

Navigating Investment Risks with FAANG Stocks: A Professional's Perspective

Finance

Introduction

– By Abdulrahman Alamoudi

In today's ever-changing investment landscape, managing risk is of paramount importance for investors seeking to maximize their returns. Among the popular investment options, FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google) have garnered significant attention due to their consistent growth and dominance in the technology sector. In this article, we will analyze the performance of FAANG stocks from January 2013 to June 2023 and explore the key risk metrics derived from our calculations, highlighting the expertise and professional insights of a seasoned investment professional.

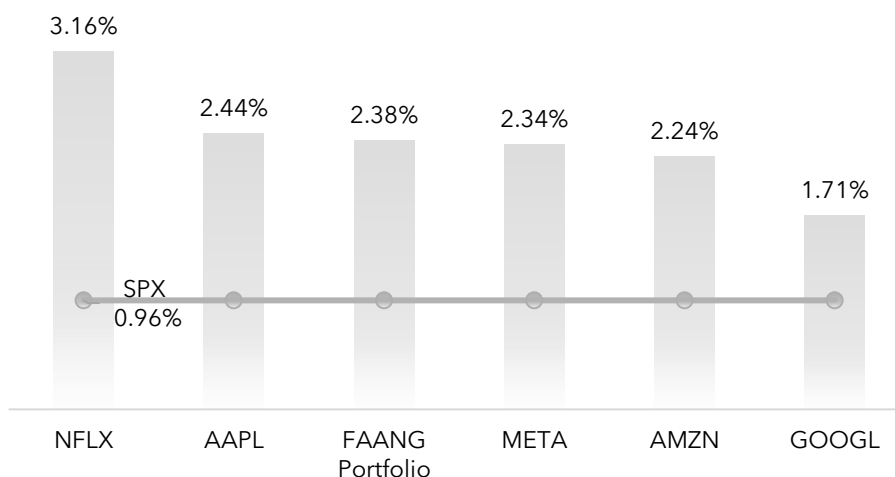
Monthly Returns

Over the past decade, FAANG stocks have demonstrated impressive monthly returns, consistently outperforming broader market indices. During the observed period, the monthly returns for the FAANG stocks were as follows: NFLX (3.16%), AAPL (2.44%), META (2.34%), AMZN (2.24%), and GOOGL (1.71%). These returns highlight the growth potential and attractiveness of investing in FAANG stocks.

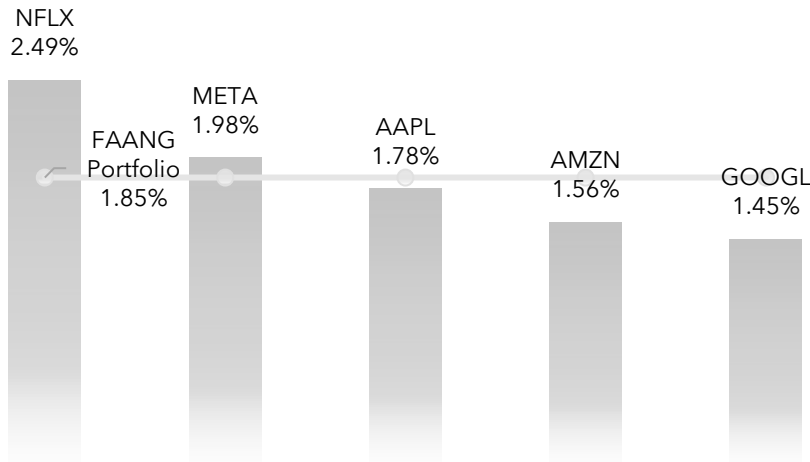
New finds this week

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MONTHLY RETURN



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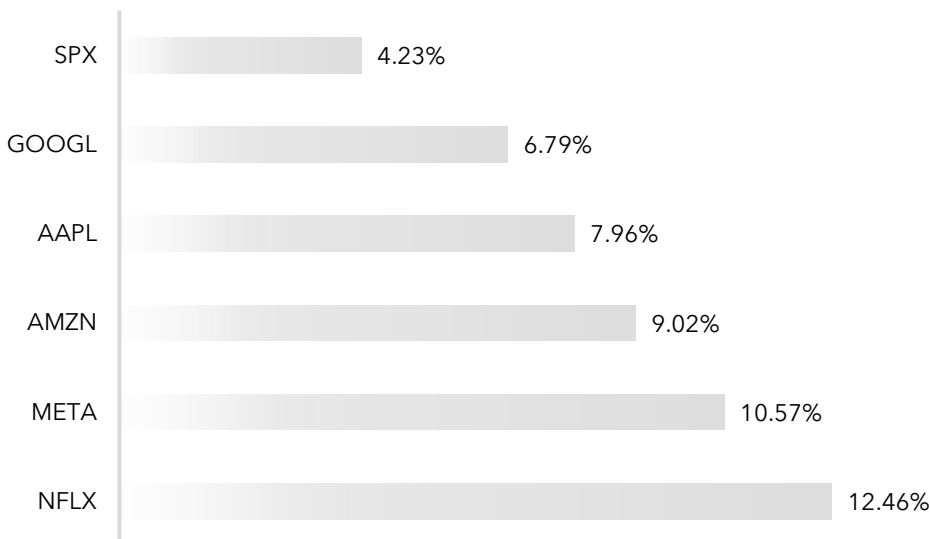
Treynor Ratio

The Treynor ratio assesses the risk-adjusted returns of an investment by considering its beta. Higher ratios indicate better risk-adjusted performance. The Treynor ratios for the FAANG stocks during the observed period were as follows: NFLX (2.49%), META (1.98%), AAPL (1.78%), AMZN (1.56%), and GOOGL (1.45%). These figures demonstrate the ability of FAANG stocks to generate superior returns while accounting for their respective market risks.

Standard Deviation (STDEV)

To assess the volatility of these stocks, we calculated their standard deviation. The STDEV values for the FAANG stocks during the given period were as follows: NFLX (12.46%), META (10.57%), AMZN (9.02%), AAPL (7.96%), and GOOGL (6.79%). These figures indicate the relative price stability of each stock, with lower standard deviations suggesting a more predictable performance.

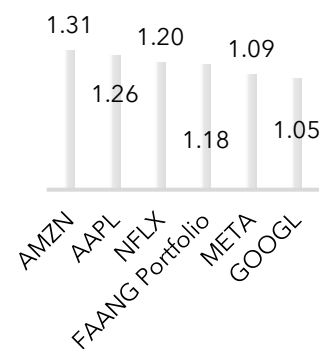
STDEV



Beta

Beta measures a stock's sensitivity to market movements. A beta value greater than 1 indicates that the stock is likely to experience amplified price changes compared to the overall market. The beta values for the FAANG stocks were as follows: AMZN (1.31), AAPL (1.26), NFLX (1.20), META (1.09), and GOOGL (1.05). These figures imply that FAANG stocks tend to be slightly more volatile than the market as a whole.

BETA



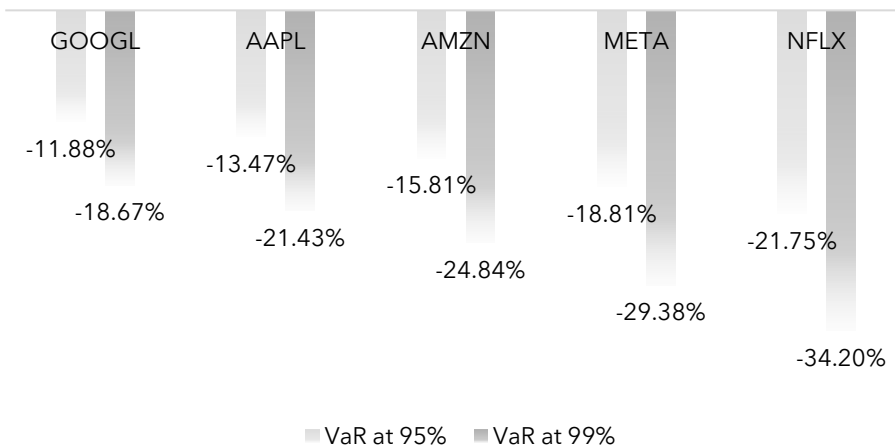
Value at Risk (VaR)

VaR is a critical metric used to assess the potential maximum loss for a given investment over a specified time frame. At a 95% confidence level, the VaR values for the FAANG stocks were as follows: NFLX (-21.75%), META (-18.81%), AMZN (-15.81%), AAPL (-13.47%), and GOOGL (-11.88%). At a higher confidence level of 99%, the VaR values for the same stocks were as follows: NFLX (-34.20%), META (-29.38%), AMZN (-24.84%), AAPL (-21.43%), and GOOGL (-18.67%). These figures demonstrate the potential downside risks associated with investing in FAANG stocks, highlighting the need for risk management strategies.

Conclusion

Analyzing the performance of FAANG stocks and evaluating key risk metrics provides valuable insights for investors. The calculated monthly returns, standard deviations, beta values, Treynor ratios, and VaR figures allow investors to make informed decisions based on their risk tolerance and return objectives. With the guidance of a skilled investment professional, investors can navigate the volatility of the market and optimize their FAANG stock portfolios for long-term success.

VALUE AT RISK



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New finds this week

In this week's exploration of emerging opportunities, we delve into the world of artificial intelligence (AI) stocks and the potential for significant growth in the sector. Backed by a recent report from Morgan Stanley, we identify 37 leading names poised to benefit from the global AI arms race. These companies are projected to experience an average earnings per share growth of 24% over the next three years, making them attractive investment prospects.

While these AI stocks have already demonstrated strong gains, their upward trajectory is expected to continue over a more extended timeframe, ranging from five to ten years. This aligns with the impressive performance of the S&P 500, driven primarily by seven mega-cap technology companies that have collectively generated a 58% return this year, outshining the rest of the market.

The enthusiasm surrounding AI technology has contributed to this rally, with notable tech giants like Nvidia and Microsoft experiencing substantial growth, propelling the market higher. A report from Morgan Stanley affirms that the potential to profit from the AI revolution is far from over—it might have only just begun.

According to Morgan Stanley, the evolution of AI technology will bring about new market leaders, particularly in the semiconductor industry. As hardware and semiconductors currently have substantial AI exposure, the leadership is expected to shift as the technology diffuses into infrastructure and devices. This paradigm shift will create a third wave of AI companies capable of developing usable applications on top of the AI infrastructure.

The AI sector is projected to experience remarkable growth, with the total addressable market expected to triple from \$90 billion to \$275 billion within the next four years. Thus, the report addresses concerns of a potential AI stock bubble, emphasizing that today's leading AI companies are well-established with sound cash flow characteristics, unlike the dot-com era where many smaller companies lacked viable business cases.

Generative AI, enabling the creation of new content, presents countless use cases that will require new infrastructure. This will lead to continued sales and earnings growth within the AI industry over the next five to ten years, further benefiting the identified AI leaders.

To provide a comprehensive overview, a table is included at the end of the article, featuring the 37 leading names in the AI sector. The table provides crucial information such as the company's category, current stock price, Morgan Stanley's price targets in local currencies, and the rating (overweight or underweight) given by Morgan Stanley analysts. This valuable information can assist investors in making informed decisions about potential AI investments.

Note: For the detailed table of the 37 leading AI companies, including current prices, target prices, and ratings, please refer to the last page of the article.

Deep Insight into the Report

The recently published report, backed by Morgan Stanley, offers a comprehensive analysis of the AI sector, identifying several companies poised to benefit from the ongoing AI revolution. The report's analysis included price targets (PT) provided by Morgan Stanley. We included the current market prices, and the percentage increase in stock prices over the past six months. This in-depth understanding of the finance landscape allows for a closer examination of the investment potential of each company.

Starting with SK Hynix Inc, a prominent player in the memory/data storage category, the report indicates a price target of 170,000 KRW. While the current market price stands at 118,000 KRW, a potential upside of approximately 44% is expected if the PT is achieved. Furthermore, SK Hynix has experienced a remarkable increase of 37.53% in the past six months, reinforcing its positive trajectory.



Samsung Electronics Co Ltd, another major player in memory/data storage, has a PT of 95,000 KRW. Despite the current market price of 73,400 KRW, the company offers a potential gain of around 29%. Impressively, Samsung Electronics has witnessed a notable increase of 20.13% in the past six months, further solidifying its position as an attractive investment opportunity.



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In the compute category, Nvidia and AMD are identified as key players with substantial growth potential. Nvidia boasts a PT of \$500.00, offering a potential upside of approximately 10% from the current market price of \$454.69. Notably, Nvidia has demonstrated a remarkable surge of 156.86% in the past six months, showcasing its dominance in the market. Similarly, AMD, with a PT of \$138.00, presents a potential gain of about 19% from the current price of \$115.94. AMD has also exhibited impressive growth, with a notable increase of 61.95% in the past six months.



Taiwan Semiconductor Manufacturing Co Ltd (TSMC) is another noteworthy company within the compute category. With a PT of 718.00 TWD, there is a potential gain of around 22% from the current price of 591.00 TWD. TSMC has also experienced a solid increase of 17.03% in the past six months, positioning itself as a promising investment opportunity.



Within the compute segment, Alchip Technologies and Global Unichip Corp. are expected to perform exceptionally well. Alchip Technologies has a PT of 2,280.00 TWD, implying a potential upside of approximately 15% from the current market price of 1,980.00 TWD. Alchip Technologies has experienced substantial growth of 129.70% in the past six months, further enhancing its investment appeal. Likewise, Global Unichip Corp. has a PT of 1,800.00 TWD, offering a potential gain of around 4%. Global Unichip Corp. has witnessed an impressive increase of 165.25% in the past six months, highlighting its potential for continued success.

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The report emphasizes the significance of advanced packaging and identifies BE Semiconductor Industries NV (BESI) and ASMPT Ltd as key players in this area. BESI has a PT of 95.00 EUR, suggesting a potential upside of approximately 11% from the current market price of 106.40 EUR. Notably, BESI has experienced a notable increase of 62.49% in the past six months, further validating its positive growth trajectory. ASMPT's PT of 88.00 HKD indicates a potential gain of 7% from the current price of 82.40 HKD, complemented by an increase of 28.95% in the past six months.



Furthermore, the semiconductor capital equipment segment includes ASML Holding NV and DISCO Corp, with PTs of \$770.00 and 27,000 JPY, respectively. ASML Holding demonstrates a potential gain of approximately 2% from the current market price of \$754.02, with a percentage increase of 14.56% in the past six months. DISCO Corp suggests a potential upside of 16% from the current price of 23,325 JPY, accompanied by an increase of 81.75% in the past six months.



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Disco Corporation (6146.T) ☆

Tokyo - Tokyo Delayed Price. Currency in JPY

23,325.00 +425.00 (+1.86%)

At close: July 14 03:15PM JST



In the HPC/AI chip testing category, Advantest Corp and King Yuan Electronics Co., Ltd. (KYEC) are expected to perform exceptionally well. Advantest's PT of 19,000.00 JPY represents a potential gain of 12% from the current market price of 21,720 JPY, with a solid increase of 142.95% in the past six months. KYEC's PT of 68.00 TWD suggests a potential upside of around 13% from the current price of 60.10 TWD, accompanied by an increase of 61.56% in the past six months.



Within the server ODM/OEMs category, Dell Technologies Inc and Quanta Services Inc show promising potential. Dell has a PT of \$56.00, indicating a potential gain of approximately 1% from the current market price of \$55.42, with an impressive increase of 38.45% in the past six months. Quanta Services has a PT of \$110.00, suggesting a potential upside of 44% from the current price of \$196.13, accompanied by an increase of 32.28% in the past six months.

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The report also emphasizes the significance of substrate/PCB companies, including Ibiden Co., Ltd. and Gold Circuit Electronics Ltd. Ibiden has a PT of 7,800.00 JPY, suggesting a potential gain of around 7% from the current market price of 8,439 JPY. Ibiden has demonstrated stability with a slight increase of 3.14% in the past month. Gold Circuit Electronics, with a PT of 114.00 TWD, shows a potential upside of approximately 37% from the current price of 182.00 TWD, accompanied by an increase of 30.47% in the past month.



Within the power supply category, Delta Electronics and Lite-On Technology Corp are highlighted. Delta Electronics has a PT of 368.00 TWD, suggesting a potential gain of around 0.27% from the current market price of 368.00 TWD. Delta Electronics has demonstrated stability in the past month. Lite-On Technology, with a PT of 61.20 TWD, shows a potential upside of approximately 57% from the current price of 144.00 TWD, with a substantial increase of 37.14% in the past month.



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In summary, the report backed by Morgan Stanley provides investors with a comprehensive analysis of AI stocks, enabling them to make informed investment decisions. Thus, considering the PTs, current market prices, and the percentage increase in stock prices, investors gain valuable insights into the potential upside of each company. It is important to monitor market dynamics and individual company performance to align with the expected growth trajectories outlined in the report.

Table: Leading AI Companies

Company Name	Category	Rating	Current price	Price Target (PT)
SK hynix	Memory/Data Storage	OW	118,000 KRW	170,000 KRW
Samsung Electronics	Memory/Data Storage	OW	73,400 KRW	95,000 KRW
Pure Storage	Memory/Data Storage	EW	37.92 USD	\$42.00
Seagate Technology	Memory/Data Storage	EW	61.57 USD	\$60.00
Nvidia	Compute	OW	454.69 USD	\$500.00
AMD	Compute	OW	115.94 USD	\$138.00
TSMC	Compute	OW	591.00 TWD	718.00 TWD
Alchip	Compute	OW	1,980.00 TWD	2,280.00 TWD
GUC	Compute	OW	1,870.00 TWD	1,800.00 TWD
Arista	Networking Equipment	EW	165.58 USD	\$150.00
Marvell	Networking Equipment	OW	63.45 USD	\$68.00
Coherent	Networking Equipment	OW	50.46 USD	\$40.00
Lumentum	Networking Equipment	EW	51.92 USD	\$55.00
Zhongji Innolight	Networking Equipment	EW	155.39 CNY	130.00 CNY
BESI	Advanced Packaging	OW	106.40 EUR	95.00 EUR
ASMP	Advanced Packaging	OW	82.40 HKD	88.00 HKD
ASML	Semi Cap Equipment	OW	754.02 USD	\$770.00
DISCO	Semi Cap Equipment	OW	23,325 JPY	27,000 JPY
Advantest	HPC/AI Chip Testing	EW	21,720 JPY	19,000.00 JPY
KYEC	HPC/AI Chip Testing	OW	60.10 TWD	68.00 TWD
Micronics Japan	HPC/AI Chip Testing	EW	2,133 JPY	2,200 JPY
Wiwynn	Server ODM/OEMs	EW	1,945.00 TWD	960.00 TWD
Dell	Server ODM/OEMs	OW	55.42 USD	\$56.00
FII	Server ODM/OEMs	OW	24.80 EUR	17.50 EUR
Quanta	Server ODM/OEMs	OW	196.13 USD	\$110.00
Wistron	Server ODM/OEMs	EW	142.00 TWD	47.00 TWD
Giga-Byte	Server ODM/OEMs	OW	296.00 TWD	158.00 TWD
Ibiden	Substrate/PCB	EW	8,439 JPY	7,800.00 JPY
Gold Circuit	Substrate/PCB	OW	182.00 TWD	114.00 TWD
Shennan Circuit	Substrate/PCB	OW	79.90 CNY	90.00 CNY
Delta Electronics	Power Supply	OW	368.00 TWD	368.00 TWD
Lite-on	Power Supply	EW	144.00 TWD	61.20 TWD
Accton	Networking Switch	EW	403.00 TWD	285.00 TWD
Lotes	System Level Testing Equipment	OW	794.00 TWD	1,100.00 TWD
Chroma	System Level Testing Equipment	OW	282.00 TWD	320.00 TWD
AVC	Thermal Solution	OW	293.5 TWD	200.00 TWD
Andes	Compute	OW	477.00 TWD	580.00 TWD