

TRADING TESLA



8 LESSONS FROM AN EPIC BEAR SMASH

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About Scott Redler



Scott Redler has been a professional trader since 1999.

After 8 years of successful trading, Scott co-founded T3 Companies, LLC in 2007 and began serving as Chief Strategic Officer of both T3 Live and T3 Trading Group.

As the financial crisis began, Scott became a recurring guest on CNBC, repeatedly warning investors of the danger ahead.

Today, Scott remains a professional trader, and regularly appears on CNBC, Bloomberg Television, and Fox Business.

His technical analysis work has been cited by media outlets including the Wall Street Journal, Reuters, MarketWatch, and Investor's Business Daily, among many others.

Scott has trained traders all around the world and has appeared in documentaries by the BBC and China's CCTV-2.

Through Redler All-Access, Scott helps traders, money managers, and individual investors view the markets through his eyes and approach each day with a steady, measured approach.

Welcome to Your 'Trading Tesla' E-book

Every once in a while, a stock comes along that defines the times. In 2019-2020, that stock was electric carmaker **Tesla** (TSLA).

It went from under \$200 to nearly \$1000 in 8 months, and dominated the news headlines along the way. Ask anybody in the business -- Tesla gets more attention than any stock out there, aside from maybe **Apple** (AAPL).

Some traders made fortunes.

Others had their hearts broken.

It was a classic case of bears ignoring powerfully bullish technical signals and bulls pushing things beyond what seemed reasonable.

And by studying this one stretch of Tesla's price action, you can learn a lot about momentum, risk management, permabears, and the power of a cult of personality.

I've distilled this run into 8 important lessons, which you'll start learning on the next page.

And if you'd like my daily commentary on Tesla, check out Redler All-Access at t3live.com/raa.

Now turn the page and start learning!

-Scott J. Redler

Positions Disclosure: At 8:30 a.m. ET on 12/17/2020, Scott J. Redler was long AAPL, AMCI, AMZN, CGC, CMLFU, FCEL, GXGX, INAQ, IPOB, IPOF, JMIA, JWS, LGVW, LI, MBIO, NIO, NOV, OZON, PSTH, PYPL, RIOT, SONO, STPK, ZS, AAPL calls, AMZN calls, BABA calls, DBX calls, DIA calls, FCEL calls, GLD calls, NFLX calls, SONO calls, SPY calls, VZ calls, WMT calls; is short SPY, AAPL calls, AMZN puts, DIA calls, FCEL calls, NIO puts, SNOW puts, SONO calls, SPY calls, TSLA puts, VZ calls

1. Understand That Some Stocks Are Just Plain Different

Some stocks have such a powerful story that investors will routinely ignore short-term bumps in the road.

Amazon (AMZN) is a great example. It's missed on earnings plenty of times and had its fair share of bad news, but people have believed in the long-term story so much that every dip gets bought. Almost no companies command that type of respect, so Amazon is basically in its own category.

Tesla is also just plain different from the crowd in that it routinely goes from "left for dead" to "can't be stopped."

Call it... the Elon Musk factor. Not many CEOs can get away with stuff like this:



(screenshot from the Joe Rogan Experience podcast)

And that's not the only trouble Tesla's survived: there was the infamous 'funding secured' tweet, which attracted the attention of the SEC:



In May 2019, Morgan Stanley said that Tesla could drop to \$10 in a worst-case scenario.

What sets Tesla apart is its unique power to be forgiven for its misdeeds.

There are core believers that are ready to juice the stock up at any given moment.

These folks are 100% convinced in Tesla's ability to succeed in electric cars, solar power, energy storage, and whatever Elon Musk comes up with next.

And there are shorts that believe the company is just one step away from failure.

So Tesla is a cornered animal.

You can't turn your back on it.

Because every time Tesla seems like it's on the verge of disaster, or that the stock's just gone too far, they pull a rabbit out of the hat.

And just when it seems like it's blue skies ahead, it stumbles.

It's safe to say that Tesla is a truly unpredictable stock -- especially for a large cap.

You never know what's coming next.

2. Price Action Rules

If you follow me on Twitter, you know that I follow the 8 & 21 day moving averages very, very closely.

They're my short-term momentum monitor. When stocks are trending above the 8 & 21 day exponential moving averages, I don't fight them.

The #1 reason traders lose on shorts is because they look at a chart and say "that's gone too far. It has to go down." But stocks like Tesla go too far all the time. It's in their very nature. If a stock goes from \$200 to \$400 in the blink of an eye, you can't count out \$500. And if it gets to \$500, you can't count out \$600, etc.

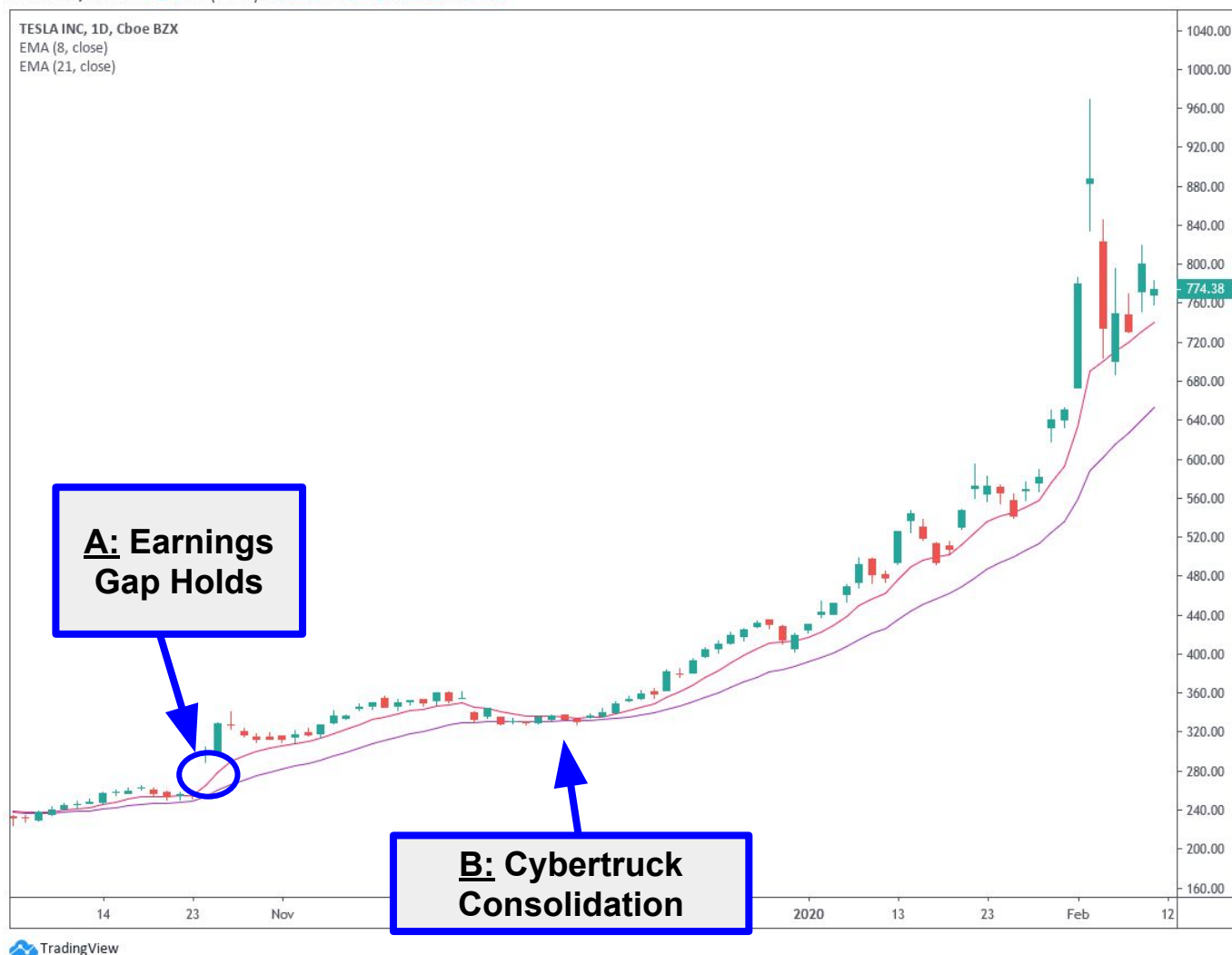
Now, before you turn the page, look at the chart below.

It is naked aside from two moving averages. What do you see? I see a lot of opportunities.



Let's talk about the first two steps of the big move:.

miket3 published on TradingView.com, February 11, 2020 21:32:32 UTC
BATS:TSLA, 1D 774.38 ▲ +3.10 (+0.4%) O: 768.79 H: 783.51 L: 758.00 C: 774.38



Let's break it down step by step.

A: The Earnings Gap Holds

On October 24, 2019, Tesla had a big pro earnings gap that woke it up. That was the moment we knew it was coming alive. And then it didn't fill a single penny of the gap. That's a sign of strength you can't ignore, and should have been a wakeup call for the shorts.

B: Cybertruck Consolidation

In mid-Nov. to mid-December, Tesla had a healthy consolidation, with the 8 & 21 day refusing to break. As we'll discuss later in more detail, this was during the Cybertruck launch drama, which was a pivotal time for the stock.

Now let's zoom out to a longer-term chart.

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C: Major Breakout Level

In [Redler All-Access](#), I'd been showing a longer-term chart identifying \$380 as a major breakout level.

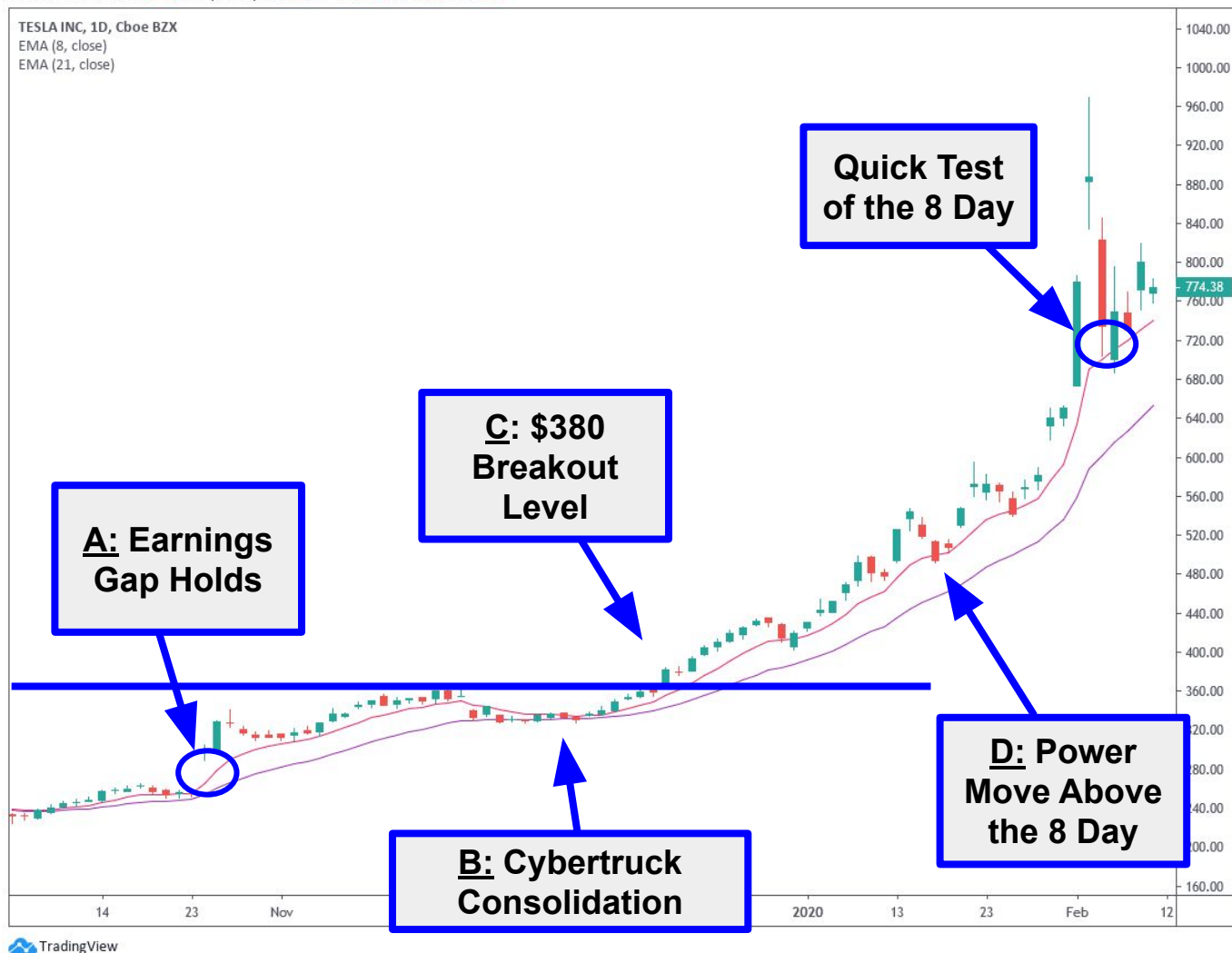
You saw before how quick the short-term move was, but it's also helpful to view things on a longer time frame because when historic levels get broken, they attract a lot of traders' attention.

Ahead of that move, I was long a \$380-\$420 call spread because I felt confident that a move over \$380 could be explosive.

Turns out, it was even more explosive than I could have imagined!

Now we're zoomed back in:

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D: Power Move Above the 8 Day

This was one of the most powerful moves I've ever seen. It was straight out of 1999.

From December 5, 2019 to February 11, 2020, Tesla did not test the 21 day a single time.

There was a quick test of the 8 day on February 6, but it was quickly reclaimed.

So what am I saying? Price action rules. Period!

This trend demanded respect! And speaking of respect...

3. Respect Stocks That Refuse to Die

Let's talk about the Cybertruck, which Elon Musk unveiled on November 21:

Here are some headlines:

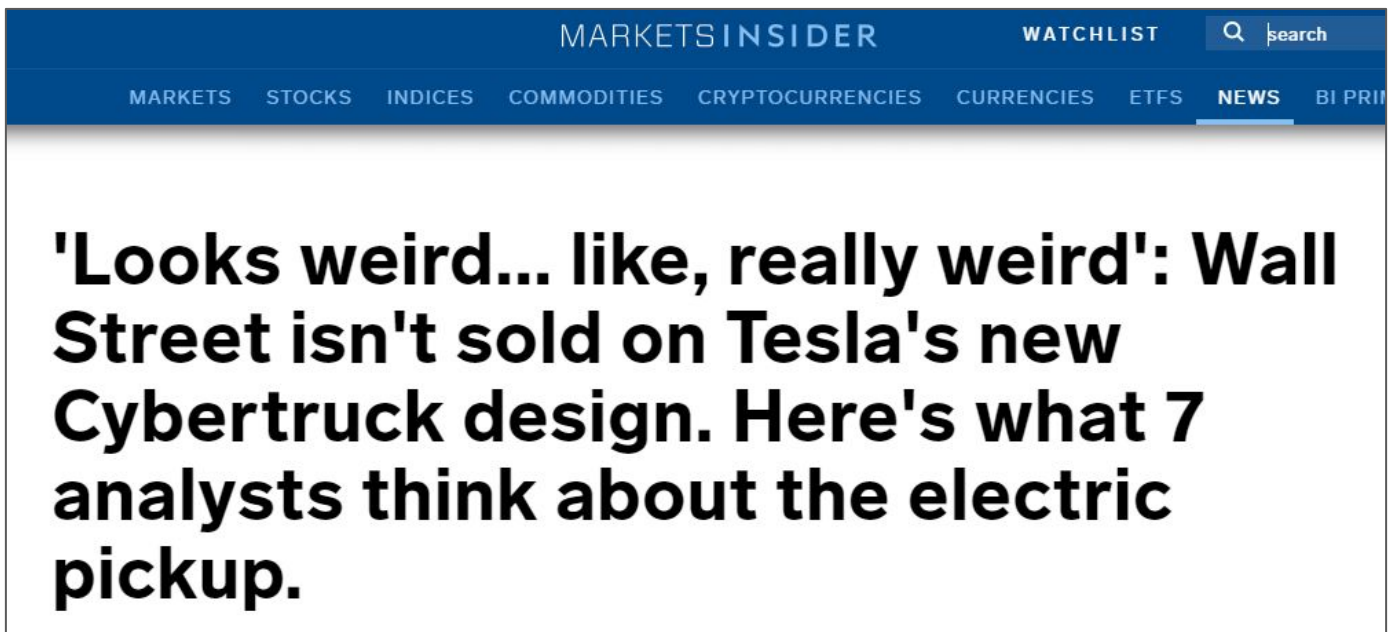


Forbes Billionaires Innovation Leadership Money Business Small Business

76,717 views | Nov 22, 2019, 01:29am

Tesla Cybertruck Is Ugly As Sin. There, I Said It

Tesla's Cybertruck window fail is funnier every time you watch it



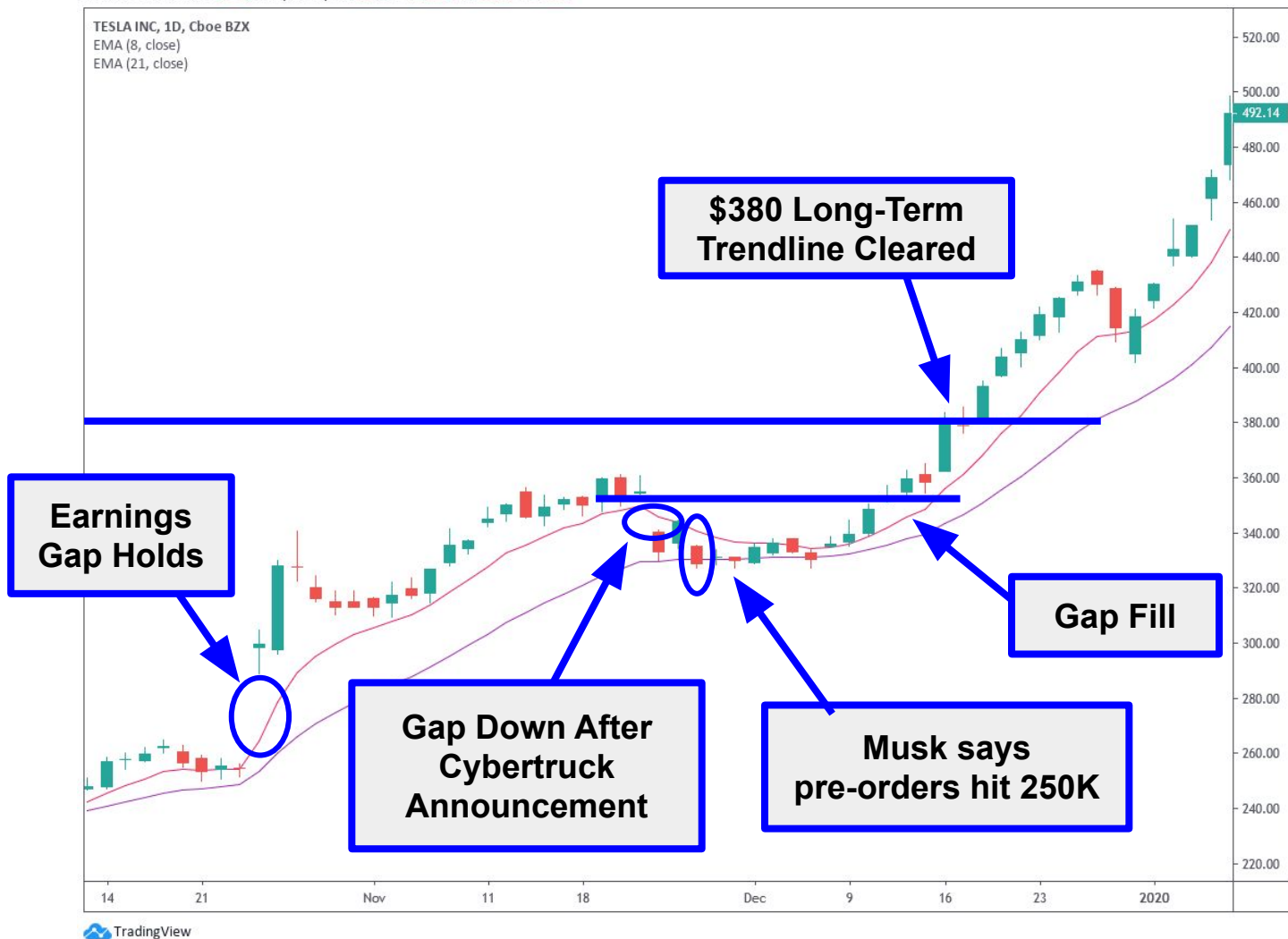
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'Looks weird... like, really weird': Wall Street isn't sold on Tesla's new Cybertruck design. Here's what 7 analysts think about the electric pickup.

But how did the chart react to the Cybertruck launch, which included Elon Musk accidentally breaking a window? Let's move in for a closer look:

miket3 published on TradingView.com, February 12, 2020 14:18:32 UTC
BATS:TSLA, 1D 774.38 ▲ +3.10 (+0.4%) O: 768.79 H: 783.51 L: 758.00 C: 774.38



Tesla gapped down after the Cybertruck announcement.

And then, on November 26, Elon Musk tweeted that preorders hit 250,000, which basically nullified all of the criticism.

By refusing to break the 8 & 21 day, Tesla was telling you it wasn't going down without a fight.

And then when the Cybertruck announcement gap was filled with the 8 & 21 day being reclaimed, that was a sign sentiment was turning very positive.

The lesson: if a stock refuses to die, show it some respect.

4. Be Careful When Hot Stocks Extend From the 8 Day

I did very well with Tesla from the long side, especially with the call options and call spreads I bought in November.

But I also sold call options to give me short exposure 4 separate times when it got super-extended from the 8 day.

This is a very risky strategy, and I execute it rarely.

When a really hot stock gets far extended from the 8 day, it's susceptible to pullbacks.

That may not matter to you if you're a long-term holder, but if you're an active trader, you may be playing stocks like Tesla both ways.

The 8 day is particularly important with these names.

When a stock goes parabolic to the upside, I use the distance from the 8 day moving average to get an idea of when something's gone too far, too fast.

This is particularly tricky with Tesla because, as I told you before, going too far, too fast is just what Tesla does.

This is where experience pays. And at the risk of sounding a little salesy, it's where [Redler All-Access](#) comes in handy.

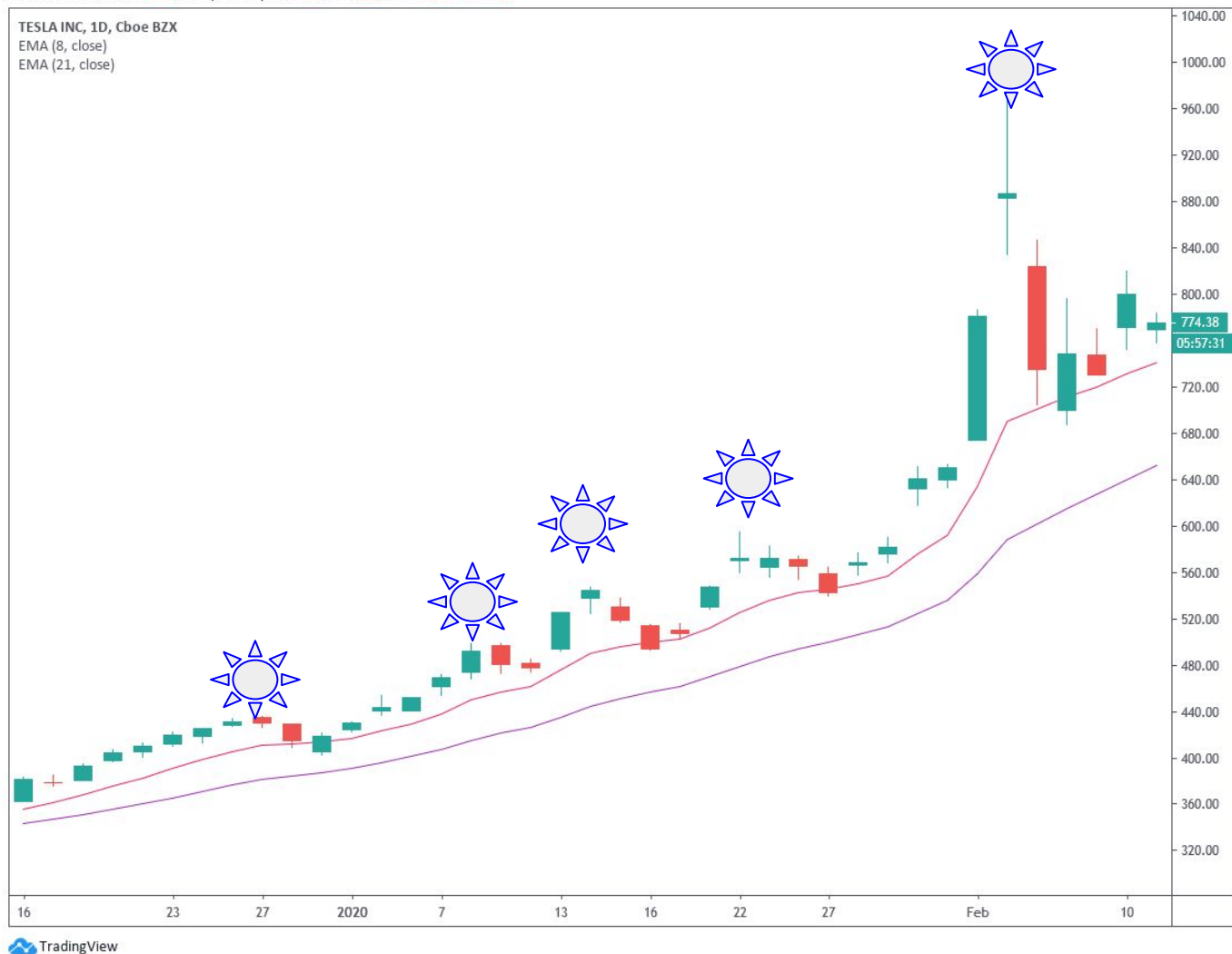
Because I've been through so many booms and busts, I've become pretty good at judging when things are truly getting out of hand.

And I'm always trying to translate that feel into usable information for traders.

Anyway... let's go to the chart.

You can see here that Tesla's pullbacks all started from an extension above the 8 day. This is fairly common with momentum stocks.

miket3 published on TradingView.com, February 12, 2020 15:02:29 UTC
BATS:TSLA, 1D 777.01 ▲ +2.63 (+0.34%) O:777.87 H:789.75 L:772.35 C:777.01



However, that fifth move was really something else. I was tempted to get short the day before that high, but backed off.

It's a good thing, because Tesla gapped up \$103 and ran another \$86 before topping out.

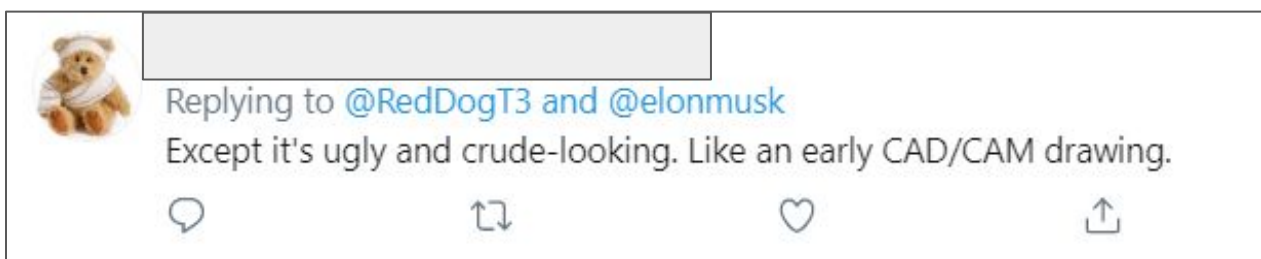
I did my final Tesla short call trade after the peak. When Tesla was around \$880, I sold weekly \$1200, \$1300, and \$1400 calls for some pretty fat premiums.

I made money all four times I shorted Tesla calls when it extended, but I also lost a lot of sleep. Know what you can handle.

This is what I tweeted on the morning of November 22, 2019:



And here are some of the reactions to that tweet:



5. Don't Change Your Life Because of One Big Trade

In Q4 2019 through early 2020, I had one of the most profitable runs of my trading career.

And Tesla was one of my biggest moneymakers.

This brings me to another thing I've learned after 20+ years of pro trading: the good times don't last forever.

If you made a lot of money trading Tesla, don't go crazy.

The worst possible thing you could do is upgrade your lifestyle.

Because once your expenses go up, you're in big trouble the next time you hit a cold streak.

You'll be forcing trades and acting out of fear because you'll be so desperate just to pay your bills at the end of the month.

You just might dig a hole so big that you'll wash out altogether.

The smart thing to do is pay down debt or make long-term investments.

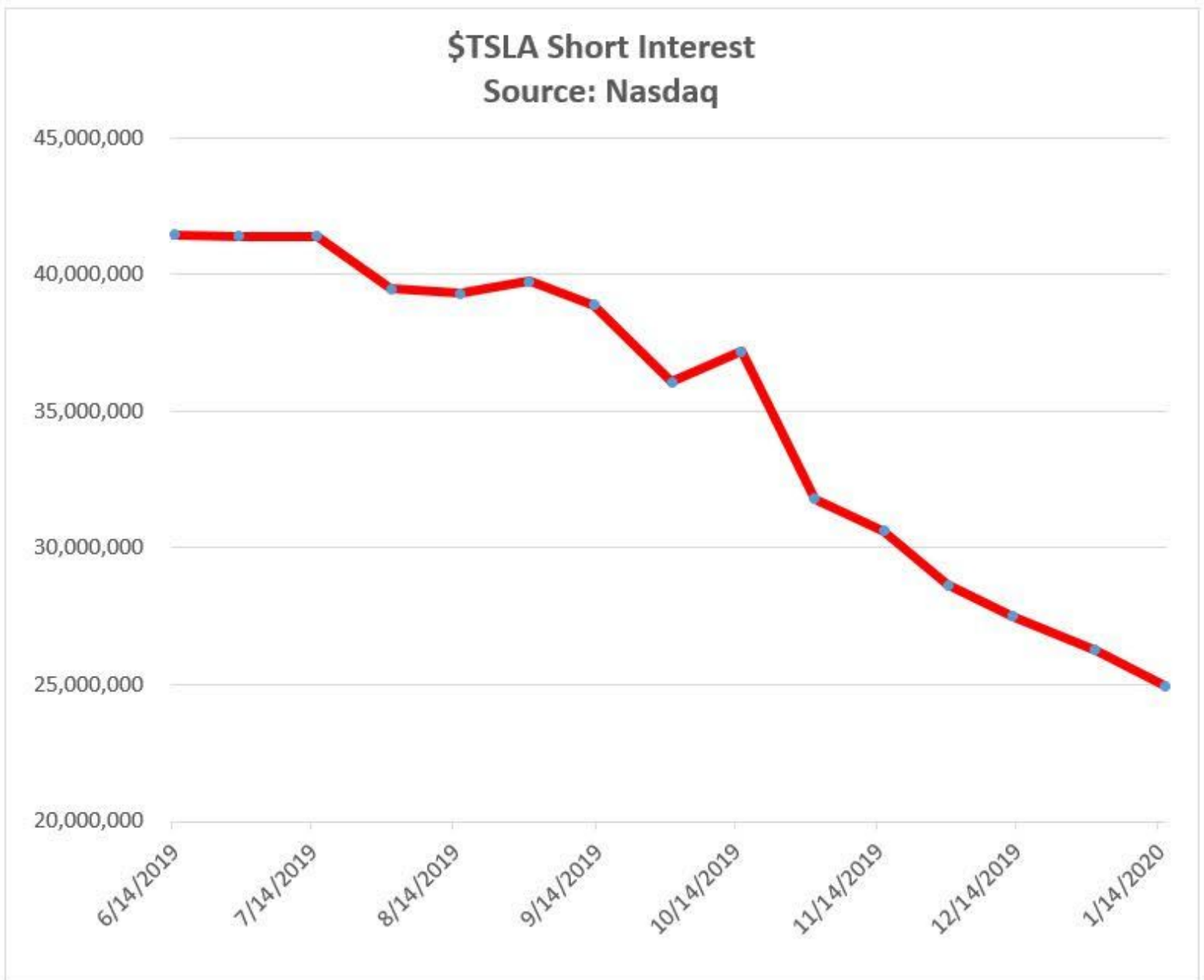
What am I doing with my Tesla money?

I'm putting a new kitchen in my house.

I'm certainly not going out and buying a Ferrari (though I might pick up a Cybertruck when my Jeep lease is over)!

6. Short Interest Can Create a Self-Fulfilling Squeeze

Here's a chart of Tesla short interest from mid-June to mid-January:



What does this tell you?

It's very simple.

As Tesla went up, short interest went down.

That means shorts were covering their positions as Tesla was rising.

The thing is, short interest is not a secret -- everybody knew about it.

And in this case, that knowledge turned into fuel for what now looks like an inevitable squeeze.

The bulls knew Tesla was a heavily shorted stock.

And they knew that a rising stock would force the shorts to cover.

It's a vicious: the bulls buy, which in turn forces the shorts to buy, which just attracts more momentum buyers, which forces even more shorts to buy.

And so on, and so on.

It's a self-fulfilling cycle.

High short interest is typically a sign of trouble. Because when there's smoke, there's often fire.

But when a stock is trending higher, high short interest can mean more fuel for the bulls.

7. If Tesla Falls Apart - This Is How It Could Happen

In mid-February 2020, I told Redler All-Access subscribers that the \$968.99 pivot hit on February 4 will not be Tesla's all-time high.

BUT... the stock could go anywhere before new highs come

I like the long-term story, but if you've been paying any attention to Tesla over the years, you know that it does not move in a straight line.

There will be controversies, earnings misses, and other stumbling blocks in the future.

I am not saying Tesla *will* drop. But it *can* happen.

And the beauty of technical analysis is that we can always judge Tesla based on the price action.

Because if and when Tesla falls apart, it could be a process of testing and failing at my primary trend analysis tools: the 8, 21, 50, and 200 day exponential moving averages.

So I'll give you a simple breakdown of my moving average rules.

- 1) If Tesla stays above the 8 & 21 day moving averages, the trend remains up.
- 2) If it breaks the 8 & 21 day and fails to reclaim them quickly, there is danger of more downside towards the 50 day.
- 3) If Tesla breaks below the 50 day and fails to reclaim it, then it may be in real trouble, with risk of a drop to the 200 day.
- 4) And if Tesla actually starts dropping to the 200 day, then odds are it's in a freefall and I'd be out of the way completely.

Since Tesla is no ordinary stock, there's a real risk a downturn would be fast and hard.

Now turn the page so we can end this case study on a positive note.

8. There Will Be Other Teslas, and You Can Trade Them!

There will always be hot stocks to trade, though admittedly, they don't get much hotter than Tesla.

And everything I taught you in this eBook -- about respecting the trend and letting price tell you what news matters -- can be applied to other stocks.

So I trust you have some new ideas about how to handle today's hot names like **Snap** (SNAP), **Palantir** (PLTR) and **Shopify** (SHOP).

Try not to judge them by what you *think* will happen.

Focus on what the market is *telling* you.

As you gain experience as a trader, you learn that putting your ego aside and listening to price is what really makes you money.

Plenty of very smart people go bankrupt every day because they think they can predict the future.

I can't predict where Tesla is going.

But I know how I'll react based on how it behaves, and I hope that you have a better idea of how you'll react.

And of course, if you want my daily guidance on Tesla, you can always join me at Redler All-Access.

Get a discounted rate here: t3live.com/raa

About Redler All-Access

Redler All-Access is Scott's flagship service, which includes:

Redler All-Access Morning Note

Delivered by email, Scott gives you his daily game plan for the coming trading day.

Each update reviews 20+ stocks and ETFs, giving you Scott's trend analysis so you can develop well-informed trading scenarios. This sought-after report benefits new traders and financial professionals alike.

Get the exact stocks Scott plans to trade that day. The "job" of trading becomes easier with Scott's morning note. When the opening bell rings, you'll be relaxed and ready to trade.

Scott's Full-Length Morning Call and Daily Recap Videos

Includes in-depth video analysis of global index, stock, and ETF action to keep you 100% up to speed on the market.

The Morning Call gets you ready for the day about to unfold, while the Daily Recap summarizes the day and lets you know what to look for next.

Premium Twitter Feed

Get exclusive access to follow Scott's Premium Twitter feed for trading updates throughout the day. Make smarter trade decisions on your morning game plan as the day unfolds.

To get started at a discounted rate, visit:

t3live.com/raa

About T3 Live

T3 Live was founded to help investors like you generate income and build wealth.

Our approach includes a mix of trading, training, and technology to help you succeed in all market conditions.

T3 was founded by traders, not marketers.

We know what works because we've been in the trenches, trading for a living.

If you have any questions about this report, your account, or any of our services, please email us at info@t3live.com, or call us at **1-888-998-3548**.