S&P 500 ETF investors left exposed to bitcoin following Tesla bet

The electric vehicle manufacturer has invested $1.5bn in bitcoin

By Tom Eckett
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The index committee at S&P Dow Jones Indices (SPJDI) will be scratching their heads at what to do next following the decision by Tesla, one of the biggest companies within its flagship S&P 500 index, to invest $1.5bn in bitcoin.

The move, which sent the price of bitcoin soaring 13% to a record $43,000 in trading on Monday, has inadvertently left many ETF and index investors exposed to the risks of cryptocurrencies.

According to data from Bloomberg, there are approximately $135bn assets tied up in European-listed S&P 500 ETFs alone and this figure will rise sharply when taking into account index funds and also all the other indices Tesla is included in such as the MSCI USA and Nasdaq 100 to name just two.

The electric vehicle manufacturer was added to the S&P 500 to much fanfare last December and is currently the fourth-largest stock with a 2% weighting.

However, fund buyers were quick to caution the increase in volatility a stock like Tesla will bring to the overall index.
SPDJ's index committee while the announcement of its eventual inclusion on 16 November has driven a 107% rise in the share price, as at 9 February.

Tesla's decision to invest its cash reserves in bitcoin this week will only add to the stock's volatility. According to Athanasios Psarofagis, ETF analyst at Bloomberg Intelligence, it is likely Tesla could become a proxy for bitcoin exposure rather like MicroStrategy, a software company that has invested $3bn in bitcoin.

"This investment can really impact the volatility metrics of the S&P 500 now," Psarofagis added.

Furthermore, the decision for an EV manufacturer to invest in cryptocurrencies has also been questioned.

Campbell Harvey, Professor of Finance at Duke University and senior adviser to Research Affiliates, said investors purchasing Tesla stock are doing it because of the business model not on its ability to trade cryptocurrencies.

"The bitcoin purchase might turn out to be a great trade, however, speculating on bitcoin is not part of the business model," Harvey continued. "If investors want to speculate on bitcoin, they can do that separately. Tesla's corporate treasury is not a casino."

ETF investors brace for Tesla’s inclusion in S&P 500

Attention now turns to the index committee once again which must decide whether to keep the stock in its index.

For passive investors, there is little they can do except divest from the S&P 500, a bold decision especially considering most broad-based indices are exposed to Tesla in one way or another.

As Andrew Limberis, investment manager at Omba Advisory & Investments, said: "As an investor in the S&P 500 I am more concerned about Tesla's current valuation than I am about Tesla buying bitcoin.

"However, my preference is that companies return excess cash to shareholders (through buybacks or dividends) and shareholders can then invest/speculate as they wish."

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