stock. Is the bubble about to pop?

In case you've been living under a rock, Nvidia is the company selling the microchip picks and shovels in an artificial intelligence gold rush that has captured Wall Street. You can't spell Nvidia without "AI".

When Nvidia reported earnings last month, the stock rocketed through \$US1000 (\$1500) for the first time. It was only in January that share hit \$US500, two weeks later it's now \$US1200, that's a 150 per cent return year to date.

On that single day, Nvidia added \$US221 billion to its market capitalisation, one-and-a-half BHPs, to achieve the second-largest single day valuation increase in history after - you guessed it - Nvidia's \$US276 billion February's earnings jump.

Now valued at \$US3 trillion, it's the second-largest company on earth after Microsoft, neck and neck with Apple. It's larger than Tesla and Amazon combined, more than the entire Australian share market and more than 20 Commonwealth Banks.

The enormous rise in share price has prompted Nvidia to announce a 10-to-1 "stock split", scheduled for today, which will decrease the price of its shares and make them more attractive to retail investors.

After the split, Nvidia will have 10 times as many shares at a lower price point each. Existing investors will receive nine additional shares for every share they owned at the close of trading last Friday. If you own one Nvidia share worth \$US1200, after the split you will own 10 shares worth \$US120 each.

"We believe Nvidia will be a \$US4 trillion market cap company, and this is just the beginning," says senior equity analyst at Wedbush Securities on Wall Street, Dan Ives.

## Don't buy into the hype behind chipmaker Nvidia; Comment

Some are going further, predicting Nvidia will surge another 230 per cent from its current valuation to reach a \$US10 trillion market capitalisation.

It's not hard to see why.

The numbers in May's earnings report are unprecedented and hard to comprehend. In a single year, income increased from \$US2 billion to \$US15 billion, a 628 per cent increase, while revenue increased 260 per cent to \$US26 billion, as companies scrambled to buy Nvidia chips to power their AI applications.

"Nvidia's masterpiece earnings should be hung in the Louvre," says Ives.

But such massive numbers are prompting calls of a bubble with parallels being drawn to Cisco in 1999, the supposed infrastructure play of the internet that crashed 90 per cent when the dotcom bubble popped in 2000.

"Cisco at the time was selling to many start-ups which went bust; but Nvidia is selling most of its chips to Meta, Amazon, Microsoft and other tech stalwarts," says Ives.

"We don't believe this is a bubble; this is real spending from enterprises globally, and Nvidia is the only game in town."

But there are a few signs that Nvidia's momentum might be running out of steam.

Fundamentally, while it continues to beat Wall Street's earnings expectations, it is doing this by less and less each quarter: in July last year, beating by 20 per cent, then 12 per cent, then 8 per cent, and last month, 6 per cent.

Last week, Nvidia directors' sold more than \$US48 million worth of shares. I wonder why?

Other threats to the "priced to perfection" company are that chip demand falls because AI is overhyped, competition from other chipmakers reduces prices, and that we can't physically construct or supply the data centres with enough reliable baseload power.

Thankfully, the infamous contrarian indicator Jim Cramer is yet to claim Nvidia is a "raging buy", but the fact I'm writing about it could be another signal of a short-term top.

I know from experience that when stocks such as Nvidia have these levels of upwards momentum, or "momo" as it's called in the trading world, fighting against the trend is like trying to pick up pennies in front of a steamroller.

Personally I don't see Nvidia shares being higher in a year than they are today.

"If I knew when the AI bubble was going to detonate, I wouldn't be discussing it here but selling everything to buy deeply out-of-the-money put options in Nvidia and other AI stocks, cash out after the crash, and buy Australia," writes angel investor and entrepreneur Scott Galloway in a recent blog post.

Timing a bubble's pop is almost impossible, as they say on Wall Street: "No one rings the bell at the top."

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