

Semiconductor sector investing conclusion

I've analyzed Intel a bit more than a year ago when the company was focused on extreme buybacks (\$20 billion per year) and strong dividends from cash flows. Since, the company has completely changed direction, where it now focuses on growth.

The stock went nowhere for a year, which is irrelevant, but the business transformed for sure, and the future is uncertain. However, there is actually one comment that seems plastered into the minds of most investors out there: 'AMD and NVIDIA are better at making chips'.

They are likely right, but that isn't really that relevant from a risk reward perspective. If that would not be the case, Intel would not be cheap and in a positive long-term risk reward, so that is the game. The funny fact there is that all those, mostly engineers and programmers saying how Intel is obsolete, see just that and nothing else. I try to always have a broad risk reward perspective and therefore add the quality of chips as an input, but that is just one input in a much broader/investing picture. Therefore, on Intel, the company I feel is still in a positive risk and reward given there is demand for its products and the trend is positive. It is still making money, it is investing into a lot of uncertain things that, given the long-term outlook, will likely be in demand etc...

BUT, THE ABOVE IS THE NOT the most IMPORTANT WHEN IT COMES TO MY INVESTING – I am looking for one good investment over a year, even just one over a few years is all you need. This strengthens the criteria, makes finding good investments much harder, but makes investing much easier over the long-term.

So, to conclude, Intel is yes a positive risk reward, so are likely Micron, NVIDIA, AMD and TSMC, but, for me, it is really hard to define these investments as: **tails I win a lot and heads I win ok**. And that is the core of investing.

In that line, I've looked deeper into the sector, looked at the opportunities of a general investment there, followed Intel and the developments, analyzed chip machine producers (ASML), foundries (TSMC), AMD, NVIDIA (not written anything on the last two) etc.

Just a note on AMD, a 100 bagger since 2015. Back then it was high capex, extremely negative free cash flow, uncertain outcome of investments, but in a positive trend market – partly like Intel now, so time will tell how these plans work out – and that is very hard to know – but you see the upside if things work out on the profitable side.

And my conclusion is pretty simple: I feel how it is most likely that most mentioned above are going to do well as businesses over time (returns on invested capital are high, margins are high and the most important thing is that the general trend and demand for products are growing fast. So, nothing wrong there...

But, going back to line 1, the **RED NOTE ABOVE**, the sector is also so competitive, moving extremely fast, with uncertain and cyclical investment requirements, that I just have to focus on finding better.

Just a note: Here comes a interesting fact; if you run any kind of research or stock market related business, looking into semis makes you look smart and there is a lot of demand for opinions on the sector because there is usually a lot of volatility, thus a lot of greed and thus you make more money as a researcher and analyst, plus if you nail the right stock, you can make a career just on that.

But, I've decided to renounce that part of the pie, just because the sector doesn't fit the above red line. To invest heavily, by that I mean something reaching my top 4, I would need much more certainty, in the semis industry, I don't think I can find a top 4. But, you never know how cheap

something can get (so, Intel will stay in my large portfolio, I will keep following it and the risk reward is definitely for a top 20, it is good for a diversified portfolio)

For the other in the semis sector, the capex is always high, changes fast and you never know where it will go. Plus, at the moment valuations are high, except for Intel of course....

So, just a comment there to give more perspective. I am moving faster on things and not spending time on writing things down that don't add tangible value to my process of investing (AMD, NVIDIA etc)