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# Why Tesla's Success On The Stock Market Is Also A Warning Sign

By **David Sadler** Last Updated **Oct 27, 2021** GERMANY

**Tesla's success story on the stock market seems to know no bounds. The share has already risen to over $ 1,000 – and the electric car maker is now worth $ 1 trillion. But there are risks involved.**

By Angela Göpfert, tagesschau.de

Jack of all trades, eccentric, visionary – Elon Musk has won many titles. Now another has been added: richest person who has ever walked on this planet. Thanks to the rapid rise in the price of Tesla shares, Musk was once again able to oust his eternal competitor Jeff Bezos from first place in the billionaire ranking of "Forbes". The financial magazine estimates Musk's net worth at a staggering $ 271.3 billion – higher than any other billionaire fortune before him.

Of that, $ 41 billion was added in the past three days. The background is the rapid price rally of the Tesla share: A mega-order from the US car rental company Hertz had pushed the paper to a peak of 1094 dollars.

## More valuable than all German manufacturers put together

The week before, Musk had already honed his jack-of-all-trades image with impressive quarterly figures. Accordingly, Tesla delivered 72 percent more vehicles in the third quarter than in the previous year and earned 1.6 billion dollars as much as never before in a quarter. While other auto companies are groaning under global delivery bottlenecks, Tesla is seemingly gliding effortlessly through these difficult times.

But all of this is hardly enough to justify the discrepancy in market value between Tesla and the German automakers, for example: While Tesla is now a member of the elite “One Billion Dollar Club”, that is, it has a market value of over one trillion dollars, bring the German car companies Daimler, BMW and VW combined do not even weigh a third of that.

## Psychological effects drive the stock

Mojmir Hlinka from the Swiss asset manager AGFIF International sees the steep rise in Tesla’s share price more psychologically justified. “Behind this lies the so-called availability bias, that is, availability misconduct. There is a green jolt going through the world, investors are reading about green topics everywhere, and everyone is talking about Tesla,” Hlinka said *tagesschau.de*.

This so-called “availability bias” is one of the distortions that the later Nobel Prize winner Daniel Kahneman and his colleague Amos Tversky already described in the early 1970s. Applied to the stock market, it means that investors are more inclined to invest in shares of companies if they have a strong media presence.

## Will Tesla be the next Apple?

Tesla has already been compared to Apple shares by many industry experts. Hlinka also sees parallels here: “The Tesla share has become an identification share. The Tesla shareholders form a real community. Studies have shown that the majority of Tesla drivers are themselves invested in Tesla.”

Such a strong identification with a share naturally also harbors risks; in particular, information about the company is then often only perceived very selectively. Negative messages that do not fit into the picture are ignored.

## High rating, big drop

One of these negative arguments is the high price of Tesla shares. “The Tesla share is far too expensive by conventional standards, and the height of the fall is correspondingly large,” said Hlinka. “Especially since the competition never sleeps and strong rivals are growing up especially in the Asian region with manufacturers like BYD.”

The investment expert also refers to the example of the so-called FAANG shares (Facebook, Amazon, Apple, Netflix and Google): “Here too, the valuations were exorbitantly high. But in retrospect they have proven to be absolutely justified.”

## Strong weight in the index

As positive as the latest Tesla share price rally may be for Elon Musk and private investors who have already invested, it is also a warning signal for the market as a whole. In the meantime, the weight of just five companies in the broad S&P 500 share index – Apple, Microsoft, Google parent Alphabet, Amazon and Tesla –

is a proud 23 percent.

For comparison: In January 2020, the five most valuable corporations at the time – Facebook, Apple, Amazon, Microsoft and Google – accounted for 19 percent of the S&P 500 value. A handful of companies are thus increasingly dominating the leading US index and thus also the direction of the global financial markets.

## Risk from rising interest rates

That may not be a great risk in times of “bull market” when the stock market only knows the direction up. In retrospect, the strong price gains of the large tech companies have also helped the US indices, in which they are heavily weighted, to achieve an outstanding balance in recent years.

The situation could be completely different in times of rising interest rates. According to experts, they are poison for the technology industry. Rapidly growing companies usually have a high need for outside capital. Whether this argument also applies to the financially well-funded tech giants such as Apple & Co. is questionable.

## Enormous dependence on the financial markets

What remains is the great dependence of the financial markets on the fate of a few companies. Robert Rethfeld, market expert at Wellenreiter-Invest, emphasizes: “The S&P 500 is now practically dependent on whether the buying panic in Tesla continues or whether there is consolidation.” The latter seems likely. “Tesla should have marked a first high point.”

The obvious conclusion: With the rise of Tesla into the “one trillion dollar club”, the risk of strong price fluctuations in the financial markets has not exactly diminished.



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