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## **Business**

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# Tesla: the trillion-dollar personality cult

Is the car company's share price too bound up in the personality of its enigmatic CEO, Elon Musk?

By **Emma Haslett**



Photo by FREDERIC J. BROWN/AFP via Getty Images

“Am thinking of starting new university. Texas Institute of Technology & Science,” Elon Musk tweeted on 29 October, three days after his electric car manufacturer, Tesla, became the fifth company in history to be valued at over \$1trn. The follow-up came moments later:

“It will have epic merch.” Then: “Universally admired.” Then: “Tuition is in Dogecoin & u get a discount if you have a dog.”

There isn't much room left for hyperbole when it comes to Musk. He is, by a considerable margin, the world's richest man. His personal wealth rose by \$36bn in a single day last month as Tesla breezed past the \$1trn mark. According to *Forbes*, his net worth is now over \$300bn – only slightly less than PayPal, the company he co-founded in 1999 and which has grown to a market capitalisation of \$316bn.

Even comparisons to rival car manufacturers don't put the sheer size of Tesla's valuation into much perspective. According to figures reported by the *Telegraph*, it works out at \$2m per car manufactured, compared with \$14,500 for Volkswagen Group and \$24,200 for Toyota. Given that a new Tesla will set you back just under £42,000 (\$57,000) – which is a lot, but not \$2m – why is Tesla's valuation so high?

The answer lies, at least in part, in Musk and his unfiltered personality. The *New York Times* described him as “at once a capitalist hero, a glossy magazine celebrity and a bomb-throwing troll”. His communiques – like the “Tits university” and its “epic merch” – have given him cult-like status. He has smoked weed on a podcast, he tweets whatever he wants (including unsubstantiated accusations of paedophilia), and in 2018 he caused outrage (and a drop in shares) when he bemoaned analysts' “boring, bonehead” questions. Traditional investors see him as dangerously volatile – but his followers regard him as relatable and refreshingly down-to-earth.

Musk wields this following like a weapon, punishing detractors and rewarding devotion (and trust) with outlandish tips. The price of the novelty cryptocurrency dogecoin has rocketed since he first tweeted about it in 2019 (“It's pretty cool,” he said). In January he tweeted “Gamestonk!!” in reference to Gamestop, a penny stock that at the time was the subject of a battle between mom-and-pop investors, known as retail investors, and professional short-sellers – its shares instantly jumped.

Some might suggest his disciples' enthusiasm to invest in whatever he recommends is slavish, but Musk has form in getting people rich. The day before Tesla's stock market listing in 2010, he took the unusual step of making more than a million additional shares available to the public. Those who took a chance have reaped the rewards: shares have risen almost 3,000 per cent since its listing. Bloomberg has dubbed the investors who poured their savings into the company the “Teslanaires”. With those kinds of returns, why wouldn't they be devoted?

The result of all this is that Tesla has a higher proportion of retail investors than many of its car manufacturer rivals, said Nicholas Hyett, an equity analyst at Hargreaves Lansdown. “Big institutions do not hold as much Tesla proportionately as, for example, General Motors,” he added.

What's maddening to many of Tesla's rivals is that the fundamentals of the business are increasingly solid. "Tesla has gone from being a business that you would have really struggled, as a professional... to find any price where you would want to deal with it... [to] a point where it's a business doing real things at a scale that is sustainable," said Hyett. "[It has] a brand that is very competitive and a product that is very competitive, and probably a sustainable technological advantage, at least in the short term."

Retail investors' enthusiasm for all things Tesla also has the effect of making it relatively easy for the company to raise money. Whereas traditional car manufacturers usually opt to borrow via bonds or loans when they need extra cash, Tesla can simply issue new shares, confident in the knowledge that they'll be snapped up – and without having the extra cost of interest payments. That may change soon: Tesla's debts are on the cusp of being upgraded from junk status to investment grade, although Hyett suggests that, too, may be the product of its cult-like status: "I suspect that part of the reason it's getting strong ratings from ratings agencies is because it also has an amazing ability to raise equity if it needed to."

Musk is far from the first person to command this kind of following – back in the 1990s and early 2000s, Apple founder Steve Jobs did the same. What Musk does have that Jobs did not, though, is Twitter, which makes him arguably more powerful than his predecessors. Well, apart from one, pointed out Randall Peterson, professor of organisational behaviour at London Business School: "Just replace Elon Musk with Donald Trump and popularity with votes," he said. "There's a similarity about their appeal to people: someone who absolutely speaks what they perceive as the truth."

Musk's following might prop up Tesla's share price, but it won't always be an asset. The very unpredictability that makes him appealing to his followers also makes him hard to stomach for many institutional investors. "Most CEOs are very straightforward, predictable people. That's why they're good CEOs," said Peterson.

"What research has shown really clearly is that people don't do their best work when they are scared. They do their best work when they feel empowered, confident, capable. I can look quarter to quarter and see [Tesla is] delivering results right now. But do I have confidence that business is going to keep doing that ten years from now?"

The challenge, in the long term, is disentangling Tesla from Musk himself. Although its fundamentals are strong, they're not *that* strong, said Hyett. "Arguably, price has become separated from the economic reality, to at least some degree.

"It's not that Tesla is not a good business so much [as] is the price right for the business that Tesla is?"

For now, its price will keep rising as devotees join the cult of Musk. The concern is what happens when his popularity wanes.

“As long as those investors are prepared to continue holding, and because they’re not necessarily price-sensitive investors, there’s no reason they wouldn’t, then it lasts a long time and continues to grow as those investors put more money in,” said Hyett.

Problems will arise when those retail investors want to cash in and institutions are too nervous to pick up the slack. For big investors, it may be too much of a gamble.

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