



The \$40 Million Tweet: Why Investors Should Avoid Erratic CEOs

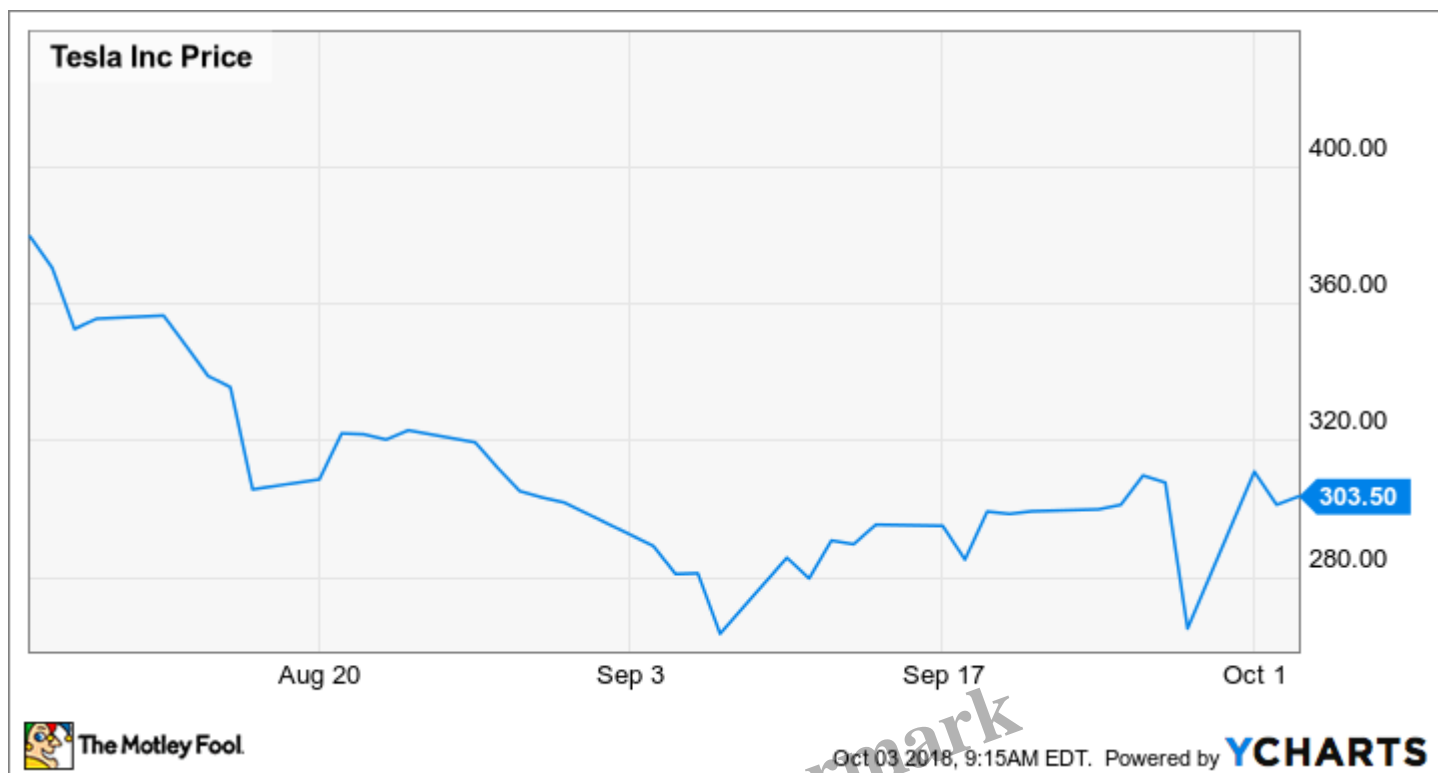
Description

A CEO's words carry a lot of weight, and even something as simple as a Twitter message can send things out of control very quickly. As useful as the medium has been for high-powered individuals to send messages to their followers, it has become very dangerous as well. Rightly or wrongly, in a sober state or not, those words can easily be used against you.

We saw an example of that a couple of months ago when **Tesla Inc** ([NASDAQ:TSLA](#)) CEO Elon Musk wrote a [reckless tweet](#) that talked about taking the company private at a price tag of \$420, which was well above the stock's value that day.

To cut a long story short, the Securities and Exchange Commission was not impressed and Musk and Tesla were left with \$20 million fines apiece. He's also out as the chairman of the company but is able to keep the title as CEO.

As for the stock price, this is what has happened since that tweet took place:



What can investors learn from this?

The one thing that jumps out at me from all this is just how dangerous it is to have a CEO that's an active Twitter user. The idea that a tweet could cost someone so dearly and lead to a fine of US\$40 million is a little hard to believe given the medium does not resemble any sort of formal statement or what you would find in a company press release.

However, that's the reality of the world we live in today, and investors need to keep that in mind.

On the TSX, it's hard to think of as volatile characters that are nearly as high-profile as Musk out there, but that doesn't mean that it's hard to find risks.

Hydro One Ltd ([TSX:H](#)) has become a bit of a soap opera with the [changes](#) that newly elected Premier Doug Ford was able to make since coming into power. He's a good example of a very vocal leader that, while not the CEO of the company, can have a very big impact on his company's share price through his words alone.

There's also the cannabis industry where the mere mention of growth or prospects for the future can send a stock soaring.

Canopy Growth Corp ([TSX:WEED](#))(NYSE:CGC) Co-CEO Bruce Linton is one of the more outspoken leaders of the industry. He's not one to shy away from the spotlight or an interview, and he's been critical of his rivals as well.

While he hasn't said anything that has negatively impacted his company, he is an example of one of the more vocal CEOs on the TSX. But to his credit, he's been calculated and careful in the statements

that he's made.

Bottom line

Investors should consider all aspects of a company, including the person at the helm. In the case of Musk, given how active he has been on Twitter, it shouldn't come as a big surprise that something he's said has had an adverse effect on himself and the company.

And while this type of situation is rare, investors should still assess a company's leadership and any risk associated with it before deciding to buy a stock.

CATEGORY

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2. NASDAQ:TSLA (Tesla Inc.)
3. TSX:H (Hydro One Limited)
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