Stanphyl Capital Management LLC
Stanphyl Capital GP, LLC
Stanphyl Capital Partners LP

Friends and Fellow Investors:

For June 2018 the fund was down approximately 13.8% (no that is not a misprint- please see the paragraph below) net of all fees and expenses. By way of comparison, the S&P 500 was up approximately 0.6% while the Russell 2000 was up approximately 0.7%. Year-to-date the fund is down approximately 16.2% while the S&P 500 is up approximately 2.6% and the Russell 2000 is up approximately 7.7%. Since inception on June 1, 2011 the fund is up approximately 67.4% net while the S&P 500 is up approximately 134.7% and the Russell 2000 is up approximately 113.7%. Since inception the fund has compounded at approximately 7.6% net annually vs 12.8% for the S&P 500 and 11.3% for the Russell 2000. (The S&P and Russell performances are based on their "Total Returns" indices which include reinvested dividends.) As always, investors will receive the fund's exact performance figures from its outside administrator within a week or two; meanwhile I continue to waive the annual management fee until the entire fund regains its high-water mark.

The fund was absolutely *massacred* this month, and it was primarily due to our large short position in Tesla, to which I added on each new piece of negative news, much of which was indicative of the kind of outright fraud (see below) that would immediately send a "normal stock" into a death spiral, and yet for most of the month Tesla's stock kept levitating. ***So here's what I've done about it***: I slashed our common stock short position to approximately 15% of the fund from a much larger size and then put approximately 12% of the fund into far less volatile January 2020 put options (as nearly all the luxury EV competitors will be in showrooms by 2019) with a strike price of $210. Then in light of recent whistleblower stories (see below for more detail) and the potential for a fast Tesla death spiral as it may be under a Wells Notice (also see below), I put another 0.30% (30 basis points) of the fund into an array of near-term (out one to three months) put options that will pay off *hugely* if a TSLA stock crash is imminent.

Those of you in the fund have been extremely patient with what has been absolutely abysmal performance over the past 18 months, and I completely understand if any of you want out. "Thanks" to the current valuation bubble the fund has great liquidity independent of our awful performance, as only one of our positions is an illiquid microcap. On the other hand, although the fund is now down nearly 27% from the high-water mark set at the end of 2016 (FWIW, Buffet's Berkshire has had two *50% drawdowns*—the only way in which I *don't* seek to emulate him!), if I didn't strongly believe we will once again significantly exceed that high-water mark I wouldn't just *offer* a "no hard feelings" redemption—I'd *mandate* it and go find another line of work. But I'm not going anywhere-- I think the ideas expressed through the positions in the fund are good ones and that eventually we'll make a lot of money on them. And with that, I now return you to our regularly scheduled monthly letter…

As noted in recent letters, through this entire bull market low interest rates were used to justify egregious earnings multiples on stocks, as well as being responsible for *creating* much of those earnings via cheap mortgages, auto loans, debt-financed stock buybacks, etc., and yet now those rates are at much higher levels across the board while quantitative tightening continues apace. Even before the arrival of (or perhaps anticipating) a massive amount of deficit-related U.S. debt issuance beginning later this year, the

10-year U.S. treasury yield has definitively broken its very long-term downtrend and now sits at over 2.8% while the 2-year yield of over 2.5% handily bests the S&P 500's approximately 1.8%, thereby presenting an attractive alternative to an index priced at 24x trailing GAAP earnings when a flattening 2-10 curve and recent slowing in global growth combined with rising credit card and auto loan delinquencies and a developing trade war may be indicative of a looming economic slowdown, while a pick-up in inflation may even be indicative of *stagflation*. Additionally, the percentage of U.S. household wealth allocated to stocks is the second-highest it's ever been—topped only by the height of the internet bubble. So I continue to believe that the catalysts are here for the high-multiple stock party to end.

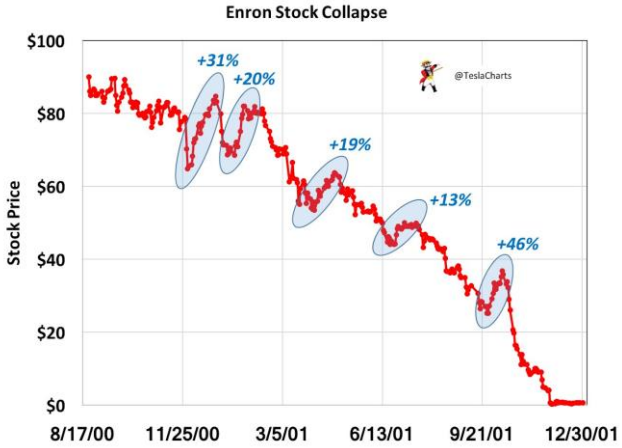
As noted above, we remain short shares of (and long put options in) Tesla, Inc. (TSLA), which I consider to be the biggest single stock bubble in this whole bubble market—a company so landmine-filled that I think it can implode at any moment *regardless* of what the broad market does. To reiterate the three core points of our Tesla short position:

1) Tesla has no "moat" of any kind; i.e., nothing meaningfully or sustainably proprietary.

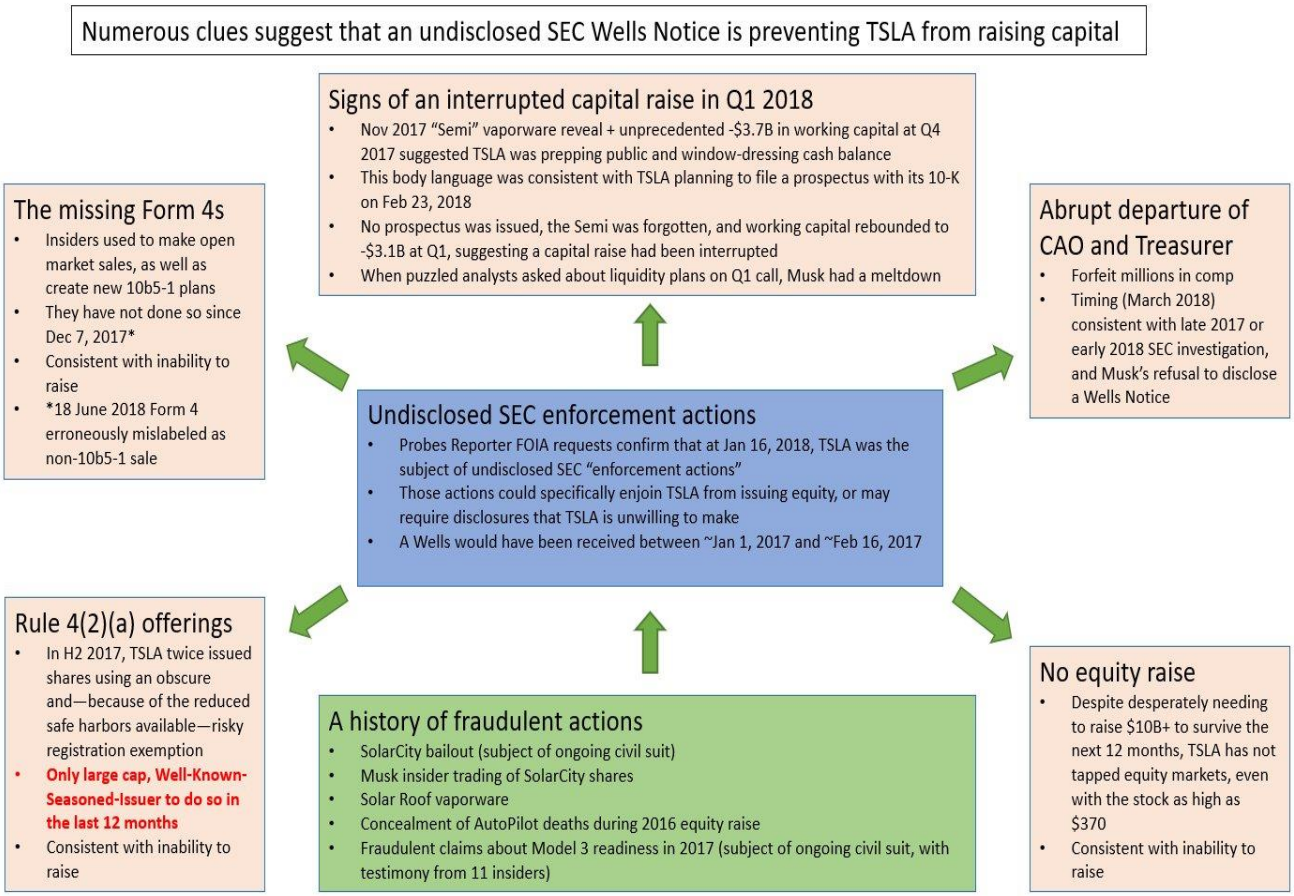
2) Tesla loses a huge (and increasing) amount of money despite relatively light competition but will soon be confronted with massive competition in every aspect of its business.

3) Elon Musk is extremely untrustworthy.

Despite its recent rally TSLA remains 12% off its all-time high and once again appears to be downtrending, and it's worth noting that although this has been a rough road for us, it's not a unique one:



I wrote earlier that Tesla may be under an undisclosed Wells Notice, and if that's the case (and this is completely speculative) it may explain why the company hasn't been able to take advantage of its $300+ stock price to raise fresh equity. Courtesy of Twitter user @ElonBachman, here's a terrific representation as to why this is a plausible (but admittedly unproven) theory:



Also "headlining" this month in Tesla news is an astonishing new report from Twitter user @eriz35 (an environmental engineer) pointing out that Tesla's paint facility only has physical capacity for a *total* of approximately 5000 cars a week *including*, presumably, 2000 Models S/X, meaning (if the report is accurate) that Tesla and Elon Musk have been committing blatant securities fraud in claiming to have capacity to build 5-6000 Model 3s a week *plus* 2000 Models S and X. However, as this story just broke today (June 30th), it's important to emphasize that we don't yet have a definitive answer as to its accuracy.

Speaking of paint, early in June came an astounding story about Tesla failing to report multiple fires in its paint shop while simultaneously conducting hugely unsafe practices there (for both employees and customers), followed by *another* astounding story about the vast amount of scrappage occurring in its manufacturing process accompanied by hugely unsafe practices in how those manufactured parts are labeled and tracked, followed by *another* astounding story full of well-documented instances of Tesla safety *and* securities fraud violations. Later in the month Tesla sued the employee whistleblowing source of some of that information, undoubtedly hoping to squelch others in the future. But based on the massive number of recent executive departures (including, in June, the CIO), I strongly suspect that many *more* whistleblowers will soon appear.

Also in early June came a series of fabulous reviews of the new Jaguar I-Pace electric SUV, which is in European showrooms now and will be available in the U.S. in August. As a reminder, the I-Pace starts at a price $10,000 lower than the Tesla Model X, and that gap will eventually widen to $17,500 as Tesla's tax credits gradually phase-out beginning late this year or early 2019. Next on tap in luxury EVs are the Audi E-Tron Quattro (to be formally unveiled in September and available in Europe this winter and the U.S. next spring) and the Mercedes EQC (also to be unveiled in September and available next spring), followed by the Porsche Taycan (previously called the Mission E, and available some time in 2019). And *all* those cars (except the Porsche) will be priced significantly less expensively than the comparable Tesla even *before* their U.S. buyers enjoy the $7500 tax credit that will soon expire for Tesla. (The Porsche's base price will be similar to that of the base Tesla Model S *and* come with the tax credit. *Hmmm, Tesla or Porsche… tough choice!*)

Next in June came the preliminary NTSB report regarding a fatal Tesla "Autopilot" accident in March, in which it was determined that the car accelerated (*where was the Automatic Emergency Braking?*) straight into a construction barrier, and that Tesla's claim that the driver had been warned to keep his hands on the wheel was highly deceptive as the last warning came 15 minutes before the accident. (Also remember that in May Tesla was *besieged* with multiple tragic accidents—two teenagers were killed in Florida when trapped in a burning Tesla after a high speed crash, as was a German businessman traveling in Switzerland, and a man in California was killed when his Tesla left the road [perhaps due to either Autopilot or a widely-documented but not yet recalled Tesla suspension failure] and deposited him in a pond. And a woman in Utah slammed straight into a parked vehicle while on Autopilot as it *accelerated* into the impact, similar to what happened in the aforementioned crash in March [although fortunately this lady survived with only a leg fracture], while another Tesla on Autopilot ran into and totaled a police car.) ***Now where would all those Tesla buyers get that idea that something named "Autopilot" was designed to be used in such a reckless manner?***

Now watch the short (a bit over a minute) video embedded in this Autopilot story from the BBC and you'll be *shocked* at how dangerous this system is! (As an aside, as of now there are at least 40 worldwide Tesla-related deaths, a *huge* number relative to the number of Teslas on the road and its luxury car peer group.)

In response to the Autopilot demolition derby, in mid-June Tesla remotely limited the hands-free capability of the system to just 15-20 seconds, a significant safety improvement from its previous status and yet hugely disappointing to Tesla owners who were enjoying (at least those still alive) the previous system's "flexibility." As Autopilot's capabilities were oversold by Tesla and Musk from Day 1, it will be interesting to see who now sues for a chunk of his money back, as well as how much lower the uptake of that option will be going forward. (My prediction: *much* lower.) Remember, that $5000 option is pure margin for Tesla, as every car comes equipped with the hardware regardless of whether or not the buyer pays to activate it. In fact in a blatant attempt to keep his Autopilot fish on the hook, Musk tweeted that in August Tesla would begin implementing full self-driving. Was anybody stupid enough to actually believe that? Well perhaps they were, as the stock closed up over $14/share that day! Here's a great overview of what—if anything—Tesla will *really* implement in that regard.

Next in June came an announcement from Electrify America that within the next 12 months it will have built or under development 2000 ultra-fast (150-350 kw, vs. Tesla's 120 kw) chargers... So much for that Tesla "charging moat"! (See lots of links below showing how many *more* of these ultra-fast chargers are being built.)

Next in June, just five days after an annual meeting during which "everything was great," Musk announced layoffs of 9% of Tesla's work force, which he essentially said was necessary to avoid bankruptcy. (I suspect it won't work.) Among those fired were reportedly a significant number of engineers—very impressive for an automobile manufacturer with a massive vaporware pipeline and serious aging & reliability problems with its existing products. On the day of that layoff announcement and the day after, Musk bought $25 million of Tesla stock, much (and possibly all) of which was done in the illiquid pre-market in order to jam up the price up as much as possible. The effect of this was to cause algorithmic computers to bid the stock up from there, further squeezing shorts and thereby forcing the stock up still higher. Clearly the sole purpose of Musk's timing (after all, his buy was insignificant relative to his holdings) was to punish short sellers, possibly figuring that if he's going down, he'll take as many shorts down with him as he can. Sorry Elon, but we'll still be here, and we *won't* be visiting you where *you're* going.

Next in June came an analysis by Gordon Johnson, an analyst at Vertical Group, estimating that the Model 3 cancellation rate is as high as 66%. No wonder Tesla—which never fails to report a favorable data point (even if it has to fabricate it)—refuses to update the current net Model 3 reservation number (and by net I mean net of *requested* refunds too, as numerous Twitter posts indicate that the cash-strapped company is delaying those requests for weeks or even months). And watch those reservations *really* vanish when Tesla's $7500 tax credits expire later this year while over 100 competing new EV models entering the market over the next few years will still enjoy them, and potential buyers realize that the $35,000 Model 3 will *never* appear in any significant quantity. In fact, in May Musk admitted that a $35,000 Model 3 is a

long way off because "building one now would cause Tesla to lose money and die." *I have news for you, Elon: whether you build them or not, Tesla is going to "lose money and die."*

Next in June—courtesy of Twitter user @TeslaCharts—came the most concise summary yet of how Elon Musk committed securities fraud by using Tesla to bail out his (and his family's) failing stakes in SolarCity. Zero Hedge included the entire thread in this follow-up story about SolarCity's latest retrenchment, which will undoubtedly help fuel the fraud case currently working its way through a Delaware court, as will this later story describing how Tesla sales people have no idea when the solar tiles or PowerWalls used to justify that merger will ever be available. (Remember that when Musk was promoting that merger he used fake solar tiles on a fake house at a movie studio… *How appropriate*!)

Next in June, Elon Musk finally accomplished full convergence with P.T. Barnum, his circus-owning spiritual ancestor (except Barnum's circuses *made* money while Musk's just *incinerates* it). Let's start with this Elon Musk Twitter-quote as headlined *(amazingly!)* not by *The Onion* but by Ars Technica in this article:


A TENT IS A TENT IS A TENT —

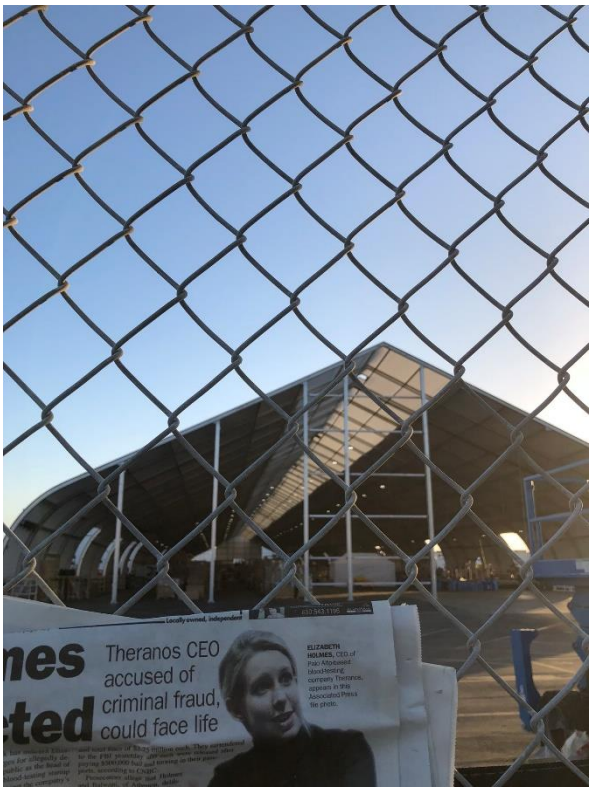
Tesla CEO: New "tent" assembly line is "way better" than conventional factory

"Not sure we actually need a building. This tent is pretty sweet."

CYRUS FARIVAR - 6/19/2018, 8:54 AM

Yes, that's right: unable to build 5000 Model 3s a week in factory for which Musk said capacity was well over 10,000, Tesla has resorted to pitching a tent in its parking lot and setting up some sort of half-assed partial assembly line. And oh, he introduced it in one of the most blatantly fraudulent manners I've ever seen, using a prop (or perhaps photoshopped) car obviously built elsewhere while claiming it was built there. Why do I say "obviously"? Because on the same day he tweeted *this*…

…Twitter user @skabooshka had staked the place out with a telephoto lens and snapped *this*, including an appropriately headlined newspaper to prove it was taken that same day:



Then a few days later, Twitter user @iSpyTSLA posted a number of videos (linked in this Zero Hedge article) demonstrating that this Tesla "assembly line tent show" makes a 1970s Yugo factory look state-of-the-art, while almost concurrently Musk bizarrely tried to blame his production problems on "an internal saboteur." Tesla then proceeded to cover the fence through which those images were taken and strategically parked semi-trailers to further block the view. But that's okay, because a week or so later @skabooshka sent up *a drone* to once again prove Musk was lying! ***Yes, I know… If you tried to write a "corporate thriller" with a plot like this, your publisher would laugh you out of his office!***

Also in June *Business Insider* published a scoop featuring leaked internal Tesla documents indicating that the month-to-date Model 3 production rate was averaging just 2200 cars a week, *far* below the 3500 a week Elon Musk deceptively implied at the June annual meeting. Yes, more securities fraud.

Also in June Bernstein Research published a note finally pointing out something we've been talking about for the better part of a year: Tesla is committing accounting fraud by artificially inflating its automotive gross margin by under-reserving for warranty repairs, then putting extra repair costs on the "Services and Other" line (which has a hugely negative gross margin).

Late in June Tesla announced that all remaining North American Model 3 reservationists can now configure their cars. Although this theoretically could be indicative of the weak Model 3 conversion rate noted above, it could also just be a desperate cash grab for the $2500 additional deposits that must accompany those configurations. However, this announcement came simultaneously with price cuts for the all-wheel-drive and "performance" versions of the Model 3, which *is* indicative of a demand problem.

Meanwhile, Tesla is now in such bad financial shape that all sorts of liens are piling up against it in its home county of Alameda. Here's a snapshot I happened to take on June 21st of just those filed since March:

Alameda County Home Page

County Clerk - Recorder

Official Public Records

Search Results *Menu · New Search · Forms · Prefs · Help*

Criteria: Name or Associated Name Begins with TESLA Document Type is MECHANIC'S LIEN Filed between 01/01/2018, 06/30/2018

Search Results - 10 matches

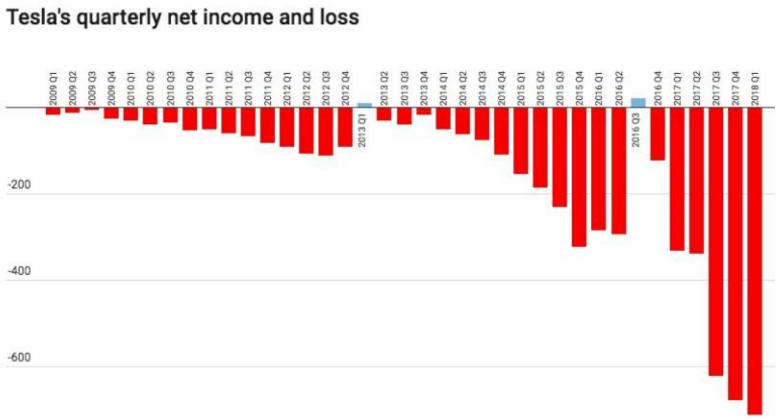
Displaying Records 1 to 10

Instrument Number	Date Filed	Document Type	Name (+) = More Names	Associated Name (+) = More Names
2018078520	04/19/2018	MECHANIC'S LIEN	TESLA INC (+)	WORLD ELECTRIC SUPPLY INC
2018054691	03/16/2018	MECHANIC'S LIEN	TESLA MOTORS INC	AMERICAN INTEGRATED SERVICES INC
2018060307	03/23/2018	MECHANIC'S LIEN	TESLA MOTORS INC (+)	RUSSELL SIGLER INC (+)
2018069170	04/05/2018	MECHANIC'S LIEN	TESLA MOTORS INC	ECONOMY TRUCKING SERVICES INC
2018072522	04/11/2018	MECHANIC'S LIEN	TESLA MOTORS INC	GILLMANN SERVICES INC
2018078520	04/19/2018	MECHANIC'S LIEN	TESLA MOTORS INC (+)	WORLD ELECTRIC SUPPLY INC
2018115424	06/12/2018	MECHANIC'S LIEN	TESLA MOTORS INC	DRYCO CONSTRUCTION INC
2018073667	04/12/2018	MECHANIC'S LIEN	TESLA MOTORS INC TAX DEPT	HMI INDUSTRIAL CONTRACTORS
2018089314	05/03/2018	MECHANIC'S LIEN	TESLA MOTORS USA	QUALITY ERECTORS & CONSTRUCTION INC
2018089320	05/03/2018	MECHANIC'S LIEN	TESLA MOTORS USA	QUALITY ERECTORS & CONSTRUCTION INC

And on top of that, Tesla now has state and federal tax liens against it.

Remember that in May Tesla released a *disastrous* Q1 earnings report, with a record GAAP loss of $710 million ($760 million excluding the sale of ZEV credits-- an average of over $25,000 per car sold!), negative free cash flow of $1.1 billion, Model S&X combined deliveries down a double-digit percentage both sequentially and year-over-year (even *before* the arrival of all the luxury EV competition mentioned earlier in this letter), and Model 3 production falling far short of (already drastically reduced) previous guidance.

Here's a terrific series of charts from Twitter user @TeslaCharts clearly explaining just how horrible the financial trends for this company are; in fact Tesla's situation is *so* dire that it's slashing capex (and thus killing the growth story) by apparently putting development of its much-hyped (but economically unviable) semi-truck on hold, as well as delaying its "Model Y" crossover. In fact even Tesla battery supplier Panasonic now has serious doubts about the viability of the company. And for those who continue to insist that as Tesla grows revenue, profits will "scale" proportionately… How's *this* for "scale"?



Following the release of that atrocious earnings report, Tesla hosted what may be the most hilarious conference call in American corporate history. (I know I've said that about previous calls but let's face it: Musk is a conference call superstar who somehow manages to "top" his previous performance with each new one!) Here are just a few of the "highlights" as he tried to duck, shuck and jive his way out of having to explain away Tesla's looming destiny with bankruptcy, which is where its > $30 billion in combined long-term debt and battery purchase & other obligations—accompanied by its negative cash flow and massive encroaching competition—will eventually place it.

And no, the savior of Tesla won't be the Model 3. Regardless of whether Tesla hits the 5000 per week production goal it has managed to make as the media's primary focus, the car will be a financial disaster. Additionally, extensive forum posts and reviews indicate that over time the Model 3 is revealing itself to be a complete lemon, while even green car-loving *Consumer Reports* rated it just a 77 on a scale of 100, tied (among electric cars) with the $14,000 cheaper Chevrolet Bolt and $25,000 cheaper Toyota Prius. (Unlike *Edmunds*, CR has yet to rate the Model 3's reliability.) And remember, almost nothing can be done in the Model 3 without a multi-step process on the touchscreen—not even changing the windshield-wiper speed, adjusting the air vents or opening the glovebox. ***Thus, operating a Tesla Model 3 may potentially be as dangerous as texting while driving.***

Meanwhile, Tesla is increasingly besieged by a wide variety of lawsuits for securities fraud, labor discrimination, worker safety, union-busting, sudden acceleration, lemon law violations and, undoubtedly, many others of which I'm not yet aware.

So here is Tesla's competition in cars (note: these links are continually updated)…

Jaguar Electric I-Pace SUV Available Summer 2018
2019 Jaguar XJ to be reborn as high-tech electric flagship
Jaguar Land Rover will boost spending to $18 billion to fund EVs
2019 Audi E-Tron To Charge Faster Than Tesla Supercharger Network
Audi e-tron Sportback in 2019 to be its second EV
2020 Porsche Taycan (available 2019): Here's What We Know
Porsche Cross Turismo to be its second EV
Mercedes 2019 EQC To Be Unveiled This September
Mercedes Plans Electric S-Class to Challenge Tesla's Flagship
Mercedes Wheels Out Electric Car Roadmap, Car And Battery Factories Everywhere
2019 Hyundai Kona Electric gets 250-mile range rating in the U.S.
14 new EV models by Hyundai-Kia by 2025
Chevrolet Bolt Offers 238 Miles On A Single Charge For $37,495
GM to introduce 3 more electric cars before 2020, battery cells at <$100/kWh
2018 Nissan Leaf: 150 miles for $30,875, 200+ mile model by late 2018
Nissan Leaf-based SUV coming in 2020
Volvo Electric hatchback due in 2019
Volvo To Start Selling Electric Trucks In 2019, Some Will Hit The Road This Year
VW will build EVs in 16 factories in zero emissions push
Volkswagen I.D. Crozz 311-Mile Electric CUV For $30,000-ish Before Incentives
VW's All-Electric I.D. Vizzion Coming With 400 Miles of Range
BMW will export iX3 electric SUV to Europe, U.S. from China
BMW Confirms The i4 EV
BMW to have 25 electrified models by 2025
Ford plans $11 billion investment, 40 electric vehicles by 2022
Toyota, Mazda, Denso create company to roll out electric cars beginning 2019
Toyota to market over 10 battery EV models in early 2020s
Infiniti will go mostly electric by 2021
PSA will launch full-electric Peugeot 208 and DS 3 Crossback in 2019
ALL-ELECTRIC MINI COOPER COMING IN 2019
Smart Will Electrify Its Entire Line-up By 2020
SEAT's first electric car is due in 2020
Opel will launch full electric Corsa in 2020
2019 Skoda e-Citigo confirmed as brand's first all-electric model
MG E-Motion confirms new EV sports car on the way by 2020
Aston Martin to create all-electric car brand
Fiat Chrysler bets on electrification for Alfa, Jeep and Maserati
Maserati to take on 'Porsche and Tesla' with Alfieri, new SUV and four EVs
Renault investing > €1B for development and production of EVs in France
Rolls-Royce is preparing electric Phantom for 2022
Citroen preparing EV push with 80 per cent electrified range by 2023
Honda will offer full-EV or hybrid tech on every European model by 2025
All-electric Bentley four-door coupe to use EV tech from Porsche Mission E
Subaru to introduce all-electric vehicles by 2021
Ssangyong e-SIV concept previews 2020 EV
Dyson plans three-car EV range

235mph Lucid Air due in 2019 as electric BMW 7 Series rival
Borgward BXi7 Electric SUV Flies Under The Radar
Detroit Electric promises 3 cars in 3 years
SF Motors reveals two electric SUVs for 2019 with 300 miles of range
Two new electric cars from Mahindra in India by 2019; Global Tesla rival e-car soon
Saab asset owner NEVS plans electric car production
EVelozcity Raises $1 billion For EV Startup
Flush with new cash, electric-car company Faraday Future hopes for a fresh start

And in China…

Daimler & BYD launch new DENZA electric vehicle for the Chinese market
BAIC and Daimler to Build $1.9 Billion China Plant
Volkswagen makes €15bn bet on electric cars in China
Volkswagen Group China's mega-factory in Foshan will strengthen e-mobility strategy in China
Audi to launch 7 new energy vehicle models in China by 2020
GM China raises new-energy vehicle target to 20 models through 2023
Nissan & Dongfeng to invest $9.5 billion in China to boost electric vehicles
Toyota to Introduce 10 New Electrified Vehicles in China by 2020
Infiniti bringing EVs to China's luxury car market
BMW will develop and produce electric Mini in China
Ford ramps up electric vehicle push in China
China's BYD tops global electric-car production for third year in a row
SAIC to spend $2.2 billion on EVs, connectivity, aftersales services
Honda debuts Everus electric car for China
Changan building large scale NEV factory
Mazda and Changan Auto join hands on electric vehicles
WM Motors/Weltmeister EX5 Electric SUV Launched On The Chinese Car Market
NIOS ES8 Electric Crossover debuts with half the Tesla Model X's price tag
Geely invests $5 billion into new electric car factory in China
Chery Breaks Ground on $240M EV Factory in China
Chery's second EV plant open in Dezhou
Leapmotor's electric car to hit the market in 2018
Alibaba-backed Xiaopeng Motors to raise US$2.7 billion this year
GAC Trumpchi to launch range-extended EVs
Guangzhou Auto To Launch Four New Electric Cars By 2020
Chinese carmaker Byton unveils its fully autonomous rival to Tesla's electric sedans
Chinese-backed electric car start-up Byton woos CES with model 40% cheaper than a Tesla
Great Wall Starts New EV Brand (ORA) In China
Singulato iS6 Electric SUV Debuts With 249-Mile Range
Singulato, BAIC partner to promote smart new energy vehicles
FAW (Hongqi) to roll out 15 electric models by 2025
JAC's Electric Car Has A Range Of 500 Kilometers
ICONIQ to build electric cars in Zhaoqing with total investment of RMB 16 billion
Quianu Motor aims to grab share of US electric vehicle market
All-electric NEVS 9-3 sedans (nee Saab) being built in China

Youxia Motors Secures USD794 Million to Push Release of New Connected Cars
Wanxiang Gets China Electric Vehicle Permit to Make Karma Cars
Qoros Auto's new owner plans to be an EV power
JMC (Jianling Motor Corp.) Starts New EV Brand In China
Thunder Power electric cars at the Frankfurt motor show

Here's Tesla's competition in autonomous driving…

Tesla Ranks Last for Automated Driving
A Tesla self-driving blind spot that few are focusing on
Waymo is first to put fully self-driving cars on US roads without a safety driver
Jaguar and Waymo announce an electric, fully autonomous car
Waymo Expands Chrysler Self-Driving Fleet 100-Fold to 62,000
Uber, Waymo in talks about self-driving partnership
Lyft and Waymo Reach Deal to Collaborate on Self-Driving Cars
Cadillac Super Cruise™ Sets the Standard for Hands-Free Highway Driving
GM ride-hailing fleet would ditch steering wheel, pedals in 2019
SoftBank Vision Fund to Invest $2.25 Billion in GM Cruise
An Overview of Audi Piloted Driving
Updated 2017 Mercedes-Benz S-Class - first ride with autonomous technology
NVIDIA and Toyota Collaborate to Accelerate Market Introduction of Autonomous Cars
Volkswagen and NVIDIA to Infuse AI into Future Vehicle Lineup
NVIDIA Partners with Bosch for System Based on Next-Generation DRIVE PX Xavier Platform
Continental & NVIDIA Partner to Enable Production of Artificial Intelligence Self-Driving Cars
Bosch and Daimler join forces to market fully automated, driverless taxis by 2020
Intel's Mobileye will have 2 million cars (VW, BMW & Nissan) on roads building HD maps in 2018
Volkswagen Group and Aurora Innovation Announce Strategic Collaboration On Self-Driving Cars
Toyota, Intel and others form big data group for autonomous tech
Toyota Adds $2.8 Billion to Software Push for Self-Driving Cars
Nissan's Robo-Taxis Will Hit the Road in March
Nissan and Mobileye to generate, share, and utilize vision data for crowdsourced mapping
Magna joins the BMW Group, Intel and Mobileye platform as an Integrator for AVs
Intel collaborates with Waymo on self-driving compute design
Fiat Chrysler to Join BMW, Intel and Mobileye in Developing Autonomous Driving Platform
Ford-Backed Driverless-Car Startup Argo AI Lures Talent
Lyft, Aptiv (formerly Delphi) partner on driverless ride-hailing at 2018 CES in Vegas
Lyft, Magna in Deal to Develop Hardware, Software for Self-Driving Cars
Hyundai, Aurora to release autonomous cars by 2021
Deutsche Post to Deploy Test Fleet Of Fully Autonomous Delivery Trucks This Year
Byton cooperating with Aurora on autonomous vehicles
Magna's new MAX4 self-driving platform offers autonomy up to Level 4
Bosch Creates a Map That Uses Radar Signals for Automated Driving
Honda Targeting Level 3 Automated Driving By 2020, Level 4 by 2025
Groupe PSA's safe and intuitive autonomous car tested by the general public
Baidu unveils autonomous driving platform backed by 90 global partners
Baidu plans to mass produce Level 4 self-driving cars with BAIC by 2021

BlackBerry and Baidu Partnering to Accelerate Connected and Autonomous Vehicle Technology
Tencent, Changan Auto Announce Autonomous-Vehicle Joint Venture
JD.com Delivers on Self-Driving Electric Trucks
NAVYA Unveils First Fully Autonomous Taxi
Fujitsu and HERE to partner on advanced mobility services and autonomous driving
Lucid Chooses Mobileye as Partner for Autonomous Vehicle Technology
First Look Inside Zoox's Autonomous Taxi
Apple Is Focusing on Making an Autonomous Car System
Samsung, Harman gear up for self-driving automobiles
Mitsubishi Electric Develops Automated Mapping For Autonomous Driving
Hitachi demonstrates vehicle with 11-function autonomous driving ECU
DENSO and NEC Collaborate on Automated Driving and Manufacturing
Nuro's Robot Delivery Vans Are Arriving Before Self-Driving Cars

Here's Tesla's competition in car batteries…

LG Chem targets electric car battery sales of $6.3 billion in 2020
Samsung SDI Unveils Innovative Battery Products at 2018 Detroit Motor Show
SK Innovation to produce EV batteries with 500 km range in 2018
New Toshiba EV Battery Allows 320km Charge in 6 Minutes
Daimler opens its sixth battery factory
Panasonic Opens New Automotive Lithium-Ion Battery Factory in Dalian, China
Panasonic forms battery partnership with Toyota
CATL's Chinese battery factory will be bigger than Tesla's Gigafactory
CATL to set up battery cell manufacturing in Germany
BYD to quadruple car battery output with lithium site plants
GM inaugurates battery assembly plant in Shanghai
Honda Partners on General Motors' Next Gen Battery Development
Energy Absolute Plots Asian Project Rivaling Musk's Gigafactory
European Battery Alliance (EBA) is taking shape
ABB teams up with Northvolt on Europe's biggest battery plant
Chinese Battery Maker to Open Factory Next to Swedish EV Plant
Sokon aims to be global provider of battery, electric motor, electric control systems
BMW Group invests 200 million euros in Battery Cell Competence Centre
BMW Brilliance Automotive opens battery factory in Shenyang
BMW announces partnership with solid-state battery company
Toyota promises auto battery 'game-changer'
VW increase stake in solid-state batteries with $100M investment
Hyundai Motor developing solid-state EV batteries
Continental eyes investment in solid-state batteries
Wanxiang is playing to win, even if it takes generations
UK provides millions to help build more electric vehicle batteries
Rimac is going to mass produce batteries and electric motors for OEMs
Elon Musk Has A New Battery Rival (Romeo Power) Packed With His Ex-Employees
Bracing for EV shift, NGK Spark Plug ignites all solid-state battery quest

ProLogium Technology Will Produce First Next Generation Lithium Ceramic Battery For EVs

Here's Tesla's competition in storage batteries…

Panasonic
Samsung
LG
BYD
AES + Siemens (Fluence)
GE
Bosch
Mitsubishi Hitachi
NEC
Hitachi Chemical
Toshiba
ABB
Saft
Johnson Contols
EnerSys
SOLARWATT
Schneider Electric
sonnenBatterie
Kokam
Sharp
Eaton
Nissan
Tesvolt
Kreisel
Leclanche
Lockheed Martin
EOS Energy Storage
ESS
UniEnergy Technologies
electrIQ Power
Belectric
Sunverge
Stem
ENGIE
Exergonix
Redflow
Renault
Fluidic Energy
Primus Power
Simpliphi Power
redT Energy Storage

Murata
Bluestorage
Adara
Blue Planet
Clean Energy Storage Inc.
Swell Energy
Tabuchi Electric
Younicos
Orison
Moixa
Powin Energy
Nidec
Powervault
Schmid
24M
Terra E
Eelpower
Ecoult

And here's Tesla's competition in charging networks…

Electrify America: Our Plan
EVgo Installing First 350 kW Ultra Fast Public Charging Station In The US
Tritium's First 350-kW DC Fast Chargers Coming To U.S.
Porsche plans network of 500 fast chargers for U.S.
BMW, Daimler, Ford, VW, Audi & Porsche form IONITY European 350kw Charging Network
E.ON to have 10,000 150KW TO 350KW EV charging points across Europe by 2020
Enel kicks off the E-VIA FLEX-E project for the installation of European ultra-fast charging stations
Europe's Allego "Ultra E" ultra-fast charging network now operational
Allego & Fortum Launch MEGA-E High Power Charging network for Europe's Metropolitan areas
Chargepoint Europe Gets $82 million in new funding from Daimler
ChargePoint - InstaVolt partnership; more than 200 UK rapid charge systems
UK's Podpoint installing 150kW EV rapid chargers this year; 350kW by 2020
UK National Grid plans 350kW EV charge point network
ChargePoint Express Plus Debuts: Offers Industry High 400 kW DC Fast Charging
Fastned building 150kw-350kw chargers in Europe
ABB powers e-mobility with launch of first 150-350 kW high power charger
Shell buys European electric vehicle charging pioneer NewMotion
BP buys UK's largest car charging firm Chargemaster
Total planning EV charging points at its French stations

Yet despite all that deep-pocketed competition, perhaps you want to buy shares of Tesla because you believe in its management team. *Really???*

Elon Musk, June 2009: "Tesla will cross over into profitability next month"
Tesla SEC Correspondence Shows A Pattern Of Inaccurate, Incomplete & Misleading Disclosures

Tesla: Check Your Full Self-Driving Snake Oil Expiration Date
As Musk Hyped and Happy-Talked Investors, Tesla Kept Quiet About a Year-Long SEC Probe
The Truth Is Catching Up With Tesla
With Misleading Messages And Customer NDAs, Tesla Performs Stealth Recall
Who You Gonna Believe? Elon Musk's Words Or Your Own Lying Eyes?
How Tesla and Elon Musk Exaggerated Safety Claims About Autopilot and Cars
When Is Enough Enough With Elon Musk?
Musk Talked Merger With SolarCity CEO Before Tesla Stock Sale
Debunking The Tesla Mythology
Tesla Continues To Mislead Consumers
Tesla Misses The Point With Fortune Autopilot Story
Tesla Timeline Shows Musk's Morality Is Highly Convenient
Tesla Scares Customers With Worthless NDAs, The Daily Kanban Talks To Lawyers
Tesla: Contrary To The Official Story, Elon Musk Is Selling To Keep Cash
Tesla: O, What A Tangled Web We Weave When First We Practice To Deceive
I Put 20 Refundable Deposits On The Tesla Model 3
Tesla's Financial Shenanigans
Tesla: A Failure To Communicate
Can You Really Trust Tesla?
Elon Musk Appears To Have Misled Investors On Tesla's Most Recent Conference Call
Understanding Tesla's Potemkin Swap Station
Tesla's Amazing Powerwall Reservations

So in summary, Tesla is losing a massive amount of money even *before* it faces a huge onslaught of competition (and things will only get worse once it does), while its market cap tops those of both Ford and GM despite a $2.8 billion+ annualized net loss selling a bit over 150,000 cars while Ford and GM *make* billions of dollars selling 6.6 million and 9 million cars respectively. Thus this cash-burning Musk vanity project is worth *vastly* less than its nearly $70 billion fully-diluted enterprise value and—thanks to its roughly $31 billion in debt and purchase obligations—may eventually be worth "zero."

Elsewhere among our short positions…

We continue (since late 2012) to hold a short position in the Japanese yen via the Proshares UltraShort Yen ETF (ticker: YCS) as Japan continues to print nearly 8% of its monetary base per year after *nearly quadrupling that base since early 2013*. In fact, of the world's three largest central banks (the Fed, ECB and BOJ), the BOJ is now the only one not on a path to tightening. One result of this insane policy (in 2018 the BOJ has bought 75% of JGB issuance!) is there are days when *no 10-year JGBs trade in the cash market!* The BOJ's balance sheet is now larger than the entire Japanese economy-- it owns over 45% of all government debt and over 75% (!) of the country's ETFs by market value, and Abe's October 2017 reelection gave him the green light to continue this path of fiscal and monetary irresponsibility from which there is no longer any escape.

Just the interest on Japan's debt consumes 9.2% of its 2018 budget despite the fact that it pays a blended rate of less than 1%. What happens when Japan gets the 2% inflation it's looking for and those rates average, say, 3%? Interest on the debt *alone* would consume over 27% of the budget and Japan would have to default! But on the way to that 3% rate the BOJ will try to cap those rates by printing increasingly larger amounts of money to buy more of that debt, thereby sending the yen into its death spiral.

When we first entered this position USD/JPY was around 79; it's currently in the 110s and long-term I think it's headed a *lot* higher—ultimately back to the 250s of the 1980s or perhaps even the 300s of the '70s before a default and reset occur.

We continue to hold a short position in the Vanguard Total International Bond ETF (ticker: BNDX), comprised of dollar-hedged non-US investment grade debt (over 80% government) with a ridiculously low "SEC yield" of 0.89% at an average effective maturity of 9.4 years. As I've written since putting on this position in July 2016, I believe this ETF is a great way to short what may be the biggest asset bubble in history, as with Eurozone inflation now printing 2.0% annually these are long-term bonds with significantly *negative* real yields. In June the ECB announced that in Q4 it will reduce its monthly bond buying program from €30 billion/month to €15 billion/month, and then will eliminate it completely at year-end, thereby removing the biggest source of support for those bonds' bubble prices. The current net borrow cost for BNDX is just 0.25% a year (plus the yield) and as I see around 5% potential downside to this position (vs. our basis, plus the cost of carry) vs. at *least* 30% (unlevered) upside, I think it's a terrific place to sit and wait for the inevitable denouement.

We also remain short the Russell 2000 index (IWM) which, with a trailing GAAP PE ratio of 88 (no, that is not a misprint) is easily the most egregiously overvalued of the major U.S. equity indexes.

And now for the longs…

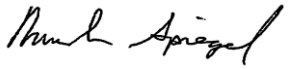
In June it was announced that one of our smaller (unfortunately!) long positions, Echelon Corp. (ticker: ELON), an "industrial internet of things" networking company, would be acquired for $8.50/share, which was more than a 100% premium over its previous closing price. This was a relatively small position for us as the company had shown no improvement in either revenue or cash burn during the over two years that we owned it, and yet with an EV of only around $2 million and $30 million of high-gross-margin revenue, I figured it was a sort of "call option" on *someone* buying it, and eventually someone did. Following the acquisition announcement I sold the position for $8.23/share, which was approximately a 52% gain over our basis.

We continue to own Aviat Networks, Inc. (ticker: AVNW), a designer and manufacturer of point-to-point microwave systems for telecom companies, which in June announced a restructuring program that the company says will enhance both growth *and* profitability. However, it will take some time to find out, as after paying an immediate one-time restructuring charge of $3 million, Aviat expects to save the same amount annually but not until FY 2020 which begins in July 2019. In May Aviat reported a mixed Q3 for FY 2018, with revenue up both sequentially and year-over-year but with several one-time expenses causing

a larger GAAP loss than the previous year. However, for FY 2019 (beginning July 2018) the company guided to at least $260M of revenue (approximately 5% better than 2018) and non-GAAP EBITDA of at least $13 million. Because of its approximately $340 million of U.S. NOLs, $16 million of U.S. tax credit carryforwards, $232 million in foreign NOLs and $4 million of foreign tax credit carryforwards, Aviat's income will be essentially tax-free for many years; thus, GAAP EBITDA less capex is essentially equal to earnings. So if the non-GAAP number will be $13 million and we take out $2 million in share comp and $4 million in capex we get $7 million in earnings multiplied by, say, 16 = $112 million + $30 million in net cash = $142 million/5.35 million shares = a valuation of over $26/share. And if Aviat can collect 2% on its cash that's another several hundred thousand dollars a year in income, leaving some "fudge factor" for higher capex or share comp. Please keep in mind that in this analysis both the cash and the share count need to be adjusted for a new $7.5 million buyback program while the cash needs to be adjusted for the aforementioned restructuring costs; I'll update those figures as soon as they're available.

We continue to own the PowerShares DB Agriculture ETF (ticker: DBA), bought in December when I looked around for the most beaten-down sector I could find that wasn't a "buggy whip" (something on the way to obsolescence) or cyclical from a *demand* standpoint, and came up with "agricultural commodities." How beaten down is this sector? Since its last peak in mid-2011 through the mid-December date I put on the position, the "DBIQ Diversified Agriculture Index Excess Return" on which DBA is based was down around 40% while the S&P 500 was up around 100%: in fact, as of now (June) that index is the lowest it's been since 2002! Here's an interesting argument as to why many ag commodities have gotten as cheap as they have (crop insurance allowed debt-fueled overproduction) and why they probably can't get much cheaper (production is now capped by maxed-out farmer balance sheets and may soon start contracting due to climbing interest rates). Agricultural products have *always* been cyclical and—considering the general inflation we've had since prices were last here in 2002 (the CPI is up over 35%)—this *could* be the washed-out bottom of the cycle, and now we may have weather on our side. Also, ag prices can be a great counter-cyclical to stocks and you *know* how I feel about the current price of *those*. In June this position took a bit of a hit thanks to trade war fears, but the world's population (and hunger) continue to grow and food tends to be internationally fungible.

Thanks and regards,



Mark Spiegel