Trading Brief for Tesla - How did we make profits?

In this brief, we will explore recent developments concerning the darling of Wall Street, the stock of Tesla, Inc. In extension to our earlier trading briefs, we focus more on the stock than the entire market perspective. We will talk about what has happened, what will happen, and what our subsequent actions should be to insulate ourselves from market volatility and ride the gains like a professional trader. Let us get into it.

Last month, we sent trading alerts for multiple positions in this underlying. Since the end of the previous quarter, we have advocated for prolonged exposure in Tesla. We will discuss the reasons why we did so.

Briefing Date: Oct 26, 2024

Market Focus: Equities & Options (US)

Time Horizon: 6 months to 1 year for LEAPS (currently active)

Distribution Time: Post-Market

Market Overview

The Nasdaq rose on Friday, primarily due to gains in mega-cap technology stocks like Tesla, Amazon, Apple, and Microsoft, as investors reacted positively to Tesla's sales forecast and awaited earnings from major tech companies. Despite this, the broader market saw mixed results; the Dow Jones fell due to declines in banking and fast-food stocks, while the S&P 500 remained unchanged. The market's movement was influenced by rising Treasury yields, anticipation of upcoming employment data, and the potential impact of the U.S. presidential election.

Key Points

- **Nasdaq Performance:** Up 0.56% due to tech stocks, extending its weekly winning streak.
- **Market Trends:** The Dow and S&P 500 experienced declines, which were influenced by banking sector profits, fast-food issues, and broader economic indicators.
- **Economic Factors:** Rising Treasury yields, upcoming economic reports, and the U.S. election are causing market volatility.
- **Corporate Developments:** Tesla's surge, Capri Holdings' significant drop, and anticipation for tech earnings next week.

- **Investor Sentiment:** Cautious but influenced by optimism around tech stocks and economic data suggesting a robust U.S. economy.

The market is experiencing uncertainty, and significant events, including major tech earnings and critical economic data releases, are on the horizon.

Globally, the most important news as of this writing is the loss of the current coalition government since 2009 in Japan in their Sunday elections. This is a massive surprise to the markets, and therefore, we may expect the Bank of Japan's intervention to lead to volatile outcomes in equity, debt, and forex markets. This could be cascaded to the Europe open and, therefore, to the US markets later in the day. We are prepared for any event as we constantly hedge our exposures.

Our current active trades are resilient and may need slight adjustments should they be necessary. They will be posted in our community should actionable alerts come from our models.

This trading brief will go against our traditional template and capture the timeline of market events and our actions that have already happened in the last few days. Therefore, you will see charts at different time stamps, and our actions are taken to summarize the asset behavior and our ever-dynamically changing market perspectives.

Trade 1 on September 26, 2024 - Bull Call Spread (Long)

A Bull Call spread is a long trade in which the position appreciates when the underlying rises and depreciates when it falls. Both beginners and experienced traders can deploy this strategy to prepare for and capture profits when the stock rises. This strategy involves buying a Call Option near the stock's price (ideally slightly above) and selling a Call option farther away from the stock price (above), both in the same expiration series.

For example, we sent out an alert on September 26th for TSLA Bull Call Spread on November 15, +280c/-310c

It is to be read as In the option chain of Tesla's November 15 expiry, we buy a call option at 280 strike and sell another call option at 310 strike. We pay for the 280 call (also called Buy Leg or Long Leg) and receive credit for selling the 310 call (also called Sell Leg or Short Leg), forming a bull call spread combo position of options with both long and short legs.

This is a net debit trade because we pay more and receive less. However, it is still a great alternative to reduce the cost of buying an option, as we sell a higher strike call for credit. So, the trade looks as follows.

Buy to Open Tesla Nov 15 280 Call (debit)

Sell to Open Tesla Nov 15 310 Call (credit)

Net debit paid to open this position: $8.25 /contract - $825 for one contract.

This position was opened on the expectation that the stock would rise further, leading to the significant events of Robotaxi and Earnings in October. The chart below shows the price point on September 26.

Important things to remember

- Theta: Time value erodes over time, and options lose value as expiration approaches. So, it may be suitable for the sell leg but harmful for the buy leg.
- The max profit is limited because of the sell leg above. If the stock moves past the sell leg, the profits from the buy leg going deep in the money will be limited and capped by losses incurred by the sell leg.
- Ideally, we want the sell leg to expire worthless and the stock to rise just before the sell leg, pushing the buy leg deep into the money to maximize profit.
- It is best to buy a 30-delta option leg and sell a ten-delta or lower option leg for a low cost for a decent profit. Delta means how much the option price moves w.r.t the underlying, so for a stock spot price of 250, a 30 delta option would be roughly around 265-270 (just a bit higher), and a 10 delta option would be even more away, so the likelihood of touching that level is low; hence we sell farther.
- Both options are traded on the same expiration series.

Let us take a look at the trade from the chart below. As you can see, the price closed at a resistance level on the daily chart and is about to reverse its trajectory. We still bought this spread, knowing this was a hazardous play. Why? Based purely on the fundamental expectation that the Robotaxi event will be successful and combined with the earnings. However, it turned out that the market did not receive the event well, and the stock tanked a day later, incurring a loss to this position.

So, how did we manage the position?

Chart

We know the stock is robust and has much potential for the upside. So, we stayed in this position and closed our sell leg in profits (remember that stock fell, so the sell leg 310 Call has about 90% unrealized profit). But, our long leg / buy leg at 280 Call also has a vast unrealized loss. So, a few days later, we averaged by buying two more of those 280 calls when the stock price was at the 219 level, making the total average cost of 280 calls $7.56

Strats Team Sep 26th at 3:34 PM

@everyone New Trade Alert: TSLA Bull Call Spread Nov 15 +280c/-310c Filled @ $8.25

2 replies

Strats Team Oct 11th at 8:08 PM

Closed the Sell Leg of the option 310 Call in profits

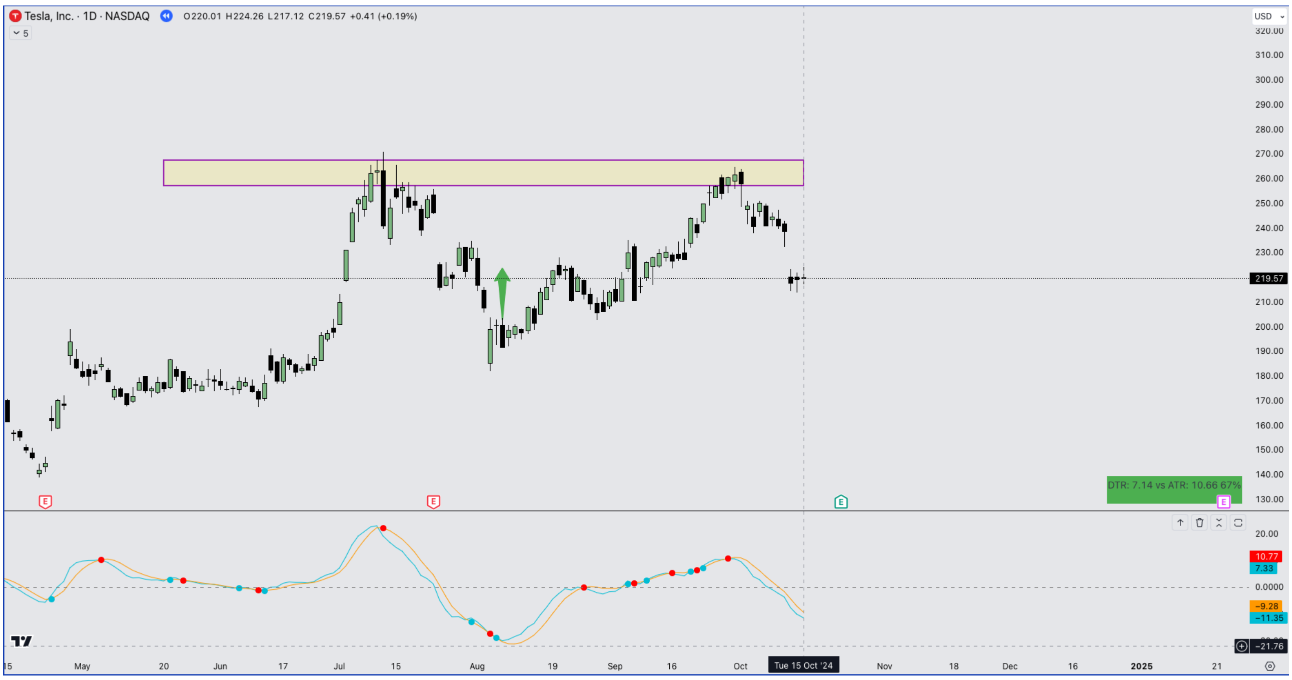
Kept the Buy leg of option 280 Call open

Averaged the Buy leg of option 280 Call @ a second order for 2x the quantity of current 280 Calls

Order Filled @ 2.27 (2x the quantity of initial bull call spread)

New Average $7.56

We stayed in the position while everyone was panicking after the stock fell to 218 levels. We averaged the cost to $7.56, but it is still useless because the options are further out of the money, as a 280 strike is less likely to be hit when the stock is trading at 218-219 levels. The implied volatility has passed away after the Robotaxi event. (Implied volatility is just a fancy word for market participants' interest in those options when a big event is on the horizon, e.g., earnings, press release, dividends, product launch, etc. IV drops after the event has passed. IV causes the options prices to rise, and lack of IV means prices drop - suitable for sellers, bad for buyers.)



Earnings are just around the corner, so we deployed another trade. But first, we closed this long position as buyers and reverted to our traditional selling option role.

Strats Team Oct 16th at 6:36 PM
Closed TSLA 3 Long Calls @ $1.52

Booked Loss on Long 280 Nov Calls: $7.56 - $1.52 = -$6.04 /contract and for (3x total contracts after averaging) = -$18.12
Booked Profit on 1 Sell 310 Nov Call = $754

Net Loss on TSLA Bear Call Spread = $10.58 or $1058 for the position.

We have a hedge trade open taken recently here:
https://stratslabsworkspace.slack.com/archives/C07M910944W/p1729008162450379

We will close and record the position only after closing the hedge. This should break us even or slightly in profits as TSLA will rise in earnings next week.

> Strats Team
> @everyone New Trade Alert: Bull Put Spread on TSLA Dec 20 -230p/+225p; Order Filled @ -$2.95
> Selling a slightly deep-in-the-money option to collect more premium for less risk on its rise towards earnings next week.
> Thread in # all-trades | Oct 15th | View message

Trade 2 on October 15, 2024 - Bull Put Spread (Long)

We sold a bull put spread (check this explanation) for the Tesla December Series.

Strats Team Oct 15th at 6:02 PM
@everyone New Trade Alert: Bull Put Spread on TSLA Dec 20 -230p/+225p; Order Filled @ -$2.95
Selling a slightly deep-in-the-money option to collect more premium for less risk on its rise towards earnings next week.

Why did we do that? Why did we sell December and give more time to this position as a seller? Don't the option sellers need less time, and isn't it better to sell in October?

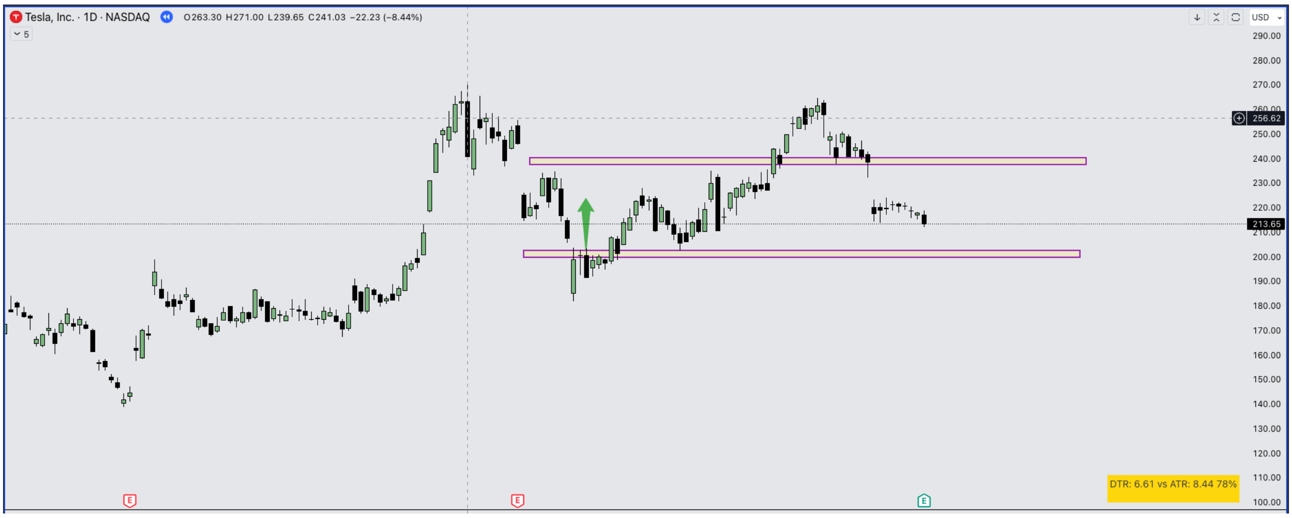
Well, yes. Option sellers need less time as theta is their friend, and time value erodes the options' prices as time passes and expiration gets closer. However, this advanced trading strategy is not well-known to many traders. Not even on the internet will you find this strategy often, rarely mentioned by someone on Reddit, etc. Why? Because this is like entering an already losing position and turning it into a profit. We receive more credit for selling deep-in-the-money options, reducing the margin necessary to open this trade.

We received a credit of $295 per contract, which is necessary to offset the losses incurred earlier from our Bull Call Spread in anticipation of Tesla's rise, which, of course, came later after the earnings.

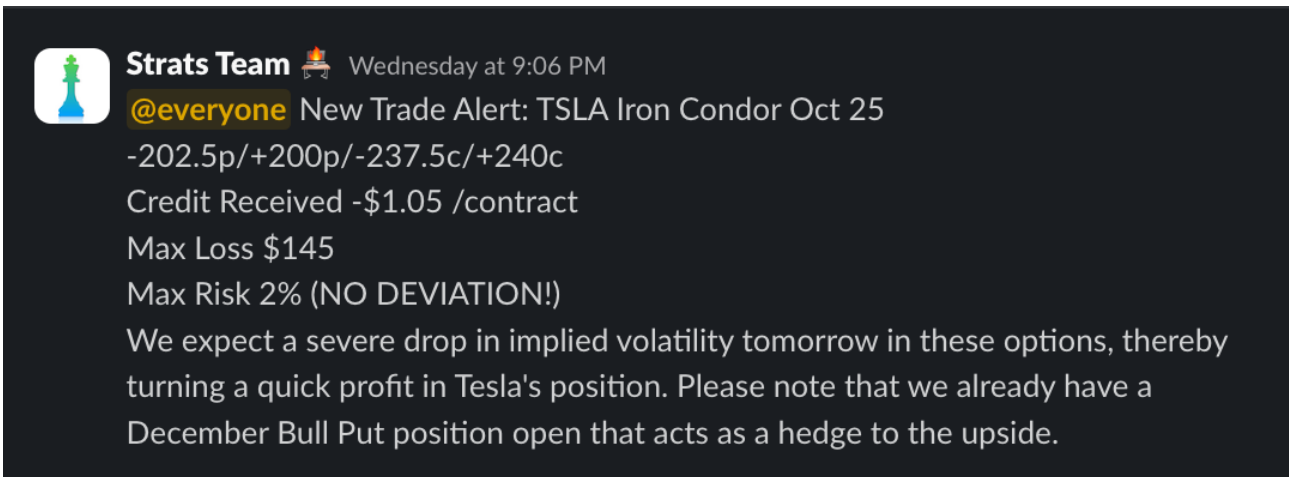
Trade 3 on October 23, 2024 - Iron Condor (Neutral)

[Read about the Iron Condor strategy here.]

A day before the earnings, we also deployed an Iron Condor selling both call spreads and put spreads at the same time in the same expiry, here in our case, October 25, as the earnings were released post-market on October 23, so with just 2 days left these options will expire worthless if the price stays between the yellow bounds as shown in the chart below.



By now, we have both a Bull Put Spread, a bullish trade (long), and an Iron Condor, a neutral trade. The long exposure from the December Bull Puts protects us if the stock rises above the yellow bound upside.


Strats Team Wednesday at 9:06 PM
@everyone New Trade Alert: TSLA Iron Condor Oct 25
-202.5p/+200p/-237.5c/+240c
Credit Received -$1.05 /contract
Max Loss $145
Max Risk 2% (NO DEVIATION!)
We expect a severe drop in implied volatility tomorrow in these options, thereby turning a quick profit in Tesla's position. Please note that we already have a December Bull Put position open that acts as a hedge to the upside.

Final Outcome

Tesla's earnings results were disappointing, and the stock surged over 23% the next day on stronger-than-expected profit margins and robust future guidance. As always, the market adjusts the actual value of an asset even though other external factors may create short-term disturbances.

Our expectations turned out to be correct, and we made an overall net profit that even covered our losses initially created from the Bull Call Spread November 15 +280c/-310c, as the stock surged upwards past the strikes of the Bull Put Spread sold for the December series. Coming to the Iron Condor, the lower bounds naturally eroded in value, and the upper bound was threatened. We exited at the market open with our Bull Put Spread to book profits and reduce our exposure in the Tesla stock. Here is an overview of the overall profit and loss of these trades.

> **Strats Team** Thursday at 7:47 PM
>
> Overall P&L for our TSLA positions.
>
> 1. Made a loss on TSLA Bull Call Spread mentioned here: $1058 ❌
> 2. Made a loss on Iron Condor Earnings trade mentioned here (current one): $500 (20 contracts) ❌
> 3. Made a profit on TSLA deep ITM Bull Put Spread Dec 23 -230p/+225p: $2600 (20 contracts) ✅
>
> TOTAL NET PROFIT: $1042 ✅
> Return (calculated on final bull put position as it is the largest) 25.4% 📈 in 18 days on a $4100 risk capital
>
> A very good trade outcome indeed.
> This is what professional trade management looks like. Pose your questions if you have. Thank you.

The whole point of establishing these trades is our opinion of Tesla stock and its potential for the upside. Is it finished here? No, we acquired LEAPS for January 2026 later and expect the stock to hit the high 300s very soon and potentially 400 by the year-end of 2025.

Warren Buffet Favorite - LEAPS (Long Term Equity Anticipated Securities)

Tesla Jan 2026 400 Call Bought at $3155

> **Strats Team** Friday at 9:09 PM
>
> @everyone New Trade Alert: TSLA LEAPS (Long Term Equity Anticipated Securities) Buy TSLA Jan 2026 400 Call; Order Filled @ $31.55

[Read this explanation on LEAPS and how they work]

Chart of Tesla after earnings results on October 25, 2024

The chart explains our reasoning for acquiring LEAPS on Tesla. If you had read our strategy guide, "The Retail Core," which describes all essential chart patterns, you would have known this pattern's potential outcome once the price broke out outside of the wede upside. [If you haven't, please get a copy here. Feedback is welcomed.]

Comprehensive analysis of Tesla, Inc. and why we bought more

Tesla's Financial Outlook

The recent third-quarter results show an improvement in automotive gross margins to 17.1% from 14.9%, alongside a reduced cost of goods sold per unit by 6.4% year-over-year. Musk's optimistic prediction for fiscal year 2025, expecting a 20-30% increase, seems supported by strong order trends in the fourth quarter. This development suggests that financial analysts must revise their earnings per share (EPS) projections for FY25 to reflect these enhanced figures.

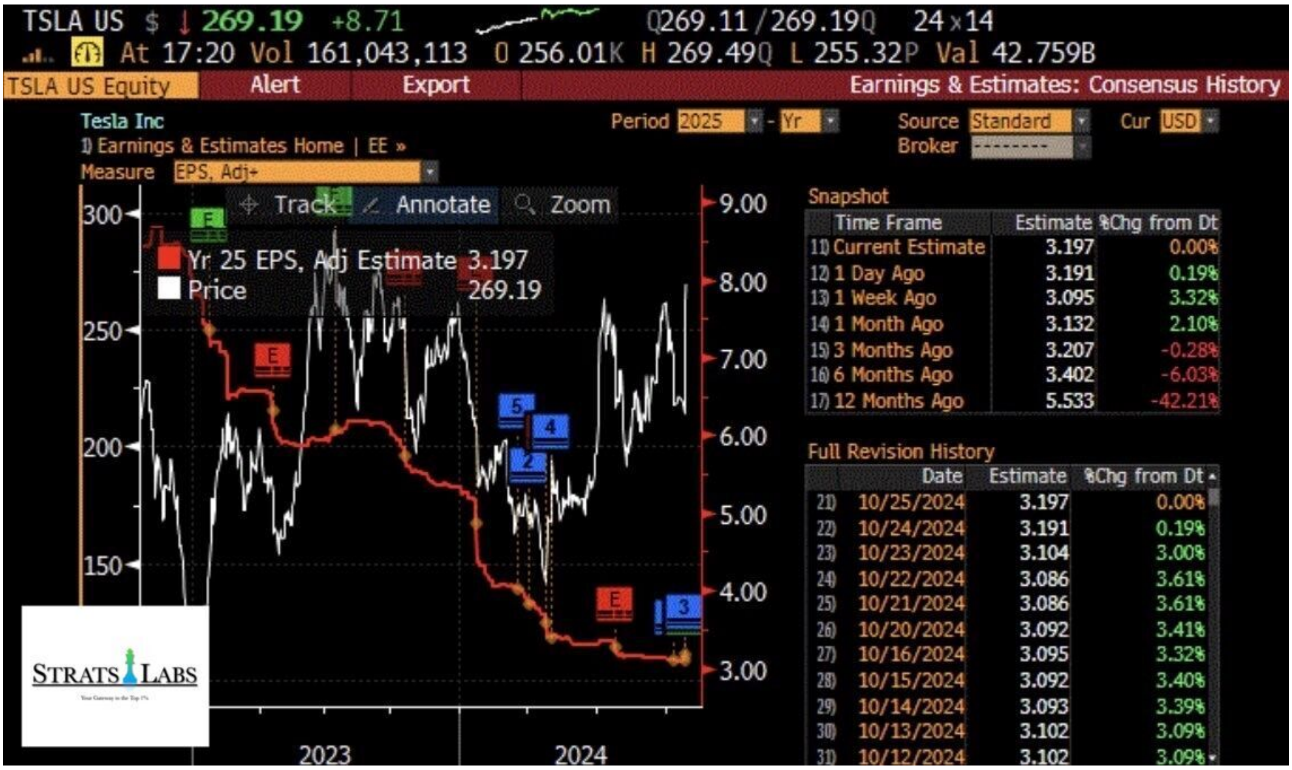
- Personal FY24 EPS estimate: $2.40, compared to Wall Street's (WS) $2.38.

- Personal FY25 EPS estimate: $3.40, against WS's $3.20.

Following the third quarter's surpassing expectations by $0.12 per share, FY24 adjusted EPS estimates are now at $2.38. However, the significant adjustment opportunity lies in FY25. Current forecasts only slightly increase FY25 EPS by $0.10 per share to $3.20, with a modest 14% increase in sales volume expected, contrasting with Musk's 20-30% guidance. Moreover, analysts are projecting an automotive gross margin, excluding regulatory credits, of just 16.1%.

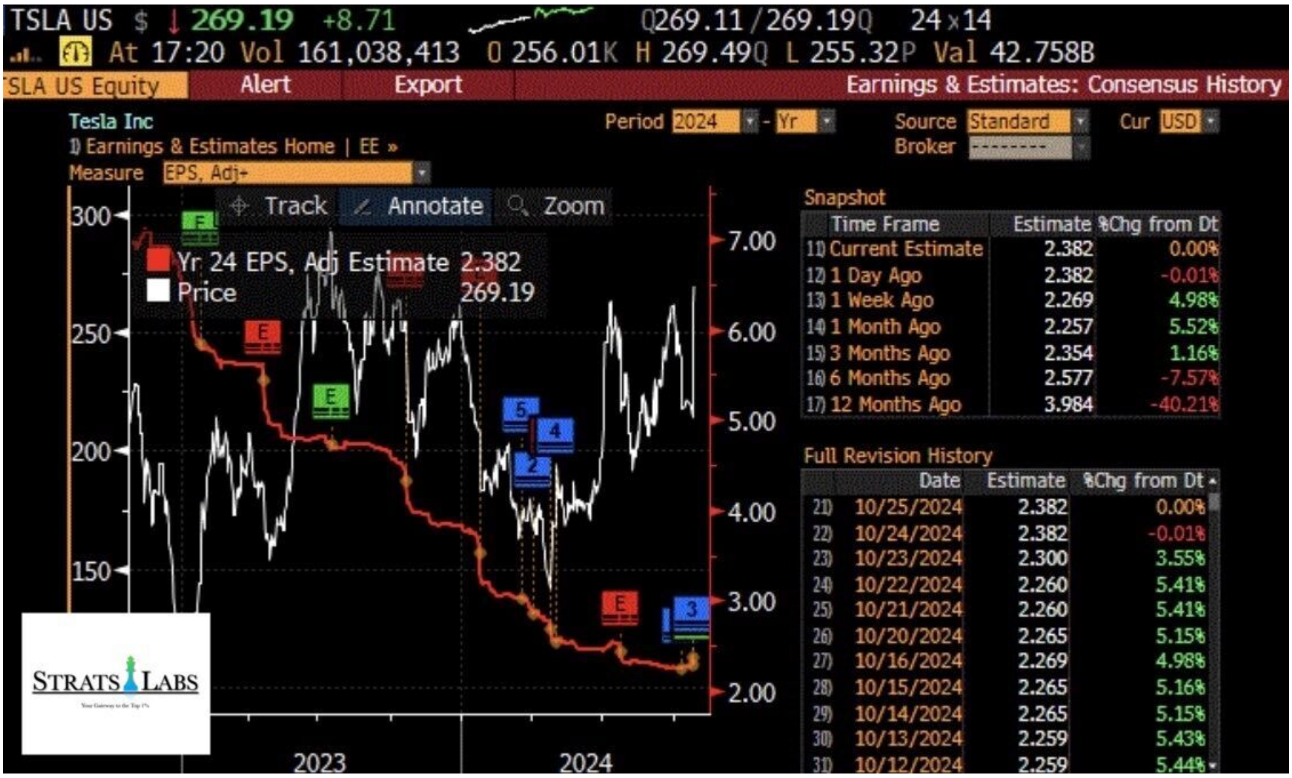
Suppose we adjust for an additional 10 percentage points in volume growth (reaching 24% year-over-year) and increase the automotive gross margin to 17.1% (from 16.0%) for FY25. In that case, my EPS estimate rises to $3.40, which I anticipate Wall Street will soon adopt. WS's FY25 adjusted EPS currently stands at $3.20, underestimating the potential by $0.20.

As projections for sales volumes and automotive gross margins for FY25 are revised upwards, Tesla's stock price will also increase.



Summary

Since we have made some profits in Tesla lately and moved them to our LEAPS for January 2026, we intend to exit only if necessary. The longer we wait, the better the stock can realize its maximum potential. Should Trump win on November 5th, 2024, election night, Elon Musk will benefit immensely from his close support of the new administration.



Therefore, we don't see the headwinds he has seen lately concerning his companies. Particularly in a low interest rate environment, the stock has more potential for the upside with its new portfolio of products such as RoboTaxis, Full Self Driving (FSD), and Optimus robots bringing in the most revenue since Tesla is an AI company with massive amounts of the training data and infrastructure necessary for their maneuvers seen lately concerning his companies. Particularly in a low interest rate environment, the stock has more potential for the upside with its new portfolio of products such as RoboTaxis, Full Self Driving (FSD), and Optimus robots bringing in the most revenue since Tesla is an AI company with massive amounts of the training data and infrastructure necessary for their maneuvers in the innovation for 21st century.

Closing Notes

This trade is valid only if the price doesn't move 3% - typically for a day or two. It's perfect for an entry on a pullback with an even lower cost. Don't consider the trade if the stock has moved beyond with an increased cost of over $4000 to open.

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http://www.optionsclearing.com/about/publications/character-risks.jsp

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This is the end of the document.