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Above the Fold

Elon Musk has offered more details about his plans to take Tesla private, and who are the deep-pocket sources that would help him finance it. In a blog post on Monday, Musk stated that the Saudi Arabian sovereign wealth fund has repeatedly expressed interest in working with Musk to take the company private. Saudi Arabia is moving toward diversifying its economy away from strictly fossil fuel production and owning a large part of the leading electric automaker would fit with that desire. Musk claims that in addition to speaking with the Saudis, he also has had significant discussions with several other large investors, as he wishes for the investor base to remain broad after the deal. Musk also stated that the often quoted $70 billion financing need to buy the entire company is wildly inflated, as he expects two-thirds of current investors to roll over their interests into a private ownership stake.

Although Tesla may be valued at $70 billion if Musk is successful in his bid to take the company private, Tesla Motors is actually a very tiny automaker in a global market that sells 93 million autos a year worth $2.5 trillion. Of the 32 global auto manufacturers, Tesla checks in at number 29, producing just 103,000 autos last year, with scheduled 2018 production of 261,000. Tesla is roughly the size of Porsche, which is a subsidiary of much larger Volkswagen.

Three Things

- There has been a lot of investor chatter this year regarding the seeming narrowness of stock market gains, given the large runs in huge tech stocks such as Netflix (up 80 percent in 2018) and Amazon (up 61 percent). The common investor worry is that a market gain that is so concentrated in just a few stocks does not make for a healthy or long-lasting market move. However, the narrowness of the equity market move this year has been vastly overstated. Looking at the average return in each of the market cap quintiles in the Russell 1000 this year, the largest stock group measured by market cap is actually the second worst-performing group, with stocks up on average 6.8 percent, beating only the very smallest market cap group, whose average stock is down 1 percent this year. The second largest market cap group has performed the best, up 10.0 percent, followed by the third largest group up 8.9 percent and the fourth largest group up 8.1 percent.
- The equity markets have risen for nine years and counting, and the economy is in great shape by all measures. With both consumer and business confidence at historical highs, we might assume that the average investor would be euphoric right now. That does not seem to be the common mood, however, as most investors seem to be very worried about the coming year. ISI Research took a large poll of institutional investors and asked if the next 10 percent move in the S&P 500 would be up or down, and the results were about split at 50/50. The stock market has made great gains over the past decade, but investors both institutional and retail still do not seem too enthused about it. And that may be a good sign for the market going forward, because as the old saying goes, bull markets tend to climb a wall of worry.
- Party City has joined the long list of retailers that have concluded that if you can’t beat Amazon, join it. The company said on Thursday it would begin selling Halloween costumes on Amazon’s huge marketplace, which is the first time it will sell Party City items outside of its fleet of 900 stores and its own website. If Party City is happy with Halloween sales, it said it will then sell its Christmas and New Year’s merchandise on Amazon. Party City joins a growing list of retailers that have decided Amazon is a necessary evil, and ultimately will be an important partner to build online sales. Amazon, via its marketplaces and its direct sales, is behind as much as 50 percent of U.S. e-commerce, meaning the threat of having Amazon steal sales from stores must now be measured against the threat of missing out on its online growth. The move comes as Halloween, Party City’s biggest occasion, nears and faces increasingly aggressive play for its markets by Walmart and Target. Spending on Halloween items reached a record $9.1 billion in 2017.

Did You Know

An interesting thought: Nick Maggiulli at *Of Dollars and Data* posed a fascinating choice, regarding the true value of money and large wealth vs. the value of time. Would you trade places with Warren Buffett, if you were offered every dollar of Warren Buffett's fortune right now? You may conclude initially, of course! But imagine having Buffett's wealth, fame and status as the greatest investor on Earth. You can go anywhere you please, meet anyone you want and buy anything that can be sold. However, you're now 87 years old. You are far past your life expectancy, and you could "move on" any day. Would you still make that switch? I would not given those conditions, and most people would not either, even considering his vast wealth.

Although most Americans are constantly worried about the pressures and challenges of producing, growing and maintaining their incomes and piles of wealth, this choice lays bare what we all may value most: time. The time to experience new things, time with family, time to grow an interesting career, time to meet new friends and time to travel the world. Time seems to be what most folks value most, when given the choice. And likewise, if you gave Warren Buffett the choice to stay where he is now or immediately become 18 again but be completely broke, what choice do you think he would make? I think he would choose to get his 70 years back, with the opportunity to start his wealth-building journey all over again. So, it may be a comfort to the average broke 18-year-old that if given the choice, Warren Buffett would trade places with him.