DeepSeek Is a Wake-Up Call for NVIDIA and Other Hype Stocks

As NVIDIA (NVDA) and other big AI stocks take a beating post the DeepSeek news, the market reminds us that we live in a competitive world. Companies rarely enjoy monopolies, not even hyped-up tech companies.

The Fallacy of the Prevailing Narrative

The problem with NVDA and the hyped-up AI and energy stocks is that they were (and still are) pricing in gains from AI as if they were going to have monopolistic market share. The stocks were priced on the hype that there would not be any real competition, and the companies would enjoy outrageously high profits on AI while the rest of the world stood and watched in awe.

Almost every day, there was a new report from Wall Street or story from the media about how much money AI was going to make the certain companies. Big tech CEOs were becoming super stars. The media and Wall Street quoted their predictions about the trillions of dollars that would be spent and made from AI daily.

The world was big tech's AI oyster, and a lot of U.S. companies were going to get super rich from AI.

Well, we now know that is not true after DeepSeek showed how to build a better AI for a fraction of the cost.

The Bigger The Fallacy, The Harder They Fall

Whenever stocks get that expensive, investors need to beware. DeepSeek reminds us that the tech industry is all about disruption. The early leaders in a new trend are rarely the long-term winners.

So, anytime stock valuations get to the point where they are embedding monopoly-level revenue and margins, investor should slam on the brakes.

Are we surprised to see tech stocks getting crushed today? Not at all, we've been warning investors of the nosebleed valuations for a long time.

Get The Honest Narrative on NVDA

Back in September of 2024, we wrote a case study and warned clients that Nvidia's stock valuation had gone too high in My Secret Weapon for Calling the Top in NVDA. As I write this report, the stock is back to the price where we called the top.

How did we call the top?

We did the honest math on the future revenue and returns on invested capital (ROIC) required to justify the stock price. Specifically, we showed that to justify ~$118/share, Nvidia needed to grow

1. Revenue to $3.7 trillion, about the GDP of India, #5 in the world and
2. ROIC to 975%, 6x higher than its current ROIC and higher than any other company in the S&P 500.

I used our best-in-class discounted cash flow (DCF) modeling tools to do this research, and I explained exactly how our client can perform the same analysis.

More Honest Narratives With the Right Tools

With our DCF model, it's easy and only takes a few seconds to develop an honest narrative on the future revenues, margins, and cash flows implied by stock prices.

If you're interested in seeing more examples of how our DCF model delivers non-hype, math-based narratives, I recommend checking out the Reverse DCF Case Studies here in our Online Community. It's free to join our Online Community, just complete this form.

How To Avoid the Landmines

Whenever stocks get that expensive, it is only a matter of time before they fall back to earth as the law of competition inevitably proves the expectations for future cash flows to be overly optimistic.

We have multiple Model Portfolios, including our Zombie Stocks list, to warn investors of stocks to avoid and alert them to stocks that get our Attractive rating. We also provide best-in-class ratings for stocks, ETFs, and mutual funds.

If you're interested in learning more about how to get to the truth about stock valuation, watch our latest training: Unveiling a Trust-Based Rating System for Smarter Investing.

We hope you enjoy this research. Feel free to share with friends and colleagues!

This article was originally published on January 28, 2025.

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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