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# Strategic Insights on Tesla: A Discussion

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**Steve Sedgwick and Arabile Gumede discuss Tesla's strategic positioning and market dynamics with Tom Hulick, CEO of Strategy Asset Managers.**

## Transcript:

Stay with us, we're going to have a really long chunk now with a guest.

We're going to be chatting to Tom Hulick, who's the CEO of Strategy Asset Managers. Tom, thank you so much for the time. Let's get your reaction to Tesla's quarter, the outlook of course, which the market has been looking at quite significantly, as well as that stock reaction.

Well, thank you for having me. First, let me say that we own Tesla in our Market Oriented Momentum Strategy, and our Market Oriented Momentum Strategy utilizes a quantitative process which selects 50 S&P 500 stocks based exclusively on price momentum. With that being said, the strategy is very nimble, and we would sell out of a position should its price momentum stagnate or deteriorate. When we saw

Tesla's earnings today, we weren't surprised. Tesla owns, as it's basically 93% an automotive company and 7% a storage company. As an automotive company, Tesla is trading at about an 80 multiple, Ford, GM, Toyota probably between five and ten on the multiple side.

Tom, a question I've been wanting to ask you, when I saw that you have this as a holding as a momentum strategy, and I appreciate it's quant-driven, is this is a stock that's lost about \$100 from its high. How can you own it as a momentum stock?

We bought Tesla at the beginning of the year, based upon our strategy's quantitative approach, where we start the beginning of the year in January with the top momentum stocks. As you know, Tesla was up over 100% last year, although it's declined on the price side in the first several weeks of trading in January, it's still a momentum player for us.

Tom, just with Tesla this year, there's been a lot of focus on the company's margins after the fact that it had to cut prices last year amid a tough macro environment amid rising competition. So, do you expect Tesla to continue to cut prices or keep them as low as they are and what ultimately does that mean for the company's margin this year?

I do, and Tesla had to cut prices to remain competitive and that's obviously due to increased competition. This obviously has impacted their margins and it's a sign of shifting market dynamics. Their market position, I mean initially, they were a dominant player in the EV market, they were disruptive, Tesla was an innovator, the brand is very attractive, but it creates a lot of volatility with the stock and as you've seen, Tesla's stock has exhibited significant volatility this year and it's really influenced by retail investors and market momentum rather than just fundamental factors. So you've got increased competition, consumer interest fluctuations and now you have price adjustments.

And with the Cyber Truck ramp up proving a little bit tougher with new products not expected to go into production until the end of 2025, is there anything at this point that can catalyze growth for Tesla again?

Well, one, I wouldn't count them out. As you heard from Elon Musk today, he said that they're in the second phase of a growth factor and this new Cyber Truck that has come out, we're already seeing it in the streets of Los Angeles and I know that there are several on the East Coast as well, but it's a pretty interesting looking truck. I do think that Tesla though will advance on the storage side and that could

kind of pick up some of the momentum on the growth side of things. So automotive is going to see a lot of pressure, but on the storage side, I think that that will enhance some of their growth prospects for stock performance in the future.

Elon has spoken a lot about how he would like to innovate and create more for this business, but by owning 25% of the stock, it's a stock that you and your company own, are you worried about that ownership mandate at all?

I think he currently owns roughly about 133%, and has another 7% available in options, so if he goes to a higher level, I'm not worried about it. He's a very powerful individual, he's obviously a very polarizing individual, but he's one of the most brilliant people that have come into our lives, something similar to kind of a Thomas Edison of our generation.

I agree with you, Tom. I read that book from Walter Isaacson, I thought it was so illuminating about him. He is the most divisive character I can think of in Corporate America at the moment, and yet I do want to just pour onto that share ownership story as well. It's almost a threat, "I will develop AI within the company if I get more stock, or a larger percentage; I will develop it out of the company and create another company if I don't." But this is the man who's been selling stock. So, I don't understand, you say you don't mind if he owns more stock, and absolutely, I think people would like to see him fully investing in Tesla rather than worrying about some of his other moonshots, but I don't understand, he's selling stock to finance other assets. Does he want free stock? That should worry me as a current shareholder, if he wants to be given free share options rather than paying for those extra shares.

Well, you know, I don't know if he wants free stock, but I do know that Elon Musk is a capitalist. I do know that Elon Musk wants to make money, just like any other active investor in a company. So, I once again would think that if I were in Elon Musk's position, which I wish I were, I would think that by encouraging the company to take innovative strategies to go forward in the AI market, sure, he could do that, but influencing in other directions as he is a polarizing figure. I do think that the company itself has hinted along the lines of what the innovation could be in the AI area. Elon Musk decided to go into a different route and set up a separate company focusing on that maybe that's due to the participants not wanting to go into a bigger entity. But AI is going to be a big part of Tesla going forward.

Making an EV vehicle is still expensive in relation to a normal combustion engine. Tesla being the ones able to bring down that cost of production so much so that they're able to sell a vehicle sub \$25,000 to \$30,000 and be profitable selling

it?

Well, that's part of the new growth initiative for the new Tesla 2 model. They have a lot of competition, though, from China and other automotive makers. I think that they have an idea of what it costs to make a competitive car at that level, but that's going to cut into their margins, and Tesla's going to have to cut prices to remain competitive. What does this do to the profitability going into the future? Well, it remains to be seen, but they're still a very profitable company.

Tom, Elon must have spent a bit of time talking about Optimus, the humanoid robot. He said there's a good chance it could ship next year as well. Humanoid robots, AI, all very fascinating, but right now, is it a distraction for Tesla?

You know, being the Edison of our generation, Elon Musk is going to always be a disruptor out there, bringing something that will be very interesting to capture the audience. So if Optimus is that figure, you could probably think that 10 years ago, Tesla was that figure at this point. I'm a fan of Optimus and I'm a fan of Thomas Edison as well. I think he had about a thousand light bulbs before he really nailed it, so it puts a new frame on failing, doesn't it?

Brilliant, thank you so much. I think you've given some great insight today. Tom Hulick, who is the CEO of Strategy Asset Managers.