



12/04/2025

Weekly Webinar

INTRODUCTION – FOCUS ON FUNDAMENTAL ANALYSIS

An analyst for several decades

Senior Analyst - Value Notes

CFO - CPA firm, business consulting

Analyst - Motley Fool and Seeking Alpha

CFO - L Capital, family office, project analysis and capital allocation

At Fountainhead, we believe that investing in businesses, whether it's a massive Google or a startup with \$200Mn in revenues. Every business must be valued based on their fundamentals, irrespective of their daily price movements over which we have little control. But we do have analytical ability to analyze and value businesses and base our decisions on how well they perform. If you've been familiar with my work in the past year and a half, I really like to go for businesses which are market leaders, and have strong, competitive advantages, very strong balance sheets, and great margins which allows them to price their products or services way higher than the competition. To me the biggest incentive to invest in a company is its "moat" or significant competitive advantages. The term "moat" was coined by the great Warren Buffett signifying an unbreachable competitive advantage, like a deep moat surrounding a castle to keep out intruders. The hugely successful Peter Lynch, also placed a tremendous emphasis on investing only in great businesses and not worrying about the market.

Four examples of companies with great moats are Nvidia with its high-powered GPUs, Google with search, Taiwan Semiconductor with its manufacturing operations, and ASML with its EUV lithography machines, without which you cannot create a high-powered GPU.

THE MARKET BOTTOMED ON 11/20/2025

An hour into the market opening, we're cruising on phenomenal Nvidia results, Nvidia is up 5%, the Nasdaq is up 2.5% and it looked like the 6-7% drop from the high a few days back was the end of the pullback, caused by profit taking to close the year. The market looked like it was on the way to recovery.

In the blink of an eye, everything changed from green to red, the first hour saw a reversal of gains, and then it kept sliding till the S&P 500 and the Nasdaq Composite indices closed 1.5% and 2.15% lower for the day. Thankfully, that turned to be the bottom as selling abated and the index consolidated heading into Thanksgiving weekend.

In the following days, one of the biggest positive catalysts was the change in tone to a dovish one from the Federal reserve regarding inflation and interest rate cuts for the Dec 10th meeting.

THE BOUNCE BACK FROM THE MARKET BOTTOM ON 11/20/2025

The bounceback last week was solid, with a 3.73% gain in the S&P 500 and a 4.91% recovery in the Nasdaq Composite. At 6,850, the S&P 500 is just 1% shy of its all-time high of 6,920 and at 23,454 the Nasdaq Composite just 2.3% short of its record high of 24,015.

The VIX - the dreaded Volatility index or the fear index also closed much lower at 16.08, pretty much remaining between 15 and 20 for the past two weeks, a far cry from the high of 27 around Nov 20th.

From the positive momentum, I would not be surprised if the S&P 500 gives a good Santa Claus rally and closes above 7,000 for the year.

The VIX is important because it is the trigger for computerized trading. If the S&P 500 makes small moves, up or down – around or less than 0.5%, volatility will stay subdued, which results in a stable VIX.

If the VIX stays subdued it won't trigger violent moves.

That's giving me added confidence that we can rally till the end of the year.

THE BOUNCE BACK – BEIGE BOOK SHOWS A WEAKENING ECONOMY

Five key takeaways from the Fed Beige book from the Wall Street Journal:

1. **The job market continues to sputter:** Employers showed little appetite for hiring, as the recently ended federal government shutdown and artificial intelligence weighed on job seekers' prospects.
 2. **Consumers appeared to pull back:** Wealthier Americans continued to drive solid sales at higher-end retailers, but otherwise, consumer spending has been under pressure.
 3. **The government shutdown took a toll on the economy:** The fallout of the record-long government shutdown that began last month hit federal workers' salaries, and consumption.
 4. **Artificial intelligence was making its mark:** AI led to booming investment in some areas, but a pullback in hiring in others. One report has a 55,000 net jobs lost.
 5. **Inflation remained stubborn:** Manufacturers and retailers blamed higher input costs on tariffs, and their inability to pass some of these costs on to customers.
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WEAK PAYROLLS INDICATE A RATE CUT - ADP

Payrolls at US Companies Fall By 32,000 For Nov - ADP

US companies shed payrolls in November by the most since early 2023

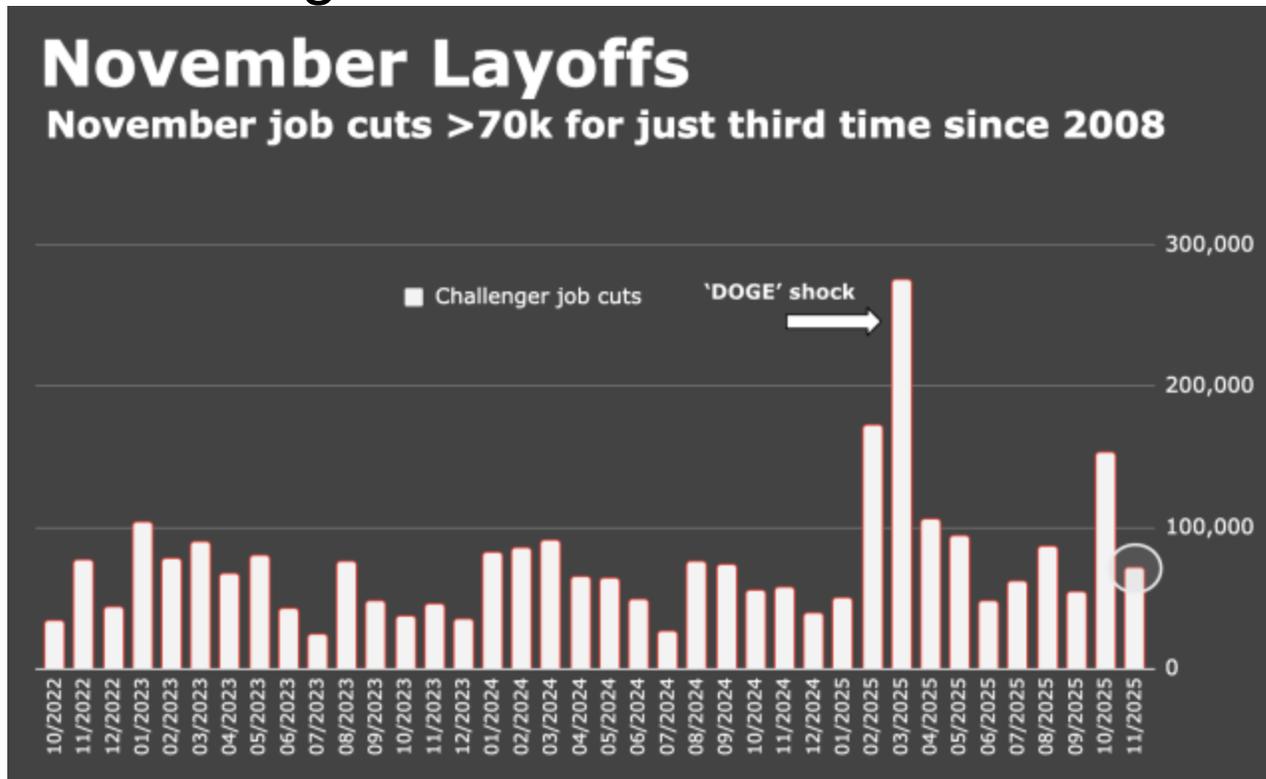
Private-sector payrolls fell much higher than estimates of a 10,000 gain and have now fallen four times in the last six months.

Companies with fewer than 50 employees shed 120,000 jobs. That's the largest one-month decline since May 2020.

Workers who changed jobs saw a 6.3% increase in pay, the lowest since February 2021. Those who stayed put saw a 4.4% gain.

CHALLENGER PAYROLLS REPORTS -1

For just the third time since 2008, US firms announced more than 70,000 job cuts during the month of November.



CHALLENGER PAYROLLS REPORTS -2

This is a worsening sequential trend, marking the eighth time in 2025 that announced job cuts were higher versus the same month a year ago.

The YoY gain in job cuts for November was nearly 24%.

For 2025 as a whole, Challenger now counts 1.171 million cuts.

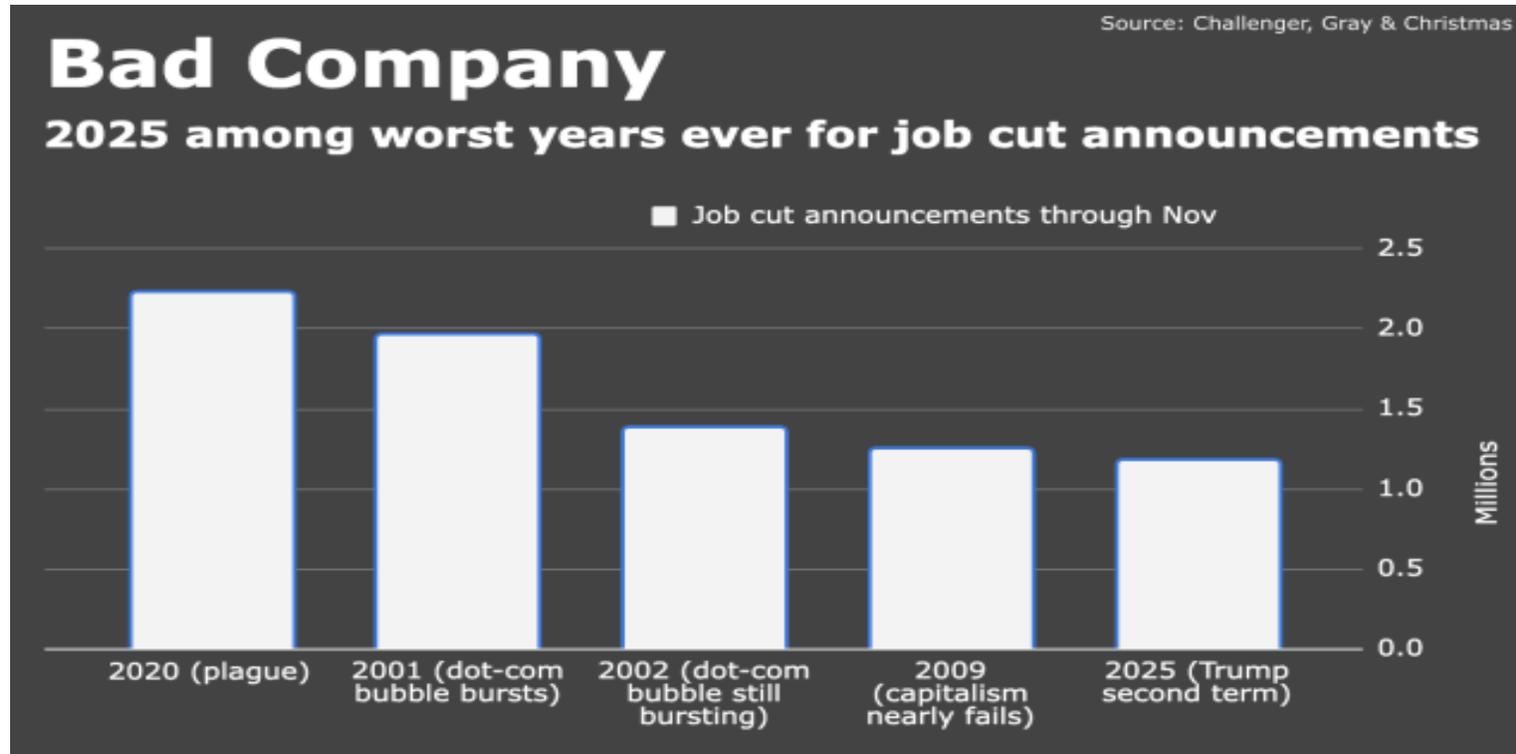
That's up more than 50% from first 11 months of 2024.

This year marks just the sixth time since the early 1990s when through-November job cuts exceeded 1.1 million.

The two industries cutting the most jobs in November were Telecom and Tech.

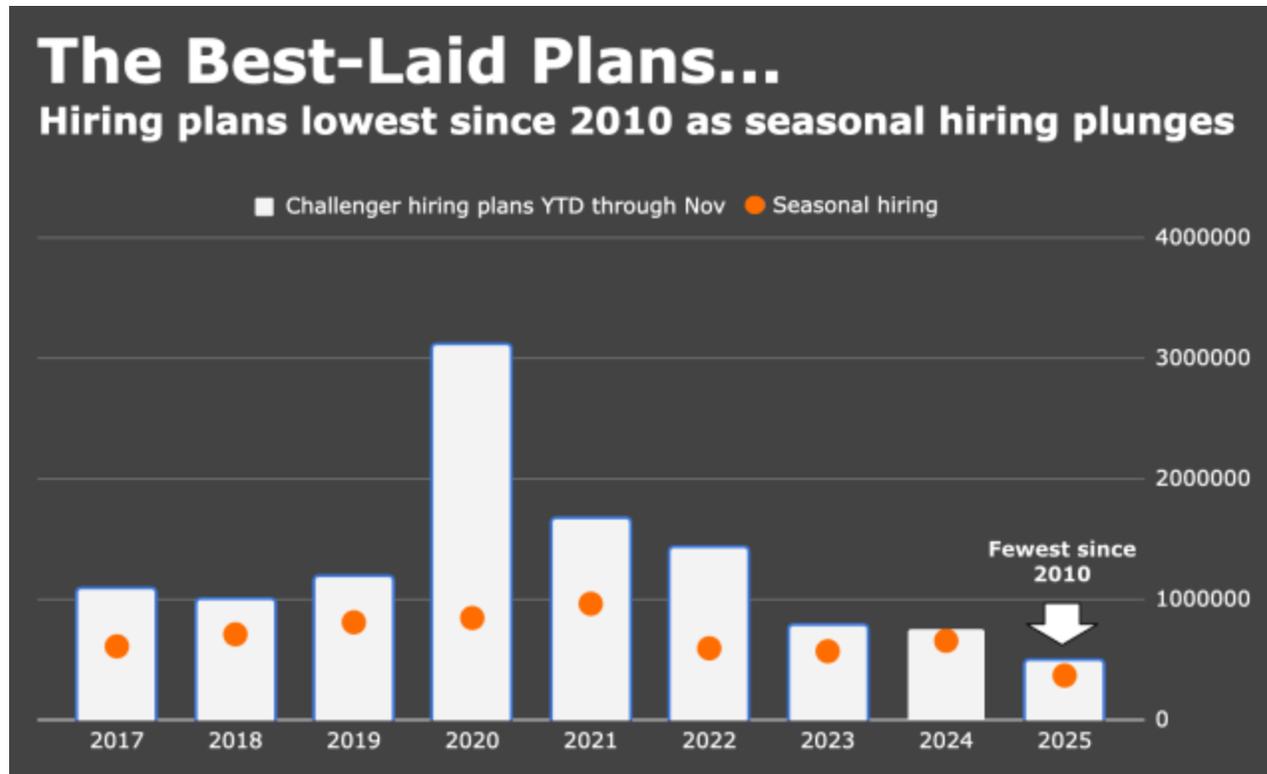
CHALLENGER PAYROLLS REPORTS-3

Job cuts compare with several bad years - including Covid-19, the dotcom crash, and the GFC



CHALLENGER PAYROLLS REPORTS-4

Even seasonal hiring seems to be lower than normal



CHALLENGER PAYROLLS REPORTS-5

At 372,520, seasonal hiring as tracked by Challenger through November was unchanged from October, and the through-November tally counts as the lowest since the firm started tracking seasonal hiring in 2012.

Total hiring plans for 2025 rose a mediocre (and that's a polite euphemism) 9,074 last month, bringing the YTD sum to 497,151, down 35% from the same period last year.

Specifically, 2025 counts as the slowest year for hiring plans in the US since 2010.

ISM - THE INSTITUTE FOR SUPPLY MANAGEMENT'S PURCHASING MANAGER'S INDEX

U.S. services-sector activity continued to rise in November, **with signs of a recovery emerging despite lingering tariff concerns from 52.4 in October to 52.6**

The index for new orders slipped compared with October, when the index accelerated, but remained in expansion. The business activity index rose on month, **while employment contracted for the sixth month in a row, though not as sharply, the survey showed.**

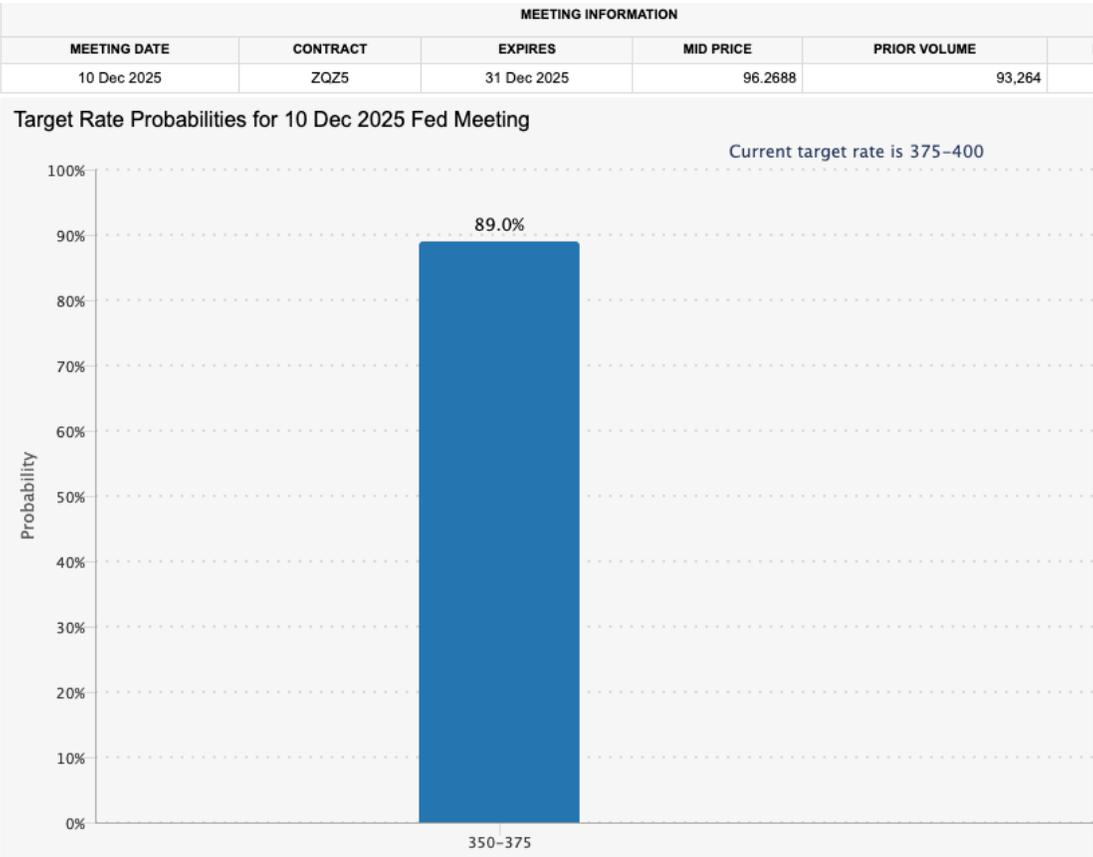
"The continued expansion in both the business activity and new orders indexes in November, and the highest backlog of orders index reading since February 2025 are positive signs of an emerging recovery for the services sector," said Steve Miller, chair of the ISM Services Business Survey Committee.

Still, higher tariffs and the government shutdown remain a key concern for survey respondents, seen hitting both demand and costs.

Of the industries surveyed, 12 reported growth in November, one more than in October, while five reported contraction, the ISM said.

The index for prices fell to its lowest level since April, falling 4.6% on month, suggesting that inflationary pressures in the sector may be easing.

ALL EYES ON THE FEDERAL RESERVE MEETING – 89% EXPECT A RATE CUT



ALL EYES ON THE FEDERAL RESERVE MEETING – DEC 10TH

Why are the odds of a rate cut so high?

Softer payrolls ADP – critically the job cuts were the highest among smaller businesses – 120,000 jobs for employers hiring less than 50 people.

These employers, and businesses also pay much higher interest rates compared to their larger brethren, plus they have less access to capital.

Weaker economic conditions from the beige book, which confirm that the economy continues to struggle, outside of those making stock market and crypto gains or in the data center/AI industry.

Weaker hiring plans from Challenger, suggest that these are comparable to crisis era readings, such as Covid-19, the dot-com bubble and the Great Financial Crisis.

ISM suggested modest services sector expansion but lower prices and lower inflation.

THE GOOGLE VS NVIDIA DEBATE - MUCH ADO ABOUT NOTHING

All three are excellent stocks, Nvidia, Google and Broadcom

Tensor Processing Units vs Graphic Processing Units: Not substitutes but complements. TPUs and GPUs are architecturally and strategically different.

TPUs are:

- ASICs built specifically for matrix math used in AI
- Highly efficient and cost-optimized for inference at scale
- Best suited for tightly integrated cloud deployments

Nvidia's GPUs are:

- Powered by CUDA — the most valuable software ecosystem in AI, General-purpose accelerators
- Optimized for training *and* inference, plus simulation, rendering, HPC
- Supported across every major cloud, OEM, and enterprise data center

If you already own them continue to hold, If not accumulate on dips

OTHER INDICATORS OF A SANTA CLAUS RALLY

Thanksgiving retail sales were good:

Shopify reported that its merchants generated \$14.6Bn in worldwide sales during the Black Friday and Cyber Monday holiday shopping weekend, a 27% increase from last year.

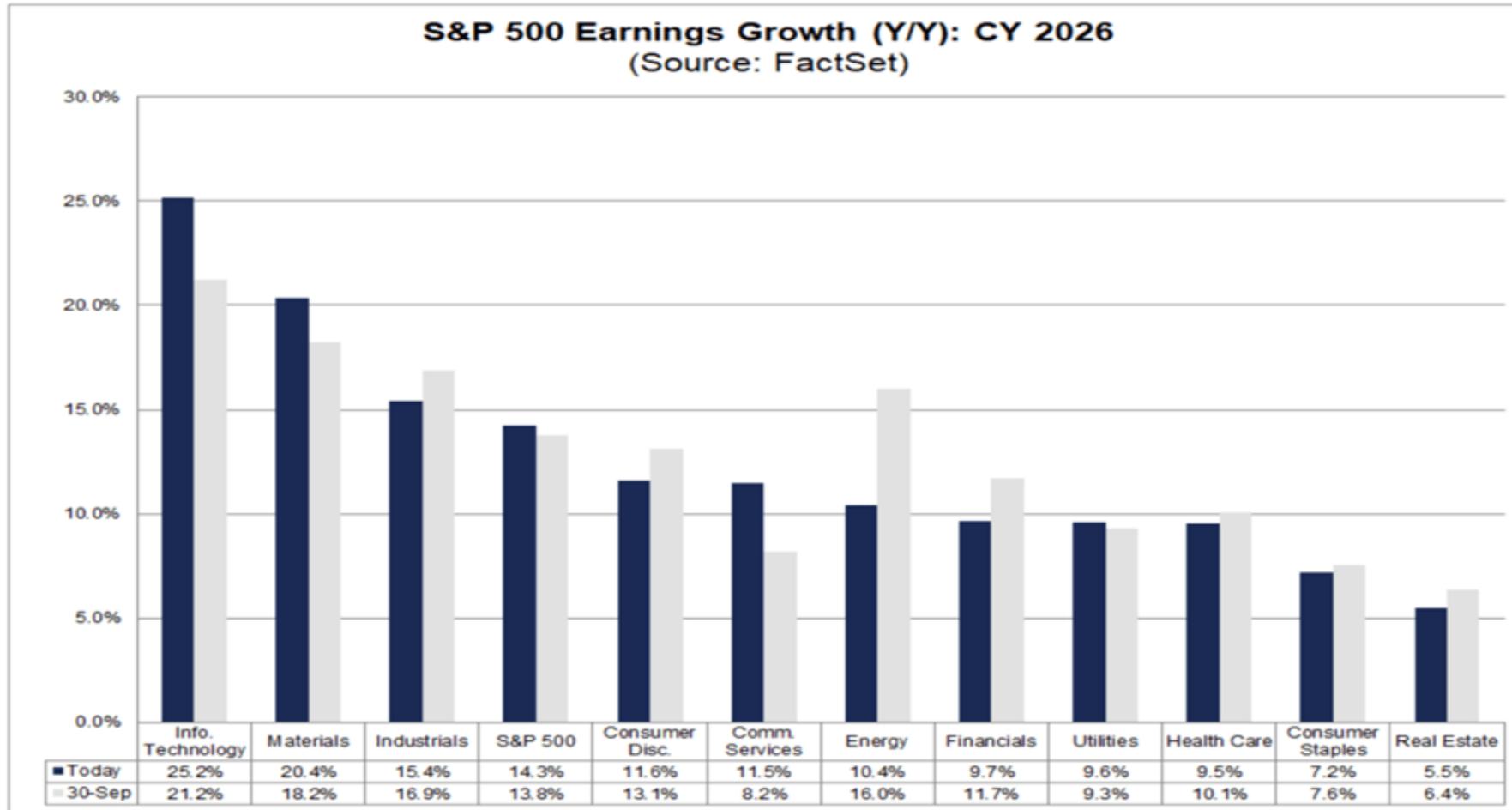
The average cart price was \$114.70, a 5% increase from last year.

Adobe said that overall, merchants recorded \$44.2 billion in online sales between Thanksgiving and Cyber Monday, a 7.7% increase from last year.

S&P 500 earnings:

According to FactSet, the consensus expectation is for growth has increased to 14.3% in 2026.

S&P 500 EARNINGS GROWTH 2026 REVISED TO 14.3% FROM 13.8%



BREADTH IS IMPROVING

During the thanksgiving week, market breadth was outstanding with advances beating declines almost 3:1, a massive buy the dip across the board. That has moderated to 1.5 this week so far.

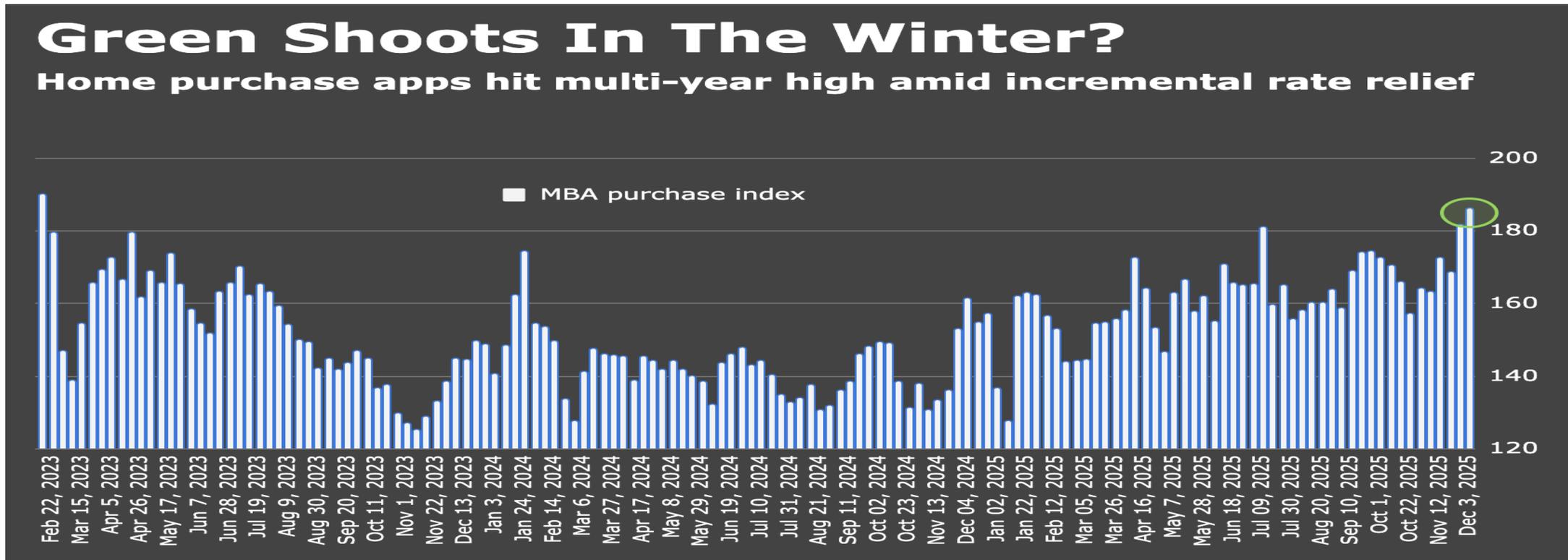
The Zweig Breadth Thrust is a technical indicator development by famed investor Marty Zweig. It measures the number of advancing stocks on the exchange divided by the total number of advancers and decliners. It then generates a 10-day moving average of this percentage. A “buy” signal is triggered when this moving average rises from below 40% to above 61.5% within a 10-trading day period. Last week, it rose above 59%. While not a buy signal, the strength of the recovery over the past ten days has bullish implications.

We saw from the FactSet earnings chart that the biggest improvements are from the tech, and communications sectors but all eleven industry sectors were growing, with the lowest growing, consumer staples and real estate growing at 7.2% and 5.5%, which also indicate that there should be takers at correct prices for those sectors.

HOPE FOR A HOUSING RECOVERY

Mortgage rates fell for the second consecutive week, according to Freddie Mac with the 30-year fixed-rate mortgages dropping to 6.19% from 6.23% in the prior week and 6.69% in the same period a year ago.

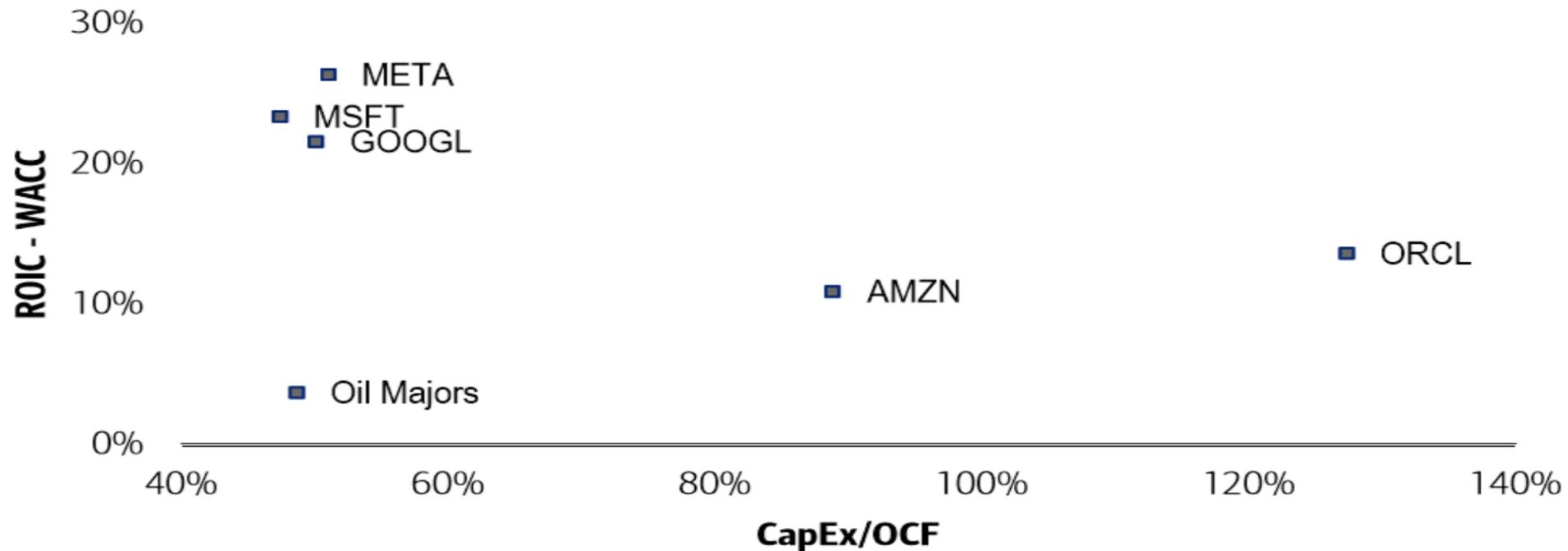
Home purchase applications also rose to a 30-month high.



CAUTION – RETURN ON CAPITAL BEING QUESTIONED

Exhibit 97: Hyperscalers are now more capital intensive than the oil majors

Capital Intensity (CapEx/OCF) vs. return (ROIC - WACC)



Source: BofA US Equity & Quant Strategy, FactSet

CAUTION – RETURN ON CAPITAL BEING QUESTIONED

Savita Subramanian – Bank of America

Questioned whether the return on capital for hyperscalers would exceed the cost of capital. It must be one of the critical factors in assigning a multiple for the stock.

Capital intensity has gone from 12% to 64% in the past decade, upending their business model completely.

Similarly, The information was right in questioning whether Microsoft was selling enough CoPilots, citing inside reports that Microsoft had reduced sales quotas.

However, Microsoft denied these reports, but these always must be questioned, and given the AI frenzy, one should always look at risks.

Meta is up today after deciding to reduce Capex on its Metaverse.

CREDO CONFIRMS DATA CENTER BUILDOUT STRENGTH

I had recommended data center connectivity stalwart, Credo Technologies (CRDO) a [short 8 months ago](#) at just \$46, and the stock is now about \$185 on phenomenal revenue and earnings growth.

For Q2 of FY 2026, Credo reported:

Non-GAAP EPS of \$0.67 beat by \$0.17, with a YoY growth of 857%

Revenue of \$268.03M beat by \$33.04M, with a growth of 272% YoY and 20% QoQ.

The guidance was even more phenomenal for Q3-FY 2026.

Revenue expected \$335Mn to \$345Mn vs consensus of \$247.60M – that is an insane beat of 37%, clearly Credo has our measure, analysts should have seen Nvidia's networking revenue growth in its quarter to get a handle of where Credo was going. Note, this is a tiny less than a \$1Bn in sales company and it realistically should not be profitable and yet its guiding for GAAP profits! GAAP gross margin expected between 63.8% and 65.8%,

With that in mind I'm increasing my revenue forecast for FY2027 to \$1.8Bn, growing at 47% , and earnings to \$4.50 per share growing at 60%. That prices Credo at 19x sales and 42x earnings. It is on the steeper side, but I would be surprised if Credo didn't retain its premium. I own shares and plan to ride this beast for the next 5 years.

A CASE FOR ROBLOX

Roblox – Long-Term Buy on gaming trends Roblox is under-appreciated and deserves a spot in the portfolio.

I believe the market was wrong in dumping it because Roblox management decided to spend more on product development and user safety for its 150Mn teens gaming platform.

Roblox's business model of enabling individual developers to create and monetize games instead of studio created games is the wave of the future - it creates a flywheel, that is, its huge audience attracts the biggest game developers, who create the widest selection of games, thereby attracting the largest number of gamers to Roblox's platform - thus perpetuating the flywheel.

YouTube for games: The massive reach of the platform at 150Mn DAUs is a crucial differentiator. The company is increasingly positioned less as a single game publisher and more as a "YouTube-for-games" ecosystem, with millions of titles, heavy social interaction, and a large, aging-up user base that spends significant time on the platform each day.

Valuation: The stock out-performed the market in the past year returning 89% but still sports a conservative forward P/Sales ratio of only 8, with a sales growth of 21% giving it a P/S Growth 0.4, which in my opinion is low. While it still doesn't break even on a GAAP operating basis its Cash Flow Margin was 40%, very impressive, allowing it to finance product development.

SYNOPSYS GETS \$2BN FROM NVIDIA

Nvidia bought almost 3% of the company's shares at \$414.79 per share.

I believe the investment will be accretive to both companies from a strategic and financial point of view.

Nvidia has been a customer of Synopsys for over two decades and the collaboration will help both partners on virtual design, testing and validation for industries such as semiconductor, robotics, aerospace, automotive, energy, industrial, and healthcare.

The merged Synopsys (after it acquired ANSYS) is forecasted to grow revenue at 14% and earnings at 19% annually for the next 3 years. For a market leader in a multi decades long duopoly, with strong barriers to entry the multiples are really low at just 7x revenue and 25x earnings. Besides, it is the foundation for one of the most important and fastest growing markets in artificial intelligence. The other irreplaceable company in the semiconductor value chain, Arm Holdings (ARM) sells for 58x earnings and 29x sales; but even with the faster growth is comparatively overvalued.

IF INTEREST RATES CONTINUE FALLING

Zillow (Z) – A great play on housing, with a target return of 15-17% per year

Affirm (AFRM) – The Buy Now Pay Later market leader that has a market leadership with the younger cohorts

SOFI (SOFI) - One of the largest and fastest growers in personal non collateralized lending

Other Non-AI recommendations

Rubrik (RBRK) – cybersecurity

Oscar (OSCR) – ACA extensions likely, that along with Centene are good picks

Cava – Fast food chain that is doing better than Chipotle (CMG) and Sweetgreen (SG) who are struggling in a tight economy, could pick up market share

OTHER STOCKS

Fanuc (FANUY) - Japanese robotics and industrial machinery was a slow industrial but could get a shot in the arm teaming up with Nvidia.

Serv Robotics (SERV) – Robotics High risk/high reward partnership with DoorDash should pay off in the long run.

Joby Aviation (JOBY) – EVTOL (Vertical Take off aircraft) High risk/high reward, partnership with Blaze and Uber should give it a headstart if it gets full certification in 2026. The company has cash runway till 2029, so the risk of dilution is low.

Archer Aviation is Joby's competitor, and also likely to get certification in 2026-2027, and is pursuing the gulf. It might be interesting as well.

Rocket Labs is worth looking at.
