The Wrap Up

It's Not Unusual to be Loved by *Everyone*

The debt ceiling drama is still playing out although both parties are getting closer to a deal. The show has gone on for so long now that the US may be facing a downgrade to its credit rating, similar to the downgrade of 2011 when President Obama squared off against Senate Majority Leader Mitch McConnell. As we've stated before, the US does have a spending issue to fix but it also can afford to raise its revenues without damaging its competitiveness. This is not an opinion unique to us; most economists that are not part of a partisan think tank will give a similar opinion.While this is still an important topic to follow, this week, we examine the stellar quarterly earnings report of Nvidia.

The chip maker rose 24.37% yesterday, adding an impressive $184B to its market cap, the third largest rise on record. To put that into perspective, Nvidia's valuation grew more in one day than the entire market cap of Adobe, Nike, Disney and Netflix (just to name a few examples). Some of the highlights of their quarter include an 11% beat on revenues, gross margins 30 basis points above consensus and earnings per share 18% higher than what was forecast. By segment, Data Center revenue (which is a reflection of their AI business) rose 14% year over year to $4.28B, Gaming revenues were $2.24B or 22% higher than the previous quarter (although 38% lower than one year ago) with Professional Visualization and Automotive revenues increasing 31% ($295M) and 114% ($296M) respectively.

While the quarter itself was positive, it was their forward guidance that really elated the markets. Second quarter revenue is estimated to come in at $11B, a full 58% higher than the consensus of $7.18B, which the company attributes to the significant increase in their data center business as interest in artificial intelligence grows. What stood out in the earnings call was when CEO Jensen Huang alluded to the 'ChatGPT moment' in the same vein as the 'iPhone moment'. What makes that a powerful statement is the iPhone is one of the most profitable products of all time and the greatest contributor to Apple being the world's most profitable firm. Not only was the iPhone extremely profitable, it was also exceptionally transformative; smartphones did exist beforehand but it

Let's connect

David Colasurdo, CFA, Fin. Pl.
Portfolio Manager and Investment Advisor
Tel: 514-286-3563
david.colasurdo@nbpcd.com

Leon Sabbaghian Fin. Pl., MBA
Investment Advisor & Financial Planner
Bureau: 450-978-2531
Cell: 514 -557-8055
leon.sabbaghian@nbpcd.com

Myles Strong
Client Service Associate
Tel: 514-282-5996
myles.strong@nbpcd.com

was the iPhone that brought forward application developers and revolutionized our relationship with our phones (sorry Blackberry; you started off well with email, BBM and Brick Breaker).

If Nvidia is using that kind of language around its AI offerings, then we can expect more money to flow in the future. What was also remarkable about Nvidia's quarterly performance was how much it boosted other chips makers: Broadcom was up 7.25%, ASML up 6.25%, TSM rose 12%, AMD gained 11% and KLA Corp jumped 6.2%. Not only did chip makers benefit from Nvidia's earnings, AI related firms also received a boost with ServiceNow gaining 5.8% and Microsoft 3.85%. We've written about the transformative power of AI and while we are still in the early stages, winners are already beginning to emerge. As the introduction and adoption of more AI tools continues to unfold, we expect early adopters to continue to benefit and new companies in the field potentially breaking out.

Nvidia shares are up 160% year to date; that's after a 55% drop in 2022. While the volatility is more than anyone would like to experience, investors that trusted the process and were patient are now being handsomely rewarded. Not everyone can be so patient however: ARK's Cathie Wood dumped almost all her shares at the low in November and sold her remaining shares in January at $237, calling the stock overvalued then (they closed at $379 yesterday). While we too had to consolidate certain positions at a loss (due to the growth bubble popping in early 2021), we focused on removing more speculative companies with a difficult path to profitability; Nvidia never fell into this category.The company has been profitable for a long time with consistently increasing margins and above average execution. As we continue to hold a cautious outlook, mostly due to macro economic concerns, we have decided to reduce our number of holdings to focus on our core/strongest conviction ideas. Ideas like Nvidia, we will not hesitate to add on weakness, so long as the story does not change. One of our better performing stocks of the last 3 years, Enphase, has recently experienced it's third 50% correction over the same time span; while it is frustrating to experience, I hope the example set by Nvidia allows you to understand why we continue to buy more.

We've also learned a lot from our experience of the last few years which is why we trimmed Enphase by 10-20% (depending on the client) when it crossed the $300 mark (and before it dropped 50%) like we have been doing with Nvidia since it crossed the $250 mark. Reducing your position by 5-10% every time it reaches a certain threshold should not be met with regret; that's just disciplined investing. Making binary decisions like selling an entire position because of a bad quarter may be something that you live to regret. Especially in this uncertain period that may last a few more quarters or a couple of years, we stress the importance of being disciplined and understanding what you own and why you own it.

To all of our investors; it was a good week for our tech core and I hope that it can add a little cheer to your mood.

Healthy Distraction

Formula 1 aficionados, this weekend is the Monaco Grand Prix. If the buildup of yachts across the coastline wasn't enough of an indicator, the expanded media coverage will certainly alert you to the event. For those less acquainted with the sport, Monaco is seen as the most prestigious race in the Formula 1 calendar. It was first held in 1929, making it one of the oldest races in the world and is an exceptionally demanding circuit for drivers. As it takes place on the streets of Monaco, the track is narrow, has plenty of tight corners and many elevation changes; demanding the absolute best of anyone looking to win the race. It also attracts a high profile list of guests, so the event brings plenty of ambiance and glamour over the entire weekend.

For the casual viewer or someone interested in watching their first race, this is THE race to watch. And if you're looking to catch up on the recent history of the sport, Netflix's *Drive to Survive* series is a fantastic show that brings you up to speed on all the drama and storylines.

If anyone has room on their yacht this weekend, Leon and I are open to invitations 😋 Have a great weekend!