Buy Lower, Sell Higher

VALUEX BRK 2023

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- AGENDA1. Structured Value2. Structured Dividend Capture3. Technology in Finance



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DISCLAIMER

Structured Value

Opportunistic Structured Value

- Obtain alpha through lower purchase price and higher sales price
- Implement cash secured short put strategy and purchase long term compounders below market prices
- Utilize covered calls to exit for above market prices



Doing Things Differently (How to buy a \$100 stock)

- 1. Identify shares of undervalued stock we wish to own and sell cash secured puts as a tool to purchase the stock
- 2. Collect premium for the contract and commit to purchase undervalued securities if below strike price at expiration



Structured Value: Four Simplified Outcomes



Firm Bankruptcy: Total Loss = Strike - Premium

2 Stock Price (above zero) < Strike Price: Obtain Equity. Equity Price = Strike - Premium

3 Stock Price (slightly) > Strike Price: Earn Premium. Return (%) = Premium/Collateral

4 Stock Price (significantly) > Strike Price: Miss Gain. Return (%) = Premium/Collateral

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BUY LOWER, SELL HIGHER BUFFETT WRITES PUTS

Warren Buffett Writes Puts



Coca-Cola: April 1993

- Wrote 30,000 out-of-the-money put contracts (3m shares), later added 20,000 more
- Strike \$35, Price \$1.5, Expiration Dec 1993
- Stock price ~\$36-\$42

Outcome: Earned \$7.5m in premium



Burlington Northern Santa Fe: Q3 2008

- Wrote 55,000 put contracts (5.5m shares)
- Strike Price \$75-\$80
- Expiration Dec 2008

Outcome: Saved hundreds of millions during Burlington Northern purchase



S&P 500, FTSE 100, Euro Stoxx 50, Nikkei 225: 2004-2008

- Wrote European style put contracts across four indices with a \$37.1 billion notional value
- Premium \$4.9 billion
- Expiration Sept 2019 Jan 2028

Outcome: Contracts likely to end out of the money with \$4.9 billion in premium profits collected



Occidental Petroleum: Today?

- Exploring the Buffett Put
- Recent buys in March at ~\$59.65 raises stake to 23.6% or 211.7 million shares worth \$13 billion
- \$10 billion of preferred stock, and warrants to buy another 83.9 million common shares for \$5 billion, or \$59.62 each

Outcome: TBD

Buy Lower: Occidental Petroleum

Write a \$60 strike put for \$12 that expires in June 2025



Opening Position:

Write (sell) a 2-year cash secured put contract on stock we would like to own with a strike of \$60 for \$12.

Closing Position:

Stock price below \$60: Purchase stock with a net cost of \$48.

Stock price above \$60: Keep \$12 premium earning 25% on collateral and do it again.

Sell Higher: Occidental Petroleum

Write a \$65 strike call for \$13 that expires in June 2025



Opening Position:

Write (sell) a 2-year covered call on stock we would like to exit with a strike of \$65 for \$13.

Closing Position:

Stock price below \$65: Keep \$13 premium and OXY. Earn 20% on premium and do it again.

Stock price above \$65: Sell OXY for 20% premium with a net cost of \$48.

Advantages and Disadvantages: Buy/Write Cash Secured Put

Advantages

- 1. Behavioral/Psychological Advantage: Forced Transaction
- 2. Premium Received Increases Margin of Safety
- 3. Earn IRR While Waiting for Price Declines
- 4. Heightened Price Volatility and Inefficiency
- 5. Timing Diversification Across Expiration Dates
- 6. Cost Averaging Tool
- 7. Low Volume Stock Accumulation Strategy
- 8. Fund managers obtain exposure before reporting equity in a 13F

Disadvantages

- 1. Requires time to monitor
- 2. Purchase most mistakes
- 3. Miss gains from rapidly appreciating equity
- 4. Miss any dividends paid prior to share ownership

Write a cash secured put only when you are prepared and willing to own the underlying asset.

Structured Dividend Capture

Opportunistic Structured Value

- High dividend payers exist among stable businesses and blue-chip firms
- Volatile prices on stable businesses have significantly increased option premiums for specific securities
- Capturing a put premium upon entry, then the dividend, and then a call premium to exit creates an outsized repeatable return
- Volume conditions do not allow large banks to operate in this space
- Complexity of transactions and analysis do not allow retail investors to operate in this space
- We have created a solution for our excess cash that maintains capital liquidity and greatly enhances our returns

Structured Dividend Capture – Case Study (Kraft Heinz Co.)



Total Return (14 days): 5.7% Annualized Return: 321.5%



Structured Dividend Capture - Case Study (Chevron Corp.)



Total Return (14 days): 4.8% Annualized Return: 237.5%



BUY LOWER, SELL HIGHER PYTHON SCRIPT 14

Structured Dividend Capture – Algo Tools



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Structured Dividend Capture – Sample Portfolio Application

Return

Application of Structured Dividend Capture through a \$1m allocation across 7 highquality positions, representing an 18% gain over 3 Months

	Companies		May		June		Jul	y
	Exxon Mobil Corp.	\$1.00m						
ine	Johnson & Johnson	\$1	.03m					
	Bank of America Corp.		\$	1.05m				
e	HP Inc.			\$1.08	m			
<u>3</u>	The Coca-Cola Co.			·	\$1.11m			
-	JPMorgan Chase					\$1.13m		
	Oracle Corp.						\$1.15m	\$1.18m
		Beg Balance	Put Yield	Dividend Yield	Call Yield	Equity Adj.	Total Yield	End Balance
	Exxon Mobil Corporation	1,000,000	1.62%	0.78%	1.51%	-0.85%	3.1%	1,030,572
	Johnson & Johnson	1,030,572	1.13%	0.73%	1.30%	-1.53%	1.6%	1,047,375
lysis	Bank of America Corporation	1,047,375	1.76%	0.76%	2.07%	-1.72%	2.9%	1,077,362
	HP Inc.	1,077,362	1.90%	0.89%	1.90%	-1.70%	3.0%	1,109,657
Q	The Coca-Cola Company	1,109,657	1.45%	0.72%	0.78%	-1.56%	1.4%	1,125,071
	JPMorgan Chase & Co.	1,125,071	1.26%	0.73%	1.17%	-0.73%	2.4%	1,152,446
	Oracle Corporation	1,152,446	1.19%	0.42%	1.60%	-1.07%	2.2%	1,177,226

Total Return (63 days): 17.7% Annualized Return: 157.4%

We can now be even more selective before allocating to new long term holdings with our cash as we can confidently collect double digit returns while we wait.

Backtesting Results

\$1 Million in SDC for 25 years would become \$27m over 25 years vs a very impressive but far inferior \$10m for the S&P 500 including reinvested dividends.

Year	Structured Dividend Capture Cumulative Return %	SP500 Return with Dividend	3000.00%	Structured Dividend Capture Backtesting Analysis
1997	21.6	33.4		
1998	40.8	71.5		
1999	63.7	107.6		
2000	90.3	88.7	2500.00%	
2001	120.2	66.2		
2002	153.1	29.5		
2003	208.9	66.6	2000.00%	
2004	268.2	84.8		
2005	340.7	93.8		
2006	429.5	124.4	1500.000	
2007	508.3	136.8	1500.00%	
2008	554.1	49.2		
2009	641.9	88.7		
2010	749.9	118.1	1000.00%	
2011	862.1	143.8		
2012	1018.3	182.8		
2013	1207.3	274.7	500 000	
2014	1410.0	326.1	500.00%	
2015	1586.0	332.0		
2016	1897.0	383.9		
2017	2234.8	489.4	0.00%	
2018	2424.0	463.4		1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
2019	2732.9	640.9		Structured Dividend Capture SP500 Return with Dividend
2020	2414.1	777.2		·
2021	2753.3	1028.9		

This extraordinary out performance is liquid, converting to cash multiple times in a month. Gains from this portfolio advantage reduces the opportunity cost of holding cash.

Forward Looking Results

\$140.00 \$120.00

\$100.00 \$80.00 \$60.00 \$40.00

\$20.00

\$-

2022

Our analysis continues to specify objective rules that further maximize our gains from our cash.

Year	13F SDC	Global SDC	Dividend Capture without Options
2014	16.61%	15.50%	6.77%
2015	27.86%	28.96%	12.88%
2016	53.24%	52.75%	22.84%
2017	78.67%	78.59%	30.76%
2018	87.76%	93.07%	38.97%
2019	110.25%	116.69%	47.80%
2020	92.48%	92.31%	50.76%
2021	125.34%	118.25%	57.53%





140.00%



Monte Carlo Simulation

Looking forward, we have built an extraordinary tail-wind and now have a high expected return on our cash.



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APPENDIX



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Matthew P. Peterson, CFA

Matthew Peterson founded Peterson Capital Management in 2011 and has over two decades of experience with global financial markets and financial services firms.

Prior to Peterson Capital Management, Matthew was a capital markets consultant for PWC owned Diamond Advisory Services on Wall Street and in London with many years spent as a market and credit risk management consultant at Goldman Sachs. Other clients included Morgan Stanley, Merrill Lynch, American Express, and Ameriprise Financial.

During his tenure with Diamond, Matthew worked with top-tier investment banks, global payments firms, and international insurance companies to deliver high impact solutions to his clients' most challenging business problems.

Before Diamond, Matthew worked with Merrill Lynch, and founded M. Peterson Financial Services, a financial planning firm that offered client planning services to American Express Financial Advisors.

Matthew holds a Chartered Financial Analyst (CFA) designation. He earned his Bachelor of Science in economics and minor in mathematics from the University of Puget Sound. Matthew has lived and worked in China, England, and the United States. Matthew and his wife, Gamze, live in Austin, TX with their two children, Isabel and Adrian.



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