



Elon Musk Sells 10% Stake in Tesla: What Should Investors Do Now?

Description

Elon Musk is back on **Twitter**, and this time his tweet has pulled down **Tesla** ([NASDAQ:TSLA](#)) stock by 17%. This dip has nothing to do with the company or the electric vehicle (EV) industry. So, don't go around looking at the impact on suppliers and competitors. The recent dip comes over the tax issue.

Elon Musk sells 10% stake in Tesla

According to a [CNBC article](#), Musk faces an estimated tax bill of US\$15 billion on his Tesla stock options. Generally, billionaires take a loan on their stocks to avoid paying a hefty income tax bill. Elon Musk did the same by taking a loan on US\$90 billion worth of his Tesla shares. He doesn't take salary or bonus, as that is taxable. He has US\$92 billion worth of stock options of Tesla, of which US\$23 billion of options will expire in August 2022. So, he has to redeem them anyway, or they will expire. Exercising the stock options would attract a state and federal tax bill north of 50%, which comes to around US\$15 billion, as per *CNBC's* calculation.

Elon Musk doesn't carry that amount of cash with him. As he takes no salary or bonus, the only means of accumulating cash for the tax bill is by selling stocks. Hence, Musk sold US\$6.9 billion worth of stock and he could sell more in the coming quarter to accumulate money for tax.

Another option to raise money for tax is to borrow more against Tesla shares. But the stock is a volatile asset whose price rises and falls significantly. Hence, if the stock falls substantially, the banking institution may require Musk to sell Tesla shares to satisfy his loan obligation. Even then, he will have to sell shares, as he has no other source of cash. Such a sale would again pull down Tesla's stock price.

So, either way, Musk has to sell his shares, and Tesla's stock price has to see a correction. This is what every CEO does. They redeem their stock options at timely intervals, but they don't sell a whopping 10% stake. With Elon Musk, things got to be dramatic.

What should you do?

At an appearance at the Code conference in September, Elon Musk stated that he will offload another major chunk of his shares in the fourth quarter, which means more correction. If you'd purchased Tesla stock at around \$600, you might want to hold it. But don't buy new stocks, as Musk would offload more stocks, pushing the stock price down. Even Elon Musk has said the stock is way overvalued. So, you can sell a portion of your Tesla stock and book a profit.

Wait for early next year to buy the dip. Despite the unpredictable nature of Elon Musk, Tesla is a [high-growth stock](#) that is at the cusp of the EV revolution. There is no denying Tesla's technology is unbeatable. It has also overcome supply chain and production issues. Despite the volatility, Tesla is a stock to buy and hold forever.

Hedge your portfolio against Elon Musk volatility

If Elon Musk's tweets still give you sleepless nights, you can hedge this risk with a more stable stock, such as EV stock **Magna International** ([TSX:MG](#))([NYSE:MGA](#)). Last week, when Tesla stock fell 17%, Magna's stock surged 7%.

[Magna](#) is not a car maker but a component supplier and a third-party auto manufacturing service provider. Magna has increased its exposure to EVs and is now serving 24 of the top 25 EV makers. The only missing EV maker from its list is Tesla. Hence, diversify your portfolio with high- and low-risk stocks that have futuristic outlooks.

CATEGORY

1. Investing

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1. NASDAQ:TSLA (Tesla Inc.)
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3. TSX:MG (Magna International Inc.)

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