

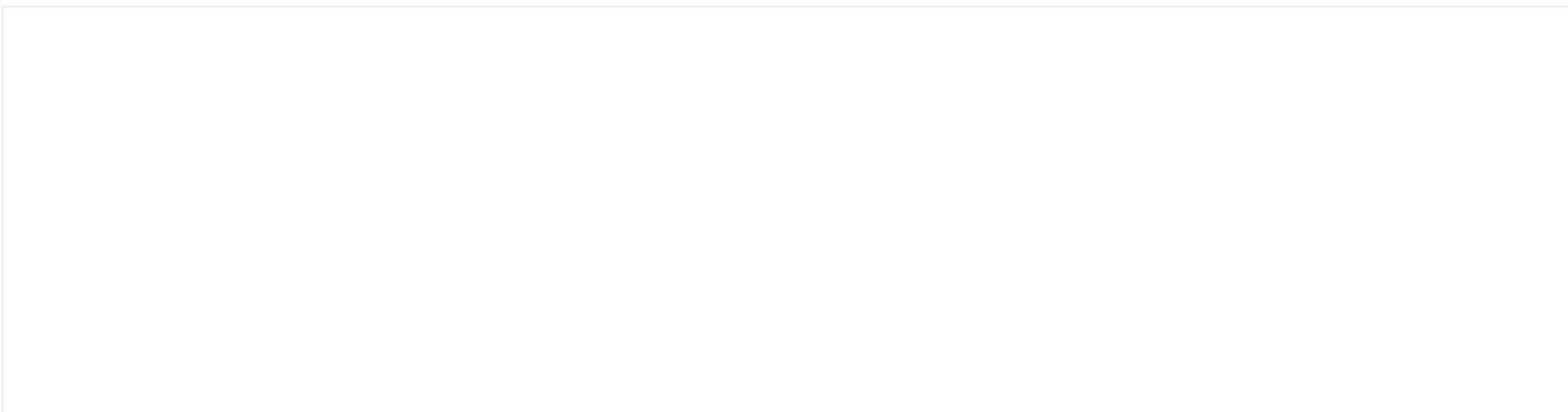
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## NEWS

# Nothing Goes Up Forever. This Rule Will Tell You When To Sell Nvidia Stock.



MIKE JUANG | 05:44 PM ET 02/22/2024

**N**vidia (NVDA) stock smashed through earnings expectations, sending its shares — and the shares of adjacent AI stocks — rocketing higher. But bull runs don't last forever. Eric Krull explains how to protect against the inevitable pullback.

X



Nvidia reported an earnings beat for its fiscal fourth quarter, with guidance that exceeded views. Shares of the company were boosted by enterprise demand for its AI-oriented graphics processors.

But Nvidia's earnings triumph may create worries around whether the stock eventually becomes a victim of its own success, Eric Krull, co-author of "The Lifecycle Trade," tells Investor's Business Daily's "Investing with IBD" podcast. "When there's so much excitement around one stock, you have to be careful and watch out for the big move," said Krull.

## Audio Version Of Podcast Episode



Investing With IBD

Ep. 257 Peak Signals: Spotting A Stock's Direction With This Key Market Signal

Tracking the signals that show if a stock is climbing up or clambering down.



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Holding a stock into earnings can sometimes be risky. Take **Palo Alto Networks (PANW)** for example. The leading cybersecurity company was looking strong heading into the report, but shares crumbled severely after earnings were released. So to protect his Nvidia shares before earnings, Krull says he hedged his position.

"If (Nvidia stock) hadn't gotten so much chatter and hadn't been all over the news, I probably would have gone in without any hedging," he said. "But because of what it is and with the expected moves, I did hedge, bought some puts to make sure that I can sleep at night and not worry about what happens."

The company's earnings have added rocket fuel to an already superior stock. Nvidia shares are continuing to rally sharply since breaking out of a flat base on Jan. 6. The GPU specialist holds a position on five separate IBD Lists, including **Tech Leaders** and **IBD 50**. Nvidia is ranked No. 1 in the Electronics- Fabless Semiconductor industry group, and has a Composite Rating of 99 **according to IBD Research**.

The success of Nvidia stock is lifting the broader tech sector. Chip-industry related companies like systems maker **SMCI (SMCI)** stock and chip design firm **ARM (ARM)** stock also saw shares rise in Thursday trade after Nvidia earnings were released.

## Setting Everest Rules Against Nvidia Stock And AI Names

While one successful stock can lift other adjacent names, a poorly-performing stock can likewise drag down its peers. Late last week, a plunge in SMCI stock contributed to a pullback in AI-related stocks over a period of three days. Nvidia and AMD were sent into the red until Nvidia earnings news broke yesterday.

Krull says he relies on climax indicators and trailing stops like the "Everest rule" to protect his gains. "The Everest rule was designed primarily to try and pick up the signals that (Investor's Business Daily Founder Bill O'Neil) talked about in his books." The signals, which track things like how far a stock is from its lows, the length of the run and the trading volume, are meant to help investors determine whether a stock is at a climax top.

Essentially, the Everest rule helps define where to set trailing stops on stocks, and works best on parabolic moves. Check out this week's podcast episode, embedded above, for all the details.

## Keeping An Eye On The Exit

While generative AI stocks like Nvidia are keeping the market rolling, it's wise to keep an eye on the exit just in case. "One of the things that I've tracked over the years is how long rallies last, and 80% of them end in 50 trading days or less," said Krull. "You should be expecting starting around now some sort of correction, and some calendar timing comes into play after you've had a very big year."

Krull says March and April tend to be popular months for stock selling and are related to U.S. tax filing deadlines. But he also says such corrections are seasonal and therefore, can be planned for. "If you're on margin, you can get off margin a little bit or you might start to hedge, and that's always a good reason to take (profits in) stocks that have 20% to 30% gains."

**Check your signal strength by watching this week's podcast featuring Eric Krull here.**

*Follow Mike Juang on X at @mikejuangnews and on Threads at @namedvillage*

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