



Insigneo Weekly Dispatch

# Is Nvidia the Forrest Gump of the Market?

Thoughts on Nvidia, viewed through the lens of the  
herding-behavior bias.

**By Mauricio Viaud**

Senior Investment Strategist and PM  
Insigneo

## Is Nvidia the Forrest Gump of the Market?

“My name is Forrest, Forrest Gump.” Many of us remember this famous line from the 1994 blockbuster movie Forrest Gump. If you have not seen it, I would recommend it. It has many interesting, yet valuable life lessons. One of these recently came up in a conversation with a fellow Insigneo colleague where they alluded to a scene from that movie. In it, Forrest Gump, played by Tom Hanks, embarks on a cross-country run across the United States, spanning several years. Over the course of his journey people start running along with Forrest, some because of personal convictions, but most do it to jump on the proverbial bandwagon. Then, after years of running and amassing a large crowd of followers running behind him, Forrest suddenly says “I’m pretty tired... I think I’ll go home now” and stops running. No explanation, he just stops and goes home, leaving his followers baffled. This scene alludes to a prevalent, yet seldom noticed behavioral bias, known as “herding behavior”, and how it can sometimes be present in the equity markets.

Herding behavior is defined as the tendency of individuals within a group to mimic the actions or decisions of others, often without critical evaluation or independent thought. This behavior can sometimes lead to collective action or conformity but may also result in irrational or unwise decisions if individuals fail to consider alternative perspectives or information. Herding behavior has been present in markets for as long as markets have been around.

From the Tulip Mania of the 1630's, the Dot-Com Bubble of the late 1990's, the Bitcoin Boom of 2017, to the Electric Vehicle phenomenon of 2020-2021, herding behavior has been behind many of the most famous asset bubbles in history. This behavioral bias has been known to push asset prices higher beyond reasonable levels. At the peak of the Tulip-Mania, tulip bulbs were being traded for prices that exceeded the value of houses or entire estates.

Today, some Artificial Intelligence-related equities could be falling prey to herding behavior. A particular stock that comes to mind, but may not be alone, is Nvidia (NVDA). With a market cap of 2.72 trillion USD, Nvidia's market cap is over 10 times larger than the second largest Semiconductor company in the S&P 500, AMD. Nvidia's market cap alone is 70% larger than that of the entire Energy sector in the S&P 500 and is approaching the market cap of the entire Russell 2000 Index. A recent report from The Compound compared the company against other Large Cap company peers, showing that by market cap, as of May 28, Nvidia alone was larger than: 1) Amazon, Walmart, and Netflix combined; 2) Meta, J.P. Morgan, and Berkshire Hathaway, combined; 3) Google, Disney, and Home Depot combined, and 4) McDonalds, Pepsi, Coca Cola, Procter & Gamble, Johnson & Johnson, Bank of America, Costco, AMD, and Salesforce combined. As the third largest company on the planet by market cap, there is no arguing that Nvidia is massive. The company does trail Microsoft and Apple in the race for the crown as largest company; however, the latter two companies reached their massive sizes over many years, if not decades. Nvidia's market cap was less the \$500 billion, or less than 20% of its current size, not even two years ago. Both Microsoft and Apple are great

companies with great stocks; however, it is important to remember that over the years, both stocks have experienced pullbacks between 30% and 40% at least once. Much like its two larger Technology peers, Nvidia is also a great company with a great stock. But given its meteoric rise over the last two years, driven in part by herding behavior, a pullback at some point would be perfectly reasonable.

The interesting point with Nvidia is that, unlike the Tulip-Mania and other asset bubbles, there are sound fundamental reasons behind the stock's rise. The company currently finds itself in a quasi-monopoly, with meaningful scale and pricing power, allowing it to be a price-setter in the industry. Nvidia tells the industry what to pay for its products and customers either pay or risk getting left behind by the AI revolution. This degree of pricing power has enabled the company's astounding 78% gross margin reported this past quarter. These margins currently appear sustainable, but history tells us that there is a high probability that the company may be nearing peak margin levels. After all, history has shown that companies enjoying high profit margins in nascent industries, eventually see these eroded as competition floods in. Granted Nvidia's niche has high barriers of entry, delaying the inevitable, but competition eventually finds a way. This does not mean that Nvidia will lose its position of strength, simply that in time, it will share its spot at the top, much like Apple eventually found itself sharing the limelight with Samsung in the smartphone industry. Nvidia's biggest nemesis is not competition, it can handle competition. Its biggest nemesis is high expectations.

We sometimes hear that Nvidia's valuation, on a P/E basis, has contracted despite the stock's aggressive move. This is true. The "E" part of the P/E has dramatically increased as the company's earnings have exploded higher. However, keep in mind that Wall Street focuses on forward P/E metrics, based on earnings expectations one, sometimes two years ahead. So far, Nvidia has surpassed Wall Street's lofty expectations. But if in time, the Street's expectations prove too hard to beat, we might find ourselves in a situation where the "E" in P/E was pushed too far by the Street and needs to be adjusted downwards. A lower "E" would automatically inflate the company's P/E higher, and we might find ourselves in a situation where Nvidia is no longer as "reasonably priced" as it seemed. We have seen this happen before; at the end of the day, valuation metrics are driven by mathematics. It is interesting to see that out of 70 Wall Street sell-side analysts covering Nvidia, 63 of them have a "Buy" on the stock and only 7 have a "Hold". In other words, 90% of the analyst community has a "Buy" rating and not even one has a "Sell" rating. Herding-behavior is not exclusive to the investor community; as human beings, analysts can exhibit it too. Truth be told, I cannot say I blame them. If one of them decides to go against the herd, downgrades the stock to a "Sell", and turns out to be wrong, that could destroy his or her career. However, if this analyst sticks to the pack, even if the stock for some reason goes meaningfully lower, he or she might have been wrong to keep a "Buy" rating, but so was everybody else. There is safety in numbers.

Expectations are a complicated science; they are based on rational thought but cannot escape the inevitable influence of human psychology. We have

seen this time and time again in any given number of stocks. Let us take Dell, for example. The stock rose 80% over the past three months, as the market focused on how the company will benefit as demand for its servers and laptops is pushed higher by increased demand for AI. However, expectations on what the company could truly deliver climbed higher as more people jumped on the bandwagon. Reality set in last night, after Dell reported earnings that, to be honest, were pretty good and beat many of Wall Street's expectations. Good was not good enough though, and the stock was trading close to 20% lower this morning, at the time of this writing. Dell's only mistake this quarter was not being as good as Nvidia. It is like punishing a very good soccer player for not being Lionel Messi. We saw a similar dynamic in Salesforce yesterday, after the \$200 billion company closed the day almost 20% lower after it presented results that did not meet expectations. Small cap AI darling UiPath, fell nearly 35% on the day as well, based on a similar dynamic. Expectations are high and the punishment for not meeting these is even higher. Even Nvidia would not be invulnerable to a failure to meet lofty expectations. In fact, on the day before the company reported its most recent quarterly results, the market had priced in a 12% move, up or down, depending on what kind of results were reported. As we now know, the company beat expectations and the stock moved higher.

A fair question that would arise from this conversation would be "Ok, so where do you stand on a company like Nvidia?". In all fairness, we believe that Nvidia is a great company and will continue to be a leader in the AI industry. We also believe that it will likely continue to be a great investment for

investors with long-term investment horizons and a high tolerance for risk. However, like many other great investments, it is not going to be a smooth ride higher. The widespread ownership of this stock, coupled with expectations that will continue to move higher, is reason for concern. Given the high degree of herding behavior currently embedded in Nvidia, we would not be compelled to chase it higher. At the same time, we are not saying that you should run for the exits and sell out of it. So, what are we saying? We are saying: Be smart about it. Investors with a large concentration in the stock could consider protecting some gains. Investors that do not own the stock could instead focus on building a list of attractive companies, like Nvidia, that could be beneficiaries from the AI boom, which could be potential investments at more attractive entry points. Being smart about it is the key. After all, we do not know when the Forrest Gump of the market will say “I’m tired” and stop running. But when the time comes, we do not want to be one more runner in the herd thinking “Now what?”.

It is important to keep in mind that the individual equities referenced here can exhibit high degrees of volatility and are not suitable for every investor. These investments are best considered on a case-by-case basis, based on a particular investor’s willingness and ability to tolerate risk. If you need more information or would like to discuss these potential ideas in more detail, please do not hesitate to contact your financial advisor.



Click or scan this code to access more insights at [insigneo.com/insights](https://insigneo.com/insights)

## Important Legal Disclaimer

Insigneo Financial Group, LLC comprises a number of operating businesses engaged in the offering of brokerage and advisory products and services in various jurisdictions, principally in Latin America. Brokerage products and services are offered through Insigneo International Financial Services, LLC, headquartered in Puerto Rico, and through Insigneo Securities, LLC, headquartered in Miami. Both are members of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC) <https://www.sipc.org/>. Investment advisory products and services are offered through Insigneo Advisory Services, LLC, an investment adviser registered with the Securities and Exchange Commission. In Uruguay, advisory services are offered through Insigneo International Asesores de Inversion Uruguay, SA, Insigneo Asesores de Inversion Latam, SRL, and Insigneo Asesores de Inversion de Uruguay, SRL, in Argentina through Insigneo Argentina, SAU, and in Chile through Insigneo Asesorías Financieras, SPA. Collectively, these eight operating businesses make up the Insigneo Financial Group. To learn more about the Broker Dealers including their conflicts of interest and compensation practices, please go to <https://insigneo.com/disclosures/> or via [www.finra.org](http://www.finra.org). To learn about Insigneo Advisory Services, LLC and any conflicts related to its advisory services, please see its Form ADV and brochure which can be found at Investment Advisor Public Disclosure website <https://adviserinfo.sec.gov/>.

### FOR AFFILIATES LOCATED IN CHILE

Insigneo Asesorías Financieras SPA se encuentra inscrito en Chile, en el Registro de Prestadores de Servicios Financieros de la Comisión para el Mercado Financiero. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de emisión de este. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera.

Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Asesorías Financieras SPA ni ninguna de sus empresas relacionadas.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta o solicitud de compra o venta de ningún valor en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en cuentas de corretaje y de asesoramiento de inversiones están sujetas al riesgo de mercado, incluida la pérdida de capital.

La información base del presente informe puede sufrir cambios, no teniendo Insigneo Securities LLC ni Insigneo Asesorías Financieras SPA la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.

### FOR AFFILIATES LOCATED IN URUGUAY

En Uruguay, los valores están siendo ofrecidos en forma privada de acuerdo al artículo 2 de la ley 18.627 y sus modificaciones. Los valores no han sido ni serán registrados ante el Banco Central del Uruguay para oferta pública.

### FOR AFFILIATES LOCATED IN ARGENTINA

Insigneo Argentina S.A.U. Agente Asesor Global de Inversión se encuentra registrado bajo el N° 1053 de la Comisión Nacional de Valores (CNV) e inscripto ante la Inspección General de Justicia (IGJ) bajo el N° 12.278 del Libro 90, Tomo -, de Sociedades por Acciones. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de su emisión. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera. Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Argentina S.A.U. ni ninguna de sus empresas relacionadas. La información base del presente informe puede sufrir cambios, no teniendo Insigneo Argentina S.A.U. la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta, recomendación o solicitud de compra o venta de ningún valor negociable en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en valores negociables están sujetas al riesgo de mercado, incluida la pérdida parcial o total del capital invertido. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.