**Diary of a Private Investor Update #2 1 April 2018**

The original intention for this update was to tell of an investment disaster - and I have had quite a few. This has been such a bad quarter for my investments however that I decided some good news was in order, to take my mind off the bad news. Therefore, I do not propose to squeal on any of the investments that contributed to the negative 5.9% overall return in the quarter to 31 March. Instead, I will focus on an investment, or more correctly a negative investment for reasons that will become clear, that contributed +0.9% to overall performance in the quarter. Without it, I would have been down 6.8% in the first three months. Not pretty.

Elon Musk, founder, chairman and chief executive of Tesla, the electric car company, has been described as a visionary genius. The Board of Tesla obviously thinks so. Just a few weeks ago, they granted him stock awards that could be worth up to $55 billion if certain targets are met over the next few years. Shareholders also agree. They have bought Tesla's shares in droves, pushing its price to more than $300 a share by the time I looked at it in January last.

The latest accounts at the time (and still the latest available) were for the quarter ended 30 September 2017. Despite all the hype surrounding Tesla, the accounts did not make pretty reading. They showed a loss in the third quarter of more than $600 million and losses for the first three quarters of 2017 of almost $1.3 billion. The corresponding losses for the first three quarters of 2016 were $554 million, so the company appeared to be getting more loss-making by the quarter.

Per the balance sheet, the losses of $1.3 billion in the first nine months had been funded by new money from shareholders eager to buy into the Tesla story, but more shareholders mean more mouths to be fed when and if the company eventually turns profitable. Long-term debt increased by more than 60% in the 12 months from September 2016 to September 2017, from $5.9 billion to $9.6 billion. The figures for long-term debt corresponded closely to the amounts invested in property, plant and equipment at both dates, so bond-holders have first dibs on tangible assets. The total value of the company, equity and debt, was around $60 billion.

I concluded there was no way Tesla could be worth $60 billion. Even if it succeeds in persuading shareholders, banks and bond holders to keep shovelling in cash during the loss-making years (and I had my doubts, in which case the company could be close to worthless), the established carmakers are not exactly sitting on their hands, waiting for Tesla to blow them away. They are investing heavily in electric car technology and driverless cars, both core areas of expertise for Tesla. Competitors also have countless years' experience of car manufacturing. Despite stories about electric cars having fewer moving parts and being easier to assemble than traditional vehicles, I didn't think Tesla could ever match that expertise and experience.

I decided therefore to short Tesla, i.e. to borrow shares from a long-term holder and sell them at the prevailing price, with the intention of buying them back later at a lower price and returning them to the long-term holder. I would obviously have to pay the long-term holder for borrowing the shares, but the borrowing cost isn't prohibitive (I reckon it's costing me around 3% per annum – the borrowing cost varies between spread bet providers). I opened the short position at $310 a share on 4 January.

My timing wasn't great. The share price kept rising through the month of January. The more it rose, the more I was losing. Within weeks, it had risen to over $355 a share, so I was losing $45 on every share I'd shorted. I had to decide whether to cut my losses or soldier on in the hope that the price would eventually fall. Spread bet companies encourage clients to put stop losses on their position, so that the position is automatically closed if losses reach a certain limit.  The argument is that this helps to reduce the risk of being wiped out if the share price moves sharply in the wrong direction.

I don't believe in stop losses.   If I thought Tesla was overvalued at $310, I thought it was even more overvalued at $355 a share.  If anything, my doubts about Tesla's long-term viability had increased as time went by and news came through of production problems and other difficulties.  Therefore, on 23 January, with the price at $355.54 a share, I did the only logical thing: I increased my short position rather than cut my losses.

Finally, the price started to fall.  On 29 January, with the price at $349.66 a share, I added even further to my short position.  The price has hardly stopped falling since.  At the time of writing, it is down to $266.33 a share, so I'm sitting on a nice profit.

Despite being tempted to take some chips off the table, I have decided to keep the position open for the next few weeks at least.  We should know before the end of April if I've made the right call, as key numbers are due out this month on sales and year-end financials.  If the results go the right way, I may finally pluck up the courage to come clean on the disasters!