

What Tesla's Addition to the S&P 500 Means for Investors

Analysts expect the company's shares to rise further, but skeptics fear they could help pull down the stock market



Tesla's stock has more than quintupled in 2020. A Tesla electric car at a Shanghai exhibition on Nov. 6.

PHOTO: DING TING/ZUMA PRESS

By

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Nov. 17, 2020 11:43 am ET

[Tesla](#) Inc. TSLA 7.16% shares rocketed higher Tuesday following news that the electric-auto maker [is joining the S&P 500](#), increasing the volatile company's sway over financial markets.

The shares climbed as much as 13% and were recently up about 8% after index provider S&P Dow Jones Indices said late Monday that the Silicon Valley car company will be added to the S&P 500 on Dec. 21, replacing a company to be named later. Analysts expect the addition to further boost Tesla's highflying shares because some \$11 trillion in mutual funds and other investments track the S&P 500, many of which will now need to buy them.

Tesla's stock has more than quintupled in 2020, giving the company a market value above \$400 billion and positioning it to debut as one of the 10 largest components in the index. Chief Executive Elon Musk's company is set to become by far the most-valuable firm to ever join the S&P 500, according to Dow Jones Market Data. It is much larger, as measured by market value, than other auto makers such as Volkswagen AG and General Motors Co., even though Tesla makes a fraction of the cars that its peers sell each year.

Analysts [had speculated for months that Tesla would get added](#) to the index after it posted a fourth consecutive quarterly profit this summer, meeting the main requirement to be added to the S&P 500. It has been one of the largest U.S. companies by market value for much of the year, making its omission by the eight-person index committee of S&P Dow Jones Indices somewhat unusual.

The company's skeptics [worry about its reliance on regulatory credits](#) to drive earnings and fear a reversal in its yearslong stock surge could now help drag down the whole market.

"They're almost turning the S&P 500 into more of a momentum index," said Benjamin Lau, chief investment officer of Apriem Advisors, which manages about \$850 million and holds a small amount of Tesla shares. "I'm more worried about how it affects our index funds and passive holdings than anything else," he said, noting that they could now become more volatile.

Unusual Addition

In another sign of Tesla's unique position, S&P Dow Jones Indices said Monday that it will ask investors whether to add the company all at once or in two separate

tranches. Adding such a large stock to the index at one time could pose a challenge to funds that track it because they would likely be forced to sell billions of dollars of shares in other companies to make room for Tesla.

The choice to now make the 17-year-old company a pillar of the stock market will also bolster the [influence of a handful of large companies tied to technology](#), analysts said. The five largest tech companies— [Apple](#) Inc., AAPL - 0.18% [Microsoft](#) Corp. MSFT -0.70% , [Amazon.com](#) Inc., AMZN 0.60% Google parent [Alphabet](#) Inc. GOOG -0.01% and [Facebook](#) Inc. FB -1.39% —[have powered markets higher](#) recently and made up 26% of the S&P 500 at the end of August, up from 14% for the five biggest stocks in the index three years earlier.

Tesla makes much less money than those companies, but its addition to that group will now increase attention on its financial results and the movement of its shares. The company last month [posted a fifth consecutive profit](#) and record quarterly sales despite the coronavirus pandemic, and its surging valuation has caused enormous [losses for investors who bet against the stock](#) in recent years.

“It’s become so big that they have no choice but to add it,” said Peter Atwater, a research analyst and an adjunct lecturer at William & Mary. “I just worry that we’re ending up with an index that’s S&P 500 in name only but is really an S&P 10.”



The company led by Elon Musk, shown at a Tesla construction site near Berlin in September, is set to become the most-valuable firm to ever join the S&P 500.

PHOTO: ODD ANDERSEN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Growing Enthusiasm

Even with Tuesday's advance, Tesla shares are still below their Aug. 31 all-time high, a reminder that excitement about the company's likely addition to the S&P 500 already helped fuel an eye-popping rally this summer. Investors also have cheered Democratic presidential candidate Joe Biden's recent victory, because his proposed \$2 trillion plan to fight climate change includes building more electric-vehicle charging stations and renewable-energy infrastructure around the U.S.

Several electric-vehicle startups such as [Lordstown Motors](#) Corp. have gone public in recent months despite having little or no revenue, highlighting what some analysts call a speculative [fervor surrounding Tesla and its broader sector](#). The decision to include Tesla in the S&P 500 now could give bullish investors another reason to buy the stock.

"It validates my investment," said Eric Perkins, a 44-year-old living outside San Diego who has more than half of his roughly \$1 million portfolio in Tesla shares and drives a Tesla Model X.

Short-Term Boost?

Despite the excitement, some analysts predict the stock-price gains tied to the company's inclusion in the S&P 500 could be short-lived. Stocks joining the index typically get a boost when they join, but longer-term drivers of share-price performance such as a company's profit growth tend to take over.

Some investors like Joshua Nash, a 38-year-old technology consultant who lives west of Vancouver, have already sold Tesla shares following such a fast run-up.

"I see where they're going, but I feel like they're not quite there for what they're valued at," said Mr. Nash, who held the stock for about five years and has a roughly \$400,000 portfolio mostly invested in technology stocks.



At Tesla's "Battery Day" event, Elon Musk outlined plans for a \$25,000 electric vehicle using cheaper, more-powerful batteries. The company set a shoot-for-the-moon goal of eventually producing 20 million electric cars a year. Photo: Susan Walsh/Associated Press (Originally published Sept. 23, 2020)

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