Blue Diamond Investing

Alex Szewczyk
PharmD Candidate 2024
aszewczy@butler.edu

Polish Up Your Portfolio: Top 10 Picks for 2024

January 1, 2024

Market Outlook for 2024

2023 was supposed to be a tough year for stocks that would be turmoiled by foreign affairs, rampant inflation, a weakening US dollar, and a shaky job market. Instead, the market ended up returning almost 25%. Investors were able to look past the overall macroeconomic issues facing the US and focus on the positives. The biggest positive for the year is that we may have seen the final rate hike by the Fed last July. Tech stocks benefited the most from this speculation, and the “magnificent 7” (Apple, Microsoft, Alphabet, Amazon.com, Meta, Nvidia, and Tesla) averaged better than a 100% return. Jerome Powell hasn’t officially announced a rate cut yet, but investors expect the cuts to begin in 2024. The average time from the last rate hike to the first rate cut has historically been 10 months. This would have us expecting good news around April of this year. The catch: returns are usually higher in this 10-month waiting period than they are in the period immediately after the first cut. In other words, don’t keep all your money on the sideline waiting for the green light from the Fed. Stronger earnings may continue the rally for stocks in 2024. Wall Street expects a 12% rise in S&P earnings compared to 2023’s 2%. If bond yields continue to cool off, this would also make stocks even more attractive to investors.

Nonetheless, many investors think it will be a rocky first half followed by new highs in the second. This type of second-half rally is usually seen at the end of election years, with an average 7.5% gain in these years. Though I anticipate the S&P to reach new highs in 2024, I expect it to be a “trader’s market” accompanied by much volatility; be sure to recognize when to take profits on winners and when a stock is offering a discount. Another consideration is that the volatility index (VIX) is sitting near all-time lows (representing a period of low volatility) and thus we may be due for a period of volatility. Given these factors, I think there are some sure-bet winners to put your money in this year, and thus I have put together a list of my ten favorite stocks for the year.

“The best time to plant a tree was 20 years ago. The second-best time is now."

- Chinese Proverb

Amazon (NASDAQ: AMZN)

My first recommendation is no Wall Street secret yet shouldn't be overlooked. Amazon.com stock rallied 77% in 2023, and I think it still has more room to go higher. It currently trades around $152 to start the new year off, but this is still 13% below its all-time high, and after a frenzy of spending on "reinvestment" back into the company its free cash flow is primed to get back in the green. Wall Street remains very bullish on the stock, projecting substantial revenue growth in cloud computing services (Amazon Web Services) and online sales. JP Morgan predicts a 13% overall revenue growth, bringing the operating profit to $51 billion next year, which represents a 7.9% margin – up to 2 points from the previous year. The Wall Street bank has a price target of $190 (a 25% increase from current levels) which works out to only 25 times projected 2025 free cash flow. Amazon stock is an investment that I will hold indefinitely. I view dips merely as discounts to add more, and I think 2024 will be another winning year for it

Barrick Gold: (NASDAQ: GOLD)

While inflation has caused many investors to turn to gold, high-interest rates rise and a strong us dollar usually hurt it. The latter two may help continue the rising price of gold in 2024 as the Fed is expected to make a series of rate cuts, and the US dollar is getting weaker, not stronger. Gold miners can be used as leveraged strategies for investing in the precious metal and Barrick Gold is how I suggest you play it. Barrick is an industry leader that is well-positioned for growth with top-producing mines all around the globe. These included places like Nevada, the Dominican Republic, and enough posts in Africa to be the continent's top producer. Mining stocks did not outperform the price of gold in 2023, but that is largely due to temporarily high production costs, and lower-than-expected production. These factors will likely reverse and bode well for these stocks. Keith Trauner, an independent analyst, reports "Barrick probably has the best management in the mining business, an excellent balance sheet with virtually no net debt, and a well-covered 2.3% dividend yield". Given these exceptional features, CEO Bristow wants to increase production by 30% by the end of the decade. Barrick is a solid choice for 2024 and is my favorite way to play gold in the equity market.

Chevron Corp: (NYSE: CVX)

Chevron has weathered a tumultuous period in 2023, facing multiple challenges that led to its recent drop in value. The most recent decline followed a disappointing earnings report. This revealed an unexpected development delay of a crucial oil field in Kazakhstan and a $60 billion deal to

Top 10 Picks

Amazon.com:

- Ticker: AMZN
- Price: $151.98
- Market Cap: $1.57T
- Industry: Tech/e-commerce

Barrick Gold:

- Ticker: GOLD
- Price: $18.09
- Market Cap: $31.76B
- Industry: Mining

Chevron Corp.:

- Ticker: CVX
- Price: $149.16
- Market Cap: $281.6B
- Industry: Energy

Costco Wholesale Corp.:

- Ticker: COST
- Price: $660.08
- Market Cap: $292.9B
- Industry: Consumer Discr.

Fluence Energy:

- Ticker: FLNC
- Price: $23.85
- Market Cap: $4.42B
- Industry: Energy/Utilities

Gilead Sciences:

- Ticker: GILD
- Price: $81.01
- Market Cap: $100.9B
- Industry: Pharmaceuticals

Madrigal Pharmaceuticals:

- Ticker: MDGL
- Price: $231.38
- Market Cap: $4.57B
- Industry: Pharmaceuticals

Microsoft Corp.:

- Ticker: MSFT
- Price: $376.04
- Market Cap: $2.8T
- Industry: Technology

Spotify:

- Ticker: SPOT
- Price: $187.91
- Market Cap: $36.67B
- Industry: Audio streaming

Synopsys:

- Ticker: SNPS
- Price: $514.91
- Market Cap: $78.26B
- Industry: Semiconductor design and manufacturing

acquire Hess that wasn't well-received due to border tensions around Hess's Guyana-based oil field. Nonetheless, I believe the stock has been punished enough and is currently poised to rebound nicely. Despite Wall Street's cautious stance, Chevron continues to maintain robust production levels with ~3.1 million barrels of oil equivalent a day, compared to industry leader Exxon Mobil's 3.7 million barrels. The acquisition of Hess grants them 30% control over a Guyana field which now produces more than 300,000 barrels of oil equivalent a day and may reach up to 800,000 by 2027. Additionally, the company's potential interest in acquiring the remaining 50% of the Chevron-Phillips Chemical joint venture could significantly balance its oil-heavy portfolio. At its current trading price of around $150, the stock appears attractive, valued at 11 times projected 2023 earnings and 10 times estimated profits for the following year. Notably, the stock boasts a compelling yield of 4.5%, with plans to augment the dividend by 8% in early 2024. Under the leadership of CEO Wirth, Chevron is poised to adhere to its proven and disciplined strategies that have historically yielded success. Overall, while recent setbacks have led to a diminished stock price, Chevron's underlying strengths, strategic moves, and solid leadership suggest a compelling case for investors to benefit from a well-deserved rebound.

Costco Wholesale Corp: (NASDAQ: COST)

Costco has had a solid year, returning roughly 45% to investors, and yet I still think it has more room to run. Their December (Q1) earnings report was well received by investors as they easily beat expectations and outlined how the company is in great shape moving forward. Same-store sales rose by 3.8%, membership is up 7.6% from last year, and they plan on opening 33 more club locations – 10 more than last year. Costco is a value-centric retailer that is likely benefiting from a more disciplined and tighter budgeted consumer that has emerged from the highs and lows of Covid spending. Furthermore, big and bulky items are becoming cheaper to sell thanks to freight costs decreasing by up to 20-30% on some items. Investors are also waiting for an increase in membership fees, which usually comes every 5.5 years. It's been 6.5 years since the last increase, and a $5/$10 increase to the Gold Star/Executive membership would add a 3-4% increase in earnings per share. Leadership has declined to comment on a membership cost increase at the moment. Costco's 129.5 million cardholders give me confidence that this stock will continue to be a winner in 2024.

Fluence Energy (NASDAQ: FLNC)

Fluence energy is a simple, yet interesting bet on energy storage that may be a safer investment than it looks. The Virginia-based company uses utility-scale batteries to provide energy storage and services and I believe it has many exciting opportunities for success. Utility companies are trying to find ways to store energy from renewable sources rather than turning to natural gas to supplement demand, and the 75% reduction in the cost of lithium-ion phosphate has certainly helped this trend. There are also external factors from California lawmakers and the Texas economy that have opened the door for this energy storage industry to grow. In its first 3 years, sales have grown to $6 Billion, and they are already threatening profitability. Fluence recently caught Wall Street's attention with an unexpected beat on earnings (10¢/share vs -7¢/share), and it has buy ratings from Bank of America, Guggenheim, and Seaport research. Fluence's balance sheet and growth are much stronger and steadier than its chart may imply. Factor in the 36% YoY forecasted revenue growth with the (likely) possibility of the Fed cutting rates, and this stock may have some serious room to run.

Gilead Sciences (NASDAQ: GILD)

Gilead is a pharmaceutical giant that I think is well-positioned for a strong year in 2024. Although their portfolio has a few products losing patent exclusivity by 2025 there are a few reasons the stock may still pop. Their mega-blockbuster BIKTARVY® has patents that last until 2033, and sales are expected to grow steadily for the HIV medication. Currently raking in $11.5 Billion, sales are expected to reach $14 Billion by 2027, grossing a combined $50 Billion from 2022 to 2027. From personal experience with these patients, BIKTARVY® is by far the medication of choice for patients, and most importantly, for insurance to cover; I expect this product to remain the foundation of Gilead's profits. Gilead also has a rich pipeline of oncology medications with data that's due in 2024. These results will be inflection points that may provide a nice boost to the stock price if they are better than expected. Gilead also has a solid balance sheet that boasts a 4% dividend. If you are looking for some exposure to Pharma, Gilead is a relatively safe option that offers much more upside than downside and trades much cheaper than other pharma stocks that I currently hold, such as Regeneron (REGN) and Lilly (LLY).

Madrigal Pharmaceuticals (NASDAQ: MDGL)

Madrigal Pharmaceuticals presents an exciting opportunity for investors to ride the wave of the first FDA-approved treatment for NASH, a disease that affects up to 6.5% of US adults and has no cure. While betting on potential FDA approvals for biotech companies with limited pipelines is a strategy far too risky to recommend, Madrigal's potential blockbuster Resmetirom is an exception to my rule. Resmetirom's two Phase III trials presented striking results, specifically hitting on two endpoints that were handpicked by the FDA. These positive results would eventually help them secure an accelerated approval pathway and are what accounted for the 200% spike in December of 2022. The anticipated approval date is March 14th, 2024. If this is a positive day for the NASH patients, Madrigal will nonetheless still have its work cut out for them. I expect their two biggest obstacles to be enhancing awareness of NASH, as it is commonly underdiagnosed, and launching a timely marketing campaign as the molecule is not approved under any other indications and thus cannot yet employ a branded marketing campaign. However, the head start that Madrigal is getting will allow them to contract with all the major payers, and push themselves onto every formulary possible, keeping any competition in the rearview mirror.

Shares are not cheap, but they have cooled down since the highs of 2022, providing a much lower entry point. Given the current blue ocean of opportunity, Madrigal may be positioned for at least 3-4 years of exponential growth. One aspect to consider is that this stock does present itself as a prototype for a potential buyout. I don't anticipate they are looking for a deal, especially when considering the team of leaders that they poached from industry giants such as Regeneron and Sanofi to lead this campaign, but they may receive an offer they can't refuse, and that would only send shares higher. While this investment is not devoid of risk (any delay or denial in FDA approval could send shares plummeting) and certainly will see some volatility, the combination of promising data and close collaboration with the FDA convinces me that this risk holds merit for any investment portfolio.

Microsoft Corporation (NASDAQ: MSFT)

2023 was a much-needed bounce-back year for tech stocks, with the magnificent 7 (Apple, Microsoft, alphabet, amazon.com, Meta, Nvidia, and Tesla) averaging better than 100% returns. The three major drivers were the Federal Reserve, major cost-cutting, and AI. The first two factors have probably played their course for tech stocks, but MSFT still has room to run thanks to its AI business. Oppenheimer Bank thinks that MSFT is the best bet on AI thanks to its Azure cloud business, its 49% stake in OpenAI (parent company of ChatGPT), and its growing AI copilot software. Oppenheimer's Timothy Horan expects the largest cloud service providers to see record capital expenditure in 2024, and MSFT should be no exception as they service nearly every enterprise in the world that's looking to leverage AI immediately. While a continued tech run-up would likely make any of these 7 stocks a winner in 2024, Microsoft strikes me as having the best risk-reward for outperforming the market. It has a strong business model that boasts multiple assets with the potential for unlocking new revenue streams.

Spotify Technologies (NYSE: SPOT)

I expect Spotify to be another great investment for 2024. They are winning the audio streaming content war and they are close to maintaining profitability. Spotify's recent run-up to $188 is largely due to a positive earnings report, and a positively received corporate restructuring. The Swedish company recently laid off 17% of its staff, which CEO Daniel Ek says is intended to "align Spotify with our future goals and ensure we are right-sized for the challenges ahead." Additionally, the CFO will be stepping down in March of 2024 in a move to change the nature of the business and find a new approach to managing the company's finances. Wall Street likes both moves. In their most recent earning report, Ek reported 35¢/share, versus an expected loss, and they added 30 million net subscribers, beating the 20 million anticipated. The most encouraging part of this addition is that Spotify also increased the cost of its monthly subscription by 9%. Some of the bulls on Wall Street include Rosenblatt Securities and Pivotal Research Group, which hold price targets of $300 and $265 respectively. Rosenblatt's Barton Crockett thinks operating margins can reach 10% in 2027, compared to its estimated -3.5% in 2023. If the audio streaming giant, which is already in the pockets of over half a billion people, can continue to grow while finding a way to secure profitability, its stock will remain red hot.

Synopsys (NASDAQ: SNPS)

You've probably read this a million times before, but I think I found an under-the-radar AI stock that's going to be a winner. That is, of course, if you consider an $80 billion market cap to be under the radar. Synopsis is the largest provider of electronic design automation (EDA) software for semiconductors, and this technology has proved itself especially useful for designing AI chips. Rather than betting on a single chip maker to be your winner for 2024, investing in Synopsys gives you a diversified position that is largely immune to the cyclical nature of semiconductor stocks. This year is proof of that concept: chip maker revenue is down 11%, yet Synopsys reported 15% growth. This is because Synopsys operates in long-term contracts with its clients, averaging around 3 years, which allows them to lock in revenue for years at a time. Its biggest competitors include Cadence Design System and Siemens. Together, the three make up 90% of the market, with Synopsys claiming 35%. Synopsys is also implementing some AI technology of its own to help improve its productivity and efficiency across all departments - especially for its clients. One example is the recent launch of Synopsis.ai copilot, which leverages language models through a ChatGPT-like interface to train engineers on how to use its software. This stock certainly isn't cheap, trading at 40x projected earnings, but it may still be undervalued due to its business model, cutting-edge technology, and exciting room for growth.

Best Regards

Alexander Szewczyk

Blue Diamond Investing