

Detroit Free Press

CEO's celebrity could harm investors

Cover – Business Section

By Susan Tompor (excerpt)

September 2, 2018

It is one thing to pick up a pair of basketball shoes based on a popular player's endorsement.

It's another to load up on a stock because you're wowed by a superstar CEO.

Overpriced shoes won't undo your retirement savings, but overconfidence in a charismatic leader might set a match to your next egg. ...

... It's something to think about as we watch the Tesla Motors drama unfold. Tesla investors, of course, rode on every word and tweet of founder and CEO Elon Musk. Many viewed him as the real-life version of Tony Stark, aka Iron Man.

Now, though, many question why Musk has so much unquestioned power.

One infamous tweet nearly three weeks ago put Musk on the hot seat. "Am considering taking Tesla private at \$420. Funding secured," Musk first tweeted on Aug. 7.

Some saw a fall coming

David Kudla, the CEO of Mainstay Capital Management in Grand Blanc, said he began betting that Tesla stock would tumble about a year ago on the expectation that Model 3 production problems would hurt the stock price.

And the stock did fall, several times, said Kudla, who continues to short Tesla.

"I have been playing the volatility," Kudla said. "The only way I've played Tesla stock is to short it." Expecting a drop in the stock's price, an investor can borrow shares from a broker and sell it at the current price. If the stock goes down, the investor could buy

the shares back at the lower price, return the shares to the broker and net a profit.

But if the price goes up, you'd lose money. Kudla said he sees some irrational behavior toward the hero worship surrounding Musk.

"People who love Tesla love the idea of what he stands for," Kudla said.

But in that case, it's better to buy the product than the stock, given the company's production issues and lack of profitability, he said.

"They think everybody else doesn't get it — and they get it. I would submit they don't get it," Kudla said.

He noted that the stock market was skeptical of the going-private story, as the stock never reached close to \$420.

Kudla has taken issue with "Elon Musk's arrogance and dismissive attitude."

"With the competition that is coming in the market for electric vehicles, Tesla at best becomes a boutique car company, not a category killer," Kudla wrote in May in an opinion piece for MarketWatch.com.

"With its internal problems and its cash-burn rate, the worst-case scenario is that Tesla ends up bankrupt," he said then.

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