

(TSLA) - BUY

Buy the Tesla (TSLA) *October* 2023 \$220-\$230 in-the-money vertical bull call debit spread at \$8.80 or best

Opening Trade

9-13-2023

Expiration date: October 20, 2023

Portfolio weighting: 10%

Number of Contracts = 12 contracts

The last bear on Tesla, my old firm Morgan Stanley, has just thrown in the towel and conceded that the stock could rise another 60% from here to \$400. The driver is artificial intelligence, which could add another \$600 billion in market capitalization to the company in the coming years.

Why did it take so long?

With a fleet of 5 million AI-driven EVs, Tesla has been far and away the largest user of AI for the past decade. The reality is that Tesla should not be valued as a lowly car company but as a superheated AI company, which should take its price-earnings multiple and share price to the moon.

Therefore, I am buying the Tesla (TSLA) October 2023 \$220-\$230 in-the-money vertical bull call debit spread at \$8.80 or best

Don't pay more than \$9.40 or you'll be chasing.

DO NOT USE MARKET ORDERS UNDER ANY CIRCUMSTANCES.

Simply enter your limit order, wait five minutes, and if you don't get done cancel your order and increase your bid by 10 cents with a second order.

Since I sent out my last trade alert to buy Tesla two months ago, Tesla shares have exploded upward by a breathtaking 29% to \$271.

And the best is yet to come!

Of course, we got an assist from several fronts. The Tesla Model Y became the world's top-selling car in Q1, just edging out the Toyota Corolla. Then both Ford (F) and General Motors (GM) signed on to use Tesla's national supercharger network, giving it an effective monopoly.

When I heard that the February 28 Tesla Investors Day in Austin, TX was boring, I was highly suspicious. I thought that might be a journalist's snap judgment with a strong background in creative writing.

Engineers and scientists might have a different take, I thought. So, I listened to the entire 3 $\frac{1}{2}$ hours and copied all the important charts.

What I heard was nothing less than earth-shaking, groundbreaking, and revolutionary, and won't cost more than we would spend otherwise. All we have to do is spend more intelligently.

Elon Musk unveiled his Master Plan 3 and unleashed a cornucopia of new data that only an immense amount of research can produce. This will require all forms of transportation to be electric-powered within 20 years, except for interplanetary

rockets.

As anyone who has been through an advanced physics course can tell you, internal combustion engines are woefully inefficient, converting only 25% of their energy into forward motion, and 20% if you include materials energy costs. But then, that was the best the 19th century could do and it worked for 151 years (Nicolaus Otto built the first gasoline-powered internal combustion engine in Germany in 1872).

Electric motors in Teslas operate closer to a 50% efficiency rating, cutting energy demand by half right there.

To move the world to an all-electric economy will cost about \$10 trillion, or about 10% of world GDP. Average that out at 0.5% per year and it will take about 20 years. Adding up car and storage batteries means 24 terawatts worth of batteries will need to be manufactured. There are one trillion watts per terawatt.

By comparison, the sun produces 1 gigawatt of energy per square kilometer per day, or 509,600 terawatts. That means an all-electric economy dependent on batteries equivalent to less than 0.1% of the sun's daily output. In other words, it's miniscule.

In fact, the world is already decarbonizing far faster than people realize.

There are currently 2 billion cars and trucks in the world, 85 million a year are manufactured, and some 16 million in the US. Global EV production came to 10.6 million vehicles in 2022, an increase of 22%.

Some 60% of new electricity generation installed last year came from alternatives. That's because in terms of power output alternatives are 40% cheaper than oil, coal, or natural gas. That's being generous as it does not include the health care costs of carbon-based energy, which make several hundred thousand people per year ill in the US alone (asthma, lung cancer, etc.).

This means that a heck of a lot of lithium is going to be needed. Soft, white lithium is number three on the period table (you're talking to a chemist here), is a great oxidizer, and is anything but rare. What *IS* rare is the shortage of lithium processing, a lack of environmental controls, and cheap labor.

This is why the bulk of lithium is produced in China and South America where it literally sits on the surface. This is all easily scalable to meet future demand. In

fact, moving to an alternatives-based world uses far less mining than the existing conventional one.

The shortage is not in lithium supply but in lithium processing. The world's largest lithium consumer should know. Musk recently announced they would move into lithium processing.

Here was a big surprise for me. EVs are not going to create an exponential demand for lithium. Once you get up to a total installed base of 40 million batteries, recycling becomes the primary source of lithium as old batteries age out. They can then be reprocessed into new batteries. This eventually caps lithium demand. Future cars will use far less silicon carbide, further reducing its demand by 75%, saving \$1,000 a car.

Musk is dumping the traditional 12-volt lead acid battery all Teslas have now which accounts for 87% of all start failures. Instead, he is adding a second small lithium-ion one and redesigning the electrics to take 48 volts. This means lighter weight cables can handle more power at less cost. Musk hopes to force the entire auto industry to move to a 48-volt standard, which should have been done decades ago.

The world's 5 million Teslas now drive 123 million miles a day and represent the largest AI neural network on the planet. If a car in Florida makes a left turn, all the cars in the rest of the country learn from that experience.

Tesla now has 80,000 chargers in the US, including 40,000 superchargers, which can charge up 450 miles per hour and give you a full charge in 40 minutes. Tesla charged cars with 7 terawatts of power in 2022 and per kilowatt costs have dropped by 40%, with charge times down 30%. Tesla is well on its way to becoming the largest electric power utility in the United States.

Tesla's current manufacturing capacity is 2 million cars a year across four factories (Fremont, CA, Austin, TX, Berlin, Germany, and Shanghai, China). While it took Tesla 12 years to make its first million vehicles, the 4th million took only seven months. As of today, it is cheaper to own a Tesla than the world's biggest-selling car, the Toyota Corolla, given their total lifetime costs. Work out the cost of charging a Tesla and you are paying the equivalent of 25 cents a gallon for gasoline unless you are at my house, in which case it is free.

The Gigafactory in Sparks, NV, which mass produces lithium-ion battery packs, is

currently being doubled in size. In Texas, Tesla is buying wind power from the grid and offering Tesla owners a flat rate for charging of \$30 a month because the cost is so low.

There are great hopes for the Cybertruck, for which Tesla has 1.5 million orders, myself included. The final price for the three-motor version will be about \$100,000, the same as for a model X. The Cybertruck will have a brand new third-generation platform on which all future Tesla models will be based. It will also include a 48-volt electrical design.

Tesla's price cuts have been wildly successful, allowing it to gain market share at its competitor's expense. Tesla is really just passing on the recent collapse in commodity prices. So far in 2023, Lithium prices have fallen by 20% and copper 15%. Tesla prices will continue to fall, especially when the new \$25,000 Model 2 is brought to market in 2024. That will really decimate the competition.

Tesla has also taken the plunge into the insurance industry, charging drivers on their actual driving history, which they already collect. If you drive like a little old lady, it can run as little as \$180 a month. If you drive like Mad Max, it's more, but not as much as a conventional car insurance company.

Rates change monthly depending on your driving record. Parked in a garage gives you a perfect score of 90 and it drops from there. It's all about reducing the total cost of a Tesla car. Not such a bad deal if you let their computer do all the driving.

What will Tesla disrupt next?

All in all, it was a breathtaking presentation, which Elon delivered coolly and calmly. It is with the greatest enthusiasm that I reiterate my **\$1,000 per share price target.**

To watch the Tesla Investor Day in its entirety on YouTube please click here: <u>https://www.youtube.com/watch?v=Hl1zEzVUV7w</u>

Tesla will remain the top EV maker for the next decade easily.

This is a bet that Tesla (TSLA) will not trade below \$230 by the October 20 option expiration day in **27** trading days.

Here are the specific trades you need to execute this position:

Buy 12 October 2023 (TSLA) \$220 calls at......\$56.00 Sell short 12 October 2023 (TSLA) \$230 calls at.....<u>\$47.20</u> Net Cost:.....\$8.80

Potential Profit: \$10.00 - \$8.80 = \$1.20

(12 X 100 X \$1.20) = \$1,440, or 13.64% in 27 trading days.

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To see how to enter this trade in your online platform, please look at the order ticket below, which I pulled off of *Interactive Brokers*.

If you are uncertain on how to execute an options spread, please watch my training video on *"How to Execute a Vertical Bull Call Spread"* by clicking here at

https://www.madhedgefundtrader.com/ltt-vbcs/

The best execution can be had by placing your bid for the entire spread in the middle market and waiting for the market to come to you. The difference between the bid and the offer on these deep in-the-money spread trades can be enormous.

Don't execute the legs individually or you will end up losing much of your profit. Spread pricing can be very volatile on expiration months farther out.

Keep in mind that these are ballpark prices at best. After the alerts go out, prices can be all over the map.

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