The Hidden Component that Will Power a New Industry

Warren Buffet is Concerned About It (This Industry)
Should You Be?

No, you should be happy about it.

How can that be? If the Oracle of Omaha is concerned about some business development, shouldn't you, as a potential individual investor, be petrified. Well, it depends on the business you're in and the business the Mr. Buffet is concerned about. And it also depends on whether Mr. Buffet is really as concerned as he publicly claims to be.

Apple, Microsoft and Google are very interested in the business Mr. Buffet is concerned about and are gearing up to be major players in it.

All of the major automobile companies are developing products to compete in this business. Even Volkswagen with its current multi-billion dollar legal and regulatory problems is getting ready to participate.

What is this business and why should you be excited about investing in certain components of it?

It's the driverless car industry. The driverless cars are here. In limited numbers and with limited capabilities. But they are here and they appear to be here to stay. And their presence is going to change a lot of industries and accelerate the growth of others.

A specific company in one of the industries whose growth will be boosted by participating in the driverless car business is of special interest to us and you will want to have its stock in your portfolio before it gets too expensive.

It is intimately involved in the business and is becoming a key player in building cars that are getting smarter every day. Even my relatively inexpensive Nissan Rogue has vehicle-in-blind-spot detectors and cameras on all sides so that I can back up confident that I will not be backing over a shopping cart or kid on a skate board.

A number of companies, and not just auto companies, have driverless cars in development. Google has a working model.

But Tesla is the furthest along in two areas - electric drives and driverless technology. Electric drive and driverless technology are technologies made for each other. The number of moving parts is insignificant compared to an internal combustion engine. Tesla Model S 70D's drive train has about 20 moving parts and there is no need for the pollution reduction devices.

My local paper had an article about a pilot and his wife in Vero Beach who each own a Tesla. His has the driverless capability. He emphasizes, though, that it's autopilot driving not autonomous. So that, just as in a plane, the pilot must be there and is still in charge of flying the plane even when it is on autopilot.

He gave an example of the car's driverless performance. One night when he was traveling in the driverless mode the car veered a little to the left. The car had detected a cyclist ahead without lights or reflectors. He had not seen the cyclist.

Another example of the car's capability is that if the driver fails to take action in response to warning prompts it will automatically slow to a stop and turn on the flashers.

So, you can see that these driverless cars have awesome computer capabilities and sensing systems. This should reduce the number and severity of accidents. This is what Mr. Buffet claims to be concerned about and the associated reduction in insurance premiums because he has very large positions in some insurance companies.

You are probably thinking that I'm going to recommend you invest in the stock of the auto-maker that I think is most likely to succeed. If I could do that, I would and I would certainly take a piece of that action myself. But I'm not going to do that.

Maybe you're thinking that special equipment will need to be installed along or under roads and highway to allow the cars to drive themselves. That type of equipment is being installed in some parts of the world as part of that country's driverless car strategy. Investing in that road equipment would be a way to ride the driverless car trend.

But what if I told you that there's a better way to invest in the driverless car industry. A way that's independent of individual automobile makers and roadside equipment manufacturers. Something that the driverless cars of all vendors will need to operate. Then, regardless of how individual car makers fare or what roadside equipment is needed, if any, you will be well placed to gain from the winners and the losers. An exciting prospect. Let's take a look at that.

All driverless cars will need to be equipped with what are essentially high speed, high power computers that monitor road and traffic conditions and react accordingly with minimal if any intervention by the driver. These types of systems are based on GPU accelerated computing processors – multi-channel parallel processors that have the capability to make the millions of computations and decisions per second needed to implement driverless control. A number of companies make these types of processors but we believe that NVIDIA Corporation(NASDAQ:NVDA) is the leading manufacturer of the GPU processors needed by driverless cars.

NVIDIA pioneered GPU accelerators in 2007 and has been acquiring chip companies that make chips that provide support functions for NVIDIA's driverless car's platform Drive PX. Drive PX, powered by two TEGRA X1 chips can identify objects around the car using input from up to 12 cameras.

NVIDIA has been gearing up for the car market for a number of years. It spent about 90 minutes talking about cars at the 2015 CES. If NVIDIA can get and stay ahead of the competition and establish its product as the industry standard it stands to become a multi-billion dollar player in the driverless car industry. Right now it appears to be ahead.

NVIDIA has some competitors, AMD, INTEL, and QUALCOM. The chart below shows that NVIDIA % stock price increase has pulled away from its competition over the last year. Its PE and PEG are higher than the competitions' but since they are trailing indicators that may not reflect current earnings per share and % growth.

We believe that NVIDIA is well positioned to become the major player in the GPU platforms in driverless cars and their corporate leaders are betting big on this industry.

KPMG maintains that we are "on the cusp of a revolutionary change" that may be coming much sooner than most people think.

And one MIT professor who had pooh-poohed the industry has now changed his mind and is now a believer.

It is also interesting that a J.D. Powers survey found that only 20% of American is even mildly interested in this technology. Act before the other 80% wake up.

This is a stock you need in your portfolio now before the industry explodes. You don't want to miss this one like you may have missed Apple, Amazon, Google or EBay.