Blue Diamond Investing LLC

Alex Szewczyk
Co-Founder

Uncut Gems: 10 Underappreciated Stocks to Strengthen Your 2026 Portfolio.

January 1, 2026

Outlook for 2026

2025 was another great year for the broader market, and an even better year for my top 10 picks. After more than doubling the S&P 500, I'm ready to re-evaluate which stocks are primed to head into what I think will be a unique year of trading. As I'm sure most investors are well-aware, after 3 straight years of 15%+ returns, it's statistically unlikely for another 15%+ year. However, the broader market is being heavily carried by the AI movement and there is still massive momentum in this industry. Capital expenditure from the blue-chip tech stocks is being so heavily invested into AI that putting money anywhere else almost seems like business malpractice. With that in mind, I've included a few names in AI that I think will continue to ride the top of this wave.

Beyond AI, the overarching theme of my selections is straightforward: companies I believe are meaningfully undervalued. Across many industries, the financial metrics point to compelling upside that is supported by solid fundamentals. In my view, excessive fear has been priced into these stocks and has created a number of attractive opportunities for long-term investors.

My Top 10 Picks

Amazon.com Inc. (NASDAQ: AMZN)

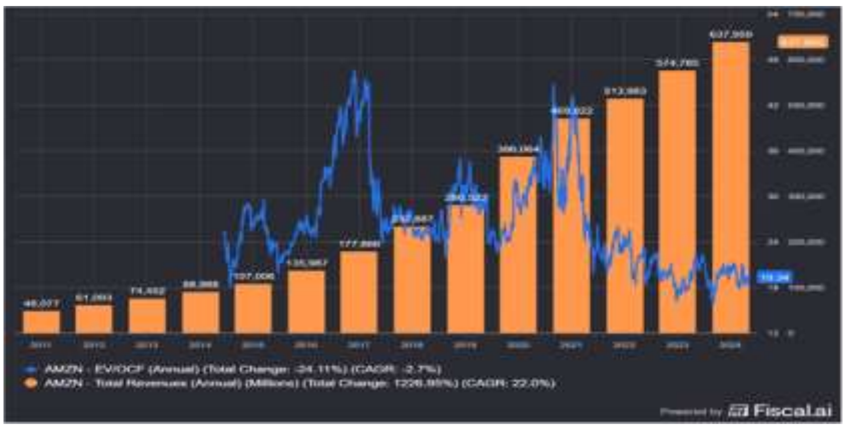
Amazon.com was the worst performing Mag 7 stock of 2025 (6% YTD) and I think it's due for a large breakout in 2026. Financially, Amazon is in a great position. It's trading at decade low P/E values via both trailing (32x) and forward (31x) valuations. I'm also drawn in by its EV/OCF, especially in relation to its operating profit. EV/OCF (Enterprise Value / Operating Cash Flow) tells you how much the market is paying for a company's core cash-generating ability. Amazon's EV/OCF is trading at a historically low value (~19x) even as operating profit is growing at 50% YoY. This signals a disconnect between improving fundamentals and market valuation. This suggests investors are still anchoring to prior margin compression and capex-heavy years, despite clear evidence of operating leverage from AWS stabilization, advertising growth, and fulfillment efficiency. If cash flow growth sustains, valuation expansion—not just earnings growth—could drive incremental upside.

Fundamentally, Amazon is in a great spot. Ad revenues continue to soar and are approaching $70B a year (24% YoY). AWS is its most profitable segment and growing at 20% a year. I also think its AI footprint is overlooked. Amazon just turned Indiana cornfields into the world's largest supercomputer cluster. It's

"A 10% decline in the market is fairly common—it happens about once a year. Investors who realize this are less likely to sell in a panic and benefit from the wealthbuilding power of stocks."

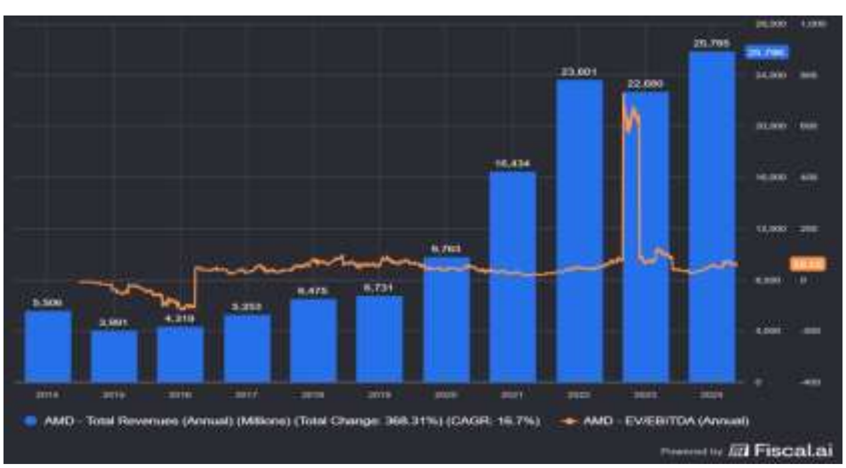
- Christopher Davis

packed with 500k of its self-made Trainium chips and reflects an $11B investment in AI capacities. Few people realize that Amazon is the only big tech company designing these data center ASICs fully in-house. Other companies like Google only design the architecture of their TPUs and rely on Broadcom ($AVGO) for the actual chip design. Amazon's AI exposure extends beyond its own models and tools. The recently reported ~$38B Amazon–OpenAI partnership is essentially a long-term cloud compute agreement, with OpenAI committing a large portion of its AI training and inference workloads to AWS. Practically, this means OpenAI will rely on Amazon's data centers, GPUs, networking, and cloud services to power current and next-generation models, reinforcing AWS's role as critical AI infrastructure—not just a cloud vendor. These are a short list of reasons as to why $AMZN is the only Magnificent 7 stock on my list for 2026.



Advanced Micro Devices (NASDAQ: AMD)

Advanced Micro Devices had a great year in 2025 (+78%) but I think the momentum of the current AI super cycle continues to make this stock a much buy. AMD has proven it can deliver top-tier performance at the silicon level, with its latest accelerators and CPUs standing toe-to-toe with the industry's best on raw compute and memory bandwidth. The debate around AMD has moved past technical feasibility—the technology is proven. The real question now is how much market share can AMD capture from blue-chip companies looking to hyperscale AI spend. This is where I am most bullish on a fundamental level. Existing partnerships with Meta (META), Microsoft (MSFT), Oracle (ORCL), and OpenAI are scaling fast and I am confident in Lisa Su's ability to continue placing AMD's technology front and center in the race for AI infrastructure spend.



Top 10 Hidden Engines

Amazon Inc.

- Ticker: AMZN
- Price: $230.82
- Market Cap: $2.5T
- Industry: Retail

Advanced Micro Devices

- Ticker: AMD
- Price: $214.16
- Market Cap: $363.8 B
- Industry: Semiconductors

Duolingo Inc

- Ticker: DUOL
- Price: $175.50
- Market Cap: $8.1B
- Industry: Technology

Hims & Hers

- Ticker: HIMS
- Price: $32.47
- Market Cap: $7.3B
- Industry: Health Services

Mercado Libre

- Ticker: MELI
- Price: $2,014.26
- Market Cap: $101.4B
- Industry: Retail

Markel Group

- Ticker: MKL
- Price: $2,149.65
- Market Cap: $27.1B
- Industry: Insurance

Nebius Group N.V.

- Ticker: NBIS
- Price: $83.71
- Market Cap: $20.8B
- Industry: Finance

Netflix Inc.

- Ticker: NFLX
- Price: $93.76
- Market Cap: $428.3B
- Industry: Technology

Regeneron Pharmaceuticals Inc.

- Ticker: REGN
- Price: $771.87
- Market Cap: $81.1B
- Industry: Health Technology

UnitedHealth Group

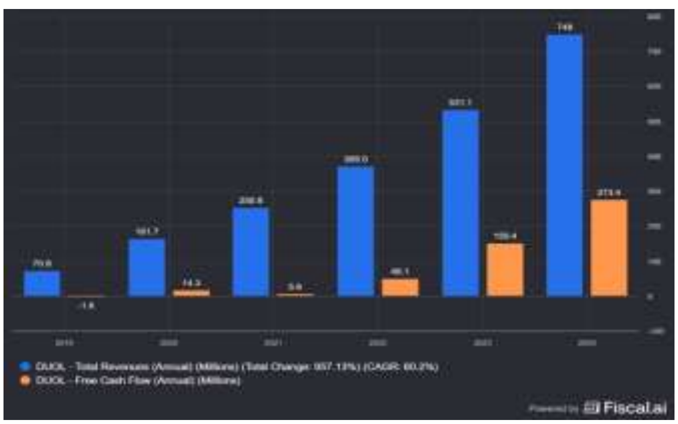
- Ticker: UNH
- Price: $330.11
- Market Cap: $298.6B
- Industry: Health Services

Financially, AMD’s valuation has remained fair over time. EV/EBITDA relative to revenue is a useful lens for these AI chip giants because it captures how much investors are paying for each incremental dollar of scale while accounting for margin structure, capital intensity, and mix shifts. AMD’s revenue has compounded sharply over the past decade (23% CAGR) while its EV/EBITDA multiple has stayed largely range-bound (currently at 60x), suggesting fundamentals have improved without a commensurate re-rating. If data center growth and AI monetization drive sustained margin expansion, future upside is likely to come from multiple expansion rather than revenue growth alone.

Duolingo Inc. (NASDAQ: DUOL)

Duolingo is a must buy for me at these levels. I liken these current levels around $180, to buying META in 2022 when investors panicked over a single quarter of less-than-perfect earnings. Duolingo has over 50 million daily active users, which is up 5X since 2021, and paid subscribers are up 34% YoY. Many bears are concerned about disruption from AI, but I view it differently. The brand, data advantage, and gamified learning modes are extremely difficult to replicate. And I think AI implementation is an advantage for this company; it lowers content costs and accelerates product velocity instead of disrupting demand.

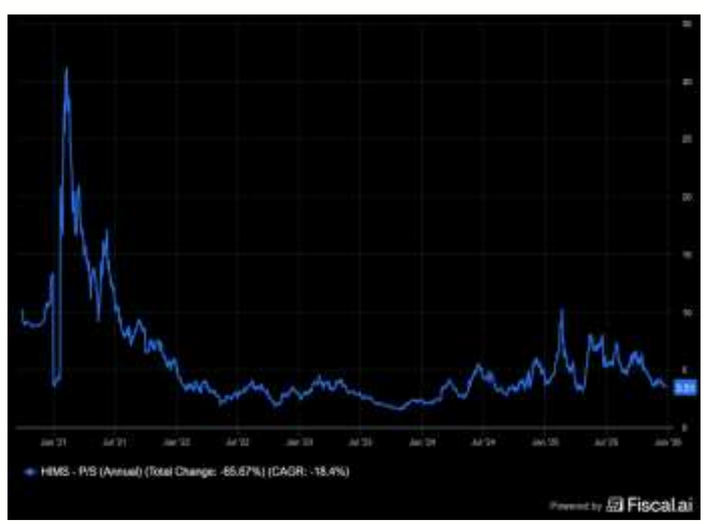
I am also bullish due to a few big picture growth levers. Currently, they have a propriety learning platform, but this isn’t limited to just learning a new language. They have room for multi-subject platform growth and have already started expanding to math, music, and childhood literacy. I believe that our generation is eager to learn, and a gamified, mobile-first, habit-forming platform like Duolingo is uniquely well-suited to how this new generation actually consumes and retains information.



Financially, DUOL is a free cash flow (FCF) machine. Revenues are growing over 50% annually and FCF is more than doubling each year. Measuring by its EV/FCF multiple, DUOL is currently training at its lowest valuation ever (21x). This combination usually signals a bullish mispricing, as cash flow growth is outpacing price appreciation. Overall, my takeaway is that DUOL is undervalued due to near term financial signals and big picture fundamentals. Plus, recent investor panic has created a huge discount to scoop up these shares.

Hims & Hers (NYSE: HIMS)

Hims & Hers was one of the hottest stocks in 2025 but cooled off significantly to end the year. However, I loved this name at its peak of $70, and that’s why I am recommending it at $34. When it comes to $HIMS’ business model, I am not bullish because they have the capability to compound GLP-1s; in fact, it only accounts for about 10% of its revenue. I’m bullish because this company is an industry disruptor that I think is building an Amazon style healthcare subscription model for patients around the world. Subscriptions account for the majority of its revenue (over 80%) and I think they are making all the right moves to build an all-in-one ecosystem for healthcare and wellness.

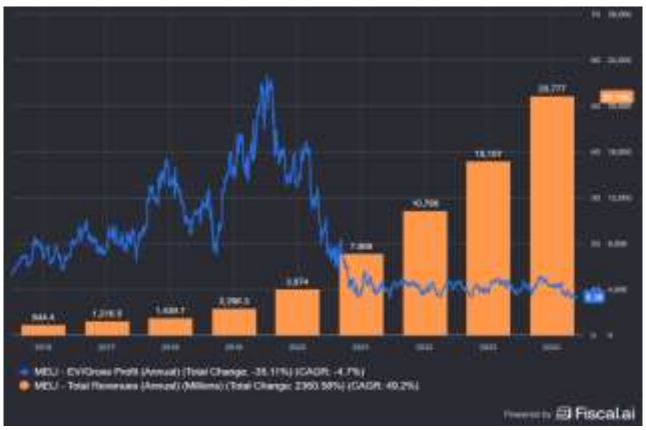


Some recent notable acquisitions or deals and what they provide for the company include: Trybe labs: at home lob testing capabilities; California Peptide facility: strengthened supply chain forpersonalized medication ands and stock availability; ZAVA: telemedicine operations, YourBio Health: patented pain-free blood sampling technology, and LiveWell: access to Canada. I think this stock is severely undervalued and has set itself up for huge upside thanks to its strategic leadership.

Mercado Libre (NASDAQ: MELI)

Mercado libre was one of my top picks in 2025 and my investment rationale has only gotten stronger. They have continued to compound sales at over 30% for 27 consecutive quarters, and strong tailwinds in Latin America should maintain this momentum. While its Amazon-like moat in consumer sales remains miles ahead of any competitor (even Amazon, who has failed to make a dent in this market). $MELI's infrastructure is simply too advanced to compete with, and the emerging markets in this region will only help solidify its dominance. Ex-US exposure is also a reason I like this name for 2026.

Its fintech segment, Mercado Pago is also gaining significant momentum. While I've also recommended – and continue to hold – competitor Nu bank, I believe that there is enough business to go around and Mercado Libre has the competitive advantage of integrating its payment systems with its e-commerce segment. Nu Bank has 92 million monthly active users, compared to MercadoPago's 56 million, however they are growing at a faster rate than Nu Bank (CAGR: 34.14% vs 25.84%).



And this FinTech platform represents a significant amount of revenue. In Q3 2025, Mercado Pago contributed 44% of total revenue and is growing at over 50% CAGR. The financials also agree that MELI is in a great spot. In the last 5 years, gross merchandise value has grown by 185%, payment volumes have increased 400%+, revenues are up 560%, and operating profit has increased 2,400%. Despite these crazy jumps, the stock price is barely up 20%. The cherry on top: $MELI has recently dropped below $2,000 and is trading at its lowest EV/Gross profit multiple (8.4x) in nearly 10 years.

Markel Group Inc. (NYSE: MKL)

Markel is a high-quality insurance and investment compounder that's compared to a smaller, earlier-stage Berkshire Hathaway. The business operates across 3 high-quality segments: specialty insurance (core business), investment portfolio (the engine), and Markel Ventures (diversified cash flow). Together, these segments create a business model built for durability rather than short-term optimization.

"The strength of our diversified approach is on display and we're seeing tangible signs of improvement in areas we've been focused on."
- Tom Gayner, CEO, *Q3 2025 earnings call*

While Markel and Berkshire aren't comparable in scale, they share the same underlying operating logic: insurance comes first, capital allocation is the core skill, a permanent capital mindset guides decisions, and operating businesses are run in a decentralized way. One of the biggest green flags I see with Markel is its share buyback activity (≈$400 million), part of its $2B buyback program announced in 2024.

One additional data point that caught my attention this year is that Rep. April McClain Delaney has purchased over $330K worth of Markel shares in 2025 alone with no selling. While this isn't part of the core thesis, it certainly gives me some added confidence.

Nebius Group N.V. (NASDAQ: NBIS)

NBIS has been a clear winner for me in 2025, and I'm continuing to ride the wave — credit again to @mvcuhan for putting this one on my radar early. This is a founder-led company that has been very explicit about where it's headed, guiding to a 10× year-over-year increase in ARR for FY25, which is about as aggressive (and confidence-signaling) as guidance gets. On the balance sheet side, Nebius is well-positioned with roughly $5B in cash, giving it the flexibility to scale without near-term capital constraints.

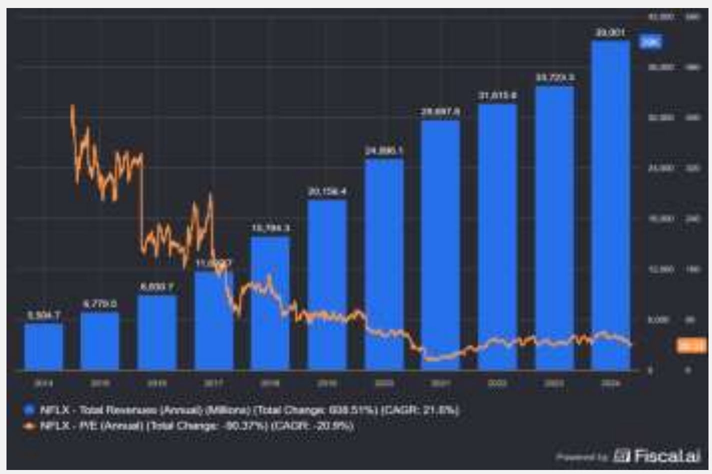
Efficiency is shaping up to be one of the true bottlenecks for AI at scale, and this is where $NBIS really differentiates itself. Its integrated approach across servers, racks, and in-house data centers provides tangible advantages in performance, power efficiency, and deployment speed — all things hyperscalers care deeply about right now.

What stands out to me this early on is the caliber of customers and partners. The company has already locked in a $17B deal with Microsoft ($MSFT), and I expect additional blue-chip partnerships to follow as demand for AI infrastructure accelerates. Given its strategic importance, I wouldn't be surprised if $NBIS eventually becomes an acquisition target in what could be one of the largest AI infrastructure M&A transactions to date — even thought I don't think management is eager to sell.

Finally, the Street appears to be catching on as well. Consensus price targets sit around $165, nearly double current levels. For me, this remains a high-conviction way to play the race to deploy AI infrastructure at scale — with real customers, real capital, and real momentum behind it.

Netflix Inc. (NASDAQ: NFLX)

Netflix is a global streaming leader with the most proven subscriber monetization model and strong operating margins, currently generating significant free cash flow. The company's library content continues to increase as demand for new shows and movies grows globally. I think NFLX is well positioned to capture this demand go on a run through 2026 and beyond. Competitive dynamics in streaming continue to evolve, but Netflix has done an excellent job navigating the landscape to continuously deliver and generate the best content for subscribers. They have made tremendous investments in generative AI and even avatar / gaming technology.

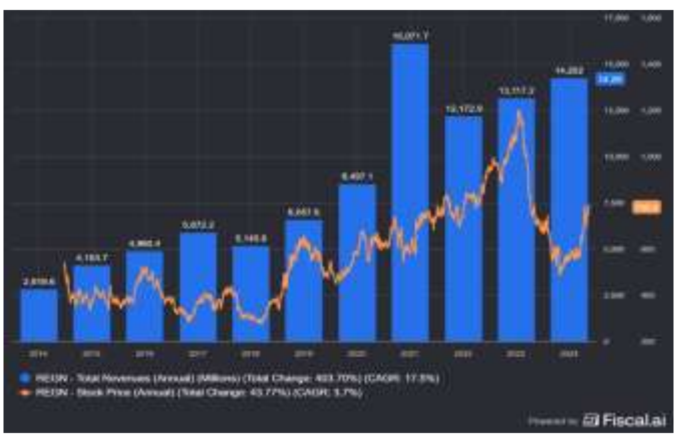


Netflix Studios has solidified itself as the backbone of its library content. Its $18 Billion budget has accounted for 50% of its library. Netflix was recently in the news for attempting to buy Warner Brothers for $83 Billion, which would give them access to all of HBO Max and a proven infrastructure for film making. However, this acquisition is not guaranteed to go through with the Polymarket standing at 61% likelihood. The deal is facing antitrust scrutiny from the U.S. government, Paramount countered with a $108 billion hostile takeover bid, and congress is receiving pressure from Hollywood to decline the acquisition. Even without the deal, Netflix laid its cards on the table for just how aggressively it intends to expand its content library. I also like Netflix's current valuation. Even as revenue and stock price continue to climb, its P/E (40x) has remained stable and historically low.

Regeneron Pharmaceuticals, Inc. (NASDAQ: REGN)

Regeneron is one of my favorite biotech companies out there, and after personally taking huge profits in 2024, I think it's time to buy again. EYLEA is still generating over $5B annually, and fears over biosimilar VABYSMO have been vastly overblown. Market share will certainly decline but they will continue making billions off of this drug in the next few years. The other cash cow they hold is DUPIXENT, which grosses nearly $14B globally and is growing around 25% YoY (sales are expected to hit $24B by 2030). Now, Regeneron shares profits with Sanofi and splits US sales 50/50, creating an expected $5.3-6B of revenue for Regeneron in 2026. Together, these two blockbusters are expected to generate $8-10B from EYLEA and DUPIXENT annually for the next 3 years. All this incoming cash is what makes me confident as this will help fortify its already robust pipeline.

The New York–based biotech is known for reinvesting over 40% of its revenue back into R&D, supporting a deep late-stage pipeline with 13 Phase 3 programs. Looking ahead to 2026, two major catalysts stand out: a first-half data readout for its combination therapy in metastatic melanoma, followed later in the year by Phase 3 data from its allergen-blocking antibody program. With multiple near-term catalysts and an attractive entry valuation, Regeneron is well positioned to be a winner heading into 2026.



REGN

UNH

UnitedHealth Group (NYSE: UNH)

United Health Group presents to me as one of the best risk-rewards for investors going into 2026. At one point the stock was down 58% this year, which is one of the most puzzling, overreaction sell-offs to a blue-chip stock that I've ever seen. Revenue is still growing at 12% YoY, insiders are buying like crazy, and many top investors including Warren Buffett are taking large stakes at these discounted prices. Outside of revenue, UNH's current P/E ratio of 17x is trading at a ~45% discount to its average. Now, operative margins have recently fallen, dropping from the 7-9% range to 4%, which is where the fear has likely emerged. They cited higher than expected medical costs relative to premiums, higher utilization, and expensive treatments as the driving forces that squeezed margins. However, UNH has taken actions to protect future profitability such as exiting certain Medicare Advantage and ACA products. And these more favorable premiums and ACA products have already been locked in for 2026. The insurance giant has already rebounded 35% from July lows, but I think this stock still has all the fear priced in, and all the upside yet to capture.

No matter how the market performs this year, I believe these ten stocks are uniquely positioned to either weather periods of volatility or capture meaningful upside in a sustained bull market. While identifying undervalued companies may sound straightforward in theory, each of these selections stands out for pairing strong financial performance with an even stronger fundamental investment thesis. In many cases, market sentiment has created pricing inefficiencies that I believe do not fully reflect the long-term potential of these businesses.

Collectively, these ten companies span a broad range of sectors, including AI and technology, e-commerce, fintech, healthcare, biotech, communication and media, and insurance. This diversification provides exposure to multiple growth drivers while reducing reliance on any single macroeconomic outcome. Thematically, the portfolio emphasizes cloud services and AI infrastructure (AMZN, NBIS, AMD), scalable platform adoption and subscription-based models (DUOL, MELI, NFLX, HIMS), defensive yet durable insurance and managed care businesses (UNH, MKL), and cutting-edge biotech innovation (REGN). Each company operates with a clear competitive advantage and is positioned to benefit from both secular growth trends and disciplined execution.

Ultimately, this portfolio reflects my conviction that long-term success comes from combining valuation discipline with high-quality fundamentals. While short-term market movements are impossible to predict, I believe these companies offer a compelling balance of growth potential, resilience, and risk-adjusted return heading into the year ahead.

Company	Ticker	Market Cap ($ Billions)	TTM Revenue ($ Billions)	EV/EBITDA	Price	Institutional Ownership	PE	Forward PE
AMAZON.COM, INC	AMZN	2,491.50	691.3	17.9	$230.82	66%	32.9	27.6
ADVANCED MICRO DEVICES, INC.	AMD	363.8	32.0	57.2	$214.16	66%	115.4	36.2
DUOLINGO, INC.	DUOL	8.1	1.0	58.1	$175.50	87%	23.5	30.8
HIMS & HERS HEALTH, INC.	HIMS	7.3	2.2	47.3	$32.47	90%	64.9	50.5
Markel Group Inc.	MKL	27.1	16.1	26.4	$2,149.65	81%	13.4	14.8
MERCADOLIBRE, INC.	MELI	101.4	26.2	28.5	$2,014.26	82%	52.4	29.3
Nebius Group NV	NBIS	20.8	0.3	59.2	$83.71	38%	103.4	89.2
NETFLIX, INC.	NFLX	428.3	43.4	15.2	$93.76	77%	38.2	28.6
REGENERON PHARMACEUTICALS, INC.	REGN	81.1	14.2	17.5	$771.87	85%	18.6	18.3
UNITEDHEALTH GROUP INCORPORATED	UNH	296.6	435.2	11.6	$330.11	84%	17.8	19.0

I also wanted to take some time to say thank you for the continued support of Blue Diamond Investing over the past several years. It truly means more than I can put into words. What started as a passion for finding great companies and sharing ideas has grown into a community of thoughtful, engaged investors, and that growth would not have been possible without your trust, encouragement, and ongoing feedback. I'm deeply grateful for everyone who takes the time to read, follow along, and engage with the work.

As we head into the year ahead, I'm incredibly excited about what's to come. Markets will always present challenges, but they also create opportunity, and I'm looking forward to navigating both alongside this community.

Alex Szewyczk
Co-Founder

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