Semiconductor Stocks Are Down Big: Here's My Next Move

Description

Semiconductor stocks are down big this year. **NVIDIA** (NASDAQ:NVDA), the standard bearer for the industry, is down 65%, and all of the other U.S. and global semiconductor stocks are down as well.

In an environment like this one, it's tough to know what to do. On the one hand, declining stock prices suggest cheaper valuations. On the other hand, declining earnings suggest that maybe the lower stock prices are deserved.

One thing is certain…

Earnings in the semiconductor industry are trending lower. NVIDIA's earnings declined in its most recent quarter. Its sales barely grew on a year-over-year basis and actually declined compared to the prior quarter. **Micron** (NASDAQ:MU), for its part, forecast that it would earn near $0 in the next quarter. In fact, it forecast a range of possibilities, the lower end of which consists of losses.

It's a tough time for the semiconductor space. In this article, I'll explain what I'd do right now as a semiconductor investor — including one move I actually made.

Shed expensive semiconductor stocks

The first thing I'd do this year if I had a lot of semiconductors in my portfolio is shed the expensive ones. I haven't had to make this move, because I never held any expensive semiconductor stocks, but I would have made it had I owned some.

In its most recent quarter, NVIDIA posted 3% revenue growth and a 30% decline in earnings. Despite this, it still trades at 39 times earnings, 12.6 times book value, and 39 times operating cash flow. Book value means assets minus liabilities; operating cash flow means cash from day-to-day operations.

Even after falling 65%, NVIDIA has an expensive valuation. If I held any, I'd sell and move my money into cheaper sectors.

Reduce overall exposure

A second thing I'd do with semiconductors this year is reduce overall exposure, even to cheaper names. That includes apparently "dirt-cheap" stocks like Micron Technology. I was holding some Micron Technology stock for most of this year, and I still continue to hold a little. However, I sold about 80% of my shares when MU put out its most recent earnings release. The company forecast that it would earn between -$0.04 and $0.14 per share. At that level of earnings, the stock would no longer have a low price-to-earnings ratio. I wasn't expecting the guidance to be so bad when earnings came out, so I reduced my exposure a lot.

However, I didn't exit Micron completely. The thing is, the stock is currently trading at only a little above its book value. When a stock trades below book value then buyers are trading a dollar for more than a dollar's worth of fundamental value. Micron isn't there yet, but it's getting close, trading at only a 10% premium to book value. If it goes below $45, then Micron will be at a level where investors would be more than fully paid off in the event of bankruptcy. I would start buying back into Micron at that level.

Foolish takeaway

2022 has been a tough year for the semiconductor industry. Chip prices are falling, customers aren't buying, and a recession is looming. Things aren't easy. For now, I'm content to keep my exposure to the space to a minimum.

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