

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## Investment and EV Price War Winners

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Over the years price wars between automakers have been common. Then came the Covid pandemic, supply chain stoppages, shortages of critical parts and increased pricing power for automakers. Over the last two years, companies like GM and Ford have made as much money as they made in the prior four years. Today auto manufacturers are aiming to increase their market share. Thus we are seeing price cutting in the realm of electric vehicles. Investment and EV price war winners is our focus of interest today. Who wins an EV price war between [Tesla](#), Ford, Hyundai, Mercedes-Benz, and GM? Should the winner of this battle win your investments?

## How Does an EV Price War Matter for Investors?

The point of a price war is to get more car sales. Automakers trade a high profit for a few cars for a small profit for many cars. The break even price of a product is calculated as follows:

Break-Even point (units) = Fixed Costs ÷ (Sales price per unit – Variable costs per unit)

It costs a lot of money to design a new vehicle, retool assembly lines, build new facilities when needed, and maintain its business operations. These are fixed costs for a new vehicle. Then the company needs to pay for new parts, pay workers, and advertise. These are variable costs. The actual numbers are complicated but the bottom line is that a company does better if it sells lots and lots of vehicles than if it sells a few.

## Investing in Electric Vehicle Manufacturers

How all of this matters is that when the auto company does it right it has lots of profits and when it does not it loses money. In the first case the stock price goes up and in the other the stock price goes down. People invested in Tesla for years because its stock price continued to go up. In 2010 the stock sold for \$1.28 a share and that rose to \$21 a share by the end of 2018. It surged in 2020 to peak at \$407 a share in November of 2021 only to lose ground in fits and starts to a low point of \$123 a share at the end of 2022. Since then the stock has rallied to \$207 and then fallen to \$160.

Meanwhile, Ford's share price has ranged from a dollar to four dollars a share and trades currently at \$1.02. GM has traded in the \$30 to \$40 range for the last year. Ford sold 4.2 million vehicles last year and GM sold 2.3 million vehicles. Meanwhile Tesla sold 1.3 million in 2022. All of Tesla's vehicles are electronic while only a fraction of the vehicles manufactured by GM, Ford, Mercedes-Benz, and Hyundai are EV. Each of these companies is moving into the EV sector at its own pace and can effectively subsidize EV development expenses with their profits on gas and diesel-powered vehicles.

An issue that currently affects Tesla more than the rest is that much of the infrastructure for EVs is yet to be developed. A recent estimate is that 90% of the batteries needed to support EVs at their expected numbers do

not exist today! Companies that successfully balance EV versus gas and diesel vehicle production may have less of a problem with this issue.

### Who Wins in the Long Term EV Battle?

The electric vehicle market is still developing despite companies like Tesla selling EVs for years. The world is moving toward the majority of vehicles being electric. This tells us that the market will continue to expand for years to come. Thus, demand will always be there. Supply, who can produce cars rapidly and cost-effectively, will be a major issue. Another will be finances. Companies get the money they need to develop and manufacture new vehicles from previous and current vehicle sales and from selling stock.

### Investing in a Story Stock Versus an Established Company

As Tesla grew in its first years it was a story stock. Tesla was going to change the world and owning a Tesla was a cool thing. Now we see established companies like Mercedes-Benz, Hyundai, GM and Ford enter the picture. These companies make the majority of their money selling gas and diesel-powered vehicles. They have factories that they can retool to make electric vehicles instead of having to build from scratch.

From the viewpoint of the established automakers, a price war in just the EV market should be something that they can win against Tesla, at least in the USA. Their stocks sell at substantially lower P/E ratios which means they are less likely to drop significantly compared to Tesla with its much higher P/E ratio.

### How Much Does Quality Matter in the EV Market?

An EV manufacturer needs to make their [electric vehicles profitable](#) in order to survive and prosper. The American automotive industry has a sad history of sacrificing quality for quantity. Cutting new EV prices may attract more customers but will it result in more sales and profits over the long term if the fast and cheap approach results in cars with problems?

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