

MARKETS

The Agony of the Tesla Bears: \$8.4 Billion of Losses in Five Weeks

Short sellers feel pain as the electric-car maker's stock soars; 'I got my butt kicked'

By *Gunjan Banerji and Gregory Zuckerman*

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Fred Lande's heart was pounding as he watched Tesla Inc. shares charge to an all-time high of \$968.99 last week. It wasn't because he was happy.

He'd bet thousands of dollars that the frantic rally that has more than tripled the price of the shares in just a few months was doomed to end, and soon. Concluding his gamble was wrong, he closed the options trade at a loss.

"Someone could go buy a brand new Toyota Camry with the loss that I took," said Mr. Lande, who frequently trades for his personal account and runs a chat room for retail stock traders.

Tesla's rocketing stock has meant an astonishing dive for investors who have staked their money on the proposition that Tesla shares were drastically overvalued and bound to fall. Their cost: \$8.4 billion since January.

These investors have been mostly losing the battle for years, as Tesla shares remained buoyant even as the electric-car manufacturer racked up billions of dollars in annual losses. Their pain has suddenly gone from chronic to acute as Tesla shares have soared to heights that few of its supporters would have ventured to predict. Last year, they lost \$2.9 billion betting against Tesla. In the first week of February alone, they lost \$2.4 billion as Tesla shares posted a string of multibillion-dollar daily gains, according to data from S3 Partners.

Tesla reached its highest close on Feb. 4, at \$887.06. Though shares slipped since then to close at \$748.07 on Friday, the week saw a 15% gain, one of the best weeks for Tesla. Tesla shares have jumped nearly 79% since January.

Many of these investors are short-sellers, who borrow shares and sell them with the hope of profiting by buying the shares back at a lower price later and pocketing the difference.

Tesla CEO Elon Musk has made baiting the short-selling camp a prominent part of his prolific social media presence, which fans and detractors alike agree is a significant part of Tesla's mystique. This past week, he tweeted three fire emojis as Tesla's share price skyrocketed, which

some speculated was a reference to how shorts were getting burned. One Twitter user responded: “You forgot to say something bullish about #bitcoin.”

In 2018, Mr. Musk tweeted that short sellers were “value destroyers” and that short sales should be illegal.

Tesla didn’t respond to requests for comment.

Adding to the short sellers’ financial toll is a psychic one: Tesla’s gains are driven in part by the short sellers’ pain—a “short squeeze,” in which rising prices force short sellers to purchase shares to close out losing wagers.

“Oh damn, I got my butt kicked,” was the thinking, said Robert Majteles, a private investor who rode Tesla’s swings up and down for years before being forced to close out his bearish position last week. “It’s the biggest set of losses that I’ve ever taken in 20 years.”

Those losses have become other traders’ winnings, luring many more into the fray. Tesla has become one of the most popular stocks to trade ever. More than \$55 billion worth of shares changed hands Tuesday, the most for a single stock since at least 1999. Options volumes have skyrocketed, as traders big and small look to profit from the car maker’s wild moves.

The stock has been volatile in the past, giving short-sellers windows to declare victory from time to time. Tesla shares slid to a low of \$178.97 last June as worries grew about Mr. Musk’s ability to pull off his ambitious plans. They’re up about 320% since then.

The battle between Tesla believers and skeptics has captivated Wall Street. As Tesla shares went parabolic—the rare situation when the price chart of a widely held stock rises almost vertically over a period of days or weeks—traders recalled previous short-squeeze episodes, such as the battle over wireless standards that drove a 2,600% gain in Qualcomm Inc. in 1999.

In one sign of Tesla’s place in the zeitgeist, typing “should I” into a Google search recently prompted an autofill that read “should I buy Tesla stock.”

For almost every bullish investor, there is an equally passionate bearish one. Another popular Google query last week read, “should I short Tesla.”

Bears point to how Tesla has never posted an annual profit and has previously missed numerous financial and production targets. They note Mr. Musk’s penchant for overstatement, including an infamous 2018 episode in which he claimed to have lined up funding for a buyout, leading to a Securities and Exchange Commission settlement that temporarily stripped him of his chairmanship. They say other car companies will likely catch up to Tesla’s strides in electric vehicles—German auto maker Porsche last year rolled out its first ever electric vehicle, a sport sedan that is aimed at the same market Tesla targets—and that the business of making cars is notoriously boom and bust, even for the most storied firms.

“This is a car company, yes a higher-end one, but it’s still a car company, with the same low margins of other auto makers,” said James Chanos, the noted short seller who runs New York hedge fund Kynikos Associates and has been betting against Tesla for more than six years.



James Chanos, who runs New York hedge fund Kynikos Associates, said he would continue to short Tesla’s stock despite big losses recently.

PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

Mr. Chanos, who said Tesla’s recent profits can be attributed to its sales of tax credits, rather than earnings from car sales, said he won’t end his short positions despite recent deep losses. People close to the matter said his bearish Tesla position amounts to about 2% of his firm’s portfolio.

Other funds burned by Tesla’s rally include Lakewood Capital Management and David Einhorn’s Greenlight Capital, The Wall Street Journal has reported.

Steve Eisman, an investor who was among those who correctly bet against subprime mortgages more than a decade ago, recently told Bloomberg Television that he closed his bearish bet against Tesla. Mr. Eisman declined to be interviewed through a Neuberger Berman spokesman .

Tesla fans believe time is on the company’s side and will bear out Mr. Musk’s vision of bringing electric vehicles to the masses. They have faith profits eventually will flow to the auto company, and tout its plans to create a fleet of robot taxis and sleek in-car tech features.

“Tesla is really a technology company that will have a profound effect on the price of oil and gas...reducing the use of carbon emissions, which is why China has been so accommodating” in providing support for a Shanghai factory built last year, said Douglas Eisenberg, 59, an attorney in West Orange, N.J. He owns a few hundred shares of the stock in his retirement account, though he has also sold call option contracts that raise cash but limit the value of the investment. “Tesla will one day be the largest company in the world,” he said.

In early January, Tesla became the most valuable auto company in U.S. history, passing the peak valuation of Ford Motor Co. in 1999. Tesla’s market value now surpasses that of Ford,

General Motors Co. and Fiat Chrysler Automobiles NV combined.

The big swings in the firm's shares have presented ample opportunity to nimble traders. Bullish options tied to Tesla stock hitting \$1,000 would have cost a trader about \$6 on Jan. 30, according to data from Trade Alert. Last week, they could be bought or sold for more than 300 times that.

That has led to other unusual trading dynamics. Options activity can further boost the stock as traders buy shares in order to hedge their derivatives positions.

The volatility has been a boon to retail investors like Khoa Anh Nguyen, a Montreal-based pharmacist, who has profited from Tesla's surging stock price. He says he has been scooping up bullish options contracts tied to the stock's advance over the past month, accumulating more than \$100,000 in profits.

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Do you think Tesla's stock price will continue its climb this year? Join the discussion below.

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considering buying more contracts, pegged to the shares jumping even higher. "I believe in Tesla," Mr. Nguyen said.

Amy Wu Silverman, a managing director at RBC Capital Markets who recommends derivatives trades to clients, said she has been fielding calls from clients trying to predict how high the stock might go. "There's obviously a cult identity around" the company, Ms. Wu Silverman said. "That is all anyone wants to talk about."

She has personally bought bearish put options on the stock, contracts that have sunk in value as the stock has continued its climb. "Tesla is my widowmaker," she said.

Some investors believe the market will inevitably move on from the Tesla story, as developments in business and economics potentially lessen the firm's import. John Goetz, president and co-chief investment officer of Pzena Investment Management, said one reason his firm has built a big stake in Volkswagen AG is a belief that the German auto maker, not Tesla, will become the dominant player in electric vehicles.

"VW is introducing more models over the next three years than Tesla ever will have," he said.

Each day this year, as Mr. Goetz has watched the moves of the two stocks, he has become more astonished. Volkswagen shares have slipped about 6% so far in 2020.

Mr. Goetz has become concerned Tesla might use its richly priced shares to make an acquisition or expand its business in other ways, creating more competition for Volkswagen. Still, Mr. Goetz remains confident Tesla will stumble and Volkswagen will succeed, at some point.



Elon Musk unveiled Tesla's Cybertruck in November.

PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Dan Ives, an analyst covering the stock at Wedbush Securities, raised his price target on Tesla to \$710 after the company's latest quarterly results, a 92% jump from his prior target in early January. He thinks the shares could hit \$1,000.

Other analysts tracking the stock have raised targets even more—at least one sees the shares hitting \$7,000. The ever-higher projections have helped lift the stock price and ignite demand

among investors who simply buy stocks because they are rapidly rising.

“There's a fear of missing out on Tesla,” said Mr. Ives. “They don't want to come to the party at 2 a.m.”

—*Elisa Cho and Jim Oberman contributed to this article.*

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