



Bill Smead
Chief Investment Officer



Cole Smead, CFA
President
Portfolio Manager

Tesla and GameStop: Pass the Dutchie?

Dear fellow investors,

*This generation
Rules the nation*

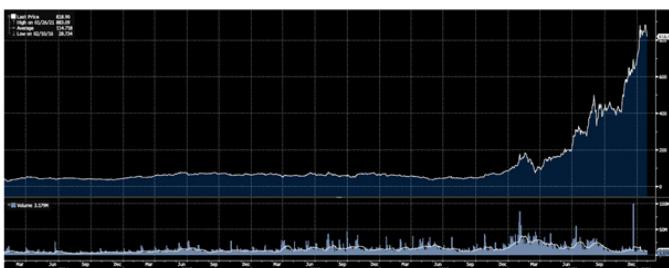
— Musical Youth, “Pass the Dutchie”

We have enjoyed watching what happens in the late stage of a financial euphoria episode play out in the escapades of millennial investors on Reddit, who seem to “rule the nation.” While politicians, regulators, the media and others try to sort this out, we thought some historical perspective might be helpful. How do Tesla (TSLA) and GameStop (GME) compare from a fundamental analysis standpoint and what do these circumstances tell us historically?

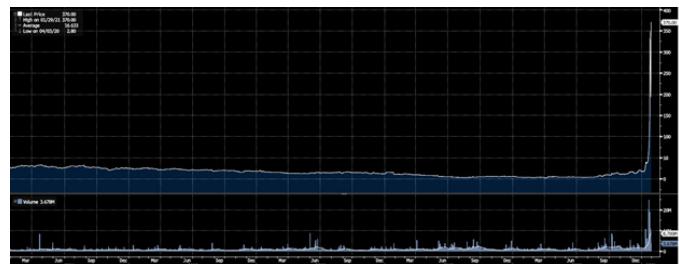
*I say, pass the Dutchie pon the left hand side
Pass the Dutchie pon the left hand side
It a gonna burn*

1. Both stocks have had meteoric appreciation.

TSLA



GME



2. Elon Musk and millennial stock/option buyers who congregate on Reddit both “pass the Dutchie” legally.
3. Both have a cult of investors.
4. Both have a cult leader in Elon Musk and Keith Gill, who is the original gangster on Reddit’s message board associated with targeting stocks with large short sale positions. Both have crucified professional short sellers, even ones with very successful histories of fleshing out financial chicanery.
5. Both stocks have traded with almost no regulation by the Federal Government and have flouted SEC regulation (remember 4/20 and “funding secured”).
6. The euphoria in these stocks could easily cause massive stock market failure.
7. Both could get crushed in the next bear market like similar stocks have done in the past in the aftermath of prior financial euphoria episodes.

*So I stopped to find out what was going on
(How does it feel when you've got no food?)
'Cause the spirit of Jah, you know, He leads you on
(How does it feel when you've got no food?)
There was a ring of dreads and a session was there in
swing
(How does it feel when you've got no food?)
You could feel the chill as I seen and heard them say
(How does it feel when you've got no food?)*

How are Tesla and GameStop different?

1. "So I [we] stopped to find out what was going on" with the fundamentals of these companies. GameStop has a long history of profitability, but not a bright future. Tesla had an accounting profit recently, primarily because of government subsidies. In comparison, you might say that Musk has been more of a stock market prophet than a corporate profit.

2. Tesla eats capital, while GameStop has a history of throwing off free cash flow.

3. Tesla has a cult of individual investors who could tell Joe Kennedy how much they have made at the shoeshine stand and has added a full Wall Street coterie of 41 analysts following it. Tesla also received entry into the S&P 500 Index at a 1.6% weighting. As we have said before, if we added a stock which had gone up 700% in the year before we bought it, we would expect to get fired. GameStop has eight analysts and virtually inconsequential institutional sponsorship.

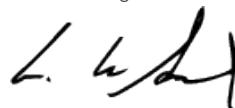
4. Tesla is governed by a "spirit of Jah" and Elon Musk seems as invincible as Superman, ex the kryptonite. Prior to the OG Keith Gill coming along, nobody inside of GameStop held any cultural importance. "There was (is) a ring of dreads and a session was there in swing."

In conclusion, we believe most of the revenue growth fantasy stocks in this cycle "gonna burn" like the song says. We believe most investors will "feel the chill as I seen" when the stock market failure shows up over time. John Kenneth Galbraith said it best when he wrote in his seminal book, *A Short History of Financial Euphoria*:

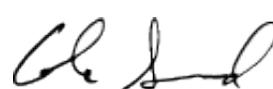
"A further rule is that when a mood of excitement pervades a market or surrounds an investment prospect, when there is a claim of unique opportunity based on special foresight, all sensible people should circle the wagons; it is time for caution. Perhaps, indeed, there is opportunity. Maybe there is that treasure on the floor of the Red Sea. A rich history provides proof, however, that, as often or more often, there is only delusion and self-delusion."

Pass the Dutchie. 

Warm regards,



William Smead



Cole Smead, CFA

The information contained in this missive represents Smead Capital Management's opinions, and should not be construed as personalized or individualized investment advice and are subject to change. Past performance is no guarantee of future results. Bill Smead, CIO and Cole Smead, CFA, President and Portfolio Manager, wrote this article. It should not be assumed that investing in any securities mentioned above will or will not be profitable. Portfolio composition is subject to change at any time and references to specific securities, industries and sectors in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. In preparing this document, SCM has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. A list of all recommendations made by Smead Capital Management within the past twelve-month period is available upon request.

This missive and others are available at www.smeadcap.com.

