Tesla, and the value of hope

The most expensive conference I ever attended took place in November 2016 in New York. It was organised by the band of merry men from Ritholtz Wealth Management and focused on evidence-based investing, which can be defined as an approach grounded in empirical research and the long-term observation of how financial markets really work.

Like any conference, some parts were good, others less so, and much of it was forgettable.

But one session I'll always remember was a conversation involving Jim Chanos, who was once described as the "LeBron James of short selling", and up-and-coming investment guru Patrick O'Shaughnessy.

Chanos was asked about his highest-conviction short.

Without missing a beat, he started tearing into Tesla.

He told the audience about the many problems with the company's business model, as well as its valuation and accounting disclosures.

The key point Chanos made was that, for all its wonderful technology, brilliant innovation and slick marketing, Tesla was ultimately still a carmaker.

It had to procure vast quantities of aluminium, rubber and glass (not to mention bits of bauxite, copper and reinforced steel), assemble cars and ship them halfway around the world to a growing customer base.

Ever since Ford followed General Motors onto the New York Stock Exchange in 1956 (the year before Chanos was born), analysts have been developing metrics and finding ways to analyse and compare publicly traded car companies.

Chanos pointed out how Tesla fell short on practically all of these.

He summed it up by saying that Tesla might have been a good idea if the day's events had been styled as a hope-based conference, rather than an evidence-based one.

I have to admit that I found the thesis put forward by Chanos on that memorable day in 2016 rather compelling.

The man is clearly sharp and he talks in a calm, assuring way.

He also has a track record which speaks for itself: as the Financial Times pointed out a few months ago, his Kynikos Capital Partners Fund has achieved a compound return of 22% a year over the previous 35 years (double that of the S&P 500).

The problem I had, having listened to Chanos, was that I had speculatively bought a few Tesla shares not long before.

I did this after our CEO had purchased a Model S and raved about the fact that it was without any doubt the best car he'd ever driven.

As Peter Lynch used to say: if you like the product, chances are you'll love the stock.

I agonised for a while and eventually sold part of my holding at a modest profit. Adjusting for the subsequent stock split, the selling price was about $40 a share.

I decided to ride my luck on the balance, eventually feeling rather smug when I sold out completely at the equivalent of just over $60 a share about a year and a half later.

After that, the company's share price kept rising.

Tesla's market capitalisation eventually overtook that of the 10 largest carmakers in the world combined, despite its overall volumes being a fraction of any of the others.

I thus watched in anguish as Tesla shares increased fifteenfold from my final selling price to the record high reached at the end of January.

Measured in opportunity cost, my fateful attendance at the 2016 conference became increasingly expensive as the months went by.

It has been the fear-of-missing-out trade of a lifetime.

The tide seems to have turned somewhat and Tesla's share price recently declined by more than a third from the peak — a pretty major correction, whichever way you look at it.

Bears will point out that the company's stock is still way too expensive: it has a historic p:e approaching four figures, for example.

Little else matters, they'd say.

Bulls would be quick to call this a buying opportunity.

They will remind you that Tesla has nearly 80% market share of the fast-growing US electric vehicle market, that its battery technology is years ahead of any competitor product and that the company has developed its own artificial intelligence chip which gives it direct access to valuable real-world data.

Perhaps the most important positive, however, relates to the future of self-driving: you won't find many commentators arguing against the notion that Tesla is in pole position to dominate the autonomous taxi network of the US and many other countries.

Me? As the Tesla share price declines, I'm just happy that my 2016 conference became so much cheaper.

If it falls further, I might even afford to attend another event like that one day.

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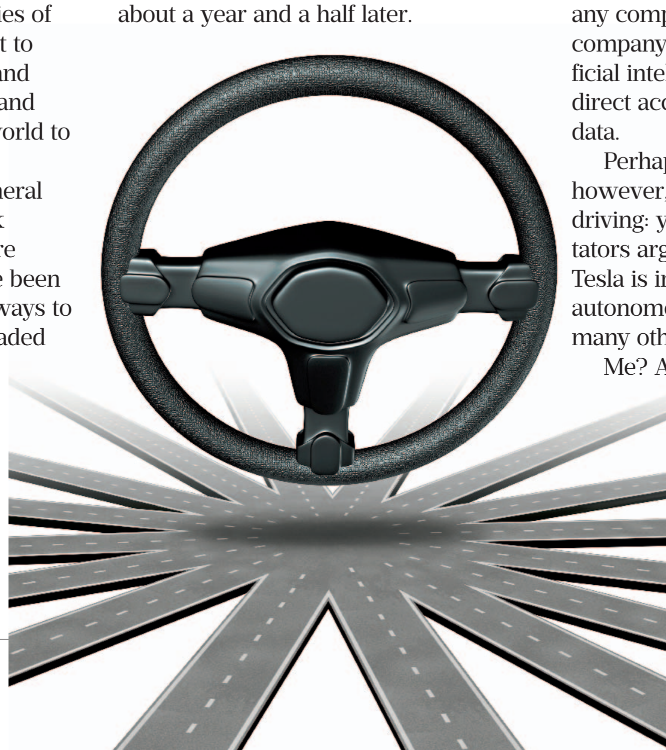

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