

Why Tesla is a buy

Commentary: Electric car maker has further to climb

By Hilary Kramer

NEW YORK (MarketWatch) -- Tesla Motors Inc., the first U.S. auto company initial public offering in 54 years, opened trading Tuesday oversubscribed and at \$17 a share.

That would be enough of a victory, considering it was facing a \$14 to \$16 target. When you consider shares jumped about 40% in their debut, it makes the Tesla IPO even more impressive. Add in the fact that the Dow (DOW:DJIA) lost over 250 points to hit a 2010 low, and you can really see that this stock is something special.

Prior to the IPO, a lot of investors were talking about it being a bad time for Tesla to go public. I suppose you could still say that now, arguing that the Tesla public offering could have topped \$25 on a more hospitable day. But I've never been one to worry about timing when it comes to the stock market. It's like complaining about the weather. There's simply no point, because, complain as you may, you aren't going to change the weather. You just dress accordingly and go on with your life.

And in my opinion, yesterday's IPO performance proves Tesla is tailor-made for this kind of overcast environment on Wall Street. This electric vehicle company is a cleantech innovator -- a stock I call a "game changer" that has what it takes to succeed despite a particularly volatile environment on Wall Street right now. [Read Two Cleantech Game Changer Stocks to Buy.](#)

I'll admit the enthusiasm may have pushed Tesla up a bit too far too quickly, so I would buy on a dip below \$23.50. But for investors who enter below that mark, I expect hefty returns in the months ahead no matter what antics we see from the broader market.

Let me be clear, I normally don't weigh in on small cap IPOs. But I do pride myself on singling out explosive small cap and mid cap innovators that are redefining their industry with a game-changing technology. That's Tesla to a T. [Read 7 Ways to Find Great Cheap Stocks.](#)

Yes, I've read the research. I know Tesla has only sold a little over 1,000 cars thus far (GM sells more cars before lunch on a slow day), and hasn't made a penny of profit yet. But that is one of my favorite things about the company. These guys are hell-bent on growth -- and this IPO was part of that plan by raising a boatload of cash.

If they had simply stopped their research and development after creating their Roadster model, they'd be a successful little niche automaker and they'd probably be profitable custom-making these \$100,000 machines for an elite group of motorists. But the reason they are bleeding cash (as so many naysayers like to point out) is that they are instead racing forward on their first "mass-production" model, a \$50,000 Model S due out late next year. This gives Tesla the potential to revolutionize the automobile marketplace -- becoming a competitor of Ford Motor Co. (NYSE:F) and Toyota Motor Corp. (NYSE:TM) instead of fighting with niche luxury brands like Lotus or Ferrari.

The cynics will point to Tesla's small scale and lack of automotive manufacturing expertise. After all, billionaire brainiac Elon Musk had runaway success with PayPal (NASDAQ:EBAY) , but an internet startup is far less capital intensive than tooling up an automaker. But that lack of a production chain could also be seen as a plus by those who watched GM and Chrysler crippled by deep connections to the UAW or a deep sense of "automotive tradition." [Read The Worst IPOs of the Last Year.](#)

And even if you doubt Tesla Chairman Musk, there's Google Inc. (NASDAQ:GOOG) founders Sergey Brin and Larry Page, and former eBay President Jeff Skoll steering this stock. If these guys are believers, then so am I!

My hunch is that some time in mid-2011, as production on the Model S ramps up, and consumer frenzy reaches a fever pitch, these guys get bought out by one of the larger legacy auto companies that are trying to reinvent themselves. Perhaps it'll even be Daimler or Toyota doing the buying (or even one of the aggressive new Chinese auto companies), but for certain, the purchase price would be at \$75 a share or higher...representing a quick 450% profit in a classic American success story. [Read Five Reasons Chrysler is still Doomed](#)

But even if I'm wrong about a take over, and these guys succeed in going it alone (and if anyone can do that, it's Musk & Company), yesterday's bear-beating performance, and all the buzz around this stock shows that it's got a real shot at \$40, and a quick 75% profit before year-end. That is why I am recommending all investors take a small stake in Tesla at \$23.50 a share or less.

Kramer does not have a position in the companies mentioned in this column.

*Hilary Kramer is the editor of [GameChangers](#) . She is also president and chief investment officer of A&G Capital Research, a television commentator, bestselling author, and newspaper columnist. She is a frequent guest on CNBC's *Halftime Report* and *Fast Money*, and is seen weekly on PBS's *The Nightly Business Report*.*