The Nvidia Effect Part 2

Last week, I talked about how Nvidia is *the* driver of index returns in 2024, and if you don't own the stock (either directly or through owning the major indexes), your equity holdings will be lagging in 2024.

Here's a good chart that came across my email inbox that clearly illustrates the move Nvidia stock has made.

If you covered up the name and ticker symbol, tacked the chart to a wall five feet away, and stared at it, you could only come to one conclusion.

This stock is in a **massive** uptrend.

Yes, there's been a minor pullback recently.

Minor.

Add the fact that Nvidia was already one of the biggest companies in market-cap-weighted indexes, and it's no surprise that the stock's performance accounts for nearly 40% of 2024's S&P 500 returns.

What about the rest of the market?

Not so good.

That weakness is being covered up mainly by the move in Nvidia stock.

Let's look at a fascinating chart from *SentimenTrader.com* that illustrates the weakness in the market.

Here are the conditions.

The Nasdaq hits a 3-year high.

That's good!

Hooray!

But…

Less than 40% of the stocks were up when the index hit that 3-year high.

Not good!

Boo!

And then…

There were more new lows than new highs!

When the market hit a new high!

That's *really* not good!

That's not a healthy market.

There's no way to rationalize it.

At new highs, you want to see lots of stocks participate.

You surely don't want to see more stocks hitting new lows than highs.

Yuck.

Nasdaq Composite after 3-year high with < 40% up issues and NH < NL

Dates of 6 Signals	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
1999-04-06	0.8	-6.0	-1.1	-3.3	6.8	9.1	64.8
2015-07-20	-3.4	-2.0	-3.1	-6.2	-6.4	-14.2	-3.5
2021-11-18	-3.1	-5.7	-6.3	-11.5	-15.3	-29.0	-30.3
2021-11-19	-1.7	-5.2	-4.5	-14.3	-16.7	-28.2	-31.3
2024-06-13	0.1	0.4					
2024-06-14	-1.1	1.1					
2024-07-01							
Mean	**-1.4**	**-2.9**	**-3.7**	**-8.8**	**-7.9**	**-15.6**	**-0.1**
Median	**-1.4**	**-3.6**	**-3.8**	**-8.9**	**-10.8**	**-21.2**	**-16.9**
% Positive	33%	33%	0%	0%	25%	25%	25%
Avg Max Loss	-2.0	-4.3	-6.3	-12.0	-13.9	-20.2	-24.5
Avg Max Gain	0.6	0.7	1.0	1.0	1.8	3.3	24.3
Z-Score	-2.3	-3.1	-4.2	-4.3	-2.5	-3.0	-1.2

© SENTIMENTRADER Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2 suggests significance.

Across most periods, forward returns are negative.

As you can see on the chart, there's lots of red.

Lots of blood.

1999 was an outlier, but it was during the Internet Bubble.

Of course, today, we are in the Artificial Intelligence Bubble.

Nvidia is a critical player in the artificial intelligence space.

While forward returns show plenty of losses when conditions are met, **that does not mean the market will crash.**

No one knows what's going to happen!

However, it does mean that if you think about risk as a spectrum, we are clearly at the higher risk end of the spectrum.

We need to tread cautiously here.

For me, that means building my war chest to make lower-risk bets in the future.

There will be a time when the risk spectrum swings hard to the other side.

It *always* does.

Meanwhile, I have plenty of investments in indexes, and I will participate if the market goes higher.

If the market dips and the average investor starts to get scared, I have the firepower to swoop in and kindly take those shares off their hands.
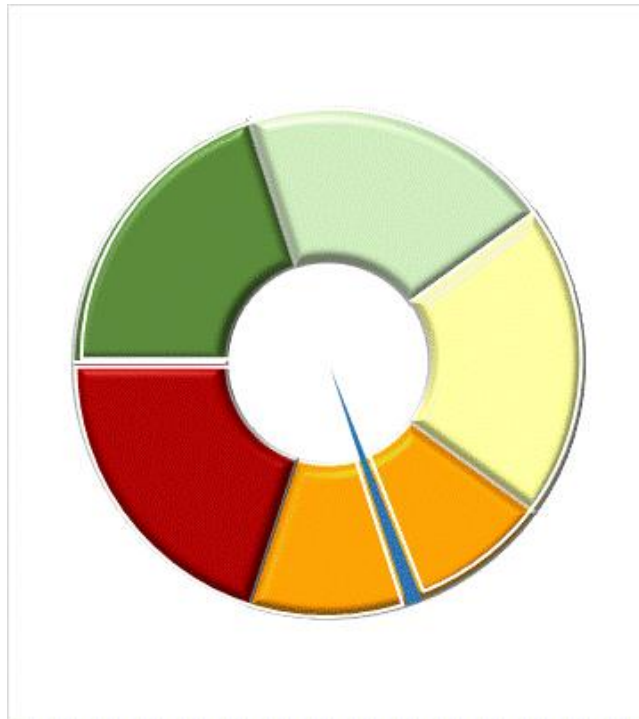
Making Some Tweaks…

As I have noted in the past two newsletter issues, Nvidia's recent dominance has had a dramatic impact on the performance of major indexes and masked weakness in the average stock.

The recent 3-year high with more Nasdaq stocks hitting 52-week lows simultaneously has only happened six times this century (see chart above).

Three times have been in the last month.

We are in rarified air.

That said, I have noticed the *Mega-Tech* model's performance does not align with what it should be doing.

All strategies underperform from time to time.

It happens.

However, the model should be tracking better than it is with the benchmark index.

A few weeks ago, I noticed that it was holding on to losers longer than expected.

Then, I received a question from a subscriber, and we dug deeper.

We can sit around and "hope" that things turn around.

Or we can do something about it.

Hope is a four-letter word.

So, we did something about it instead.

We have made some tweaks.

Conceptually, little has changed.

We have tightened up some parameters.

While we use the highest-quality data available, we want to ensure the best output possible.

So, we've done a refresh. It's like hitting CTRL+ALT+DELETE on your computer.

Now, the *Microcap Millions* strategy, which is the primary strategy of this newsletter, has yet to be touched.

It has never been touched since 2019 when it was part of a predecessor newsletter.

The *Microcap Millions* model offers a massive edge because Wall Street cannot participate much with these stocks.

Historically, and in actual performance, the returns have been highest in the *Microcap Millions* strategy.

You'd also expect more significant drawdowns, although that has yet to happen. The model has done better in "real life" than in testing, which is unheard of.

You'd expect lower returns and smaller drawdowns as you increase market cap. It's also easier to trade bigger stocks because they are…bigger.

The easier something is, the less edge you should expect.

None of the models hold Nvidia.

That's been a drag to recent performance.

That will likely be a huge boost to performance in the future once Nvidia cools off, assuming it's not in the models at that time.

As a result of the refresh, there are ***a lot*** of trades this week.

Only one stock is a holdover.

You should expect a lot less trading in the coming weeks.

But there's no easy way to do this.

There's no legging into it.

You bite the bullet.

Make the trades.

Then move on with life.

We will see what happens.

However, after much work behind the scenes, I am restored in my confidence that the *Mega-Tech* and *Large Cap* strategies will get back on track.

It's an opportunity to pick up performance from here if the performance gap closes, as I expect.

Micro-Cap Millions
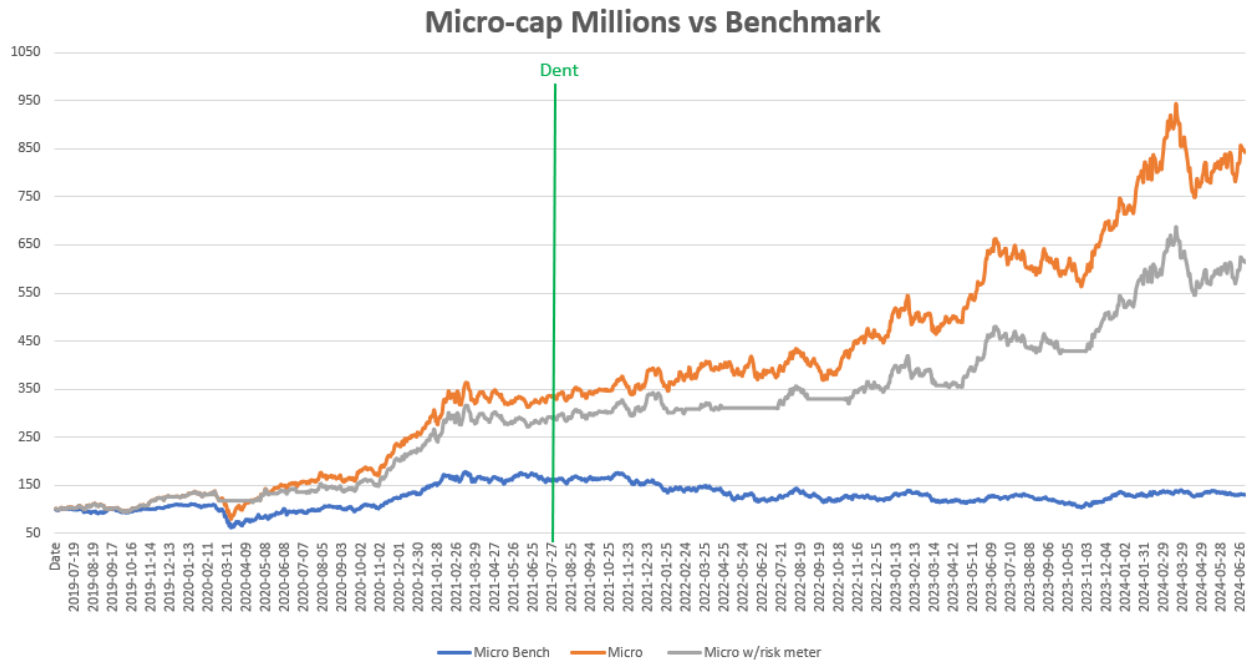
There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ACTG	Acacia Research Corp.	-8.06%	32	Technology
ALOT	AstroNova, Inc.	-15.35%	74	Technology
BWAY	Brainsway Ltd.	0.24%	109	Healthcare
DDI	DoubleDown Interactive Co., Ltd.	-3.08%	136	Technology
DSP	Viant Technology, Inc.	97.72%	249	Technology
ELMD	Electromed, Inc.	3.42%	136	Healthcare
IMMR	Immersion Corp.	16.87%	53	Technology
MPTI	M-tron Industries, Inc.	22.37%	53	Technology
RDVT	Red Violet, Inc.	19.59%	53	Technology
WYY	WidePoint Corp.	54.27%	46	Technology

Mega-Tech Trends
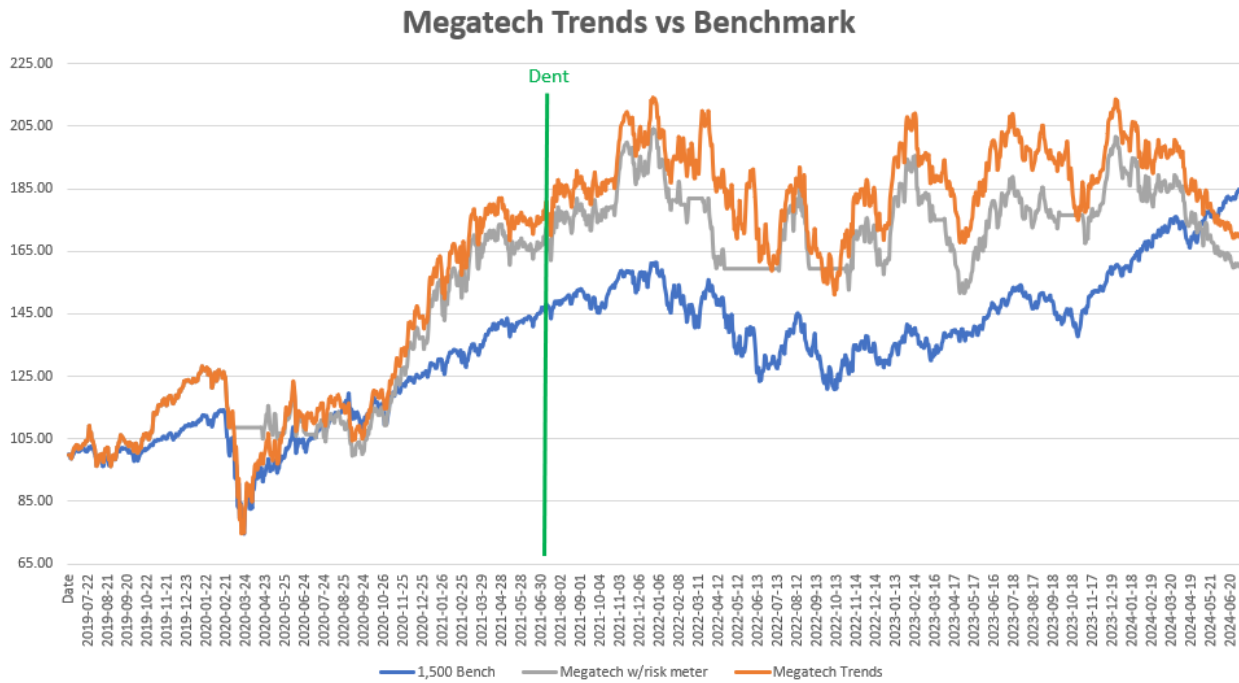
Megatech Trends vs Benchmark

Here is the new portfolio with the rebalance:

Ticker	Name	Return	Days Held	Sector	New Sells	New Buys
ABBV	AbbVie, Inc.	0.00%	NEW	Healthcare	ACLS	FFIV
ATEN	A10 Networks, Inc.	0.00%	NEW	Technology	BDC	YELP
CVLT	Commvault Systems, Inc.	0.00%	NEW	Technology	FN	RMBS
DLB	Dolby Laboratories, Inc.	0.00%	NEW	Technology	HPE	QCOM
FFIV	F5, Inc.	0.00%	NEW	Technology	JBL	GDDY
GDDY	GoDaddy, Inc.	0.00%	NEW	Technology	MKSI	ABBV
NXPI	NXP Semiconductors NV	0.00%	NEW	Technology	QRVO	DLB
QCOM	QUALCOMM, Inc.	0.00%	NEW	Technology	REZI	NXPI
RMBS	Rambus, Inc.	0.00%	NEW	Technology	TRMB	CVLT
YELP	Yelp, Inc.	0.00%	NEW	Technology	ZBRA	ATEN

Large Cap Leaders
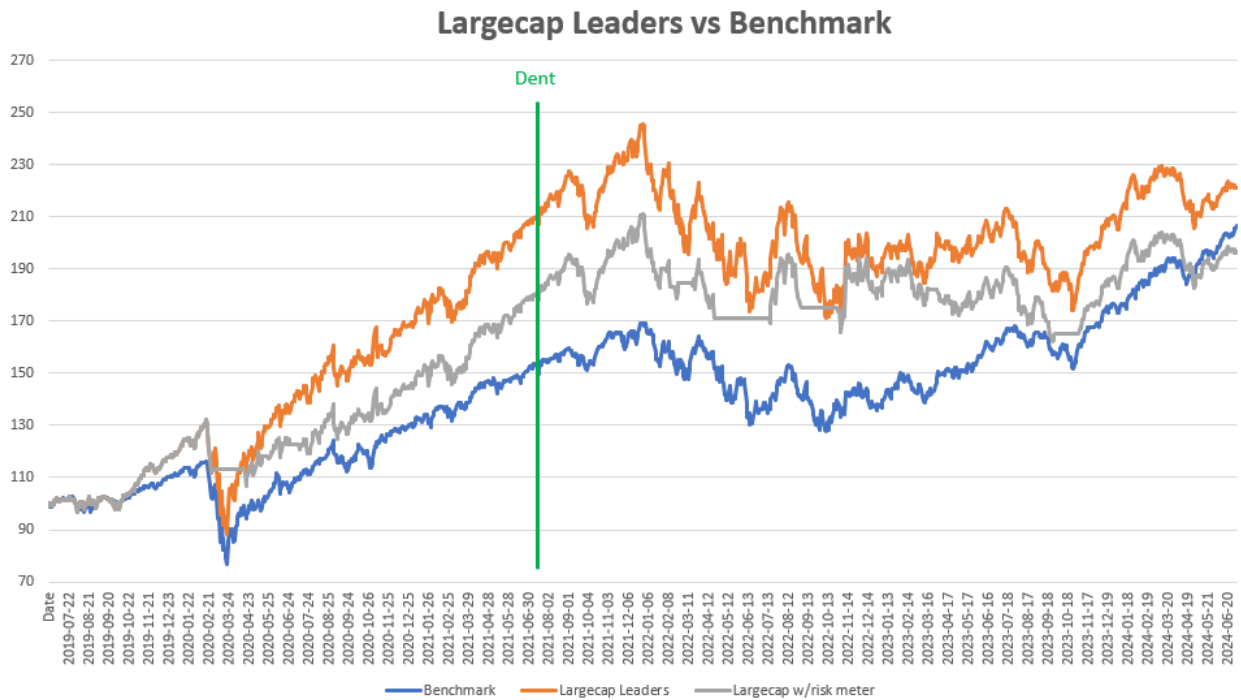
Here is the new portfolio with the rebalance:

Ticker	Name	Return	Days Held	Sector	New Sells	New Buys
ABBV	AbbVie, Inc.	0.00%	NEW	Healthcare	AKAM	QCOM
FFIV	F5, Inc.	-4.49%	165	Technology	CDW	ABBV
GDDY	GoDaddy, Inc.	0.00%	NEW	Technology	CMCSA	GDDY
GILD	Gilead Sciences, Inc.	0.00%	NEW	Healthcare	EPAM	NXPI
GRMN	Garmin Ltd.	0.00%	NEW	Technology	HPE	GILD
IBM	International Business Machines Corp.	0.00%	NEW	Technology	INCY	IBM
META	Meta Platforms, Inc.	0.00%	NEW	Technology	MSCI	META
NTAP	NetApp, Inc.	0.00%	NEW	Technology	MSFT	NTAP
NXPI	NXP Semiconductors NV	0.00%	NEW	Technology	TMUS	GRMN
QCOM	QUALCOMM, Inc.	0.00%	NEW	Technology		

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