

Aviator Update – March 2021 Lindsey Lawrance



Tesla – Electric Vehicles and Bitcoin

Some big news out of Tesla during the last month. It seems they are diversifying their business operations away from electric vehicles and electric energy solutions. They are now also engaging in financial speculation!

I'm referring to the announcement contained within a regulatory filing that Tesla has "invested" US\$1.5 billion in Bitcoin. It also plans to accept cryptocurrency as a means of payment in the future.

Tesla shareholders should be concerned about this development. They even have a right to be angry. Tesla has no business holding bitcoin. None. This is not part of prudent cash management – it's a speculative bet, pure and simple. A speculative bet on an incredibly volatile instrument. I mean, look at the price chart:



10%, 20% swings in the space of a few days is "normal". And this is only over the past 3 months!

Understand that Tesla is making this speculative bet with someone else's money. Remember dear Tesla shareholder, Tesla's cash reserves are your money – you own the business.

Prudent management of company assets is a solemn fiduciary duty imposed on the management of a company.

To use a related example, how would you feel if your employer decided to invest some of the company's bonus pool in bitcoin? Personally, I'd be furious. Don't do me a "favour" by attempting to increase the size of my bonus. Your job is simply to ensure you have the funds to pay the bonus I've earned.

Tesla's purchase has resulted in a flurry of commentators excitedly exclaiming that this is only the beginning. They expect to see numerous other companies begin to invest in bitcoin. Indeed, Tesla is not the first to do so and there will surely be others.

But I doubt corporate investment in bitcoin will really take off the way these people feel it should. Why? Because most company Directors realise such investments are nothing more than a speculative bet and thus at odds with their fiduciary duty to shareholders. Unless you're in the business of speculating on financial markets, you have no business speculating on financial markets. Most managers respect this. It's simply not worth it to them. As a Director or senior manager, there's only downside risk.

Commentators cheering for companies to invest in bitcoin simply don't get it. They are invariably bullish on bitcoin and they feel anyone not investing are somehow going to get left behind. They can't grasp that not everyone – not every entity – is out to make it big via speculation.

As far as I'm concerned, this whole story is just one more example of the extreme speculative mindset prevalent in the current market environment. Bitcoin went up on the news – "Tesla is buying bitcoin...hurray!". *Tesla* went up – "Tesla is buying bitcoin...hurray!". It also highlights that it's not just the general public susceptible to the powerful gravitational forces emitted from a speculative market environment – here we have one of the wealthiest humans on earth pulled into the frenzy.

On the topic of accepting bitcoin as a means of payment, who cares? What's the point? If we accept for a moment that bitcoin is actually a "currency" (something I have difficulty doing), *currencies are "fungible" – they are interchangeable.*

So you'll let me pay for a new Tesla in bitcoin instead of Australian dollars. Great. What if I want to pay in Euros? Japanese Yen? Norwegian Krone? How about Samoan Tala? Russian Rubles?

The point is that all these are actual currencies and have sufficiently deep markets to enable me at any moment to exchange a modest amount of AUD for them. In that sense, it's hardly a big deal announcing that you will accept payment in some other currency. It's bizarre to be agreeing to accept payment in a currency other than the official currency of that country for which you otherwise have no business interest in (e.g. require to run factory operations or a regional headquarters). Bizarre, but no big deal.

All you're doing by accepting another currency as payment is you're wearing some exchange rate risk that the rate may move before you get to exchanging what you've collected for some other currency you actually need or want. I hope Tesla shareholders understand that also?

I get the argument that a major business agreeing to accept bitcoin adds to its legitimacy as a "currency". I just don't think it's all that meaningful. It's not like you're setting prices in that currency. All you're doing is agreeing to accept the bitcoin equivalent of the prevailing price in real currency (e.g. USD, AUD).

There's an idea for you Tesla: If you really want to try and bring some legitimacy to bitcoin, set your price in bitcoin. Go on. Set the price of a new Model 3 as 1 bitcoin. Insist that all payments are made in bitcoin, thus compelling all customers to acquire bitcoins before they can buy.

Here's another idea for you Elon. If you want to invest in bitcoin, how about you set up a new company expressly for that purpose. A crypto investment fund created by Elon Musk – you'd raise billions in this highly speculative environment. You could back-door list it via a "SPAC"! (Special Purpose Acquisition Company)

From another perspective, as quite a few have already observed, Bitcoin would seem to be completely at odds with Musk's rhetoric about caring for the environment. Indeed, the "mining" involved in operating Bitcoin is very environmentally-un-friendly.

The UK's Cambridge University Judge Business School tracks Bitcoin energy usage and puts recent daily consumption at an annual rate of around 121 terawatt hours. For some context, during the 2020 financial year Australia reportedly consumed 192 terawatt hours. You can run much of Australia on the same power being devoted to processing bitcoin transactions. That's just breathtaking.

You simply cannot care about the environment and be a supporter of bitcoin.

I've written about bitcoin (and crypto more generally) in the past couple of years. My thoughts really haven't changed. I just don't get what it's supposed to be or do. It has no ties to the real world. It's not backed by anything such as gold or a "real currency".

In a similar vein, I have no real opinion on where its exchange rate relative to real currencies might go. I'm being careful not to use the word "value" here because it has no "value". I fully believe it's possible some people will be willing to exchange US\$100,000 or US\$200,000 for a single bitcoin. Why not? The price is arbitrary. I also believe it's possible that you won't be able to give a bitcoin away at some point. Maybe it just falls completely out of favour – maybe a better crypto comes along – maybe one that's vastly more environmentally friendly.

Here's a riddle for you... What if some major investors manage to buy basically all the bitcoins. Sure, the price goes up but market turnover slows to a trickle and then stops. No more flickering price changes. No more price chart.

At that point, does bitcoin become infinitely valuable? Or does it become worthless? What value would you associate with something you can't buy...that really doesn't do anything anyway?

I do have one prediction to make about bitcoin. I believe it's inevitable that we will see at least one pretty big scandal unfold in coming years. Crypto is just the perfect environment for scammers and criminals.

One possible scam is also the simplest – establish an exchange or a managed crypto fund, build a client base and then just disappear. Embezzle all the crypto and currency you have in custody for clients and turn off the website. I'm of the understanding that some of the supposed advantages to crypto are un-reversible transactions, "borderless", unregulated by evil governments and largely anonymous. Almost seems too easy.

If you are going to invest in crypto, I ask you to please understand the meaning of "counterparty risk" and do your research.

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