

Will the New Mass Market Model Help Tesla?

The new Tesla Model 3 is intended for a mass market unlike previous models. The basic car will be listed at \$35,000 although buyers who have already reserved their cars are reporting paying closer to \$50,000 for various bells and whistles. Tesla is aiming to produce 240,000 cars a year, up from about 100,000 right now. You will have to take a test drive to see if you like the new model but how about the stock? Will the new mass market model help Tesla?

Will the Stock Go Down?

CNBC is skeptical that Tesla can make a profit mass producing this model at this price and says **Tesla shares will plunge.**

“On net, initial production ramp for the Model 3 looks like it may be better than expected – but investors should continue to focus on whether the Model 3 can be produced profitably and with strong initial quality,” Sacconaghi wrote in a note to clients Monday. “Specifically, we worry that if Tesla has struggled to make money (and produce GMs [gross profit margins] above 25%) on its \$100,000 Model X and Model S sedans, that it may be difficult for it to make money on Model 3.”

The analyst reaffirmed his market perform rating for Tesla and price target of \$250, representing 31 percent downside from Friday’s close.

A lot of quality car companies have gone away over the years. To profit in the auto industry you need to keep producing excitement, quality, competitive price and volume as needed. You need to avoid labor issues as well.

Tesla Share Price

Tesla has been an exciting stock, gaining from \$223 a share a year ago to a high of \$382 a couple of weeks ago. But in the last few days the stock has been going down, closing at \$361.60 on July 3. Will the stock continue to go down? Is it time to sell Tesla? *Forbes* suggests selling your Tesla stock on the model launch, which is right now.

Issues in China’s Market

Carmakers sold 28 million cars in China in 2016. The USA had its best car buying year and came in at 17.55 million. In the EU the total was 15.6 million. To make money mass marketing cars today a carmaker needs a presence in China. Here is where Tesla might have a problem. *Barron’s* says **Tesla might have a China problem.**

Tesla wants to become something of a big-data play – less about cars and more about collecting all sorts of driving information from its customers. That approach could help it compete in the U.S., not just with traditional car makers but also with Silicon Valley’s tech behemoths. But Morgan Stanley analyst Adam Jonas says the big thinking could cause Tesla to run into issues in China, an important region where the company has already struggled to break through.

In a note Friday, Jonas noted that Tesla could face a number of roadblocks as it tries to sell increasingly high-tech cars to Chinese consumers.

The Chinese communist government keeps a firm hand on information, information access and data transfer. Tesla could have a tough time breaking to China’s lucrative market.

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