Thackray Newsletter

— Know Your Buy & Sells a Month in Advance —

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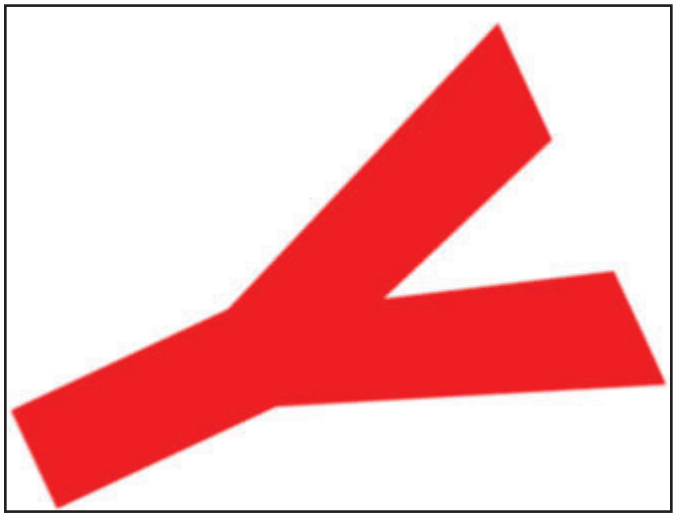
Market Update

"Leaning Y" Recovery



Every so often one word, or term, drives the narrative and dominates the financial media. In 2009, the US Federal Reserve Chairperson Ben Bernanke used the term "green shoots" to describe the early positive signs of an improving economy. The term caught on like wild-fire and was repeated ad nauseam in the media.

The Covid-19 crash and subsequent recovery in the stock market has been the genesis of the term "V-shaped recovery." Investors and the media have constantly debated if it was possible for the stock market or the economy, or both to have a "V-shaped rally." Other letters such as "U" or "W" have also been enlisted to describe possible future economic or stock market action. Some have gone as far as symbolizing the economic recovery in the shape of a square root sign, or a reverse square root sign.

To add a novel twist, I am postulating that the re-opening of the economy is forming the shape of a "Leaning Y."

After massive injections of liquidity into the markets by the Federal Reserve in March, the stock market managed to stop its free-fall and rally. Expectations of a rebound-

S&P 500 Technical Status

In the last month (from June 10) the S&P 500 has moved down and up, but is essentially at the same level. The June 8 high in 3232 remains the resistance level and 3000 is the support level.

Two canaries, the semi-conductor sector and junk bonds versus corporate bonds have not broken down at this time and have not sent any red flags at this time, but this could change very fast. The semi-conductor sector continues to outperform the S&P 500 as investors are attracted to the torque part of the market. Bond investors are negative on the economy as the spread between junk and corporate bonds continue to expand and junk bonds underperform, but the overall consolidation box pattern has not broken down.

The key technical indicator to watch for market weakness at this time is probably a break below 3000 for the S&P 500. If junk bonds break their consolidation box relative to corporate bonds, or semi-conductors break their uptrend relative to the S&P 500, it will probably confirm a market breakdown.

Horizons Seasonal Rotation ETF (HAC : TSX)
Portfolio Exposure as of **June 30,** 2020

Symbol	Holdings	% of NAV
	Canadian Dollar Exposed Assets	
	Bonds	
HBB	Horizons CDN Select Universe Bond ETF	5.4%
HFR	Horizons Active Ultra-Short Term Investment Grade Bond ETF	4.0%
	Commodities	
HUG	Horizons Gold ETF	2.5%
	United States Dollar Exposed Assets	
	Bonds	
HTB	Horizons US 7-10 Year Treasury Bond ETF	11.2%
	Equities	
HXS	Horizons S&P 500® Index ETF	20.2%
XLP	Consumer Staples Select Sector SPDR Fund	10.2%
XLV	Health Care Select Sector SPDR Fund	10.0%
IBB	iShares Nasdaq Biotechnology ETF	6.1%
	US Dollar Forwards (July 2020) - Currency Hedge **	0.0%
	Cash, Cash Equivalents, Margin & Other	30.4%
	Total (NAV $239,792,690)	100.0%

** Reflects gain / loss on currency hedge (Notional exposure equals 48.3% of current NAV)

The objective of HAC is long-term capital appreciation in all market cycles by tactically allocating its exposure amongst equities, fixed income, commodities and currencies during periods that have historically demonstrated seasonal trends. The Thackray Market Letter is for educational purposes and is meant to demonstrate the advantages of seasonal investing by describing many of the trades and strategies in HAC.

ing economy ensued and the economy started to show signs of improvement. It quickly became apparent that the stock market's performance did not match the economic growth. The Nasdaq has rallied to all-time highs and the S&P 500 has rallied to levels not too far from the start of the year.

The stock market is represented by the top branch of the "Leaning Y". After a self-imposed lock-down the economy has been re-opening and some economic numbers are showing signs of improvement. Economic improvement has been much slower than the rallying stock market performance: Hence the bottom of the "Leaning Y" represents the progress of the economic improvement.

The bifurcation between the performance of the stock market and the economy is not debatable. The rationale for the difference is twofold. First, the stock market is a forward-looking mechanism. Many pundits claim that it looks out six to nine months. As a result, a better performing stock market is a natural occurring event when the economy is bouncing off a bottom. Second, increased liquidity in the markets as the result of Federal Reserve loose monetary policy is providing funds to drive the stock market higher.

Y Gap = Economic performance improvement + economic forward-looking expectations + Federal Reserve increased liquidity effect

The above formula is a conceptual representation of the current dynamics in the market. It is not possible to quantify, especially given the massive and quickly implemented amount of Federal Reserve stimulus. The Federal Reserve balance sheet has grown from approximately $4 trillion Pre-Covid, to over $7 trillion.

The problem is that the "Leaning Y" is really an alligator waiting to bite.

An alligator can hang around on the bank of a river with its mouth remaining open for an extended period of time. Eventually, it has to close its jaws.

In context of the stock market versus the economy, the alligator can keep its jaws open longer, but at some point, either the economy must grow at a faster rate or the stock market must slow its acceleration.

If the stock market was fairly valued on February 19, 2020 and the stock market is able to trade at the same level today as it was in February, the economy should be in approximately the same state, give or take. The problem is that economy is in significantly worse shape.

The current bet in the stock market is that either the stock market was undervalued in February and deserves a higher multiple expansion (higher P/E) than previously existed, or investors are willing to assume a greater time risk than they have previously been willing to pay. The time risk is the willingness to accept poor absolute economic performance in the near future for better growth in the future. The increased liquidity in the markets by the Federal Reserve provides the fuel for investors to express their optimistic positioning.

In March, analysts were developing economic forecasts with little vision into the future. The results were pessimistic forecasts which recently have been exceeded on a fairly regular basis. Beating grossly pessimistic economic forecasts does not mean that the economy is set to continue to expand to previous levels (and beyond). There is a sense that the inertia of economic improvement will carry the economy on an ever upward trajectory.

The growth rate of the economy bouncing from the bottom in late March is not a reliable indicator of future growth. A change from close to a zero bound level is distorted because a small level of absolute change results in a large percent rate of change. The standard of error is huge. It is only after time and a movement away from proximity to a zero bound level that a rate of change in economic growth can become a meaningful indicator for

possible future growth.

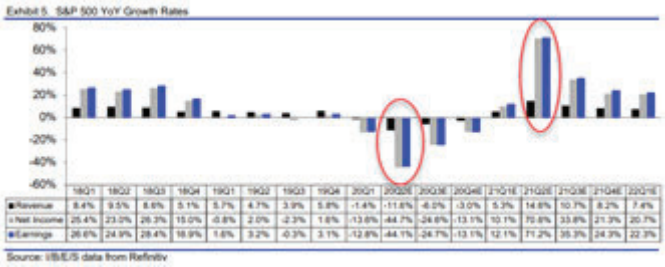
Recent economy reports have been beating expectations on a fairly consistent basis, but it would be wise not to extrapolate current trends in to the future with blind faith.

The Citigroup Economic Surprise Index is a diffusion index measuring economic report outcomes versus their expectations. Clearly, the economy has been performing better than expected. Nevertheless, the past trend does not ensure the same of the future. Setting expectations is a dynamic process as they are constantly reset. It is possible that the Citigroup index could turn lower in the near future.

Earnings expectations – maybe too optimistic?

Earnings season is fast approaching.

The US Financial companies kick off the Q2 earnings season on Tuesday July 14. Currently, the expectations for earnings for the S&P 500 companies is a decrease of 44% on a year over year basis.

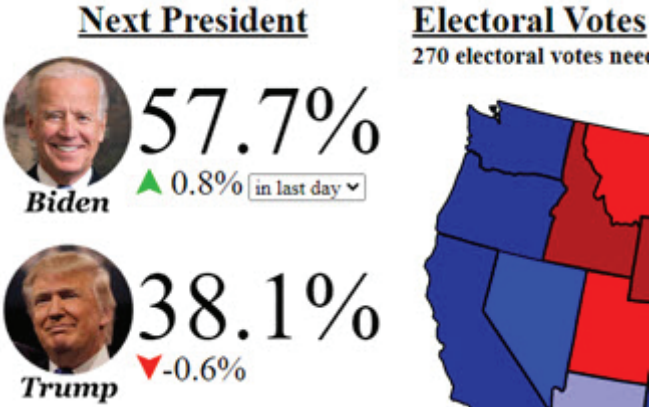


If you look at the chart provided by Refinitiv, you can see that Q2 in 2021 is the anomaly on the upside that is the adjustment on a year over basis from the current earnings season.

Oh Yeah! There is an election coming up

It seems with everything going on many people have forgotten that the US has a Presidential election coming up on November 3.

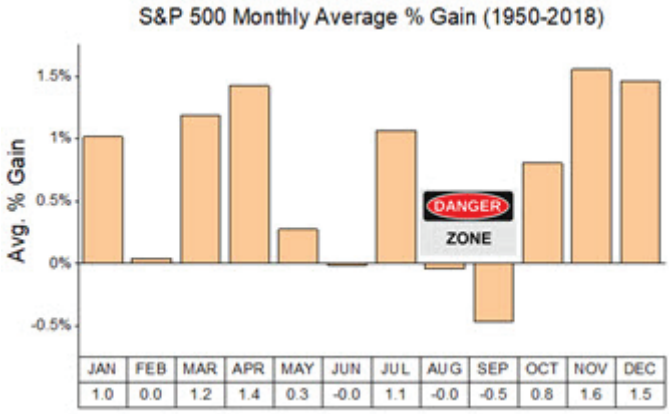
Currently, according to electionbettingodds.com, Biden is in the lead, but we all know that polls are notoriously unreliable.



In my next newsletter, I will look more closely at the election cycle and the average performance of the stock market in the election year. *Hint: the stock market tends to perform poorly in August, September and into October.*

Warning - Seasonal Danger Zone

The stock market bounced in late March and has rallied since the beginning of May. Historically, the stock market can perform well in May and June if the economy is expanding rapidly and the stock market has strong momentum. I discussed this in my first book *Time In Tim Out: Outsmart the Stock Market Using Calendar Strategies*, released in 1999.



Nevertheless, on average, August and September have been the two worst contiguous months of the year over the long-term. Something to think about. I will write about this seasonal phenomenon in my next newsletter.

What the HAC?

At the beginning of June, HAC held a mixture of sector equities, broad market exposure, fixed income and cash. In early June, HAC exited its broad market positions as part of the transition process into the six-month unfavorable period for the stock market. In the final days of June, HAC entered into a position in broad market equities in order to attempt to take advantage of the seasonal trend of equities performing well at the end of June into mid-July ahead of the earnings season.

Seasonal Opportunities

Health Care

The health care sector has a strong seasonal period from May 1 to August 2. After a very brief weak period at the beginning of August, the health care sector tends to perform well into October.

The health care sector has a strong seasonal period in the summer months largely because of its defensive nature. The health care sector outperformed the S&P 500 starting in late February. Since April, it has been consolidating on an absolute basis and has underperformed the S&P 500. Just recently, it has started to show signs of improving relative performance.

Although the health care sector could perform well over the next two months, it is possible that the sector could become a political football as the election gets closer. So far, the sector has received somewhat of a "pass," as the health care sector has been part of the front line in the fight against Covid-19. It is hard to pick on a sector politically when it has been providing so much support in a tough time. Nevertheless, this could change as the election approaches.

> My Call: The health care sector will probably moderately outperform the S&P 500 over the next month before potentially turning lower if it becomes a political football (TBD).

Biotech

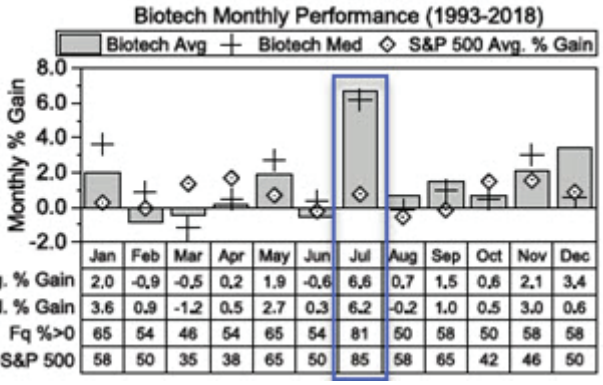
The biotech sector has a strong seasonal period from June 23 to September 13

The biotech sector has benefitted from being on the forefront of developing anti-viral drugs to combat Covid-19 and potentially a vaccine. The biotech sector strongly outperformed the S&P 500 from late January into May. In mid-May the sector turned lower relative to the S&P 500. In early June, the sector once again turned higher relative to the S&P 500.

Currently, the technical picture for the biotech sector is mixed. However, on a seasonal basis, July tends to be the strongest month of the year for the biotech sector, which helps to support the possibility of a higher move. Nevertheless, if the sector does falter, consideration should be given to exiting the sector. In addition, there is a possibility that the sector will become a political football as the US Presidential election approaches.

I have included a graph of the biotech sector on a monthly basis from my Thackray's 2020 Investor's Guide. It shows that on average, the best month of the year for the biotech sector is July. The relative performance of the biotech sector in the month of July will probably be a good senti-

ment indicator for the sector. If it does underperform the S&P 500, it could be an indicator of waning performance. Nevertheless, seasonality is on the side of the biotech sector performing well in July.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Avg. % Gain	2.0	-0.9	-0.5	0.2	1.9	-0.6	6.6	0.7	1.5	0.6	2.1	3.4
Med. % Gain	3.6	0.9	-1.2	0.5	2.7	0.3	6.2	-0.2	1.0	0.5	3.0	0.6
Fq %>0	65	54	46	54	65	54	81	50	58	50	58	58
Fq %>S&P 500	58	50	35	38	65	50	85	58	65	42	46	50

My Call: The biotech sector will probably outperform the S&P 500 in July and into August.

Consumer Staples

The consumer staples sector has a strong seasonal period from April 23rd to October 27th

The consumer staples sector outperformed the S&P 500 starting in late February and into late March. As investors shifted to a risk-on mode and the S&P 500 rallied, the consumer staples sector underperformed the S&P 500.

The good news is that the consumer staples sector has returned back to its relative performance line that was established in 2019. Given that the consumer staples sector is in a seasonal period of strength compared to the S&P 500, the consumer staples sector is in a relatively attractive position.

My Call: The consumer staples sector will probably moderately outperform the S&P 500 up until late October.

Gold

Gold has a strong seasonal period from July 12 to October 9

Recently, gold has been performing well and has reached above $1800. The last time that it was at this level was in 2012. There is a lot of talk in the media about gold as central banks print buckets of money and governments flood the system with transfer payments. Investors are starting to loss confidence in the central bank system over the long-term. Who can blame them? The result is that the gold bullion trade has become a crowded trade.

There are a lot of positives for the gold trade at this time, including positive seasonality. The one major variable that may hinder higher prices in the short-term is deflation. If consumers start to contract their spending due to doubts of a persistent economic expansion, it is possible that we could see disinflation or even deflation. Although it is possible for gold to trade higher in this type of environment in the short-term, gold's price action could be muted.

On a technical basis, gold has broken higher out of its consolidation box that it established in April and lasted until June which is a good technical development.

Gold has been forming a stair-stepping pattern, consolidating at the beginning of April, breaking higher, consolidating in the second half of 2019, breaking higher, and consolidating once again in 2020. It is possible, that gold could once again enter its consolidation box, but given

that gold just entered its seasonally strong period, generally there is an increased probability of success.

My Call: Gold will probably perform well until late September.

Gold Miners

Gold miners have a strong seasonal period from July 27 to September 25

Gold miners have been performing well recently, just ahead of their strong seasonal period. At this time, on a full stochastic oscillator basis the sector is overbought. It is possible that we could see a pullback in the short-term, but the recent positive breakout is a positive development.

Gold or Gold Miners?

Gold or gold miners? It depends on the stock market. If gold is moving higher and the stock market is ripping higher, then gold miners are typically the preferred choice.

Gold miners get the most attention from investors, for the simple reason is that they are stocks. Despite their familiarity with stocks, investors should understand the different drivers affecting both gold bullion and gold miners. This is particularly important at this time of the year.

Gold miners are generally a leveraged play on gold bullion, with the overall stock market strength an important influencer. The following diagram illustrates, in very general or approximate terms, the relationship between the stock market direction, gold bullion direction and gold miners. The bottom line is that consideration should be given gold bullion as a base and it is believed that the stock market is going to perform positively, then layering on gold stocks can be considered.

It should be noted that gold miners can correct at the same time that gold is fairly stable. A lot of money that is invested in gold miners is speculative money. If the stock market corrects sharply, gold miners can correct sharply as investors get margin calls. Something to be noted. Also, if gold corrects and the stock markets correct sharply, then gold miners can "take it on the chin."

Below is a conceptual table which shows the interactive tendencies between gold bullion, gold miners and the stock market. The relationships are not absolute and often depend on the magnitude of the factors and other variables that are influencing the price of gold and the stock market at the time.

	S&P 500 Strong Rally	S&P 500 Weak Rally	S&P 500 Weak Correction	S&P 500 Strong Correction
Gold Rally				
Gold Miners	↑↑↑	↑↑	↑	↓
Gold Correction				
Gold Miners	↑	↓	↓↓	↓↓↓

↑↑↑Strong Rally ↑↑Moderate Rally ↑Weak Rally

↓↓↓Strong Correction ↓↓Moderate Correction ↓Weak Correction

My Call: Gold miners will probably be positive into September, but be more volatile than gold bullion.

Utilities

The utilities sector has a seasonal period that lasts until October 3

Currently, the utilities sector is underperforming the S&P 500 as investors have been on a risk-on mode. Interest rates have been fairly steady over the last few months, but the utilities sector has still lagged.

It is possible for the utilities sector to perform well if the S&P 500 flat-lines and interest rates remain stable.

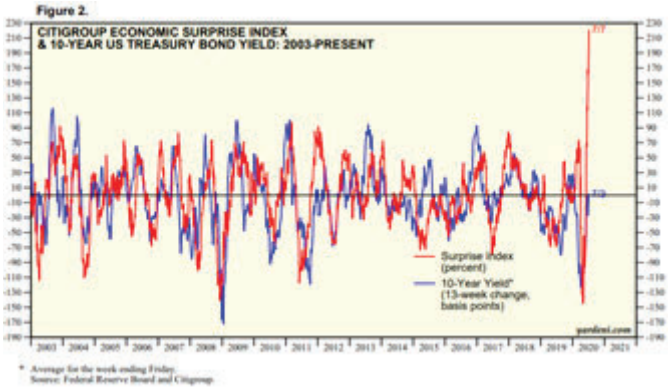
Technically, the sector is in a consolidation pattern, waiting to establish a new trend.

My Call: The utilities sector will probably outperform the S&P 500 over the next few months, with its best performance in September.

US Government Bonds

US government bonds have a strong seasonal period from May 5 to October 3

The stock market has been rallying as the economy has been re-opening faster than expected....but the bond market has not being buying what the stock market is selling. Below is a graph comparing the Citigroup Economic Surprise Index (shown early in this newsletter), to the 13-week change in the 10 year yield on US Treasury Notes. Economic results have surprised to the upside, but the yield on the 10-year note has not followed suit.



If the economy was expected to expand on an on-going basis, the tendency would be for bond yields to increase. So far, bond yields have remained fairly flat. Bond investors are concerned about future growth. Of course, the Federal Reserve has been suppressing rate yields, but that does not tell the whole story.

The Federal Reserve has been buying bonds directly and indirectly in both the high yield and corporate bond markets. Despite the Federal Reserve's intervention, junk bonds are underperforming corporate bonds. In other words, bond investors do not truly believe that the economy is on the mend.

On a seasonal basis, government bonds tend to perform well from May 6 to October 3. The sweet spot of the trade is August and September. There is still some time left in the trade.

On a technical basis, US government bonds have been consolidating since March as shown with the IEF ETF. If

the US government bond market manges to break out of the top side of its consolidation box, this would be positive, and could indicate a sustained increase over the next two months.

My Call: US government bonds will probably perform well into late September.

US Financials

The US financial sector is not in its seasonal period at the current time, but it is an important sector to follow at this time. The US financial sector kicks off the second quarter earnings season on Tuesday July 14. The stock market's reaction to the release the earnings could either reinforce the euphoric sentiment in the market or reverse course and head lower.

Currently, the financial sector is underperforming the S&P 500. Lower interest rates have reduced the net interest margins and reduced the profitability for the banks. Also, investors are concerned that the banks are going to have to increase their loan loss provisions in the expectation of increased bankruptcies due to the Covid-19 pandemic.

It is possible for banks to release strong earnings and help support the market. This does not mean that the stock market will necessarily perform well over the next few months, as recently the stock market has been performing well as the banks have performed relatively poorly. On the other hand, weak performance from the banks could be indicative of weaker economic performance ahead.... something to monitor.

Short Sell Opportunities

Small Caps

The small sector tends to underperform the S&P 500 in the month of July. Typically, investors favor large caps as the second quarter earnings season gets underway.

The small cap sector has been underperforming the large cap sector on a multi-year basis. From the March bottom in the stock market the small cap sector outperformed the large cap sector until June. The outperformance has largely been built on the expectation that the economy has been reopening faster than expected.

Recently, the small cap sector has started to underperform the S&P 500 and continued its downward trend relative to the S&P 500. If the relative performance of the small cap sector is weak compared to the S&P 500, this could be an indication that the current stock market rally his starting to fade.

Currencies

USDCAD

The US dollar appreciated relative to the Canadian dollar and world currencies when the Covid-19 pandemic took hold in late February, into late March. Since that time period, the US dollar has lost ground to both the Canadian dollar and world currencies. In other words, a large driver for the US dollar has been the risk-on / risk-off modes of the investors. In the graph below, the dotted red line represents the bottom of the S&P 500 on March 23. This point demarcates the relative shift in the strength of the

US dollar.

It is interesting to note that after its initial fall relative to the world currencies and the Canadian dollar, the US dollar went in to a consolidation pattern, while the S&P 500 increased in value until late May. At that point, the US dollar continued to decrease relative to the world currencies and the Canadian dollar. Currently, the US dollar is once again in a consolidation pattern compared to world currencies and the Canadian dollar.

The US dollar short sell position has become a very crowded trade as expectations have increased that the US dollar will decrease in value. A lot of the expectations of a weaker dollar have been built on the increased liquidity by the Federal Reserve.

The problem is that it is difficult to access which country is doing more damage to their currency with money printing and government indebtedness. Different monetary programs by different countries and the EU are all going to have an impact on the relative value of currencies in the short-term and long-term.

Despite monetary policies having an influence on the relative value of currencies, the risk-off / risk-on cycle in the equity markets should not be underestimated. If the stock market were to correct, investors could once again shift to a risk-off mode, which would be supportive of a stronger dollar compared to the Canadian dollar, especially since the US dollar tends to be stronger over the next month.

My Call: The US dollar will moderately outperform the Canadian dollar over the next month.

Brooke's Rant - Parabolic Curves Abound

Zombie Leader - Powell

Disclaimer: Powell is not actually a zombie.

The Federal Reserve is breeding zombies!

Over the last decade zombie movies have risen in popularity. Zombies companies are companies that are unable to make a profit or pay down debt. They are only able to service their current debt or need handouts to survive.

As a normal part of the business cycle, the best solution is for zombie companies to die (go bankrupt), so capital can be placed in better hands producing stronger growth, better profits and a greater contribution to society.

Over the last eleven years, the Federal Reserve has been creating a breeding ground for zombie companies by keeping interest rates at artificially low levels. Recently, the Federal Reserve has gone one step further and has supported zombie companies through the process of buying junk bonds (the junk bond sector is a sanctuary for zombie companies).

The Federal Reserve has stated that they are going to buy junk bond (high yield) ETFs and individual companies that were classified as corporate grade before March 22, 2020. Their stated reason for their actions is to provide

liquidity to the bond markets.

As I have stated in the past, the Federal Reserve is breaking the law buying non-government securitized debt. It is against Federal Reserve regulations for a good reason. The Federal Reserve has essentially created a shell company in which to buy the non-government debt. At some point, they may be held accountable.

Although buying zombie debt in the open market does not directly contribute to the company coffers, it does lower the rate of interest for the zombie asset class, making financing easier and perpetually supporting the zombie asset class.

In these tough Covid-19 times, I get why some exceptions must be made, but breeding zombies over the long-term is a huge mistake as it takes away from productivity and growth. My fear is that the Federal Reserve will trap themselves into a position of supporting zombie companies far into the future past the Covid-19 pandemic.

Remember when Bernanke said in 2009 that the Federal Reserve could back out of its quantitative easing positions in fifteen minutes.... LOL. We now know that this was either a lie or ignorance. Is Powell following in Bernanke's footsteps?

It is not just junk debt that the Federal Reserve is buying, they are also buying corporate debt through ETFs. Just a couple of fun facts:

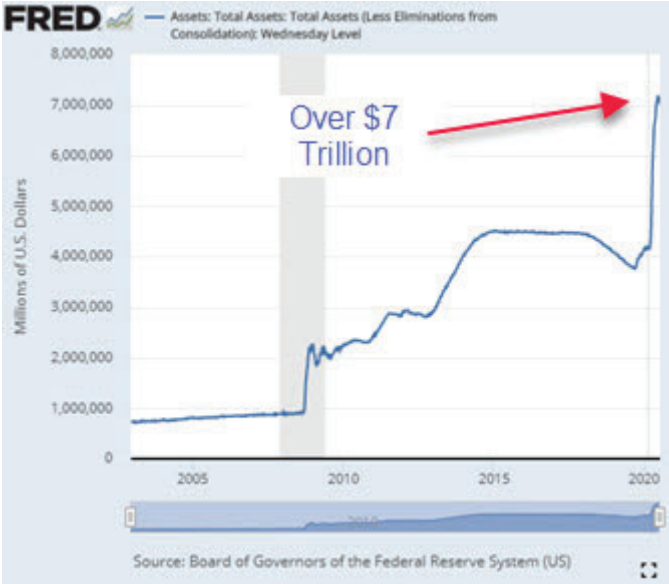
♦ *the Federal Reserve is the largest owner of SPDR Bloomberg Barclays High Yield Bond ETF (JNK). As the ticker indicates, these are junk bonds*

♦ *the Federal Reserve owns debt belonging to non-American companies in its ETF holdings*

♦ *the Federal Reserve indirectly owns bonds in Berkshire Hathaway, Apple, Walt Disney and Microsoft. Really, tell me why!*

The Federal Reserve has expanded its balance sheet to over $7 trillion in very quick order.

What is next for the Federal Reserve? Despite Powell encouraging the government to step in with greater fiscal expenditures, it is reasonable to expect the Federal Reserve to continue down its path of no return. Look for the Federal Reserve to start talking more about yield curve control in order to suppress interest rates. If things manage to get really bad, look for the Federal Reserve to follow in Japan's footsteps and buy equities.



As the Federal Reserve has said numerous times: "they have more tools in the tool box." I might add, if they do not have the tools, they will make them.

Rant II - Evil Villain Battles Zombie Leader

Disclaimer: The "Evil Villain" moniker is meant as sarcasm. Please.

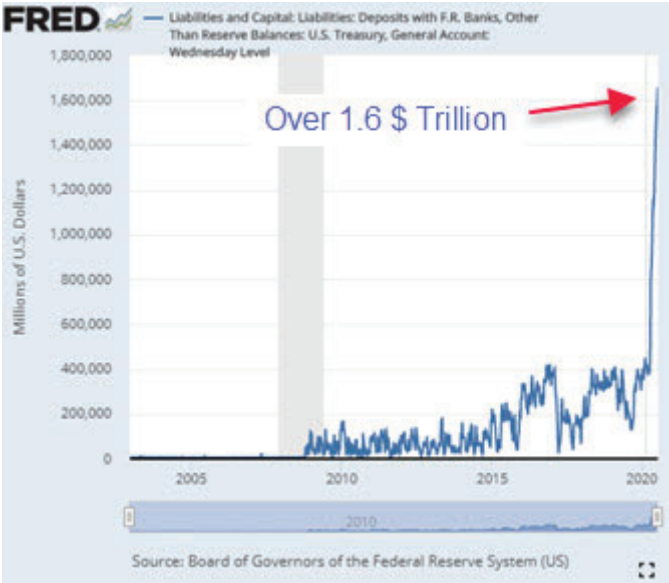
Steven Mnuchin United States Secretary of the Treasury has been working at odds to Federal Reserve in recent times. There have been some weird things going on at the Treasury and speculation is starting to rise how the mastermind Mnuchin plans to use the Treasury account. The Treasury maintains an account at the Federal Reserve, which is administered by the Federal Reserve, called the Treasury General Account (TGA).

Recently, the Treasury has been selling bonds and notes into the market, creating government debt to fund government spending. This is normal.

What is not normal is the amount of debt that the Treasury is selling. It is unprecedented. The Treasury has raised over 1.6 trillion dollars (see the spike in the graph below). This has dampened the effectiveness of the Federal QE programs. The Treasury sells bonds into the open market and as a result removes liquidity from the market. It then places the funds raised in the TGA.

The Federal Reserve, to provide liquidity into the markets through quantitative easing, buys the bonds in the open market. Recently, the Treasury has been selling bonds at the same time the Federal Reserve is buying bonds. What really counts as stimulus is the net difference between the Treasury issuances and the Federal Reserve buys. The Federal Reserve bond purchases have been bigger than the Treasury issuances, adding liquidity into the markets. In a way, Mnuchin has been forcing Powell to increase QE in order to provide net liquidity to the markets.

The Treasury is also partly responsible for the recent repo crisis as it was sucking liquidity out of the market at the time.



So, what is the Treasury going to do with all of that money in its account? There is an election coming up and it is possible that the Treasury might use it to help support Trump's re-election prospects. Who knows when this could occur? The implications would be downward pressure on the US dollar and supportive of gold prices. We will have to wait and see what the "Evil Villain" has up his sleeve.

Rant III - Tesla - Its a car....its a rocket....no its a pandemic car

Recently, Tesla has produced better than expected results in car deliveries. It has only recently started to make a profit. Nevertheless, its stock price has been exploding higher as other car companies have suffered during the Covid-19 pandemic.

Evidently, Tesla's cars are more appealing in the times of a pandemic. Maybe its the hands free feature that makes it more appealing in Covid times (sarcasm)?

Sure, in times of euphoria when consumers are flush with cash and time, they may be willing to spend a premium for an electric car. If somehow we meander into a time of slower economic growth and an uncertain future, the willingness to spend a premium will evaporate quickly. In a way, Tesla is a long bet on the continued re-opening of the economy progressing at a faster clip than previously expected.

The graph below illustrates the recent surge in Tesla's share price. For full disclosure, I have a confession to make, the y-axis is liner and not log. I could not help myself, as it really shows up the parabolic move in price. Wow. This is insane.

I am not going to go into the fundamentals of Tesla or compare its valuation to Toyota, Ford or GM, or how many cars Tesla has sold or might sell in the future. I will say that the Tesla electric car... is a car (to state the obvious). It is a commodity in a competitive environment with very little competitive advantage. Companies selling a commodity products typically don't have parabolic price patterns. Even Musk thinks that the price of Tesla is too expensive. Not too long ago Musk declared that the price of Tesla was too expensive in his opinion....Tesla has since doubled in price!

Although I am calling the Tesla car a commodity as there will be a lot of electric cars flooding the market in the next year or two, I will say that if Musk is able to develop L5 autonomous capabilities in the near future this could be a game changer. L5 is the pinnacle of autonomous driving, with full autonomous driving capabilities in any weather conditions. Recently, Musk said that Tesla "will have

the basic functionality of L5 driving later this year. Of course, Musk has made many claims in the past that have not come to fruition.

Never short a cult stock!

A portion of the rally in the price of Tesla has been fueled by short sellers having to cover their positions as the stock price has moved higher.

Image originally sourced from Tesla.com, but edited to remove the body from picture. I don't have the same sense of humor as Musk.

Shorting Tesla is hard because the float is small and the cost of carry is expensive. You can be right in the long-term, but get your head handed to you in the short-term as speculation pushes the stock up to levels not thought possible. In a short sell position, theoretically losses are unlimited. If the price of a stock rises quickly against a short sell position, short sellers can be forced to buy the stock in order to cover their position before the losses get out of hand.

There is a group of Tesla short sellers that are very public in their opinion and constantly push against Elon Musk. Of course, Musk pushes back. After the recent parabolic move in Tesla's price, the short sellers have lost the "shirts off their backs." Musk couldn't resist the opportunity to antagonize the short sellers and launched the sale of Tesla Short Shorts on the Tesla website. The price of the silk short shorts was listed at $69.42. At least Musk has a sense of humor. I tried to go long (purchase) the Tesla short shorts (for nostalgic reasons). Alas, they were sold out.

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