The Big Red Flag for Tesla Stock

Description

The stock market's speculative frenzy has concluded with a painful crash. Beginner investors who chased stocks "to the moon" are now finding themselves in a world of hurt. Undoubtedly, investing was never meant to be so easy or euphoric.

At the end of the day, investing should be boring, and some pain should be expected. That's only natural. Whenever it becomes "too easy" to make quick bucks, alarm bells should be ringing, and you should find a way to go against the grain and not buy into what most others on Bay or Wall Street are throwing their money at.

The market selloff of 2022: Closer to the end?

Indeed, the market selloff of 2022 will be remembered by many. Those who chased should not give up on stock markets, though. This bear market has not dealt out pain evenly. Hard-to-value growth took the biggest hit to the chin. And if your Tax-Free Savings Account (TFSA or Registered Retirement Savings Plan (RRSP) portfolio was overweight such names, you should treat the damage as an opportunity to learn and move on. If you're a young investor, it's far better to have learned such a lesson earlier on in your investment career than when you're a year or so away from retirement.

Undoubtedly, elevated inflation and pain in stock and bond markets have caused many older investors to return to work. This goes to show that investing is a game won by those who are willing to play the long game. By long game, I mean investment horizons beyond five years.

The longer your horizon, the better your odds will be, and the more money you'll stand to make, even with the market corrections and crashes considered. You don't need to avoid the pain from bear markets or market pullbacks. The pursuit at such is likely to leave you in an even tougher spot if you can't read the future!

You can ride the pullbacks down and snag a few bargains, as you set your sights on the next 10 years and beyond.

Tesla stock: The last growth knight standing?

Tesla (NASDAQ:TSLA) stock is one of the names that was bid up "to the moon" in 2021. Though the stock got a 50% haircut, it's noteworthy that the EV (electric vehicle) giant is still up over 660% from its 2020 lows. Though the recent selloff has been painful, it's still quite small relative to the rally that preceded it.

At more than 78 times trailing price to earnings (P/E), it's okay if investors are feeling a bit uneasy. It's still an expensive stock. Though Tesla has fared quite well of late, there's concern that recent weaker-than-expected third-quarter deliveries (343,000 vehicles) represent the tip of the iceberg.

In my books, the muted delivery numbers are a bit of a red flag, in my opinion, especially given many Tesla shareholders are still up triple digits from just two or so years ago! Will the gains be clawed back? It's hard to tell. Regardless, the low-hanging fruit seems to have been grabbed.

A recession could be up ahead, and if it is, it's really hard to believe that demand for expensive EVs will stay as robust as it has been in recent quarters. When times get tough and money gets tight, discretionary goods (especially big-ticket purchases) are among the first to be scratched off by consumers.

Undoubtedly, Tesla still has the cutting-edge EV tech. It's still a leader and could increase market share in 2023 if Elon Musk plays his cards right. However, given the stock is still miles ahead of where it was just two years ago, the recent 50% slip in the stock doesn't quite scream "bargain" to me. If anything, it screams caution, as the technical picture begins to look ugly.

The stakes are too high for me!

The stakes are high. And if we are in for a recession, I find it difficult to justify being a buyer at around $220 per share.

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Author
joefrenette