Tesla's Overpriced Stock Won't Keep It Ahead of Other EV Makers

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Opinion
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Tesla May Be Driving Itself Out of the Running

The British bicycle bubble of the 1800s should signal caution for the EV maker's stock as rival car companies catch up with technology.

Fueling bubbles.
Photographer: Andy Cross/Denver Post via Getty Images

By

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Early bicycles came in a variety of sizes, shapes and styles, and they had colorful nicknames. The “dandy horse” had no pedals and was propelled by the rider’s feet pushing the ground — essentially wheel-assisted walking. The “penny farthing” had pedals, but the rider sat above a huge front wheel that dwarfed the tiny back wheel — similar to the size difference between the British penny and farthing coins. “Boneshaker” bicycles had iron and wood wheels that were ill-suited for rough terrain. What they all had in common was that they were uncomfortable, unsafe and expensive.

In the late 1800s, a series of technological innovations led to “safety bicycles” that had two identical wheels, a chain drive, a diamond frame and inflatable tires. The British public embraced the safety, comfort and cost of these improved bicycles. Middle-class Brits who could not afford a horse or horse and carriage were now able to travel conveniently through cities and far into the countryside — even over bad roads. Bicycles were also environmentally friendly, offering an inexpensive solution to what became known as “the great horse manure crisis of 1894,” a reference to the fact that the horses transporting people and goods were overwhelming cities with foul-smelling, disease-spreading droppings.

The number of British bicycle makers quintupled, to 833 from around 163. Many were financed by stock sales, with the number of publicly traded British companies producing cycles, tubes or tires increasing from fewer than 10 in 1895 to 127 in 1897. At its peak, in 1896, British companies produced 750,000 bicycles a year, many of which were exported to the US, France and other European countries that were similarly enamored of safety bicycles and clogged with horse manure.

As with many speculative stock bubbles, this genuine technological innovation led to a growth in companies profiting from this innovation and rising stock prices that attracted speculators who expected prices to continue rising — a self-fulfilling prophecy, for a while. Bicycle stock prices tripled during two months in 1896 while the overall stock market languished.

Emotions trampled reason. During the tulip bulb bubble, the supply of bulbs increased because tulip bulbs multiply naturally. During the bicycle bubble, the sprouting of new companies increased the supply of bicycles, particularly mass-produced American bicycles that cost 50% less than handmade British cycles. Enthusiasts shrugged off supply worries and gushed about a future in which bicycles would be the dominant form of transportation. Bicycles *were* revolutionary, but bicycle stock prices had become uncoupled from the profits of bicycle makers. Fools pointed to the revolution wrought by bicycles and the superior quality of British bicycles, but the supply of greater fools soon dried up.

After peaking in 1897, the stock prices of bicycle makers fell 73 percent over the next few years. The bicycle bubble was different from the tulip bubble and South Sea bubble in that there was not a sudden pop but a gradual deflation, not unlike air slowly leaking out of a bicycle tire.

Fast-forward to today's electric-vehicle revolution and head cheerleader Elon Musk, who boasted in 2016 that "all Tesla vehicles exiting the factory have the hardware necessary for Level 5 autonomy. Every car we make, on the order of 2,000 cars a week, are shipping now with Level 5, meaning hardware capable of full self-driving, or driverless, capability." Viewers gushed at a promotional video. "What a day to be alive," one said.

Alas, it can be a long road from proof of concept to viable product. On the six-level spectrum of driving automation, Teslas are still stuck at Level 2, with the release notes for its "Full Self-Driving Beta" software warning that it may "do the wrong thing at the worst time, so you must always keep your hands on the wheel and pay extra attention to the road." Wise words, since several glitches have been reported, including Teslas sometimes ignoring speed bumps and stop signs.

Tesla Inc.'s market capitalization topped $1 trillion in October 2021, as much as the 10 next most valuable automakers combined. Tesla's market cap has slipped to $800 billion in the current stock market slump, yet it is still valued at more than 100 times earnings, and prominent pundits think that its stock is cheap. Investor Gary Black predicted that Tesla's current $700 stock price will pass $3,000 by 2030; even more audaciously, Ark analyst Tasha Keeney set a 2026 date.

The 2030 forecast assumes that 60% of the cars sold worldwide in 2030 will be EVs and that 20% of these cars will be Teslas — giving Tesla 10 million car sales in 2030, compared to slightly less than 1 million in 2021. The 2026 forecast assumes that Tesla will sell between 5 million and 10 million cars that year, but nonetheless gives the same $3,000 price target.

Teslas are fine cars (my family owns two), but there is a big difference between a good car and a great stock. These ebullient predictions have uncanny parallels to the unbridled enthusiasm for bicycles 125 years ago. Economically relevant EVs are a terrific technological innovation — as evidenced by the vigorous efforts of new and established automakers to build EVs. Now, as then, enthusiasts don't seem to have considered the implications of the looming explosion in supply. High-end cars like BMW, Mercedes-Benz and Audi will compete directly with Tesla, while other companies like BYD Co. Ltd., General Motors Co., Hyundai Motor Co. and Nissan Motor Co. Ltd. will offer attractive cars at half the price. Tesla currently has 14% of the worldwide EV market (followed by Volkswagen AG at 12% and SAIC Motor Corp. Ltd. at 11%). The assumption that Tesla's worldwide market share will *increase* to 20% over the next 10 years is beyond optimistic, verging on delirious.

Tesla got a big head start in battery design and driver-assistance systems, but solid-state EVs are about to shake up the battery competition. Fully self-driving cars are not only still elusive but also deeply distrusted by consumers. Tesla is increasingly just one among many, in the same way that an early bicycle maker soon became just one among many.

The British bicycle bubble ended with a whimper. The same is likely to be true of the Tesla bubble.

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