Remembrance Day and Gravity Sucks Edition

Tesla's Trillion Dollar Moment - Nov/2021 - revisited

Nov 9/2021 Dr. Aswath Damodaran provided analysis of Tesla's fundamental valuation. I write this section Nov 9, 2022, the 1-year anniversary his work. What a difference a year makes.

Tesla's Trillion Dollar Moment: A Valuation Revisit! Nov 9, 2021

https://aswathdamodaran.blogspot.com/2021/11/teslas-trillion-dollar-moment-valuation.html

We provided the study to our clients and have regularly warned of Tesla's downside risk since. It hasn't been a popular stance. Clients told us we clearly didn't get what 'everyone knows', and were tired of watching their 20-something kids and brother-in-law making bundles. They were right. Here is Tesla's share price Nov/2021. It was an amazing, extreme run. (Note-to-self: extreme)

Tesla Inc daily ranges to Nov 4, 2021

Thursday Nov 4, 2021 Tesla hit an all-time high of $1,243 and traded over $1,200 all that week. Nov 9, 2021 was a Tuesday. Presumably Dr did the work over the weekend. In August/2022Tesla split their shares 3:1. The split-adjusted high was $414.50. That week's range was $400 split-adjusted.

In his Nov 9/2021 estimate (that he highlighted had a zero provision for failure!) Dr. Damodaran's fair value estimate per share was **$571.29** (chart 12 out of 13 in the above link). Adjusting the $571 valuation figure for the Aug/2022 3:1 stock split derives **$190.43 – 55% below the market price.**

Buried in the analysis are various mea culpa's regards his estimates of Tesla's revenues and profits that drove his woeful underestimation of Tesla's potential share prices…at the time. Readers will note in his apology points out he <u>overestimated</u> Tesla's business income and profits (chart 6). Note the 'Operating Margin' percentages. Nothing special are they?

Tesla: My 2013 Predictions versus Actual Numbers

	My 2013 Prediction			*Actual Numbers*			*% Difference*	
Year	*Revenues*	*Operating Margin*	*EBIT*	*Revenues*	*Operating Margin*	*EBIT*	*Revenues*	*Operating Margin*
2013-14	$ 2,259	-5.47%	$ (124)	$2,436	-4.79%	-$117	7.87%	0.67%
2014-15	$ 3,840	-3.47%	$ (133)	$3,703	-10.44%	-$387	-3.56%	-6.97%
2015-16	$ 6,528	-1.48%	$ (96)	$4,568	-20.36%	-$930	-30.02%	-18.89%
2016-17	$ 11,097	0.52%	$ 58	$10,069	-6.53%	-$658	-9.27%	-7.05%
2017-18	$ 18,866	2.52%	$ 475	$13,684	-16.24%	-$2,223	-27.47%	-18.76%
2018-19	$ 29,534	4.51%	$1,333	$24,941	1.34%	$334	-15.55%	-3.18%
2019-20	$ 42,263	6.51%	$2,752	$25,708	4.74%	$1,218	-39.17%	-1.77%
2020-21	$ 54,794	8.51%	$4,661	$41,862	7.76%	$3,247	-23.60%	-0.75%

Using June-June numbers each year, since valuation was done in June 2013

Revenues: The $41.9 billion actual revenues in 2020-21 were *23.6% lower than my estimates.*

Operating Margin: The $7.76% in operating margin in 2020-21 was 0.75% *lower than my estimates.*

His apology means Tesla did not deliver on what he and many other analysts predicted. Analyst predictions are derived from what corporate management tells them to be true. Not Tesla's problem.

Despite being over-generous in his revenue estimates, his Nov/2021 price value was roughly 55% below the Nov/2021 market price, implying at least a 50% price retracement to fair value. No way!!

In his text he runs through scenario's that would imply fundamental earnings justifying the Nov/2021 market prices being paid. Here is an excerpt from that section.

"As you can see, there are pathways that exist to get to the current stock price and above, but they require that you enter rarefied territory with Tesla, assuming that it will have more revenues than any company (not just automobile) in history, while delivering operating margins similar to those delivered by the largest and most successful technology stocks, none of which have the drag of substantial manufacturing costs."

The highlighted section was a Tesla Bull argument. 'Tesla is not a car company. They are a tech company'. It turns out they are in fact a car company. They were being bought by investors who also favored tech companies (see below). Mr. Musk made no efforts to disabuse them of this idea.

So…in Nov/2021 with the stock at the equivalent of $400 + Dr Damodaran predicted $190. I entered that $190 figure as a downside price alarm In Dec/2021. The alarm remained in place since.

That was then. This is now.

Tesla Inc daily ranges Nov 9, 2022

My $190 downside alarm was triggered this week. At this writing Nov 9, 2022, Tesla trades at $177.59 touching the lows of May/2021 and down over 50% from Nov/2021. **Amazingly extreme** collapse. Amazing does not necessarily mean surprising.

There clearly was much cross ownership between fans of Tesla and the FAANG stocks. Mirror image.

NYSE FANG+TM Index – daily ranges – 2 years

The FAANGS (Face Book, Apple, Amazon, Netflix, Google & friends) show a close correlation to Tesla. That's what happens when 'everyone knows' something. It turned out the FAANGS were equally overvalued. They were classic high-flyers.

Gravity sucks.

NOVEMBER 11 UPDATE:

Proving how predictably unpredictable humans are, US inflation stats came out on Thursday that led investors to conclude inflation pace was slacking, implying the US Federal Reserve (The Fed) was likely to NOT push rates higher for longer. Stocks leapt after the stats hit the wires then soared in a frenzy of buying. Clearly too many investors were short the market or realized they were underinvested. The Dow Industrials jumped +3.7%. The FAANGs climbed 9.4%. From the Nov 9 close of $177.59, Tesla jumped $13.20 7.4% to $190.72 (back to Damodaran's 2021 fair value estimate). Tesla underperformed the other FAANGS. Amazon gained 12.2%. Meta (Facebook) climbed 10.25%. In late September and October we've advise stocks were severely oversold and investor risk appetite was at very low levels. At our October seminars we clarified we were (and are) buyers of high quality, dividend paying companies trading below their historical average ranges. We were takers of those want to offload risk during that period. We still are. We are not playing in the social media/e-commerce sandbox, although I must admit some of the FAANGs may get fundamentally cheap enough for us to look at them. No dividends = no buy for our conservative clients.

A Happy Day Is Here Again For Stocks & Bonds - Ed Yardeni – LinkedIn Nov 10, 2022

https://www.yardeniquicktakes.com/a-happy-day-is-here-again-for-stocks-bonds/

Moving on to the Canadian energy sector:

'Will Emissions Limits Force Canadian Oil & Gas Exploration & Production Companies To Reduce Production?' – Martin King – RBN Energy Nov 8, 2022

Mr. King breaks down the Canadian Federal Govt's recent legislative discussion paper with goals towards achieving their commitments to Canada's future emissions targets. 'Net Zero 2050' has featured large. His non-inflammatory work is boringly detailed. It lays out the challenges in a reasonable a way. Implicit in the Govt plan is a 40%+ reduction in GHG emissions from the Canadian O&G sector below 2019 levels. The conclusion is the current Govt's agenda – if enacted and complied with – is likely to result in a significant reduction of Canada's oil & gas production. Probably a similar percentage reduction. 'Leave it in the ground'.

The result would be less Canadian oil & gas available for sale but NOT less global consumption of oil and gas. International oil & gas consumers will shrug and look to other suppliers. The good folks in Russia and Saudi Arabia will gladly provide the additional supply. India has become the top consumer of Russian oil and gas. China won't be far behind.

We have repeatedly predicted these goals will not come without cost and sacrifice. As Europe has discovered, be careful what you wish for. If Canadians are asked to support these costs, we must be provided with realistic predictions of the impacts on all of us.

https://rbnenergy.com/hit-me-with-your-best-shot-will-emissions-limits-force-canadian-eandps-to-reduce-production

Speaking of Net Zero,

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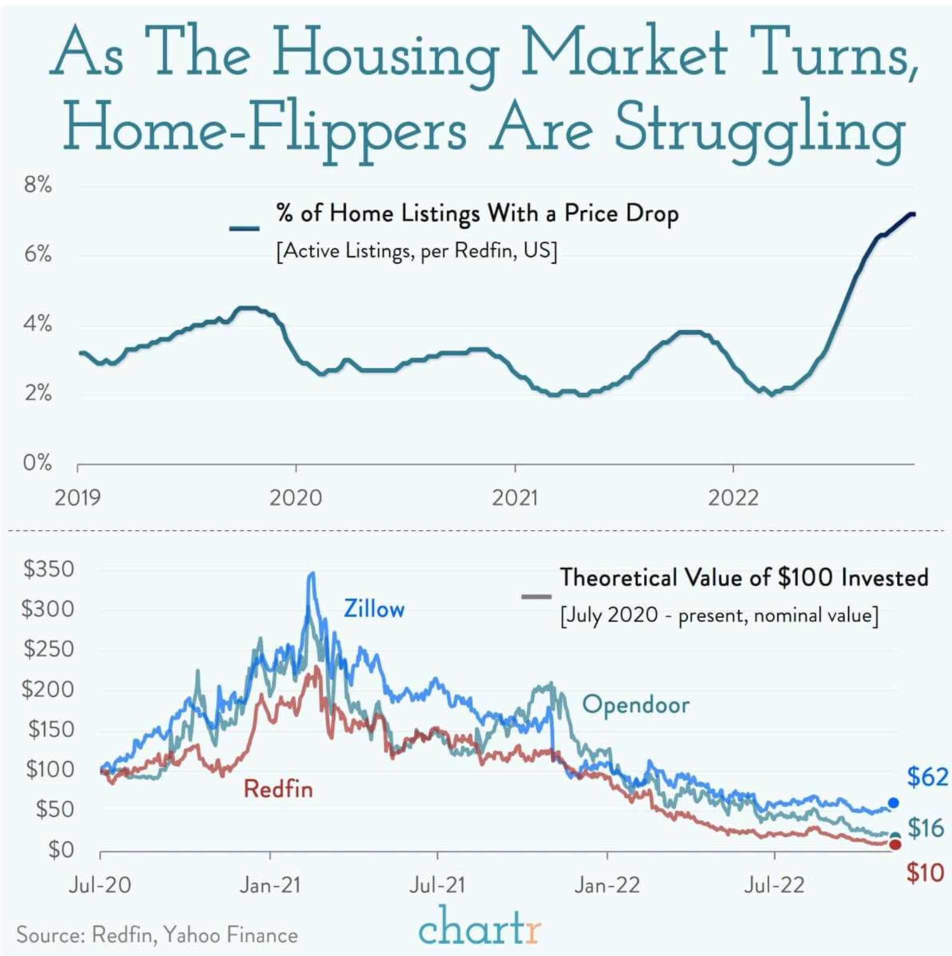
https://twitter.com/zerohedge/status/1590799314909011995

Flipping Hard ChartR Nov 11, 2022

https://read.chartr.co/newsletters/2022/11/11/flipping-hard



*"Real-estate brokerage **Redfin** announced on Wednesday that they would be sunsetting their home-flipping business, **RedfinNow**, and joining the long list of companies with layoffs, **cutting 13%** of their workforce.*

Flipping hard

If you binge-watched home-renovation TV shows during the pandemic, you might have been tempted to get into home-flipping. The idea, of course, is simple enough: buy, renovate and then sell — hopefully for more than you paid.

***Redfin** launched their home-flipping venture in 2017, buying and selling thousands of homes over the last few years, competing with the likes of **Opendoor** and **Zillow**. The model worked — to varying extents — thanks to rock-bottom interest rates and the hot US housing market. In fact, data from **ATTOM** shows that home flipping sales represented **9.6%** of all home sales in the first quarter of this year.*

*But now, with mortgage rates hitting **7%**, the market is starting to turn. An increasing number of home-sellers are dropping prices, leaving **Redfin** and others with considerable inventory on their books that they can't shift, and that they've likely already spent thousands on fixing up.*

*Since their respective peaks in Feb '21, **Opendoor** shares are down **94%**, **Zillow's** have shed **83%** and **Redfin** stock is down **95%**. Even with **access to millions** of data points on what makes houses valuable, home-flipping is really, really hard."*

Remember November

"Those who cannot remember the past are condemned to repeat it." – **George Santayana**,

I have been a life-long history buff with a focus on military history. While great battles make fascinating reading, the folly of those in power leading to conflicts is much more interesting. Leaders seem to always predict 'We'll be home by Christmas". Yet after death and destruction, the borders rarely change and the decision-makers rarely pay the price. As I remember our military who selflessly paid that price for us, I draw hope that the current conflicts, after much sacrifice will end with the same results. Borders will remain, peace will return, families go back to loving and caring for each other and their neighbors.

To strong men dictators, their neighbors appear weak. Democratic countries' constant bickering is mistaken for lack of conviction and will. As strong men don't tolerate expressions of dissent, they think there isn't any. Neighbors with decentralized, capitalist systems convince dictators there's no will to fight. Who wants to spend all their time and money glaring at their neighbors? Systems based on sharing and honor often are on the back foot and confused at initial hostilities, showing poor military preparedness. The dictators feel confirmed. And it's not just democracies. Vietnam fought off the French, the Chinese and the Americans. Once citizens make the decision to lock arms, the end is always the same.

In the current conflict Russia is proving the weakness of corruption of kleptocratic gangsterism. Russian equipment is breaking down. Trucks supposedly equipped with new tires had old ones reinstalled or the new ones stolen. One reason the Moskva sunk was that fire fighting equipment was locked up to prevent the crew from stealing it. Moral is terrible and supplies are worse. Ammunition is old, dangerous to handle or not available.

In previous Readings and our recent seminars we've pointed to the Kherson region of southern Ukraine as a potential pivot point for the conflict. Russian forces are now 'withdrawing' (retreating) from the west side of the Dnieper River.

The Institute for the Study of War provides daily updates. Here is their Nov 10 posting.

Russian Offensive Campaign Assessment – Nov 10 ISW

https://www.understandingwar.org/backgrounder/russian-offensive-campaign-assessment-november-10

European conflicts have led to Canadian immigration. Those with the courage, optimism and resources to escape conflict often make very good citizens in their new land. It is why we remain optimistic on Canada's future enough to be invested in it.

Canada's coming immigration boom will be the biggest in 60 years

https://financialpost.com/news/economy/canada-immigration-economy

Have a Thoughtful Weekend

Steve & Anna Hilberry

FOR THE RECORD Nov 11, 2022

DOW INDUSTRIALS:	33,561
S&P 500:	3,971
S&P/TSX COMP:	20085
WTI:	$88.08
LOONIE IN $USD:	$0.7539 $US

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