

# WMT Strangle vs. BRK



Warren Buffett, the “Oracle of Omaha”, is considered by many to be one of the greatest value stock investors of our time. His methodology of fundamental analysis, management “vetting”, and buy and hold theory epitomize traditional investment theory.

# WMT Strangle vs. BRK



People often quote “If you invested \$1,000 in Berkshire Hathaway’s stock at its inception in 1965, you would be a millionaire many times over by now!”

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Today, we attempt to put that in perspective. We will look at what Berkshire Hathaway's return really means and we compare it to a mechanical approach to selling WMT strangles.

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## Berkshire Hathaway

If you had invested \$100 in BRK/A stock in 1965, today you would have \$362,179! It sounds like an astronomical gain, and it is in the world of buy and hold investing.

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But that gain, as astounding as it seems, yields a 19.50% return on a compounded annual basis. This is our means of comparison to any other vehicle. For example, the S&P returned 8.90% compounded over that period of time.

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How do these returns compare to those of selling a strangle in WMT each month?

Wal-Mart is a low volatility stock, which leaves us with little credit received and a tight dollar range expected move.

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## The Study

On the first of each month, we sold a 1 SD (84% probability OTM) second month strangle. This put the DTEs between 44 and 51 days. We let these expire and acted as if the options were “cash settled”.

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Due to data constraints, we were only able to get 8 years of options data and will extrapolate the results for the period of time back to Berkshire stock's inception (1965).

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## The Results

Selling the WMT strangle yielded an annual ROC of 25.4%. While not exceptional by options standards, it still exceeded Berkshires return handily. Further, BRK used around 1.6 times leverage as compared to our 2 times leverage inherent in a margin account.

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What does this additional return mean in dollars?

	Annual compounded return	Value of \$100 in 1965 to Today
SPX	8.90%	\$5,050
BRK/A	19.50%	\$362,179
WMT strangle	25.40%	\$3,324,196

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Next time you hear about the incredible returns of Warren Buffett, put it in perspective. Options trading is a powerful means of creating wealth.

Time invested in learning can be quite rewarding!

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