Fork in the Road: 2 Lucrative Plays in the Electric Vehicle Market

Description

Investors watching the electric vehicle (EV) market may have noticed lately that EVs are not only penetrating the auto industry, but expanding it. Producers such as **Tesla** (NASDAQ:TSLA) are breaking out of the classic "s-curve," which traditionally describes an innovative product stealing the available market from an industry. Instead, EVs are carving out an even greater market than automakers would normally have commanded.

Tesla is breaking tradition and still beating expectations

To back this up with some figures, EV sales growth started out at an impressive 60% way back in 2013. The market then put the pedal to the metal, revving up to an outstanding 79% growth last year. Overtaking the addressable market is unusual and suggests that investors have a great opportunity to plug straight into a potentially gravity-defying industry that shunts the usual market-penetration model to the side of the road.

While Tesla has seen some fairly wild share price oscillations in its time, the fact is that the auto industry on the whole is far less volatile than the commodities space, with the exception of classically safe assets such as gold and, to a lesser extent, silver. In time, I believe new battery technology will eventually circumvent the metals bottleneck that threatens to curb the EV market as demand outstrips supply, giving investors new routes to EV exposure.

Should you invest in pedals or metals?

Which sector you go for depends largely on your financial horizon. For a short-term play for steep capital gains, the metals and mining industry appears to be the best play. But sticking with auto stocks may pay off longer term, as cheaper battery tech sees the industry shift gear *en masse* towards EVs. This would logically see Tesla lose market share, though, so investors may need to be aware of that.

The flip side would be that battery material constraint could actually keep the field clear for Tesla. The company would, after all, have direct access to the early-stage Nevada mine owned by **Lithium Americas**

(TSX:LAC)(NYSE:LAC), only 150 miles from its Gigafactory and online as soon as 2022. This price constraint could unevenly hit competitors while Tesla dominates the market, growing all the time, as EVs are increasingly injected into the mainstream.

Lithium Americas and Tesla therefore offer two very different routes to riches in the EV space. While there's a "you scratch my back, I'll scratch yours" relationship between the two entities, Lithium Americas also has other strings to its bow and can supply a market broader than the EV one, which Tesla investors have access to. From phones to laptops and beyond, the market for lithium is huge, with supply bottlenecks likely to drive prices ever higher.

The bottom line

Since the EV market could become constrained by battery costs, the more lucrative play in the short term might be to invest directly in miners. However, EV makers may end up circumventing the high-demand/low-supply bottleneck with new technologies, meaning that the long-term investor with a broader financial horizon may wish to stick it out with players such as Tesla.

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