

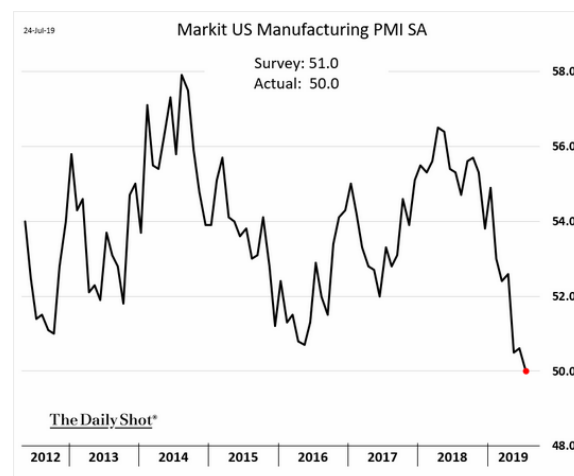
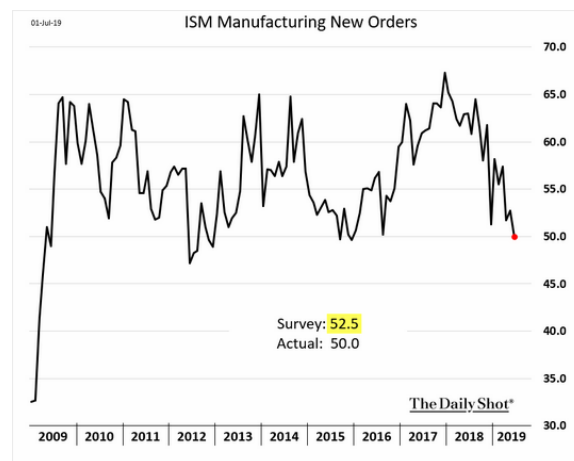
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July 31, 2019

Friends and Fellow Investors:

For July 2019 the fund was down approximately 4.8% net of all fees and expenses. By way of comparison, the S&P 500 was up approximately 1.4% while the Russell 2000 was up approximately 0.6%. Year-to-date 2019 the fund is up approximately 11.8% while the S&P 500 is up approximately 20.2% and the Russell 2000 is up approximately 17.7%. Since inception on June 1, 2011 the fund is up approximately 83.9% net while the S&P 500 is up approximately 162.9% and the Russell 2000 is up approximately 107.9%. Since inception the fund has compounded at approximately 7.8% net annually vs 12.6% for the S&P 500 and 9.4% for the Russell 2000. (The S&P and Russell performances are based on their "Total Returns" indices which include reinvested dividends.) As always, investors will receive the fund's exact performance figures from its outside administrator within a week or two and ***please note that individual partners' returns will vary in accordance with their high-water marks.***

The fund remains very net short, as I continue to believe we're about to enter a bear market for U.S. stocks as the U.S. economic slowdown worsens. Here are some charts explaining why:



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JUNE 2019

Cass Freight Index® Report

Economic Outlook from Freight's Perspective

Dropping Another -5.3% in June, Negative Volume Seven Months in a Row

Has Economic Contraction Already Begun? Will GDP be Negative in Q2?

	June 2019	Year-over-year change	2 year stacked change	Month-to-month change
Shipments	1.181	-5.3%	1.5%	-3.8%
Expenditures	2.919	0.9%	16.9%	2.6%

...while global negative yielding debt (a sign of a massive looming economic slowdown) has broached the *insane* level of nearly \$14 trillion:



[And have a look at how ugly U.S. rail traffic is](#) and [the horrible Chicago PMI out today.](#)

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Anticipated 2019 Fed rate cuts of 50-75bp (starting with today's 25bp) will do little to prevent this slowdown; here's how things look now relative to the peak of the last bull market, in September 2007 when the Fed did a 50bp cut:

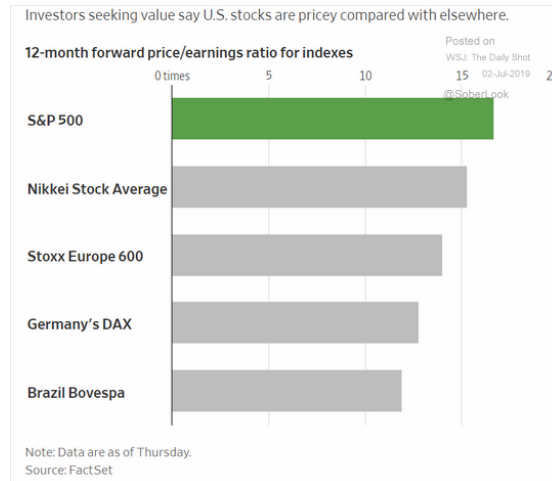
Exhibit 3: Global manufacturing PMIs, economic surprise indexes, financial conditions: September 2007 vs. today

	Last	18-Sep-07	Today better/worse than 2007?
Global			
Markit Global PMI manufacturing index	49.4	52.6	Worse
Markit DM PMI manufacturing index	48.9	52.1	Worse
Markit EM PMI manufacturing index	49.9	53.6	Worse
Citi G10 economic surprise index	-23.9	-2.6	Worse
Citi Global economics surprise index	-22.5	11.8	Worse
Citi EM economic surprise index	-20.4	33.5	Worse
United States			
ISM manufacturing	51.7	52.2	Worse
ISM manufacturing - new orders	50.0	56.1	Worse
Markit US PMI manufacturing index	50.0	54.1	Worse
Bloomberg US economic surprise index	-0.27	-0.17	Worse
Citi US economic surprise index	-37.2	-6.8	Worse
MS US financial conditions index	1.61	1.10	Worse
GS US financial conditions index	99.17	99.12	Worse
Europe			
Markit Euro area PMI manufacturing index	46.4	54.3	Worse
Markit UK PMI manufacturing index	48.0	54.8	Worse
Bloomberg Euro area economic surprise index	-0.38	-0.30	Worse
Citi Euro area economic surprise index	-37.5	-12.8	Worse
Asia			
Citi Asia Pacific economic surprise index	-5.3	55.6	Worse
Markit China PMI manufacturing index	49.3	53.4	Worse
Citi China economics surprise index	-19.0	76.5	Worse
Markit Korea PMI manufacturing index	47.5	55.5	Worse

Source: Morgan Stanley Research, Bloomberg

And for those who think that low interest rates necessarily mean higher PE multiples, here's an excellent rebuttal to that in a single chart (although this is somewhat distorted by the fact that the U.S. has more growth stocks):

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And keep in mind that much of the U.S. bull market's rise came from corporate buybacks, and those tend to slow drastically when the economy does. As the looming recession unfolds and those buyers disappear, look out below.

On the other hand, our current, short-lived era of net "quantitative tightening" among the big three central banks (the Fed, ECB and BOJ) is over. The Fed's balance sheet contraction stops in August, and it's rumored that in October the ECB will *resume* printing money to buy still *more* bonds (while, the BOJ continues doing so). I'm very aware of the effect these moves may have on already grossly inflated asset prices, and thus am a bit more cautious in my short bias than I had been before the new European QE was telegraphed at July's ECB meeting. On the other hand, this ECB stupidity may blow up its banks and perhaps even the euro, resulting in all kinds of stock market carnage. After all, if printing money is the solution to economic stagnation, why bother collecting taxes and having government budgets? (There's no need to answer that—it's a rhetorical question!) So we're short, but a bit more cautiously so.

Seeking the most overvalued of all stock indices (and the one least likely to be bought by overseas investors with their newly printed yen and euros), we thus remain short the Russell 2000 (IWM), which has a trailing twelve-month GAAP PE ratio of 40 on what I believe are *peak* earnings, while 35% of its constituents lose money. I also put on a short position in the S&P 500 (SPY) last Friday evening, immediately after Trump said it's likely China won't make a trade deal until after the 2020 Presidential election. As rumors of such a deal have been a huge positive driver of stocks and international trade is much more important for the constituents of the S&P 500 than it is for those in the Russell 2000, I think this position is worth a shot with a tight stop set at SPY's all-time high, just 25bp above our short basis.

Elsewhere in the fund's short positions...

We remain short stock and call options in Tesla, Inc. (TSLA), which I consider to be the biggest single stock bubble in this whole bubble market. The core points of our Tesla short thesis are:

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- 1) Tesla has no “moat” of any kind; i.e., nothing meaningfully proprietary in terms of electric car design or technology, while existing automakers—*unlike* Tesla—have a decades-long “experience moat” of knowing how to mass-produce, distribute and service high-quality cars consistently and profitably.
- 2) Tesla is losing a ton of money and has a terrible balance sheet.
- 3) Tesla is now a “busted growth story”; demand for its existing models is only being maintained via continual price reductions, and it will have to raise billions of dollars to produce new models in a market soon to be saturated with enormous competition.
- 4) Elon Musk is extremely untrustworthy.

In July Tesla released a *disastrous* [Q2 financial report](#), with a GAAP loss of \$408 million despite higher-than-expected deliveries of a bit over 95,000 cars. In fact, due to massive price cuts to maintain demand, Tesla actually booked significantly *less* revenue than it did in Q4 2018 when it sold nearly 5000 fewer cars, and despite multiple price cuts since January 1, [Tesla's estimated U.S. deliveries dropped by 43 percent in the first half of this year vs. the second half of 2018](#), and overall deliveries were down by 9% despite this year's introduction of Model 3 sales to Europe & Asia where it was unavailable in 2018. And to kick off Q3 (the quarter we're in now), [Tesla cut prices yet again!](#)

Keep in mind too that Tesla's Q2 loss would likely have been \$100 million greater if it were providing adequate customer service. [The internet is filled with complaints from aggrieved owners](#) who can't reach anyone to fix their myriad problems within a reasonable timeframe, thereby resulting in real-time brand destruction. Yet due to the high cost of batteries, Teslas are *inherently* unprofitable, and thus improving the ownership experience would only increase the company's losses. **In other words, Tesla is truly a non-viable business.**

In Q3 & Q4 2019 the “growth company” known as Tesla will show significant revenue *declines* vs. Q3 & Q4 2018 (so much for those “year-over-year comps”!), and its 2019 full-year GAAP loss will be nearly \$2 billion.

The party's over, folks. With no profitable growth, massive ongoing losses and tens of billions of dollars in debt and purchase obligations, the equity in Tesla will eventually prove worthless. Yet as the stock miraculously closed today at \$241.61/share, I shall continue...

For those of you looking for a resumption of growth from Tesla's (supposedly) upcoming Model Y, by the time it's available in late 2020 or 2021 (if Tesla is still in business), it will both massively cannibalize sales of the Model 3 sedan *and* face superior competition from the much nicer electric [Audi Q4 e-tron](#), [BMW iX3](#), [Mercedes EQB](#), [Volvo XC40](#) and [Volkswagen ID Crozz](#), while less expensive and available now are the excellent new all-electric [Hyundai Kona](#) and [Kia Niro](#), [extremely well reviewed](#) small crossovers with an EPA range of 258 miles for the Hyundai and 238 miles for the Kia, at prices of under \$30,000 inclusive of the \$7500 U.S. tax credit. Meanwhile, the Model 3 sedan will have terrific direct “sedan competition” in 2020 from Volvo's [beautiful new Polestar 2](#) and the premium version of [Volkswagen's ID.3](#).

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And if you think China will be the saving grace for Tesla, I have bad news for you: first, the competition there for EV market share is becoming a vicious dogfight (see the links further down in this letter). Second, Tesla currently sells approximately 35,000 Model 3s a year in China; how much would that increase with a domestically produced car and a 15% price cut (the tariff savings)? Even more than *doubling* sales to, say, 80,000 a year would likely keep its new Chinese factory unprofitable and be a drop-in-the-bucket vs. the expectations built into the stock price. And then there's the fact that [Beijing is now switching its subsidies to hydrogen fueled cars](#), which it perceives as better than EVs.

Meanwhile, Tesla has the most executive departures I've ever seen from *any* company and July was no exception, as this month the company's co-founder and Chief Technology Officer [J.B. Straubel left](#), as did [a big chunk of the Autopilot team](#); [here's the astounding full list of escapees](#). These people aren't leaving because things are going great (or even *passably*) at Tesla; rather, they're likely leaving because Musk is either an outright crook or the world's biggest jerk to work for (or both). Could the business (if not the stock price) be saved in its present form if he left? Nope, it's too late. Even if Musk steps down in favor of someone who knows what he's doing, emerging competitive factors (outlined in great detail below) and Tesla's balance sheet make the company too late to "fix" without major financial and operational restructuring.

In May *Consumer Reports* [completely eviscerated](#) the safety of Tesla's so-called "Autopilot" system; in fact, Teslas have far more pro rata (i.e., relative to the number sold) deadly incidents than other comparable new luxury cars; [here's a link](#) to those that have been made public. Meanwhile Consumer Report's [annual auto reliability survey](#) ranks Tesla 27th out of 28 brands and the number of lawsuits of all types against the company continues to escalate-- [there are now well over 600](#) and [the whistleblowers keep on coming!](#)

So here is Tesla's competition in cars (note: these links are regularly updated)...

[The Audi e-tron: Electric Has Gone Audi](#)
[Audi e-tron Sportback comes early 2020](#)
[AUDI E-TRON GT FIRST DRIVE: LOOK OUT, TESLA \(available 2020\)](#)
[Audi's Q4 e-tron previews entry-level EV for 2021](#)
[Porsche Electric Taycan Launches Late 2019](#)
[Porsche Taycan Cross Turismo to launch in 2020 after Taycan Sedan](#)
[The next generation of the Porsche Macan will be electric](#)
[THE AWARD-WINNING ALL-ELECTRIC JAGUAR I-PACE](#)
[Jaguar Land Rover readies electric XJ and Range Rover](#)
[VW 2020 Fully Electric Hatchback ID 3 starts taking deposits in Europe](#)
[VW ID Crozz 2020 Small Electric SUV- >300-mile range, 150kw charging](#)
[VW Group to launch 70 pure electric cars over the next decade](#)
[Mercedes EQC Electric SUV Available Mid-to-Late 2019](#)
[Mercedes EQB Small SUV to boost brand's electric line-up](#)
[Mercedes to launch more than 10 all-electric models by 2022](#)
[258-Mile Hyundai Kona electric is available now for under \\$40,000](#)

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[239-Mile Kia Niro EV is Available Now For Under \\$40,000](#)
[Kia Soul \(available mid-2019\) EV's Range Jumps to 243 Miles](#)
[Kia Europe to have six pure electric models by 2022](#)
[Chevrolet Bolt Offers 238 Miles On A Single Charge](#)
[GM is transforming Cadillac into an electric brand](#)
[Nissan LEAF e+ with 226-mile range is available now](#)
[Nissan Leaf-based SUV coming in 2020](#)
[The 2020 Volvo Polestar 2 Is Priced to Beat Tesla's Best-Selling Model 3](#)
[Volvo XC40 full-electric variant to debut later this year](#)
[BMW iX3 electric crossover goes on sale in 2020](#)
[The BMW i4 Could Be the Tesla Model 3's Biggest Threat Yet](#)
[BMW is accelerating electrification plans – 23 electrified models by 2023](#)
[Ford's Mustang-inspired electric performance SUV arrives in 2020 with >300-mile range](#)
[Ford plans family of EVs targeted at Europe](#)
[Ford Accelerates Its Electric-Vehicle Push With \\$500 Million Stake in Rivian](#)
[Rivian \(electric pick-up truck maker\) Announces \\$700M Investment Round Led By Amazon](#)
[Toyota to market over 10 battery EV models in early 2020s](#)
[Renault upgrades Zoe electric car as competition intensifies](#)
[Peugeot 208 to electrify Europe's small-car market](#)
[Peugeot to offer EV version of new 2008 small crossover](#)
[Toyota and Subaru Agree to Jointly Develop BEV-dedicated Platform and BEV SUV](#)
[Mazda counts on EVs to reach EU CO2 goal](#)
[Infiniti will go mostly electric by 2021](#)
[DS 3 Crossback will give PSA's upscale brand an electric boost](#)
[Smart Will Electrify Its Entire Line-up By 2020](#)
[SEAT will launch 6 electric and hybrid models and develop a new platform for electric vehicles](#)
[Opel sees electric Corsa as key EV entry](#)
[Opel/Vauxhall will launch electric SUV and van in 2020](#)
[Skoda accepting deposits for electric cars](#)
[New Citroen C4 Cactus to be first electrified Citroen in 2020](#)
[MG E-Motion confirms new EV sports car on the way by 2020](#)
[FCA to invest \\$788M to build new 500 EV in Italy](#)
[Rolls-Royce is preparing electric Phantom for 2022](#)
[Honda will offer full-EV or hybrid tech on every European model by 2025](#)
[Bentley mulls electric car to help reduce carbon footprint](#)
[Korando will lead SsangYong's push into electrification](#)
[Dyson electric car: new patents show mould-breaking design](#)
[Lucid Motors closes \\$1 billion deal with Saudi Arabia to fund electric car production](#)
[Borgward BXi7 Electric SUV Flies Under The Radar](#)
[Detroit Electric promises 3 cars in 3 years](#)
[Two new electric cars from Mahindra in India by 2019; Global Tesla rival e-car soon](#)
[Saab asset owner NEVS plans electric car production](#)
[EV startup Canoo will only sell cars on a subscription basis](#)

And in China...

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[Volkswagen takes over leading position for electro-mobility in China](#)
[SAIC Volkswagen to roll out 3 MEB-based EV models in 2020/2021](#)
[Audi Q2L e-tron debuts at Auto Shanghai](#)
[Audi will build Q4 e-tron in China](#)
[Audi China to roll out 12 locally-produced models in total by 2022](#)
[BYD launches EV535, all-electric SUV](#)
[BYD Song MAX BEV version with 500km range to hit market in 2019](#)
[2019 BYD Yuan EV360 goes on sale with prices starting RMB89,900 after subsidy](#)
[BYD e2 all-electric crossover rolls off production line in Changsha](#)
[Daimler & BYD launch new DENZA electric vehicle for the Chinese market](#)
[BAIC and Daimler to Build \\$1.9 Billion China Plant](#)
[BAIC brings EX5 Electric SUV to market](#)
[BAIC BJEV, Magna ready to pour RMB2 bln in all-electric PV manufacturing JV](#)
[Daimler to Start EQC Electric SUV Production in China in 2019](#)
[Daimler and BMW to cooperate on affordable electric car in China](#)
[BMW will develop and produce electric Mini in China](#)
[GM China raises new-energy vehicle target to 20 models through 2023](#)
[Buick Rolls Out First Electric Car for China](#)
[Nissan & Dongfeng to invest \\$9.5 billion in China to boost electric vehicles](#)
[Toyota unveils first electric SUVs at Shanghai motor show](#)
[Toyota, BYD will jointly develop electric vehicles for China](#)
[Hyundai is building EV factories in China and Indonesia](#)
[CATL and Toyota Form Comprehensive Partnership for New Energy Vehicle Batteries](#)
[Nio's ES8 Electric Crossover debuts with half the Tesla Model X's price tag](#)
[Nio begins deliveries of new ES6 electric crossover in China \(at 1/2 the price of Tesla X\)](#)
[This is NIO's Tesla Model 3 and Polestar 2 rival](#)
[GAC NIO unveils new NEV offshoot dubbed HYCAN](#)
[GAC NE to roll out 12 new models for Aion series, including solar-powered models](#)
[Ford ramps up electric vehicle push in China](#)
[Jaguar Land Rover's Chinese arm invests £800m in EV production](#)
[SAIC building factory in China for EVs from Roewe and MG](#)
[Renault and Brilliance Automotive to build 3 new electric light commercial vehicles for China](#)
[Honda launches new all-electric Everus VE-1 for ~\\$25,000 in China](#)
[Honda to roll out over 20 electric models in China by 2025](#)
[Geely all-new BEV sedan Jihe A starts at RMB150,000](#)
[Geely unveils GE11 compact BEV](#)
[New Geely Emgrand GSe crossover has EV range up to 400km](#)
[Geely launches new electric car brand 'Geometry'](#)
[Changan New Energy to launch three NEV platforms by 2020](#)
[Mazda and Changan Auto join hands on electric vehicles](#)
[Xpeng Motors Launches G3 2020 Edition - 520 km NEDC range furthest in its class](#)
[Xpeng Motors premieres the P7 intelligent electric coupe](#)
[WM Motors/Weltmeister EX5 Electric SUV Launched On The Chinese Car Market](#)
[Chery Breaks Ground on \\$240M EV Factory in China](#)
[Chery's second EV plant open in Dezhou](#)

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[Seres launches production SF5 sleek 684HP electric crossover with 300 miles of range](#)
[Byton M-Byte electric SUV tackles cold-weather testing, nears production](#)
[DearCC Launches ENOVATE Electric SUV](#)
[Guangzhou Auto To Launch Four New Electric Cars By 2020](#)
[Great Wall Launches New EV Brand \(ORA\) In China](#)
[Singulato iS6 Electric SUV Debuts With 249-Mile Range](#)
[Singulato, BAIC partner to promote smart new energy vehicles](#)
[Hongqi launches E-HS3 BEV SUV with AWD option, 390km range and 0-100km/h in 5.9 seconds](#)
[FAW \(Hongqi\) to roll out 15 electric models by 2025](#)
[JAC Motors releases new product planning, including many NEVs](#)
[Seat to make purely electric cars with JAC VW in China](#)
[ICONIQ to build electric cars in Zhaoqing with total investment of RMB 16 billion](#)
[Quianu Motor aims to grab share of US electric vehicle market](#)
[Hozon Kicks Off Mass Production With All-Electric Neta N01](#)
[EV maker Bordrin skips flash, keeps real-car focus](#)
[Aiways U5 long-range electric SUV](#)
[NEVS launches electric-car output with Saab 9-3 platform in China](#)
[Youxia Motors raises \\$1.25 billion to start 2019 EV production](#)
[CHJ Automotive buys Lifan for shortcut to EV production](#)
[Infiniti to launch Chinese-built EV in 2022](#)
[Zotye Auto to roll out 10 plus NEV models by 2020](#)
[Wanxiang Gets China Electric Vehicle Permit to Make Karma Cars](#)
[Qoros Auto's new owner plans to be an EV power](#)
[JMC \(Jianling Motor Corp.\) Starts New EV Brand In China](#)
[Thunder Power Chinese EV manufacturer clinches deal with Belgian investment fund](#)
[Leapmotor raises RMB2.5 billion for Series A round to build electric cars](#)
[Continental, Didi sign deal on developing EVs for China](#)

Here's Tesla's competition in autonomous driving...

[Consumer Reports finds Tesla's Navigate on Autopilot is far less competent than a human driver](#)
[Navigant Ranks Tesla Last Among Automakers & Suppliers for Automated Driving](#)
[Tesla has a self-driving strategy other companies abandoned years ago](#)
[Waymo and Lyft partner to scale self-driving robotaxi service in Phoenix](#)
[Jaguar and Waymo announce an electric, fully autonomous car](#)
[Renault, Nissan partner with Waymo for self-driving vehicles](#)
[Fiat Chrysler partners with Aurora to develop self-driving commercial vans](#)
[Hyundai and Kia Invest in Aurora](#)
[Cadillac Super Cruise™ Sets the Standard for Hands-Free Highway Driving](#)
[Honda Joins with Cruise and General Motors to Build New Autonomous Vehicle](#)
[SoftBank Vision Fund to Invest \\$2.25 Billion in GM Cruise](#)
[Ford-VW alliance with Argo could redraw self-driving sector](#)
[VW taps Baidu's Apollo platform to develop self-driving cars in China](#)
[An Overview of Audi Piloted Driving](#)
[BMW Group and Daimler AG launch long-term development cooperation for automated driving](#)
[Daimler's heavy trucks start self-driving some of the way](#)

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[SoftBank, Toyota's self-driving car venture adds Mazda, Suzuki, Subaru Corp, Isuzu Daihatsu Volvo, Nvidia expand autonomous driving collaboration](#)
[Continental & NVIDIA Partner to Enable Production of Artificial Intelligence Self-Driving Cars](#)
[Intel's Mobileye has 2 million cars \(VW, BMW & Nissan\) on roads building HD maps](#)
[Nissan gives Japan version of Infiniti Q50 hands-free highway driving](#)
[Nissan and Mobileye to generate, share, and utilize vision data for crowdsourced mapping](#)
[Magna joins the BMW Group, Intel and Mobileye platform as an Integrator for AVs](#)
[Uber unveils next-generation Volvo self-driving car](#)
[Toyota to join Baidu's open-source self-driving platform](#)
[Baidu, WM Motor announce strategic partnership for L3, L4 autonomous driving solutions](#)
[Baidu plans to mass produce Level 4 self-driving cars with BAIC by 2021](#)
[Volvo, Baidu to co-develop EVs with Level 4 autonomy for China](#)
[Geely selects Volvo, Veoneer joint venture as autonomous tech supplier](#)
[BMW and Tencent to develop self-driving car technology together](#)
[BMW, NavInfo bolster partnership in HD map service for autonomous cars in China](#)
[Tencent, Changan Auto Announce Autonomous-Vehicle Joint Venture](#)
[Huawei looks to self-driving cars in bid to broaden AI focus](#)
[BYD partners with Huawei for autonomous driving](#)
[Lyft, Magna in Deal to Develop Hardware, Software for Self-Driving Cars](#)
[Deutsche Post to Deploy Test Fleet Of Fully Autonomous Delivery Trucks](#)
[ZF autonomous EV venture names first customer](#)
[Magna's new MAX4 self-driving platform offers autonomy up to Level 4](#)
[Groupe PSA's safe and intuitive autonomous car tested by the general public](#)
[Apple acquires self-driving startup Drive.ai](#)
[Self-driving startup Momenta ready to launch fully automated driving solution in Q3 2019](#)
[JD.com Delivers on Self-Driving Electric Trucks](#)
[NAVYA Unveils First Fully Autonomous Taxi](#)
[Fujitsu and HERE to partner on advanced mobility services and autonomous driving](#)
[Lucid Chooses Mobileye as Partner for Autonomous Vehicle Technology](#)
[First Look Inside Zoox's Autonomous Taxi](#)
[Nuro's Robot Delivery Vans Are Arriving Before Self-Driving Cars](#)

Here's Tesla's competition in car batteries...

[LG Chem targets electric car battery sales of \\$6.3 billion in 2020](#)
[LG Chem to build \\$1.8 bln EV battery plant in China](#)
[LG Chem considering building 2nd U.S. EV battery plant](#)
[Samsung SDI Unveils Innovative Battery Products at 2018 Detroit Motor Show](#)
[SK Innovation to boost EV battery production capacity more than tenfold by 2022](#)
[New Toshiba EV Battery Allows 320km Charge in 6 Minutes](#)
[Daimler starts building electric car batteries in Tuscaloosa – one of 8 battery factories](#)
[Panasonic Opens New Automotive Lithium-Ion Battery Factory in Dalian, China](#)
[Panasonic forms battery partnership with Toyota](#)
[CATL's Chinese battery factory will be bigger than Tesla's Gigafactory](#)
[CATL to set up battery cell manufacturing in Germany](#)

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[BYD to quadruple car battery output with lithium site plants](#)
[GM inaugurates battery assembly plant in Shanghai](#)
[VW, BMW invest in Swedish battery cell producer Northvolt](#)
[Volkswagen building battery cell plant in Germany](#)
[VW Wants to One-Up Tesla With a Next-Generation Battery](#)
[Toyota accelerates target for EV with solid-state battery to 2020](#)
[PSA to assemble batteries for hybrid, electric cars in Slovakia](#)
[Honda Partners on General Motors' Next Gen Battery Development](#)
[Energy Absolute Plots Asian Project Rivaling Musk's Gigafactory](#)
[France's Saft plans production of next-gen lithium ion batteries from 2020](#)
[FREYR AS to build a 32 GWh battery facility in Norway](#)
[Great Wall-linked battery maker SVOLT Energy plans factory in Europe](#)
[Chinese Battery Maker to Open Factory Next to Swedish EV Plant](#)
[Sokon aims to be global provider of battery, electric motor, electric control systems](#)
[BMW Group invests 200 million euros in Battery Cell Competence Centre](#)
[BMW Brilliance Automotive opens battery factory in Shenyang](#)
[BMW announces partnership with solid-state battery company](#)
[Hyundai Motor developing solid-state EV batteries](#)
[Wanxiang is playing to win, even if it takes generations](#)
[UK provides millions to help build more electric vehicle batteries](#)
[Rimac is going to mass produce batteries and electric motors for OEMs](#)
[Elon Musk Has A New Battery Rival \(Romeo Power\) Packed With His Ex-Employees](#)
[Evergrande acquires Cenat battery production](#)
[Bracing for EV shift, NGK Spark Plug ignites all solid-state battery quest](#)
[ProLogium Technology Will Produce First Next Generation Lithium Ceramic Battery For EVs](#)

Here's Tesla's competition in charging networks...

[Electrify America: Our Plan](#)
[EVgo Installing First 350 kW Ultra Fast Public Charging Station In The US](#)
[Tritium's First 350-kW DC Fast Chargers Coming To U.S.](#)
[Porsche plans network of 500 fast chargers for U.S.](#)
[ChargePoint To Equip Mercedes Dealerships With 150kw Charging Stations For EQC](#)
[Recargo Ultrafast West Coast Charging](#)
[GM and Bechtel plan to build thousands of electric car charging stations across the US](#)
[BMW, Daimler, Ford, VW, Audi & Porsche form IONITY European 350kw Charging Network](#)
[E.ON to have 10,000 150KW TO 350KW EV charging points across Europe by 2020](#)
[Volkswagen plans 36,000 charging points for electric cars throughout Europe](#)
[Enel kicks off the E-VIA FLEX-E project for the installation of European ultra-fast charging stations](#)
[Allego Orders 90 Efacec 350 kW Ultra-Fast Chargers](#)
[Allego & Fortum Launch MEGA-E High Power Charging network for Europe's Metropolitan areas](#)
[ChargePoint Secures \\$240 Million in Additional Funding; \\$500 million raised in total](#)
[UK's Podpoint installing 150kW EV rapid chargers this year; 350kW by 2020](#)
[UK National Grid plans 350kW EV charge point network](#)
[BP Chargemaster's 150kW UK network to allow 30min electric car charging at 50 sites this year](#)
[Fastned building 150kw-350kw chargers in Europe](#)

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[Deutsche Telekom to build electric car charging network in Germany](#)
[ABB powers e-mobility with launch of first 150-350 kW high power charger](#)
[Shell buys European electric vehicle charging pioneer NewMotion](#)
[Total planning EV charging points at its French stations](#)
[Volkswagen, FAW Group, JAC Motors, Star Charge formally announce new EV charging JV](#)

And here's Tesla's competition in storage batteries...

[Panasonic](#)
[Samsung](#)
[LG](#)
[BYD](#)
[AES + Siemens \(Fluence\)](#)
[GE](#)
[Bosch](#)
[Mitsubishi Hitachi](#)
[NEC](#)
[Toshiba](#)
[ABB](#)
[Saft](#)
[Johnson Contols](#)
[EnerSys](#)
[SOLARWATT](#)
[Schneider Electric](#)
[sonnenBatterie \(acquired by Shell\)](#)
[Kyocera](#)
[Kokam](#)
[Sharp](#)
[Eaton](#)
[Nissan](#)
[Tesvolt](#)
[Kreisel](#)
[Leclanche](#)
[Lockheed Martin](#)
[EOS Energy Storage](#)
[ESS](#)
[UET](#)
[electrIQ Power](#)
[Belectric](#)
[Stem](#)
[ENGIE](#)
[Exergonix](#)
[Redflow](#)
[Renault](#)
[Fluidic Energy](#)
[Primus Power](#)

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[Simpliphi Power](#)
[redT Energy Storage](#)
[Murata](#)
[Bluestorage](#)
[Adara](#)
[Blue Planet](#)
[Clean Energy Storage Inc.](#)
[Tabuchi Electric](#)
[Yunicos](#)
[Orison](#)
[Moixa](#)
[Powin Energy](#)
[Nidec](#)
[Powervault](#)
[Schmid](#)
[24M](#)
[Ecoul](#)
[Innolith](#)
[LithiumWerks](#)
[Natron Energy](#)

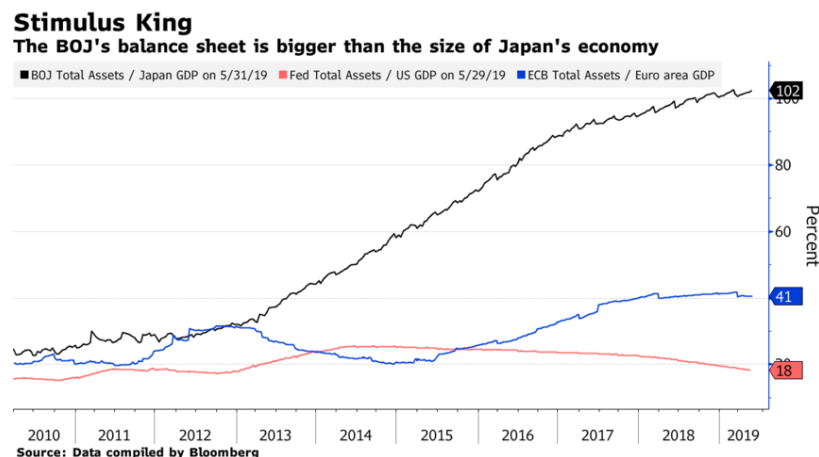
Yet despite all that deep-pocketed competition, perhaps you want to buy shares of Tesla because you believe in its management team. *Really???*

[Elon Musk Settles SEC Fraud Charges](#)
[Elon Musk, June 2009: "Tesla will cross over into profitability next month"](#)
[Tesla SEC Correspondence Shows A Pattern Of Inaccurate, Incomplete & Misleading Disclosures](#)
[Tesla: Check Your Full Self-Driving Snake Oil Expiration Date](#)
[As Musk Hyped and Happy-Talked Investors, Tesla Kept Quiet About a Year-Long SEC Probe](#)
[The Truth Is Catching Up With Tesla](#)
[With Misleading Messages And Customer NDAs, Tesla Performs Stealth Recall](#)
[Who You Gonna Believe? Elon Musk's Words Or Your Own Lying Eyes?](#)
[How Tesla and Elon Musk Exaggerated Safety Claims About Autopilot and Cars](#)
[When Is Enough Enough With Elon Musk?](#)
[Musk Talked Merger With SolarCity CEO Before Tesla Stock Sale](#)
[Tesla Continues To Mislead Consumers](#)
[Tesla Misses The Point With Fortune Autopilot Story](#)
[Tesla Timeline Shows Musk's Morality Is Highly Convenient](#)
[Tesla Scares Customers With Worthless NDAs, The Daily Kanban Talks To Lawyers](#)
[Tesla: O, What A Tangled Web We Weave When First We Practice To Deceive](#)
[I Put 20 Refundable Deposits On The Tesla Model 3](#)
[Tesla's Financial Shenanigans](#)
[Tesla: A Failure To Communicate](#)
[Can You Really Trust Tesla?](#)
[Elon Musk Appears To Have Misled Investors On Tesla's Most Recent Conference Call](#)
[Understanding Tesla's Potemkin Swap Station](#)

So in summary, Tesla is losing a massive amount of money even *before* it faces a huge onslaught of competition (and things will only get worse once it does), while its market cap is larger than Ford's and over 75% of GM's despite selling only around 350,000 cars a year while Ford and GM *make* billions of dollars selling 6 million and 8.4 million vehicles respectively. Thus this cash-burning Musk vanity project is worth *vastly* less than its over \$50 billion enterprise value and—thanks to roughly \$34 billion in debt, purchase and lease obligations—may eventually be worth “zero.”

Elsewhere among our short positions...

We continue (since late 2012) to hold a short position in the Japanese yen via the Proshares UltraShort Yen ETF (ticker: YCS) as Japan (despite having substantially tapered its QE) [continues to print 4% of its monetary base per year](#) after [quadrupling that base since early 2013](#). In 2018 the BOJ bought approximately 67% of JGB issuance and in 2019 it anticipates buying 70%! In fact, the [BOJ's balance sheet](#) is now [larger than the entire Japanese economy](#):



...and it owns nearly 78% (!) of the country's ETFs by market value.

Just the interest on Japan's debt consumes 8.9% of its [2019 budget](#) despite the fact that it pays a blended rate of less than 1%. What happens when Japan gets the 2% inflation it's looking for and those rates average, say, 3%? Interest on the debt *alone* would consume nearly 27% of the budget and Japan would have to default! But on the way to that 3% rate the BOJ will try to cap those rates by printing increasingly larger amounts of money to buy more of that debt, thereby sending the yen into its death spiral.

When we first entered this position USD/JPY was around 79; it's currently in the 108s and long-term I think it's headed a *lot* higher—ultimately back to the 250s of the 1980s or perhaps even the 300s of the '70s before a default and reset occur.

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We continue to hold a short position in the [Vanguard Total International Bond ETF](#) (ticker: BNDX), comprised of dollar-hedged non-US investment grade debt (over 80% government) with a ridiculously low “SEC yield” of 0.52% at an average effective maturity of 9.7 years. As I’ve written since putting on this position in July 2016, with Eurozone inflation now printing 1.1% annually I believe this ETF is a great way to short what may be the biggest asset bubble in history. Currently the net borrow cost for BNDX provides us with a *positive rebate* of nearly 2% a year (more than covering the yield we pay out) and as I see around 5% potential downside to this position (vs. our basis, plus the cost of carry) vs. at *least* 20% (unlevered) upside, I think it’s a terrific place to sit and wait for the inevitable denouement of *this* insanity.

We also have relatively small short positions in Netflix (NFLX) due to its egregious valuation within the context of [increasing cash burn](#) and competition ([particularly from Disney](#)), Square (SQ) due to its egregious valuation and a [stock-dumping CEO](#) who [so effusively praises](#) (and enables) Elon Musk that I suspect he’s equally untrustworthy (and indeed in June the company [fired its auditor](#)), Carvana (CVNA) due to a laughable business model with [escalating losses](#) and a founder with a [sketchy past](#) who’s [dumping stock steadily](#) and Wayfair (W), an egregiously bad on-line furniture business with yet another [stock-dumping CEO](#).

And now for the fund’s long positions...

New to the fund is a long position in Communications Systems, Inc. (ticker: JCS), an IOT (“Internet of Things”) and internet connectivity & services company. The company’s multiple divisions are best explained by the [slide presentation](#) from its annual meeting and [this terrific new contract](#), and its recently improved performance is highlighted in its [Q2 earnings report](#); what attracted me to JCS is its great balance sheet and how cheap it is on an EV-to-revenue basis. At our average cost of \$3.04/share and assuming \$62 million in annual revenue, \$17.8 million of net cash and 9.32 million shares outstanding, we paid just a bit over 0.17x revenue for this roughly break-even company with a gross margin of 37% and climbing.

We continue to own [Aviat Networks, Inc.](#) (ticker: AVNW), a designer and manufacturer of point-to-point microwave systems for telecom companies, which in June reported [an interesting deal](#) to be the exclusive North American distributor for NEC’s microwave products. In May Aviat [reported](#) a lousy Q3 for FY 2019 (with revenue down 13% year-over-year), but guided to a very strong Q4 (ending June 30th) with revenue and income up substantially year-over-year. For all of FY 2019 the company cut guidance to \$246-\$251 million of revenue (a \$4 million reduction from previous guidance) and non-GAAP EBITDA of \$11-\$12 million (a \$1 million reduction), and because of its approximately \$330 million of U.S. NOLs, \$10 million of U.S. tax credit carryforwards, \$214 million in foreign NOLs and \$2 million of foreign tax credit carryforwards, Aviat’s income will be tax-free for many years; thus, GAAP EBITDA less capex essentially equals “earnings.” So if the non-GAAP number will be \$11.5 million and we take out \$1.7 million in stock comp and \$6 million in capex we get \$3.8 million in earnings multiplied by, say, 14 = approximately \$53 million; if we then add in approximately \$29 million of expected year-end net cash and divide by 5.4 million shares we get an earning-based valuation of around \$15/share. However, the real play here is as a buyout

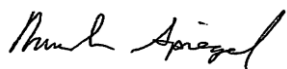
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candidate; Aviat's closest pure-play competitor, Ceragon (CRNT) sells at an EV of approximately 0.6x revenue, which for AVNW (based on the low end of 2019 guidance) would be $0.6 \times \$246 \text{ million} = \$148 \text{ million} + \$29 \text{ million net cash} = \177 million . If we value Aviat's massive NOLs at a modest \$10 million (due to change-in-control diminution in their value), the company would be worth \$187 million divided by 5.4 million shares = just under \$35/share. And [here's a new report explaining "the growth story."](#)

We continue to own [Westell Technologies Inc. \(WSTL\)](#), which in May [reported](#) a *terrible* FY 2019 Q4, with revenue down 12.5% year-over-year and a drop in gross margin from 45.5% to 37.6% and negative free cash flow of around \$1.4 million. About the only good news here is that the company ended the quarter with \$25.5 million in cash and no debt, and (as gleaned from [the conference call](#)) normalized FCF burn at Q4's revenue level is "only" around \$900,000. Westell now sells at an enterprise value of less than 0.1x (i.e., less than 10% of) revenue, so on that metric it's clearly dirt cheap but the business needs to stabilize and grow. On the conference call management was confident that later this year there should be enough revenue growth to cut quarterly burn to around \$500,000 but "break-even" now sounds like more of a "next year" possibility. Westell also suffers from a dual share class with voting control held by descendants of the founder; however, management has often stated that the controlling family is open to merging the two share classes, and the company is *so* cheap on an EV-to-revenue basis that if management can't start generating meaningful profits it seems primed for a strategic buyer to acquire it. An acquisition price of just 0.8x run-rate revenue (on an EV basis) would be around \$3.70/share.

We continue to own the [PowerShares DB Agriculture ETF](#) (ticker: DBA) as agricultural products remain the most beaten-down sector I can find that isn't a "buggy whip" (something on the way to obsolescence) or cyclical from a *demand* standpoint, although I reduced the position size considerably in July when near-term hopes for a trade deal with China fell apart and terrible weather in the farm belt was unable to move prices meaningfully higher.

Thanks and regards,



Mark Spiegel