



One Bitcoin Will Buy a New 2021 Tesla Model 3

Maybe Tesla will start accepting pork bellies or barrels of oil as payment?

Tesla recently announced that it purchased \$1.5 billion worth of bitcoins in a filing with the Securities and Exchange Commission. In its SEC filing, Tesla announced that it bought the cryptocurrency for “more flexibility to further diversify and maximize returns on our cash.”

But Tesla also announced that it would start accepting payments in bitcoin “subject to applicable laws and initially on a limited basis.” That would make Tesla the first automaker to announce such a move, but it does join a large and growing list of companies who accept bitcoin as payment, including Microsoft, AT&T, Subway, Virgin Galactic and Pizza Hut. Of course not all of those retail brands accept bitcoins everywhere – Pizza Hut only accepts bitcoin in a single location in Venezuela – for now.

Tesla’s announcement means that you could buy a Tesla Model 3 – the cheapest Tesla for 2021 with a purchase price of \$37,990 – with just a single bitcoin, based on bitcoin’s “value” of more than \$45,000 as of February 10th.

Tesla’s move might be the beginnings of a bigger trend or simply an investment of its cash – as of the end of 2020, Tesla held about \$19 billion in cash according to its most recent filing. But whichever way you lean, there are a few things you should know.

Bitcoin is Considered a Commodity

You probably know that bitcoin is a virtual currency held on computers and not controlled by any single bank, nation, or monetary agency. In other words, bitcoin is not regulated by the Federal Reserve or the Treasury Department. Further, the Internal Revenue

Service treats cryptocurrencies like bitcoin as property and taxes accordingly.

But did you know that the Commodity Futures Trading Commission treats Bitcoin as a commodity? It’s true.

In simple terms, a commodity is a basic good used in commerce that is interchangeable with other goods of the same type. As such, commodities are usually used as inputs in the production of other goods and services. The basic premise is that the quality of a given commodity from one producer to another is essentially the same. A bushel of wheat from one producer is essentially the same as a bushel of wheat from another.

Some traditional examples of commodities include:

- Wheat
- Corn
- Soybeans
- Cattle
- Lumber
- Gold
- Coal
- Oil
- Natural gas

And over the years, the definition has expanded to include financial products, including foreign currencies, indexes and bitcoin.

Pork Bellies & Lean Hogs

A pork belly is exactly what it sounds like – the fatty, boneless cut of meat that comes from the belly of the pig. But pork bellies are not just the tasty part of the pig used to make bacon, they're also a commodity traded by investors.

In fact, wholesale U.S. pork belly prices have risen mostly in 2020, hitting a low right around the early stages of the pandemic. But since 2017 the price of pork bellies has been on the decline. And as of mid-February 2021, the cash futures price has hovered around \$144 per cwt (or \$1.44 per pound).

Did you also know that “Lean Hogs” is the name for pork as a commodity? Check out the NASDAQ chart for Lean Hogs over the past five years through February 9th of 2021:

LEAN HOGS (HE)



What's the Point?

As an investor, you should know that over long periods of time, commodities and commodity stocks tend to provide returns that differ from equities and fixed-income. As such, investing in commodities can provide additional diversification. Further, many commodities have been used as a hedge against inflation, which is currently below the Fed's target 2% rate, but is likely to rise in the coming years.

But individual commodity prices will also fluctuate, sometimes significantly, due to factors such as supply and demand, exchange rates, inflation, consumer and government spending and the overall health of the global economy.

So, before you think about an allocation to commodities – and that includes bitcoin – talk to your financial advisor to make sure your portfolio remains within your risk tolerance and your investments are consistent with your financial planning goals.

And while you can buy that Tesla Model 3 with a single bitcoin and still have money left over, maybe someday you can show up to your local Tesla dealership with a trainload of pork bellies. Or truckloads of lean hogs. Or 655 barrels of oil.

Might want to call ahead to check.