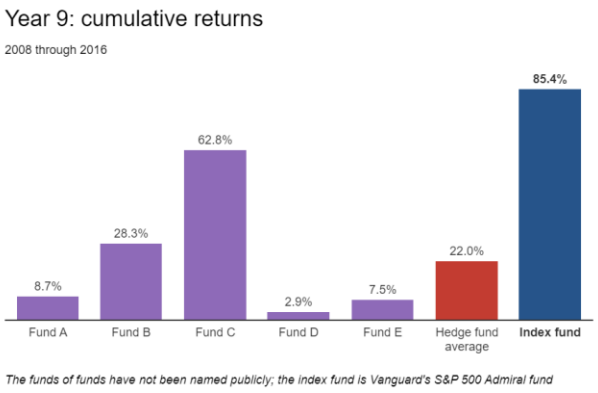
Baffling Buffett: In 2017 Warren Buffett won a million-dollar bet against hedge funds, I can now beat him.

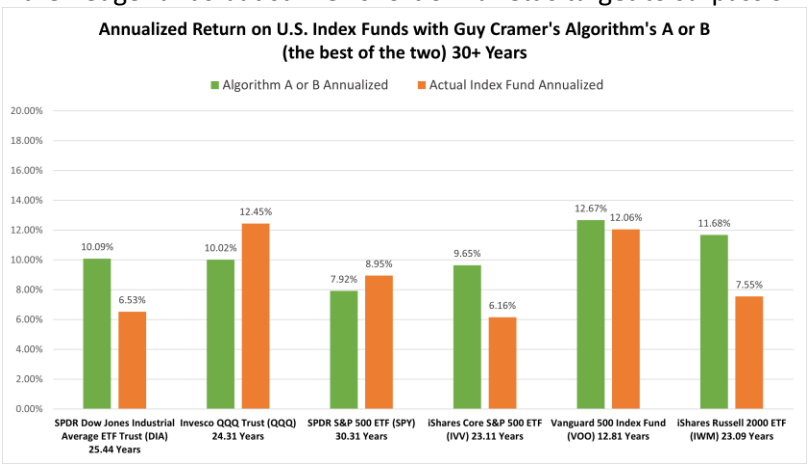
By Guy Cramer (Vancouver, B.C., September 10, 2023)

In 2008 Warren Buffett made a $1 million dollar bet that the S&P 500 Index fund would outperform the top hedge funds over a 10-year period. Protégé Partners LLC accepted the bet and in 2017 conceded that Buffett's passive strategy to buy and hold the S&P 500 Index Fund, outperform a hand-picked portfolio with active investing by one of the top Hedge Funds of the time. https://www.aei.org/carpe-diem/the-sp-500-index-out-performed-hedge-funds-over-the-last-10-years-and-it-wasnt-even-close/

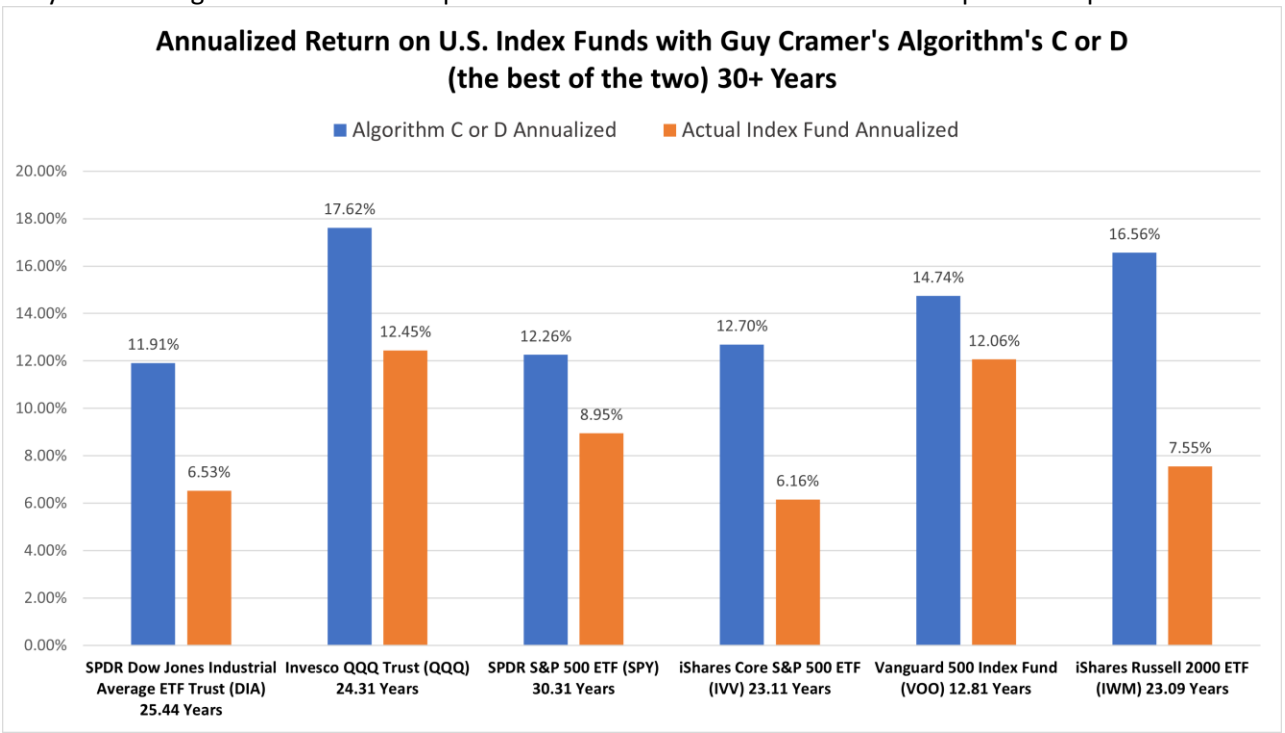
In the table below left, the 5 selected hedge funds used to compete against Warren Buffett averaged 22% (2.44% annually) the S&P 500 "Index Fund" would have made 9.48% annually and the best hedge fund, Fund C would have only made 6.97% annually. The competitor, Protégé Partners LLC conceded a year prior to the 10-year window knowing that their selections could not make up the difference.

With my two previous algorithms A or B (table below right), the best of the two was more than 1% below the annualized S&P 500 ETF (SPY) over 30.31 years, I did better than the hedge funds but still fell short of Buffett's target to surpass SPY.

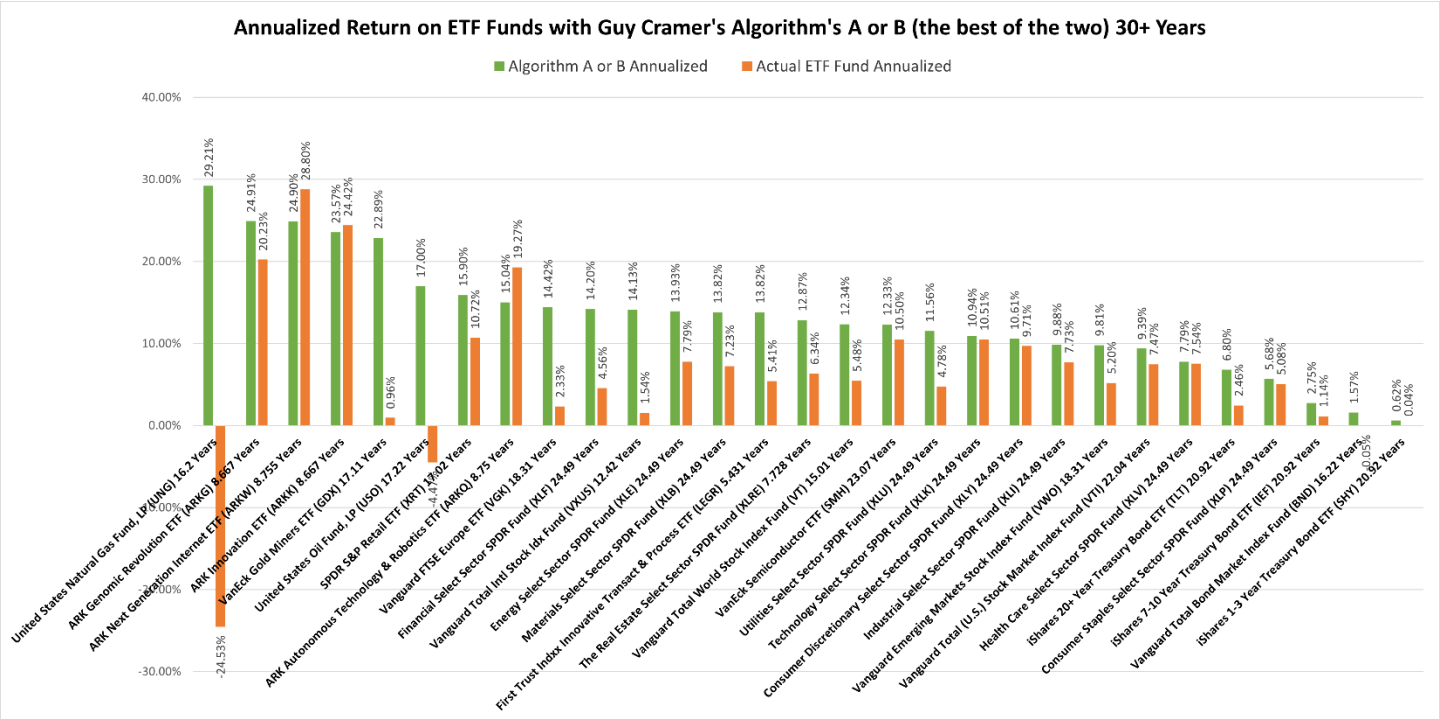




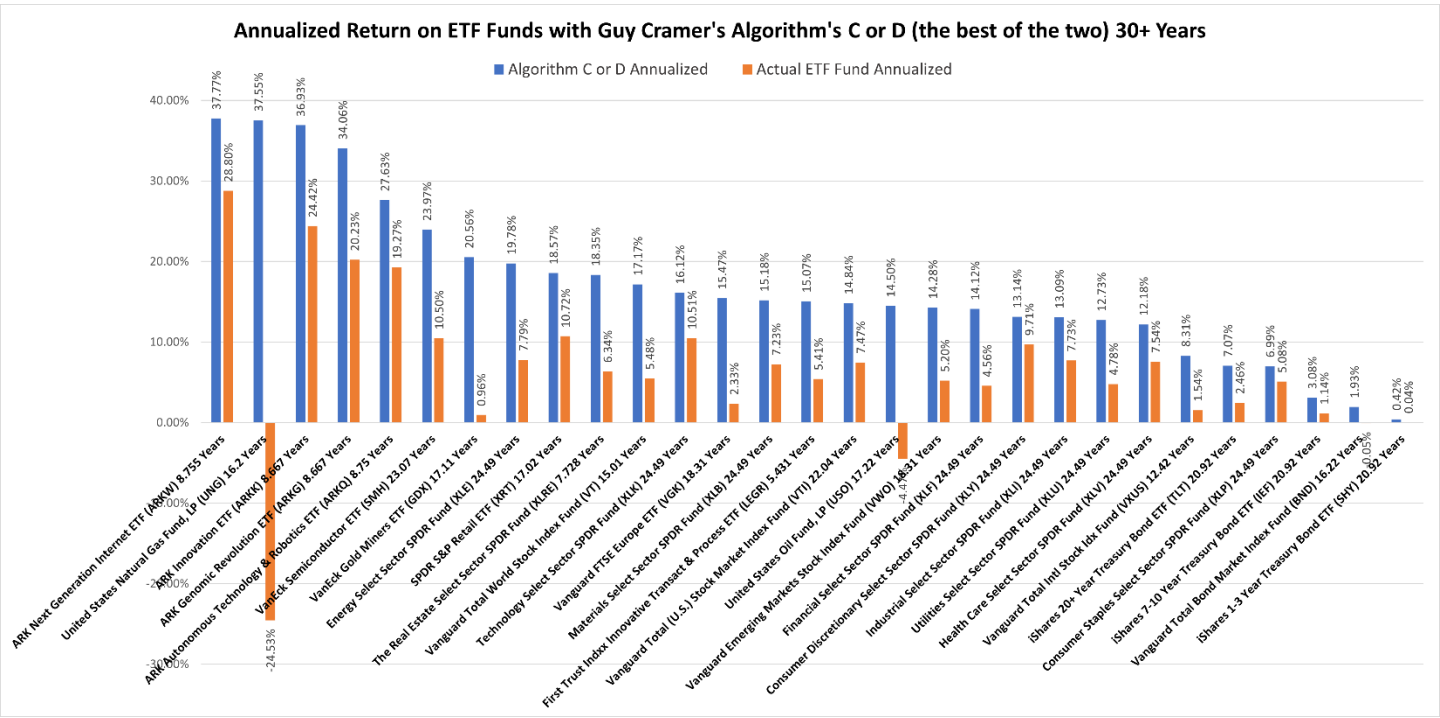
My two new Algorithm's C&D (C replaces A and D replaces B) have more than 40% fewer trades than A&B and easily surpass the SPY target set by Warren Buffett by 3.31% per year over 30.31 years = 100.57%. Three times longer than Buffett's challenge. The new algorithms also outperformed the Dow Jones Industrial ETF (DIA), NASDAQ (QQQ) EFT, IShares Core S&P 500 ETF (IVV), Vanguard (S&P) 500 Index Fund (VOO) and the IShares Russell 2000 ETF (IWM). The consistency of these algorithms across the spectrum of U.S. Index Funds from their inception is unprecedented.



I decided to run several other Index and non-Index ETF's (Exchange-Traded Fund's) through the two new algorithms and compare them with the old algorithms, the first chart is the old algorithms compared to the actual ETF funds annualized. While impressive, it did not equal or exceed all ETF's tested.

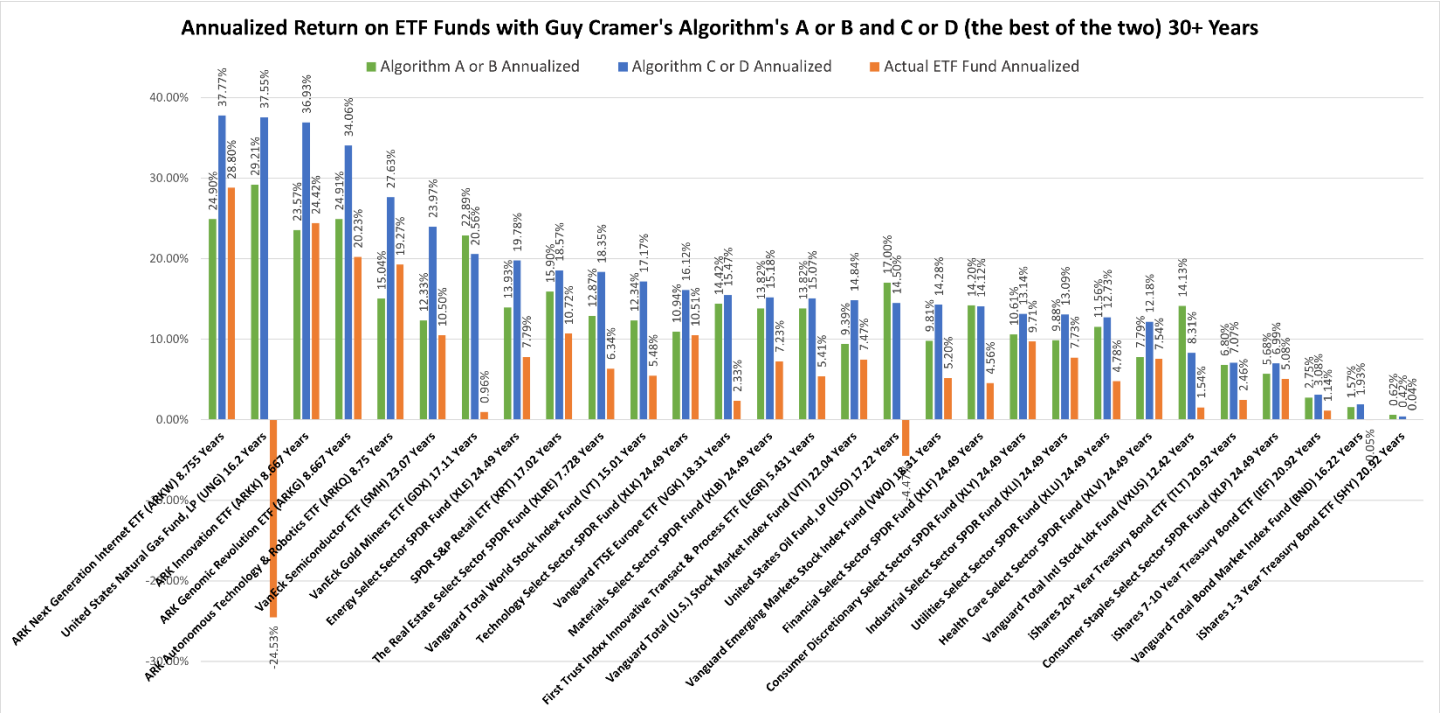


The next chart shows the new algorithms in comparison to the same actual ETF funds annualized in the previous chart. With substantial improvements across the majority of ETF's, all the more impressive is this was done with over 40% fewer trades.

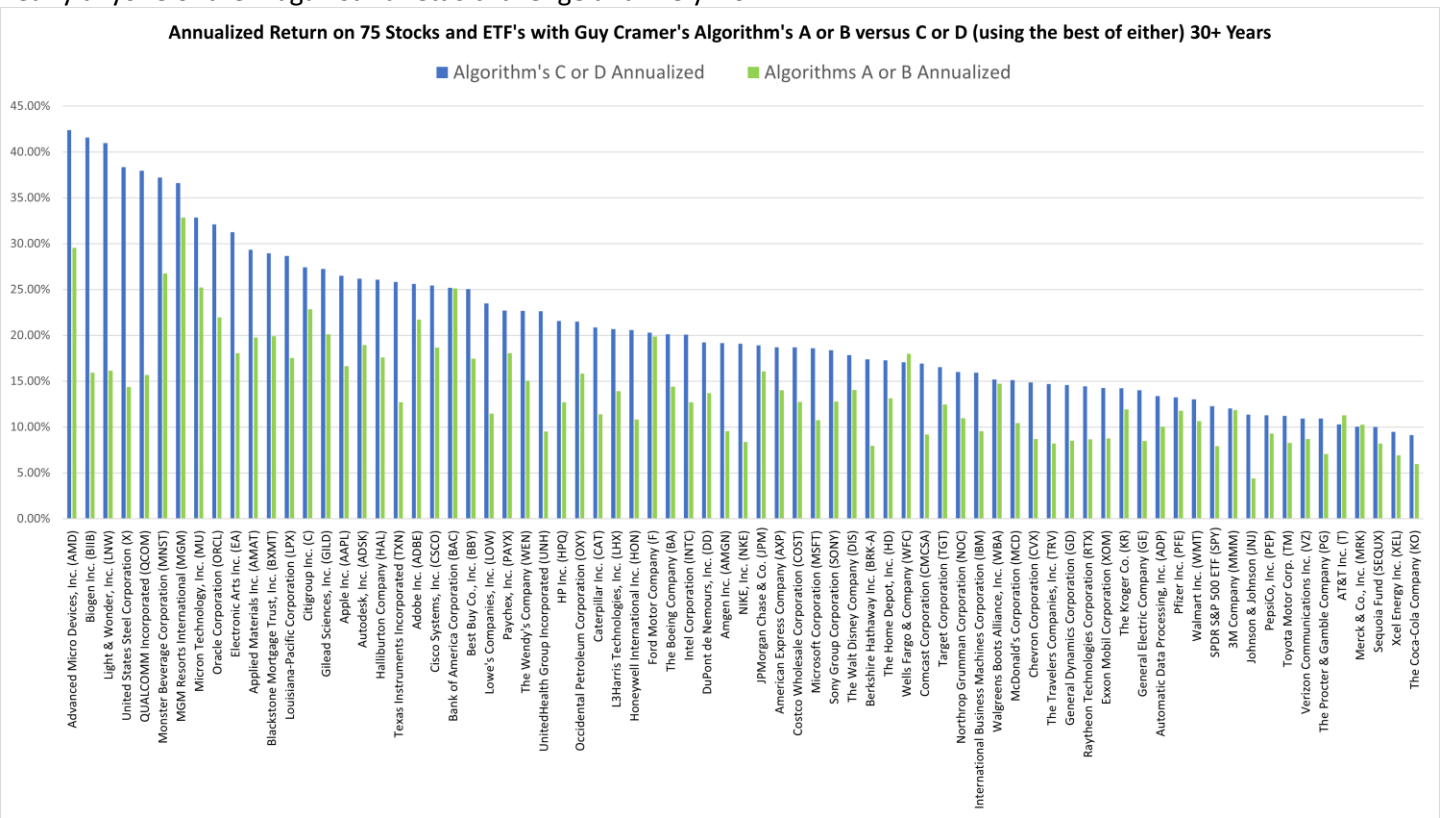


At the top of the returns are four of Cathie Wood's ARK investment funds with three of them each returning 37% annualized with either Algorithm C or D. Each one would be near the top large hedge fund (over $100 million Assets Under Management) from 2020-2022, yet this was done over 8 years and unlike many hedge funds the algorithms do not use leverage to achieve these results.

When we compare Algorithm's A or B with C or D, we see there are only four ETF's where A or B surpass C or D



Back testing 75 companies that have been publicly traded over 30+ years, the average annual return on those stocks resulted in a 50% improvement of Algorithm-D over Algorithm-B and a 73% improvement of Algorithm-C over Algorithm-A. These are similar results to the index and ETF's compared in the previous charts. Every single company listed below would have surpassed the 8.95% annualized return over the 30.31 years since its inception meaning I could have played nearly anyone of them against Buffett's challenge and likely won.



"A number of smart people are involved in running hedge funds. But to a great extent their efforts are self-neutralizing, and their IQ will not overcome the costs they impose on investors. ***Investors, on average and over time, will do better with a low-cost index fund than with a group of funds of funds."*** Warren Buffett's 2016 letter to shareholders

I agree with Buffett, his point is very true, active traders over time cannot compete with passive long-term investment in the S&P 500 Index Fund (SPY). Until a few weeks ago that was also true with my system, late last year I got close with algorithms A&B, but C&D are substantial improvements, elevating the results beyond what Warren ever thought was possible.

These are simulated trades back tested on the historical stock market results, none of the trades are compounded or leveraged, they are straight long/short trades. Brokerage fees and taxes are not considered in my back testing.

Below are my previous papers on these algorithms:

Part 1 This Could be the Biggest Discovery Ever in Economics: Predictable Stock Markets

Part 2 Can Artificial Intelligence Predict Individual Public Company Stock Movement

Part 3 Ghost Patterns Identified

Part 4 Beating the House - Casino Stock Correlation

Part 5 Winning the Powerball Jackpot 45 times in a row!

Part 6 My worst trade wasn't as bad as I thought, it's Beyond Belief!

Part 7 Consistent Anomaly: How I beat Jim Simons Medallion Fund

Part 8 Negative Correlation to the Stock Markets: How 2008 Demonstrates my Algorithm's Resiliency

Part 9 Look into my Crypto Ball; it's not just Cryptocurrencies that correlate, its also Crypto Mining!

Part 10 Beating Bonds, Oil, Gas, Gold, U.S., European, Emerging Markets and World Stocks!

Part 11 The Sky is Falling! The Sky is Falling! You Shouldn't Believe This, but I'm Telling the Truth!

Part 12 Algorithm's C & D - Bonds, Oil, Gas, Gold, U.S., European, Emerging Markets and World Stocks!

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