

# FINANCIAL REVIEW

## IML doubts Tesla's investment in 'worthless' bitcoin

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Tesla's decision to invest in "worthless" bitcoin is the latest sign easy money craziness is getting worse, and blows more air into a sharemarket bubble that could be set to burst, warned Investors Mutual Limited's head of investment research Hugh Giddy.

[Bitcoin soared to an all-time high on Monday](#), rising as much as 15 per cent to exceed \$US44,000, after the electric car maker revealed that it invested \$US1.5 billion (\$1.94 billion) in the cryptocurrency. Tesla also said it would begin accepting the digital token as a form of payment.

"Bitcoin went up apparently because Tesla has gone and bought bitcoin," Mr Giddy said. In the fund manager's words, it was extraordinary that Tesla founder Elon Musk would signal to his own shareholders "I'm going to speculate in something that many people think is worthless."



"The cryptocurrencies have gone rather crazy ... Bitcoin did nothing for four years and then suddenly went wild": Hugh Giddy of Investors Mutual. **Zak Kaczmarek**

Mr Giddy believes the cryptocurrency lacks fundamental and underlying value. “It doesn’t really behave like money because it’s so volatile, it’s not underwritten by any government. There are [plenty of cryptocurrencies](#) so there’s no rarity value.”

The charts can't keep up with its performance, he added. “The cryptocurrencies have gone rather crazy and it’s sort of laughable,” he said. “Bitcoin did nothing for four years and then suddenly went wild.”

The acute interest in bitcoin is just one more sign that the financial system is [awash with huge amounts of cash](#) from central bank and government stimulus. Stocks infected by the same buyer hunger include Tesla and Australian buy now, pay later provider Afterpay, Mr Giddy said, calling them the poster equities of the easy money era.

Tesla shares are up 460 per cent to \$US863.42 in a year, and Afterpay shares are up 295 per cent to \$152.24.

“Tesla, too, didn’t do much for years and has suddenly gone wild. That is easy money. It’s not that the fundamental value of Tesla has gone up in recent times,” he said. “Afterpay [is] a very successful company in terms of signing up people and merchants to their service, but it’s not a company that can grow that easily.”

Founder and employee sell-downs only heightened his conviction: “You do see the founders and the insiders selling as the public buys more and more of their shares at ever higher prices,” he said. “They have moved internationally and done very well but the share price has done perhaps even better than they have.”

Underpinning the gains for bitcoin, Tesla and Afterpay is “a lot of FOMO – fear of missing out”.

In markets this manifests “when you see what looks like your neighbours making easy gains, or day traders making easy gains”.

But the long-term and value-focused fund manager cautioned that for the average person it’s hard to get rich quickly. “The trouble is you have to keep holding and somehow be very lucky to sell before it collapses.”

Equity markets are in a [fully fledged bubble](#), he said, and how long it will last is uncertain but he rates the chance of a correction this year as “very likely”.

“The correction will almost certainly be in the high-flying stocks because people often use margin loans to buy these stocks and lot of leverage and they rely on themes and fads,” he said. “We don’t have that – our stocks are well underpinned by their dividends, earnings, cash flows.”