$TSLA INVESTMENT LETTER #33

ALEX VOIGT JULY 2024

This investment letter does not provide financial advice on whether to buy or sell stocks, but rather fundamental and technical analysis to help you make good, informed decisions taking into account your specific situation.

My analyses of stocks are always a mix of fundamentals, technical data, and market behavior in the context of global developments. All of these sources of information play together, but the relationships and influences they have on each other change, and sometimes they change quickly. The more time you spend inhaling as much information as you can about these levers, the better you will be able to form your own opinions, and that's all that matters.

While I can claim to have been very successful in the past with investments in Nvidia, Apple, Netflix, and Tesla, I can also be wrong about the future. I first considered buying Tesla stock in 2013 and did so between February 2014 and 2018, at which time I leveraged over 100% of my net worth. I have never sold a Tesla share and have no plans to do so in the near or mid-term future.

My successful activity in the stock market over the past 30 years has allowed me to retire in 2019 and now focus fully on everything related to Tesla and German automakers.

Tesla Sentiment: Strong Bullish

In one of my last investment letters, I informed you that instead of writing about Tesla shares and their opportunities and risks every month, I will limit my letters, which appeared once at the end of each month, to publications relating to major news or important movements. In this way, I want to reduce the noise and allow investors to see a clear signal when it happens. Today we have a clear signal, which is why I am publishing this investment letter and hope that it will help to highlight important developments.

Macroeconomics, Risks and Opportunities

The macroeconomic situation has bottomed out worldwide, the worst is behind us and some countries are showing signs of improvement, which will have a positive effect on consumer confidence in the medium and long term and increase demand for vehicles and other Tesla products.

Inflation has fallen from its highs last year and in some segments has even started to deflate, allowing some regions and countries, such as the central bank in Europe, to cut interest rates for the first time. In Europe, inflation stood at 2.5 %, and in the largest economy, Germany, at 2.2 %, which is not far from the target value of 2 % and gives the central banks room for further interest rate cuts to support the economies.

Globally, the situation is gradually improving and despite the geopolitical uncertainties and the ongoing major war in Europe, as well as the elections in many countries, e.g. the US, the UK, and Germany, there is reason to hope that stabilization is on the horizon and that the worst is behind us.

An important prerequisite for this is that interest rates fall significantly, and although I have no doubt that this will happen, it will take much longer than expected. A recovery is likely despite the still high interest rates though.

Risks remain, particularly from trade wars, new tariffs, and tensions between the major trading blocs in North America, Europe, and China, where a new balance needs to be found as well as real wars in particular in Eastern Europe and an escalation of the Ukraine war to other countries.
As a stable and growing economy is in everyone's interest, it is only a matter of trade and tariff negotiations to find a solution and I do not doubt that no major damage will be done.

Political uncertainties remain also with the current and upcoming elections and will certainly move the stock markets, but overall a moderate political class has remained and I am sure the situation is better than the sentiment.

Most important of all is that the Western alliance sticks together and supports Ukraine in ending the war with a just peace, and for that Russia must be defeated on the battlefield because otherwise Putin will never negotiate and I have no doubt that will happen if the Western support remains. An end to the war would reduce insecurity and boost the economy.

But if Russia wins the war, which I do not believe to happen, or an unjust peace negotiation leads to a temporary end to hostilities, uncertainties will remain and after a certain time a new war will start in the Eastern European countries and the price to pay to end that will be orders of magnitude higher and that price will be paid politically, economically and financially and undermines our democracies. Let us all hope that this unlikely and negative scenario will never happen.

Tesla

Tesla has done comparably well during the economic downturn if we take a look at all other BEV automakers and the industry, but it has not been an easy time too. The very underrated cost leadership has helped drive down prices to increase demand and continue to sell and even grow, which is largely overlooked by the market that only looks at car sales.

The strong Q2 deliveries of vehicles and especially stationary batteries were a wake-up call for investors who had expected much worse figures. Whilst it is still a slow recovery, what is being overlooked is that Tesla's energy business is set to become a massive profit generator and, even better, FSD development is starting to show very impressive results.

I have no doubts that Tesla has solved autonomous driving and the simple fact that very few understand this and its consequences is a huge investment opportunity. Right now, I don't see that the market has priced anything other than the car business into the stock, and that is the definition of an incredible lifetime investment opportunity.

All the partly very hard homework Elon has imitated with reducing the headcount by about 14% and reorganizing the entire company and by doing that also letting go of many very important managers who have been critical for the success of the company in the past starts to pay back.

In addition, many uncertainties that were hanging over Tesla shares have disappeared, allowing investors to get back in. These include, for example, the vote on CEO remuneration for 2018 being declared invalid by the Delaware court and its confirmation at the shareholder meeting, the arson attack on Giga Berlin, the general weakness in BEV sales, and the Nvidia AI hype, which drew many investors out of Tesla and into Nvidia.

Ark Invest has presented a new stock price target of $2,000 to $3,100 in 2029 and in my opinion, a 90% increase of the stock in 5 years considering the profit power Tesla, Energy, FSD, the Robotaxi Network including licensing, and the Optimus Robot include is a realistic possibility.

The future for Tesla is bright and it's now all about the large investors to see it like many retail investors see it for many years and once that’s happening a large rally may start.

Technical Analysis

For 2.5 years, Tesla shares were in a downtrend, ranging from over $400 to almost $100, forming a large wedge over the years. The upper resistance and lower support levels were tested many times, confirming the formation.

While some compare technical analysis to astrology, formations are nothing more than the mapped willingness of investors to buy or sell at certain levels. If they are confirmed long enough, they become almost a self-fulfilling prophecy until the point when the formation breaks.

When this happens, we can usually expect greater investor commitment, either to the downside or to the upside, and in Tesla's case, the 2.5-year downtrend ended last week with an upward breakout. The longer such a formation remains intact, the more investors stand on the sidelines waiting for it to be broken, which explains strong moves at its end. The longer the base the stronger the break-out.

Tesla shares broke out of the 2.5-year downtrend last week, which is a very bullish signal. Furthermore, some technical analysts view the formation as a so-called diamond, which is widely seen as an even more bullish breakout formation. According to their calculations, the upside for Tesla stock is $500.

In my opinion, it is impossible to predict how high the share will rise after the breakout, as many other influences play an important role. These influences are, for example, the earnings release on 23 July or the Robotaxi unveiling on 8 August among others.

It’s likely that the next resistance level at $265 (lower high) maybe even $290 will be reached already this week with support at $220 to $230. All indicators and methods I use e.g. moving average, Bollinger band, or MACD to name just a few, all show a bullish picture and that adds to my confidence.

Regardless of how high the stock will rise in the near future, we should also bear in mind that there will certainly be setbacks, but the most important news is that the stagnation and downward trend of the stock has ended.

On the upside, there is not much resistance until the all-time high above $400, but it needs more fundamental confirmation and good news e.g. about the Robotaxi network to create a big rally to the former ATH. However, I would not rule out bigger movements to the upside in the coming months as I expect more good news from the corporate side.

Taking all that into account I am confident that the Tesla stock has a high probability to reach the $400 and ATH mark in 2024.

Summary and Conclusion

Tesla stock has completely missed the AI rally we've seen with big stock moves like Nvidia, to name just one of many, and instead has shown weakness despite it being I believe the by far biggest AI play in the market.

In recent years and even today, Tesla has been considered by major investors as an automaker and nothing more, and since the overall economic situation was and still is weak, with a lot of headwinds, the stock didn't have sufficient support and was trapped in a downtrend.

Despite the positive Q2 delivery numbers in the auto industry and especially in the Tesla energy business, the company is still seen as an automaker and nothing more disregarding the massive growth of the Megapack business and its impressive margins. The stock movement we have seen over the last week is therefore nothing more than a rebound from a now expected better sales of vehicles in the coming quarters. Neither the Tesla Energy business nor FSD, Robotaxis, or even Optimus are valued with a single cent in the stock, and that's positive news for investors.

Tesla stock has proven to be very volatile in the past, and while we've seen it go down, I expect the same to happen on the upside in the second half of 2024. The car business will not make the difference despite positive developments and the CyberTruck momentum, but stationary batteries and the expected realization that Tesla's Robotaxi network is real.

Adding all this up, I conclude that the downside risks have diminished dramatically, while many upside opportunities are very likely to support Tesla stock and push it near $400. I expect some resistance along the way e.g. at $265, but the strongest barrier will be the former ATH. On the downside the former strong resistant trend line is now a strong support and I doubt that we will see levels below $200 again.

Once the market gets confirmation that the first Robotaxi network will be launched in a specific region, be it the US or China, the market will start to value Tesla stock as an AI company with recurring software revenue, and at that stage I expect new ATH levels to be reached. That can be the case later in 2024 or more likely in 2025.

While the Optimus robot is another surprise factor that could play a role, the market will likely ignore it until Tesla begins mass production in the coming years. A few thousand Optimus robots manufactured and deployed in Tesla's Gigafactories are unlikely to change investors' cautious expectations. It is a new technology and many investors will not be ready to believe it is real, just as they are still not ready to believe that Tesla's autonomous vehicle business is real, but once it happens, the upside will be incredible and we will be in the thousands of dollars per share. In fact, the opportunity to get to and above $1,000 exists already just with the Robotaxi business but for that to happen the market needs to see proof of claim.

I hope that many small and micro investors understand the tremendous opportunity that Tesla offers them and are smart enough to invest and become financially independent in the future.

Tesla stock is not a walk in the park, and you have to stick with it no matter what the media writes or your family, colleagues, and friends tell you or the stock does, but if you do, the likelihood that you will be greatly rewarded is very high.