

Shorting more TSLA on breakdown if truck hype fades (11-21-17)

The gist: Elon Musk kicked the hype machine into overdrive last week, announcing a new truck and a supercar, and the stock showed notable weakness in response. If TSLA breaks the existing countertrend from here, we will add more size to the initial short position.

Actions: Will add to existing TSLA short in moderate size on a breakdown below the short-term countertrend, with a 2.5 ATR risk point on the full position from add-on point.

Elon Musk tends to draw a binary reaction from people. Some see him as a true visionary, doing bold things to change the world for the better. Others see him as a huckster, constantly pumping up a hype machine.

We say, why not both? The two aren't mutually exclusive. As we've written, the Model 3 has already changed the world. The trouble is living up to the *profit* expectations.

Musk has a playbook that is obvious at this point. In order to distract from missed targets and serious production problems, he rolls out sexy new products to generate enthusiasm and stoke up the fanbase. But the playbook is wearing thin, because it's clear now that each new round of big ideas adds to the potential for serious production headaches – and serious cash burn.

Last week Tesla unveiled the prototype for a new big rig truck, and also a new supercar that will be the fastest production line sports car ever built. The stock opened higher after the splashy rollout, but not by enough to close the earnings gap – and then fell lower (see top chart).

Here is the problem:

- It already took an aggressive leap of faith to assume the Model 3 will achieve its promised production target of half a million vehicles in 2018 (or even get close to that).
- Tesla already has an insane amount of cash burn.
- Trying to build a truck, for an extremely demanding commercial market, which won't be delivered for years, only compounds the above problems. (And the supercar is just eye candy – the deposits on the supercar might cover a month – a month! – of cash burn.)

There are true believer investors willing to buy TSLA no matter what. But even the patience of the diehards is wearing thin here because, for Elon Musk to succeed – and we certainly hope he does! – TSLA will likely have to raise a LOT more capital, which means issuing a lot more shares as debt markets grow unforgiving, even as TSLA profit expectations take a nasty haircut. All of that is really bad news for the stock. As such, given that reality might be setting in, we will add to our TSLA short position if the countertrend rally breaks (a sign that the magic has faded).

