

# “Tesla CEO Musk’s reckless tweet unleashed chaos, damaged market integrity

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I’ve never used Facebook or Twitter, but have written about how social media has inexorably invaded and affected the ever day lives of enthusiasts, Luddites (like me) and investors of all stripes. I also recently wrote of the danger of investing in companies identified with a celebrity CEO.

These topics collided at 12:48 PM (i.e. in the middle of the trading day) on Tuesday, August 7 when Tesla CEO Elon Musk fired off the following nine-word Twitter message on his personal (i.e. NOT Tesla’s) account:

**“Am considering taking Tesla private at \$420. Funding secured.”**

Just prior to the tweet, Tesla’s stock (TSLA) was trading around \$356, so the purported \$420 buyout price represented about an 18% premium. TSLA immediately jumped to around \$371 before Nasdaq halted trading for 92 minutes. It resumed trading at 3:45 PM and finished at \$379.57 (up 11% on the day).

Tesla was silent on Musk’s tweet until it posted an email from Musk to employees around 3:30 PM, more than two hours after the original tweet. Musk stated his desire for going private “is all about creating the environment for Tesla to operate best.” He cited the “quarterly earnings cycle that puts enormous pressure on Tesla to make decisions that may be right for a given quarter, but not necessarily right for the long term.” Further, “as the most shorted stock in the history of the stock market, being public means that there are large numbers of people who have the incentive to attack the company.”

When a company raises capital to fund its growth by selling stock to the public, part of the bargain is it incurs obligations to disclose certain information to investors that is **reliable**. Further, it is against U.S. securities law to manipulate your stock by knowingly or recklessly spreading false or misleading information.

With this as a lens, let’s look at Musk’s tweet and reasoning.

First, where did \$420 come from? In a “going private” transaction, the company’s board of directors will typically form a special committee of independent directors to evaluate the proposed deal. This committee hires its own financial and legal advisors and negotiates vigorously against management to arrive at a deal that is “fair” to the public shareholders. Musk apparently had **informal** discussions with the board about going private, but nothing specific.

As an aside, Musk apparently likes to have fun with his tweets. On April Fools’ Day, he tweeted that Tesla, whose dwindling cash reserves were the subject of intense speculation, was “so bankrupt, you can’t believe it.” In addition, I’m told 420 is the numerical folklore code for marijuana, which Musk was widely reported to be seen smoking on a recent live podcast.

Second, was “funding secured” a factual statement? Musk stated the head of Saudi Arabia’s Public Investment Fund “strongly expressed his support for funding a going private transaction for Tesla,” but that’s a million miles from a binding commitment.

Regarding his reasoning for going private, Musk chafed at defending Tesla’s quarterly results, rejecting “boring, bonehead questions” from Wall Street analysts. Additionally, he was in a continuous personal battle with short-sellers of TSLA, who benefit when the price goes down and are punished when it goes up.

There was frenzied activity by Musk and Tesla’s board following the August 7 tweet, as parties scrambled to assemble the foundation for a deal that should have been in place long before any announcement. Alas, in the dead of night on Friday, August 24, Tesla announced that Musk had informed the board the day before, “I believe the better path is for Tesla to remain public.” TSLA tumbled to a recent low of \$263.24 on September 7.

The Justice Department has opened an investigation and securities lawyers are licking their chops.

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