

## Why are P/Es so High?

Price / Earnings per Share Ratio



**Joan Loken**

**Director**

**Rocky Mountain Chapter**

**joanhps@aol.com**

1

<https://www.betterinvesting.org/chapters/rocky-mountain>

1

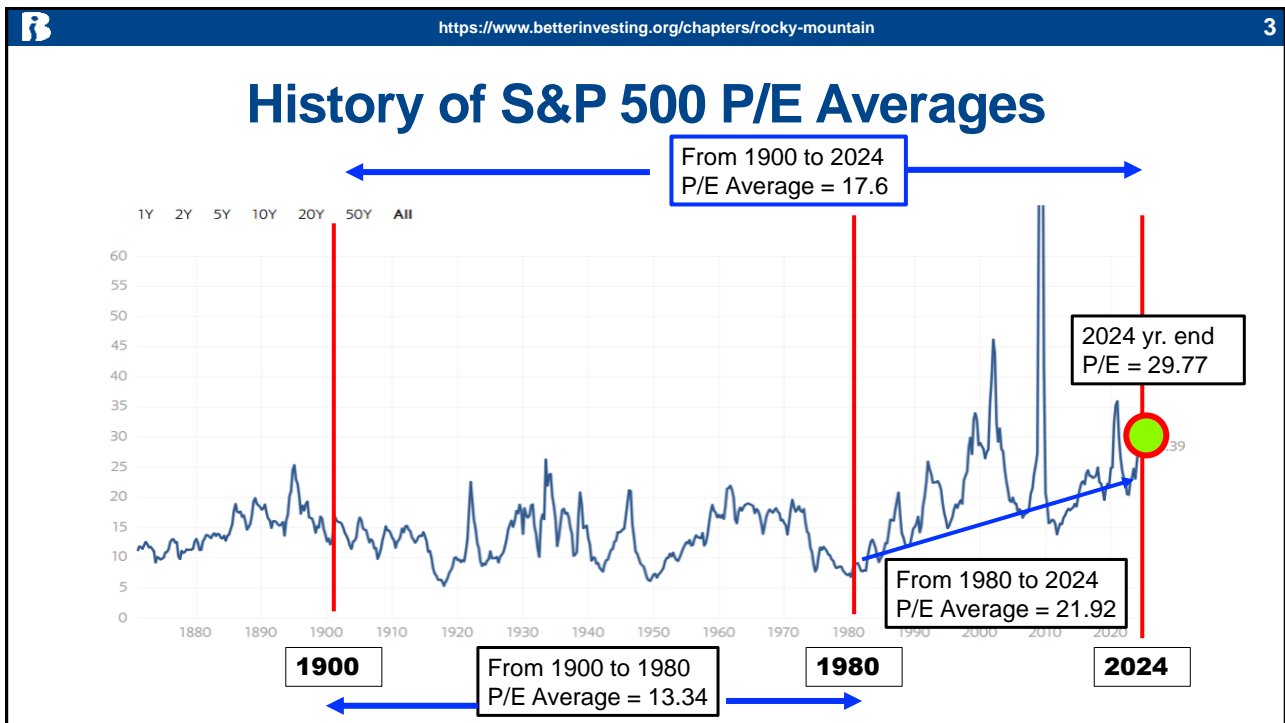
## Disclaimer



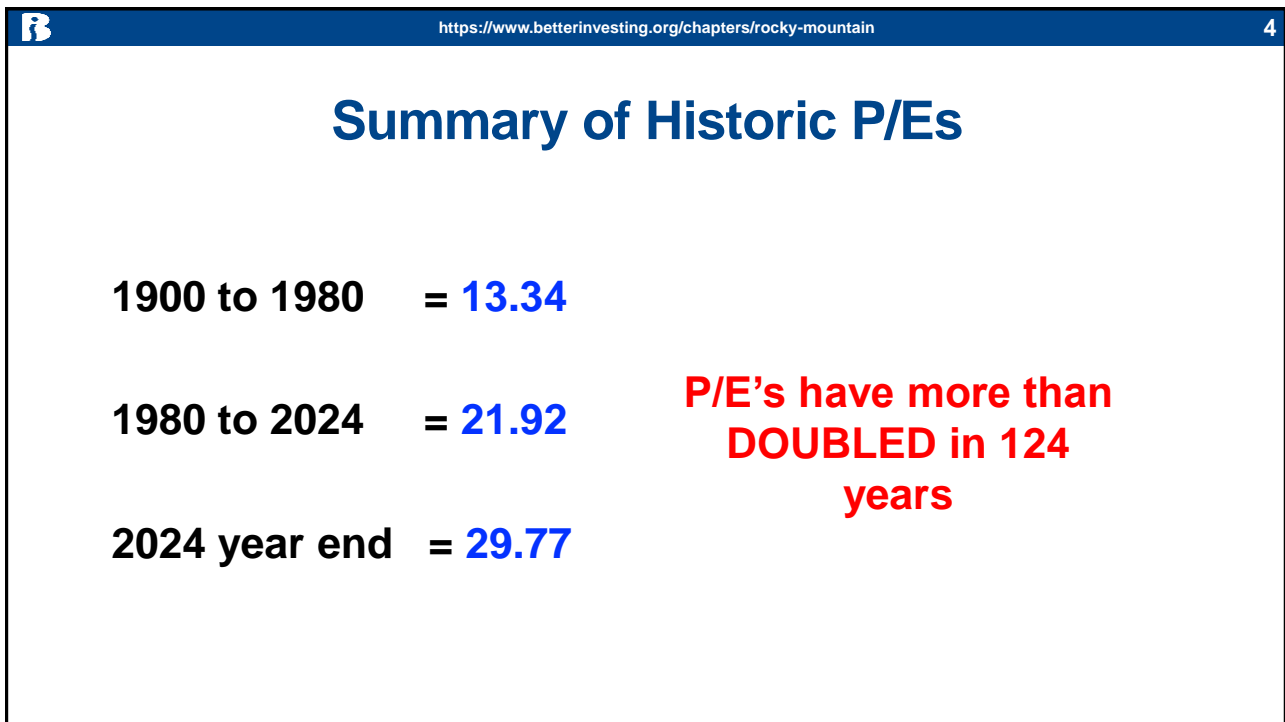
- The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ / National Association of Investors™. The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting. Investors should conduct their own review and analysis of any company of interest before making an investment decision.
- Securities discussed may be held by the instructors in their own personal portfolios or in those of their clients. BetterInvesting presenters and volunteers are held to a strict code of conduct that precludes benefitting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the CEO of BetterInvesting or the Director of Chapter Relations.
- This presentation may contain images of websites and products or services not endorsed by BetterInvesting. The presenter is not endorsing or promoting the use of these websites, products or services.
- **We may be recording this session for our future use.**

2

2




3



4




5

 <https://www.betterinvesting.org/chapters/rocky-mountain> 6

## Why are P/E Averages Rising?

- Since 1950, S&P earnings are up, not as much as P/Es
- Today investors are willing to pay more for earnings
- Resulting in increasing P/E averages
- Influence of the Large Faster Growing Companies
- Investors wanting to ride on the next Big Wave



6

# Past Wave – FANG Stocks



## FANG Stocks

*['faŋ 'stæks]*

The stocks of four prominent American technology companies: Meta (META) (formerly Facebook), Amazon (AMZN), Netflix (NFLX), and Alphabet/Google (GOOG).

 Investopedia

### FANG label - 2013

**F – Facebook**

**A - Amazon**

**N – Netflix**

**G – Google**

Investopedia / Ryan Oakley

7

# Past Wave – FAANG Stocks



## FAANGS

FACEBOOK  
APPLE  
AMAZON  
NETFLIX  
GOOGLE

### Labeled in 2017

**APPL added**

**Became FAANG**

8

# Current Wave - The Magnificent 7 - 2023



## Magnificent 7 Stocks

*[mag-'ni-fə-sənt 'se-vən 'stæks]*

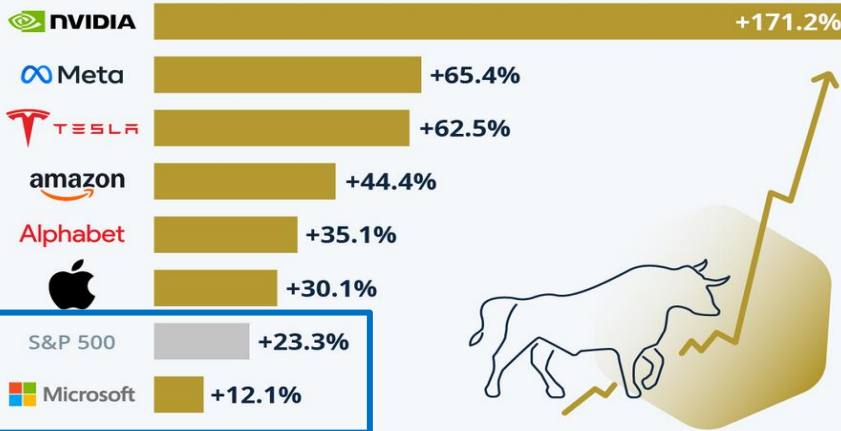
A group of seven high-performing and influential stocks in the technology sector.

 Investopedia

Investopedia / Michela Buttignol

## Another Great Year for Six of the 'Magnificent Seven'

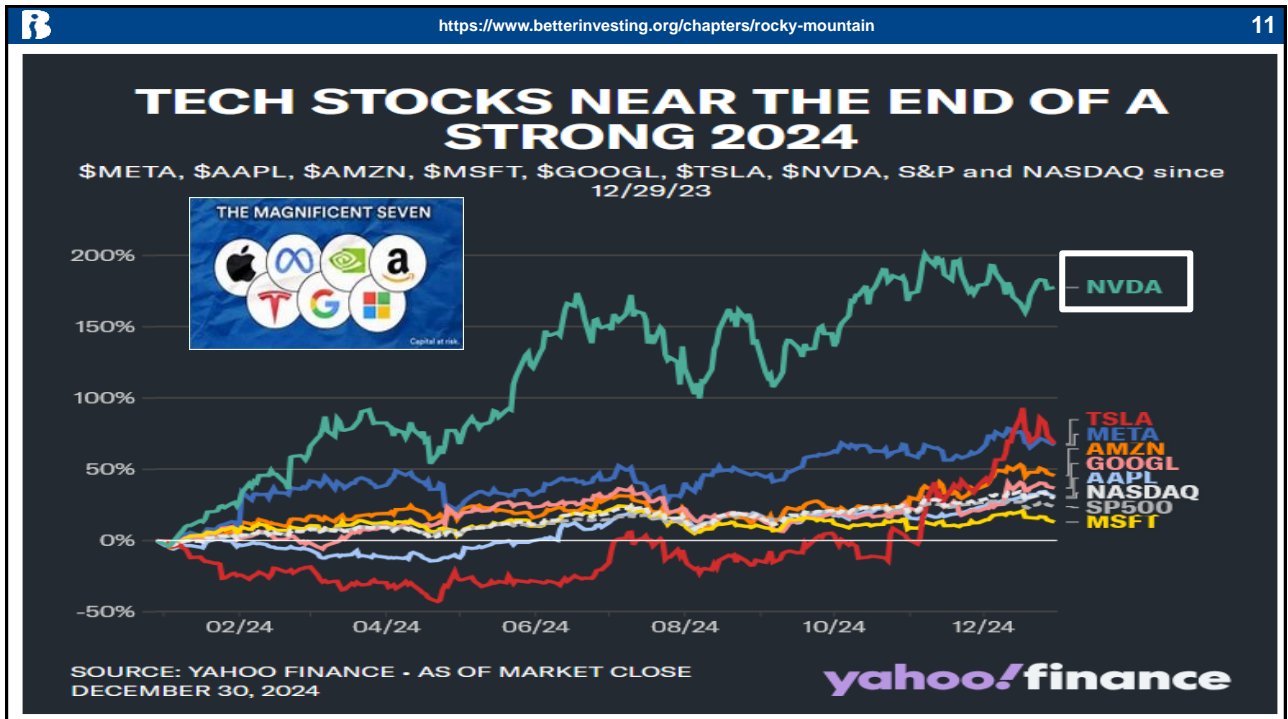
Stock price change of selected U.S. tech companies in 2024



**Each of MAG. 7 large companies grew like a small company 12% or >**

**Microsoft grew 12%, less the S&P 500 average**

Source: Yahoo Finance



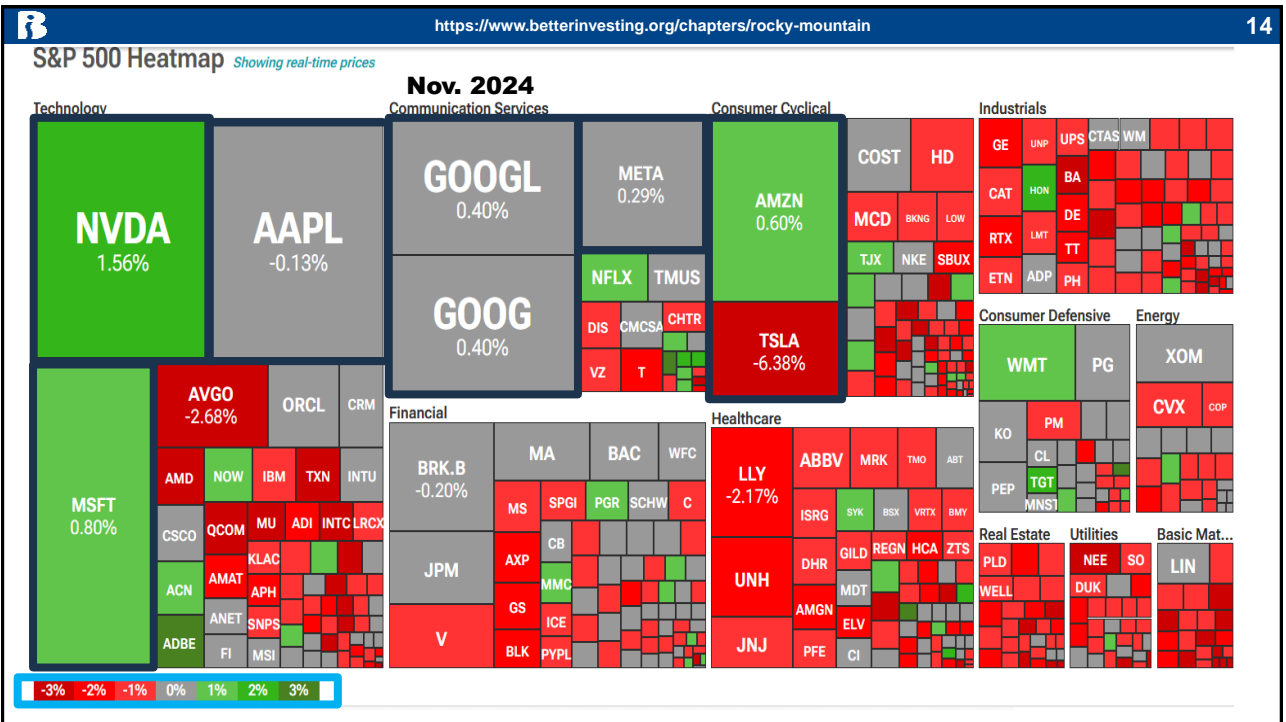
11



12



13



14

## What Makes Them Magnificent



1. **Market Leadership:** sets the standards for **innovation and performance**
2. **Adaptability:** to **changing market conditions**, shifts in consumer behavior and technological advances, invests in research and development
3. **High Market Capitalization:** some of the **largest companies in the world** and have **global reach**
4. **Revenue Growth:** Consistent and robust revenue growth, **ability to expand and capture market share**
5. **Technological Innovation:** focus on innovation and technological advancement, ensuring they **stay ahead of competitors and drive industry trends**
6. **Financial Health:** strong financial health, robust earnings, revenue growth, and **healthy balance sheets, making them attractive to investors** for their growth

## Portfolio Considerations

- **Magnificent 7 performance has been remarkable**
  - Delivered exceptional returns
  - Outpacing broader market indices
  - **Set trends - that the rest of the market follows**
  - **'AI' continues to dominate markets**




- **Let's look at next wave?**






## Next Wave - Quantum Computing



**Quantum Computing**  
[ˈkwɑːntəm kəmˈpyuːtɪŋ]  
An area of computer science that uses the principles of quantum theory.

 Investopedia

Investopedia / Jules Garcia

### What Is Quantum Computing?

- Is a new approach to calculation that uses principles of fundamental physics, usings atoms and protons, to solve extremely complex problems very quickly



## The Wave is in Development

**Quantum computing** - uses the unique behaviors of quantum physics to solve problems that are too complex for [classical computing](#)

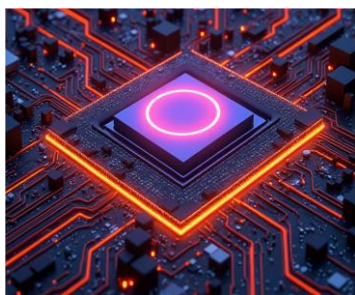
- Procedures allows a quantum computer to perform calculations efficiently and quickly
- **What's the difference between a quantum computer and a regular computer?**
- "Classical computers, can only do one thing at a time"
- "Quantum computers, ability to do multiple tasks at once, allows them to explore a much larger range of possibilities"
  - Seth Lloyd, professor of quantum mechanical engineering at MIT

## In Development – Forbes, 2023



- **Google** - spending billions of dollars to build quantum computer by **2029**
- **IBM** - plans to have a 1,000-**qubit** quantum computer in place by 2023. For now, IBM allows access to its machines for those research organizations, universities, and laboratories
- **Microsoft** - offers companies access to quantum technology via the Azure Quantum platform.13
- **Amazon** - established a center for quantum computing at Caltech
- **Intel** - working towards delivering a full-stack commercial quantum system. It recently released a 12-qubit silicon chip
- **Nvidia**- Quantum Cloud provides access to the world's most powerful quantum computing platform and is built for performance, is open source
- **Apple and Meta** (not list in Forbes article)

## Big Wave is Building NOW!



- **In 2024, found a list containing 87 companies – its growing**
- **It could be the next disruptive technology once it reaches maturity ~ 2030**
- **Like any new technology, no one knows which companies will be the next winner**
- **If you own the companies listed on the previous slide, you are already invested**

## Learning Opportunities



21

## Model Club 'AI' Learning Opportunities

- **February 19: NVDA – Acid Tests** – Is this stock worth further study?
  - Acid Tests were created by the NE Ohio Chapter to help investors find the companies that are like Gold Nuggets
  - RMC will co-sponsor “Acid Tests” webinars in March
- **March 19: Stock Study NVDA**
  - NVDA is a large-cap growing like a small-cap Sales & EPS > 12%
  - Does it fit in a portfolio focusing on Small to Mid-caps?

22

## Learning Opportunities – NE Ohio Chapter

- **March 15 – Basic Acids Tests**
  - Is this stock worth further study?
  - Free – “**Sales drives Profit, Profit drives EPS, EPS drives Price**”
- **March 29 - Advanced Acids Tests**
  - Focus on Pre-Tax Profit
  - “**Profit drives EPS and EPS drives Stock Price**”
  - \$10 fee
- **April 23 – Are High P/Es Irrational?**
  - How do BI investors analyze stocks with high P/Es
  - **Using the SSG, learn methods not taught in BI investors classes**
  - Webinar is for Intermediate and Advanced Investors
  - \$10 fee

23

## Questions or Comments?



24

## Make A Difference!

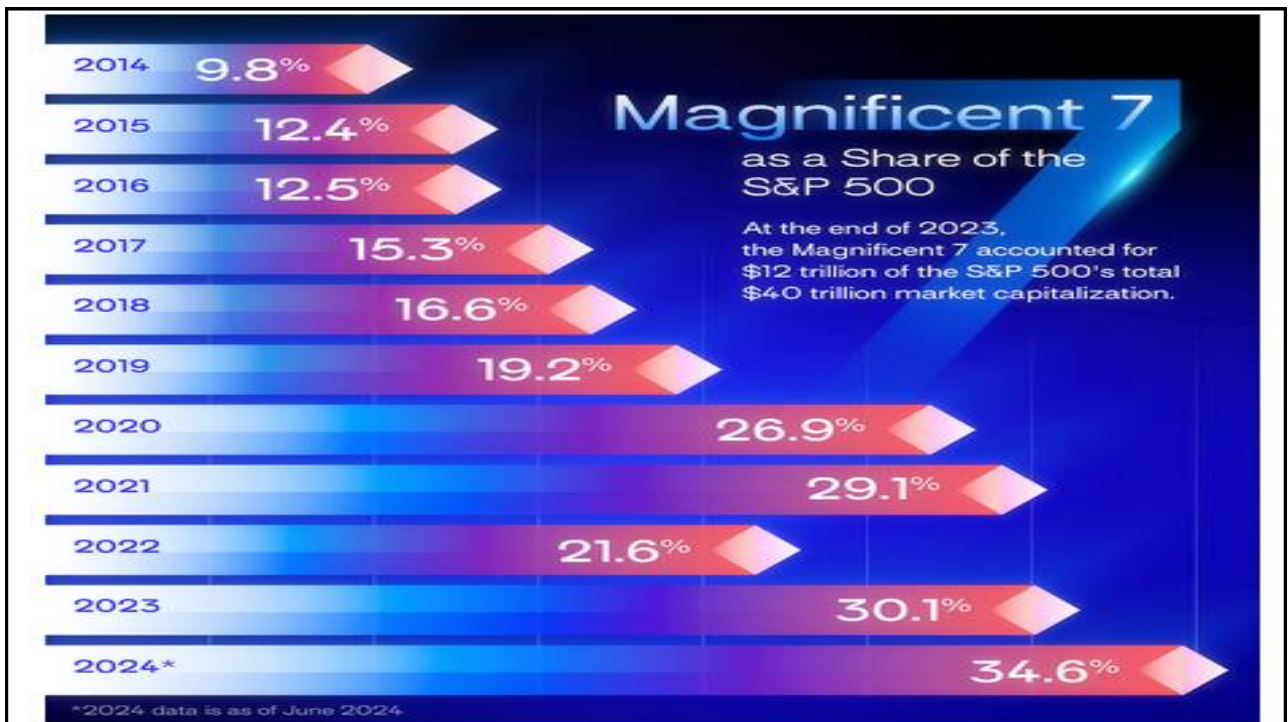
Have you benefited from **BetterInvesting**?

Introduce our unique investment education to others!



Share **BetterInvesting** materials with your family and friends!

[BetterInvesting.org/InvestBetter](https://BetterInvesting.org/InvestBetter)




## In Development – Forbes, 2023



- **D-Wave** - leader in quantum computing systems, software, and services, [D-Wave](#) uses a process called quantum annealing and its systems are employed by some of the world's most sophisticated enterprises, including Google, NASA Ames, and Volkswagen
- **Quantinuum** - formed by the merger of Cambridge Quantum Computing and Honeywell Quantum Solutions, [Quantinuum](#)'s H-Series trapped ion quantum computers support all-to-all qubit connectivity
- **Rigetti** - builds and deploys integrated quantum computing systems leveraging superconducting qubit technology
- **Xanadu** - is a full-stack photonic quantum computing company that builds quantum computers and provides quantum cloud services
- **Atos Quantum** - global leader in digital transformation
- **Others** - [financial services](#), [material science researchers](#) and [pharmaceuticals firms](#) and governments

## NVDA's P/E's

March, 2024

- S&P 500's Ave P/E = **28.3**
- NVDA's Current P/E = **75.7**
- NVDA is  **2.5** times greater than S&P 500
- Use caution when buying NVDA!

29

## Is NVDA Over Valued?

- NVDA is clearly, a high P/E stock!
- How do we determine if NVDA is over valued?
- Motley Fools' study of high P/E Stocks said to use additional analysis:
  - Cash Flow
  - Book Value
  - Debt Burden
- Using the SSG, we will learn several methods to evaluate high P/E stocks

30