



Rodney's Take

October 11, 2021

Sell GM

I'm not a fan of General Motors, even though I own one of their vehicles. The company took every opportunity to steal (yes, as in theft) money from investors during the Great Financial Crisis by breaking contracts with investors who purchased asset-backed bonds and denied pensions of salaried investors while maintaining the gold-plated pensions of unionized workers. It was all about politics and money; fairness never had a chance.

To make matters worse, GM tried to saddle the "old" GM with liability for a faulty ignition switch that caused the loss of power steering and rendered the driver's airbag inoperable, which led to several deaths. Although the victim's families and others successfully sued for compensation, GM has evaded responsibility for punitive damages, even though the company knew about the problem as far back as 2003.

But the notion of selling GM isn't about past corporate missteps, it's about the future.

The company recently announced that it will increase its investment in electric vehicles to \$35 billion between now and 2025. The company expects the move to increase revenue 100% by 2030 and grow the profit margin from 8% to 12%. GM earns about \$140 billion in revenue each year and \$11 billion in profit. If the company's EV investment created another \$140 billion in revenue and boosted profits to \$33 billion per year, then it

would be a fabulous thing, but that idea relies on selling millions of electric vehicles and ignoring legacy costs.

To date, GM has recalled every single EV Bolt it has ever built, for risk of fire. Owners are asked not to charge their vehicles beyond 90%, not to let the charge fall below 90 miles, not to park their cars in garages, and not to park them within 50 feet of structures, such as homes. This is the same company that plans to sell millions of electric vehicles every year *without a glitch* and not just bank its current profit margin, but expand its profit percentage.

Color me doubtful.

GM announced that it will unveil its all-electric pickup truck in January, which will compete with the announced-but-not-yet-delivered electric Ford F150 Lightning. Ford has been gushing over the response to the new pickup, because they have received 150,000 non-binding deposits for the vehicle. So far, the F150 is the only electric pickup available, and pickups are the best-selling light-duty vehicles in the U.S. As more manufacturers (like GM) bring all-electric trucks to market, they will split the demand among them.

Don't get me wrong. We will buy electric vehicles because the federal government will make us. Using a mixture of carrots, such as tax incentives and grants for consumers and manufacturers, and sticks, such as greenhouse gas emission taxes and reporting requirements and fuel efficiency mandates, we will bend to the government's will, and car companies will sell EVs. But the speed at which we adopt such vehicles and the efficiency at which manufacturers can produce them remain to be seen.

And what about those old factories producing internal combustion engine vehicles? Will GM and others just walk away? Demand does not work like a light switch. You can't just flip between one type of vehicle and another. Automakers will have to support the manufacturing and servicing of both

types for years to come, which sounds like an expensive and inefficient undertaking.

None of this has affected GM's stock. The company is up more than 30% for the year, riding the wave of enthusiasm over electrification. Eventually, that wave will crash on the beach of reality, because the transition will take a long time and will be expensive. GM's not going anywhere. The company likely will be making vehicles for decades. But that doesn't make it a good investment. If you've earned some profits in the company this year, consider protecting at least part of your gains before the investment community realizes the company will shell out billions for investment and costs connected to EVs long before it logs profits.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.