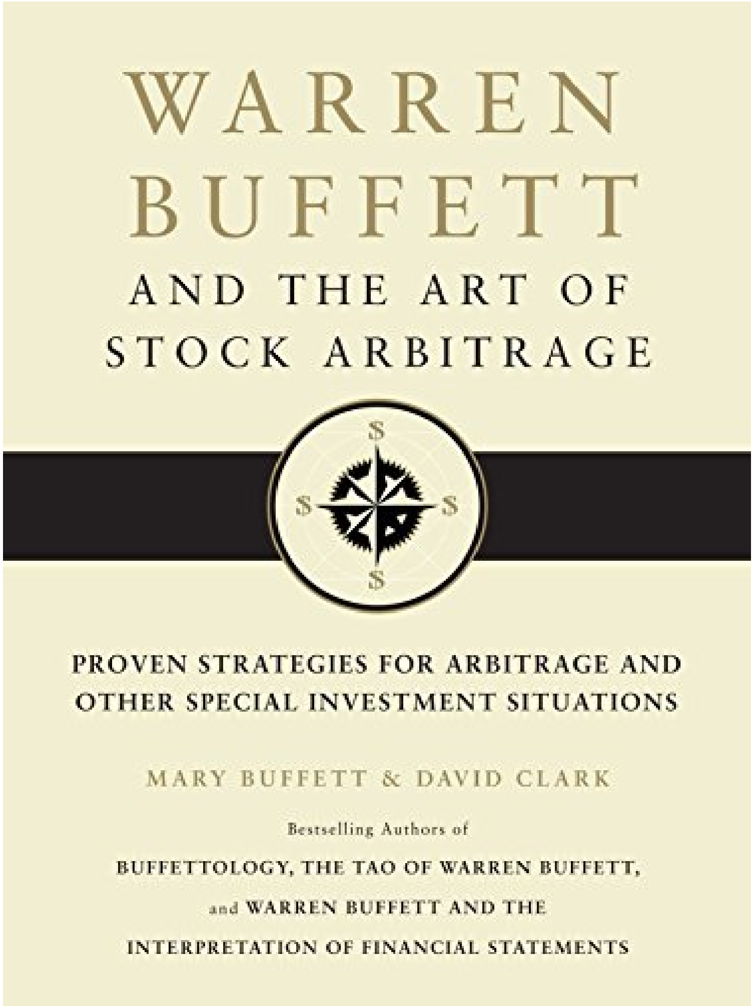
Warren Buffett and the Art of Stock Arbitrage: Proven Strategies for Arbitrage and Other Special Investment Situations

Mary Buffett, David Clark



#152708 in eBooks 2010-11-09 2010-11-09File Name: B003UYUP3K | File size: 67.Mb

Mary Buffett, David Clark : Warren Buffett and the Art of Stock Arbitrage: Proven Strategies for Arbitrage and Other Special Investment Situations before purchasing it in order to gage whether or not it would be worth my time, and all praised Warren Buffett and the Art of Stock Arbitrage: Proven Strategies for Arbitrage and Other Special Investment Situations:

1 of 2 people found the following review helpful. Okay but a novice shouldn't do thisBy Paul N.This was a nice little book, but note that it's not intended as a manual for investing, but rather as a nice little intro into what arbitrage could look like. I would say that this book would appeal to two different camps for different reasons:1. Total novice. If you're a total novice investor, or not even an investor but just an interested party, then this would be good. It's an easy

read that gives you a glimpse into the world of arbitrage. BUT... heed the warning. Trying to randomly apply these things without understanding them will cause you a lot of financial hurt. The authors make these concepts sound very easy, when in fact full-time professionals spend a lot of time carefully analyzing and assessing these situations. The novice should use this book as a way to pique their interest, but not as a how-to manual for how to invest.2. Total professional or mid-level investor. You already know what you're doing, and you're interested in reading about something you already know, but you want to hear about what Buffett might have done. This would be intellectual mind candy for you.Again, interesting read. But do more research!0 of 0 people found the following review helpful. This is a great book on arbitrageBy Gary H.Warren Buffet is the MAN!!!0 of 0 people found the following review helpful. Good book.By Bob LDownloaded it. Good book.

FOR THE FIRST TIME EVER, DISCOVER HOW WARREN BUFFETT HAS MADE UNHEARD-OF PROFITS IN THE WORLD OF ARBITRAGE AND SPECIAL INVESTMENTS, AND HOW TO BE A PLAYER IN THESE VENTURES.Investors around the world recently learned that from 1980 through 2003 Warren Buffettrsquo;s arbitrage operations produced an astronomical average annualized rate of return of 81.28%. Even more amazing, this incredible rate of return was produced with very low rates of risk. Long considered one of the most powerful and profitable of Buffettrsquo;s investment operations, but the least understood, these special types of investments have been the edge that made Warren Buffett so phenomenally successful. Warren Buffett and the Art of Stock Arbitrage is the first book to examine Buffettrsquo;s special brand of arbitrage investing. Buffettologists Mary Buffett and David Clark explore the previously secret domain of Warren Buffettrsquo;s stock arbitrage investments. They explain how Buffett finds deals, evaluates them, picks the winners from the losers, and when he is willing to use leverage to help boost his performance in these investments to make amazing profits. Basic mathematical equations are included to help readers determine the projected rate of return, evaluate risk, and determine the probability of the deal being a success. Buffett and Clark provide detailed explanations and examples of Warren Buffettrsquo;s methods for arbitrage, and for investing in tender offers, liquidations, spin-offs, and reorganizations. They take readers step by step from the initial public announcement to tendering shares, explaining how Buffett evaluates risk and maximizes his profit at every step.nbsp;Warren Buffett and the Art of Stock Arbitrage is a valuable companion to the other books in Buffett and Clarkrsquo;s successful seriesmdash;Buffettology, The Buffettology Workbook, The New Buffettology, The Tao of Warren Buffett, Warren Buffett and the Interpretation of Financial Statements, and Warren Buffettrsquo;s Management Secrets.

ldquo;International bestselling authors Mary Buffett and David Clark explain how arbitrage turned Warren Buffett from a great investor into a worldwide phenomenon. Arbitrage presents the average investor with the greatest opportunities they may ever have to generate high returns with low risk. Every year many arbitrage deals come along that are within every investorrsquo;s grasp . . . if you learn how. Warren Buffett and the Art of Stock Arbitrage takes you behind the scenes for a serious exploration of arbitrage techniques that work. I suggest you study and put into practice these simple concepts.rdquo; mdash;Gabriel Wisdom, author of Wisdom on Value Investing and syndicated radio host "The use of arbitrage and special situation investing has always been Warren Buffettrsquo;s golden lever; yet few investors have realized its value in portfolios, until now. Kudos to David Clark and Mary Buffett for finally bringing these strategies to light and revealing the final puzzle pieces in Buffettrsquo;s great career." -- Timothy P. Vick ndash; Senior Portfolio Manager, The Sanibel Captiva Trust Co., author, How to Pick Stocks Like Warren Buffett About the AuthorMary BuffettFor over twenty years, Mary Buffett has been considered a leading authority on the subject of Warren Buffettrsquo;s investment methods. Her international bestselling investment books, co-authored with David Clarkmdash;Buffettology, The Buffettology Workbook, The New Buffettology, The Tao of Warren Buffett, Warren Buffett and the Interpretation of Financial Statements, The Management Secrets of Warren Buffett, Warren Buffett and The Art of Stock Arbitrage, and The Warren Buffett Stock Portfoliomdash;have been translated into twenty-four foreign languages and are considered ldquo;investment classicsrdquo; the world over. Ms. Buffett is an international speaker, entrepreneur, political and environmental activist, and has appeared on television as one of the top finance experts worldwide. She has been the principal speaker for prestigious organizations around the world. Ms. Buffett has worked in a wide range of businesses including extensive work as a consultant to several Fortune 500 companies. She is an associate of the top ranked UK Buffettology Fund in the United Kingdom. In 2013 she became a contributing blogger to the Huffington Post. The blogs and information about the UK Buffettology Fund are on her website MaryBuffett.com. David ClarkFor over twenty years, David Clark has been considered the worldrsquo;s leading authority on the subject of Warren Buffettrsquo;s investment methods. His international bestselling investment books, co-authored with Mary Buffettmdash;Buffettology, The Buffettology Workbook, The New Buffettology, The Tao of Warren Buffett, Warren Buffett and the Interpretation of Financial Statements, The Management Secrets of Warren Buffett, Warren Buffett and The Art of Stock Arbitrage, and The Warren Buffett Stock Portfoliomdash;have been translated into more than twenty foreign languages and are considered ldquo;investment classicsrdquo; the world over. He holds a B.S. degree in finance and a law degree from the University of California, Hastings College of the

Law. He is presently writing Berkshire Hathaway: Fortress of Capital, a corporate biography. When not consumed with matters of finance, he is engaged in the second great passion of his life, which is trial law and maintains an active national practice.nbsp;nbsp;nbsp;nbsp; Excerpt. copy; Reprinted by permission. CHAPTER 1Overview of Warrenrsquo;s Very Profitable World of Stock Arbitrage and Special Investment SituationsThe world of arbitrage and special situations is enormous. It can be found anywhere in the world where commodities, currencies, derivatives, stocks, and bonds are being bought and sold. It is the great equalizer of prices, the reason that gold trades at virtually the same price all over the world; and it is the reason that currency exchange rates stay uniform no matter where our plane lands. A class of investors called arbitrageurs, who make their living practicing the art of arbitrage, are responsible for this.The classic explanation and example of arbitrage is the London and Paris gold markets, which are both open at the same time during the day. On any given day, if you check the price of gold, you will find that it trades virtually at the same price in both markets, and the reason for this is the arbitrageurs. If gold is trading at $1,200 an ounce on the London market and suddenly spikes up to $1,205 on the Paris market, arbitrageurs will step into the market and buy gold in London for $1,200 an ounce and at the same time sell it in Paris for $1,205 an ounce, locking in as profit the $5 price spread. And arbitrageurs will keep buying and selling until they have either driven the price of gold up in London, or the price down in Paris, to the point that the price spread is gone between the two markets and gold is once again trading at the same price on both the London and Paris exchanges. The arbitrageurs will be pocketing the profits on the price spread between the two markets until the price spread finally disappears. This goes on all day long, every day that the markets are open, year after year, decade after decade, and probably will until the end of time.Up until the late 1990s the exchange of price information and buying and selling in the different markets was done by telephone, with arbitrageurs screaming orders over the phones at traders on the floors of the different exchanges. Today it is done with high-speed computers and very sophisticated software programs, which are owned and operated by many of the giant financial institutions of the world.STOCK ARBITRAGEA very similar phenomenon occurs in the world of stock arbitrage, only instead of arbitraging a price difference between two different markets, we are arbitraging the price difference between what a stock is trading at today versus what someone has offered to buy it from us for on a certain date in the futuremdash;usually anywhere from three months to a year out, but the time frame can be longer. The arbitrage opportunity arises when todayrsquo;s market price is lower than the price at which someonersquo;s offered to buy it, which lets us make a profit by buying at todayrsquo;s market price and selling in the future at a higher price.As an example: Company Arsquo;s stock is trading at $8 a share; Company B comes along and offers to buy Company A for $14 a share in four months. In response to Company Brsquo;s offer, Company Arsquo;s stock goes to $12 a share. The simple arbitrage play here would be to buy Company Arsquo;s stock today at $12 a share and then sell it to Company B in four months for $14 a share, which would give us a $2-a-share profit.The difference between this and your normal everyday stock investment is that the $14 a share in four months is a solid offer, meaning unless something screws it up, you will be able to sell the stock you paid $12 a share for today for $14 a share in four months. It is this ldquo;certaintyrdquo; of its going up $2 a share in four months that separates it from other investments.The offer to buy the stock at $14 a share is ldquo;certainrdquo; because it comes as a legal offer from another business seeking to buy the company. Once the offer is accepted by Company A, it becomes a binding contract between A and B with certain contingencies. The reason that the stock doesnrsquo;t immediately jump from $8 a share to $14 a share is that there is a risk that the deal might fall apart. In which case we wonrsquo;t be able to sell our stock for $14 a share and Arsquo;s share price will probably drop back into the neighborhood of $8 a share.This kind of arbitrage might be thought of as ldquo;time arbitragerdquo; in that we are arbitraging two different prices for the companyrsquo;s shares that occur between two points in time, on two very specific dates. This is different from ldquo;marketrdquo; arbitrage where we are arbitraging a price difference between two different markets, usually within minutes of the price discrepancy showing up.It is this ldquo;timerdquo; element and the great many variables that come with it that make this kind of arbitrage very difficult to model for computer trading. Instead, it favors hedge fund managers and individual investors like Warren, who are capable of weighing and processing a dozen or more variables, some repetitive, some unique, that can pop up over the period of time the position is held. It is this constant need to monitor the position and interpret the economic environment that brings this kind of arbitrage more within the realm of art than science.