

Buffett's Alpha

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EMORY

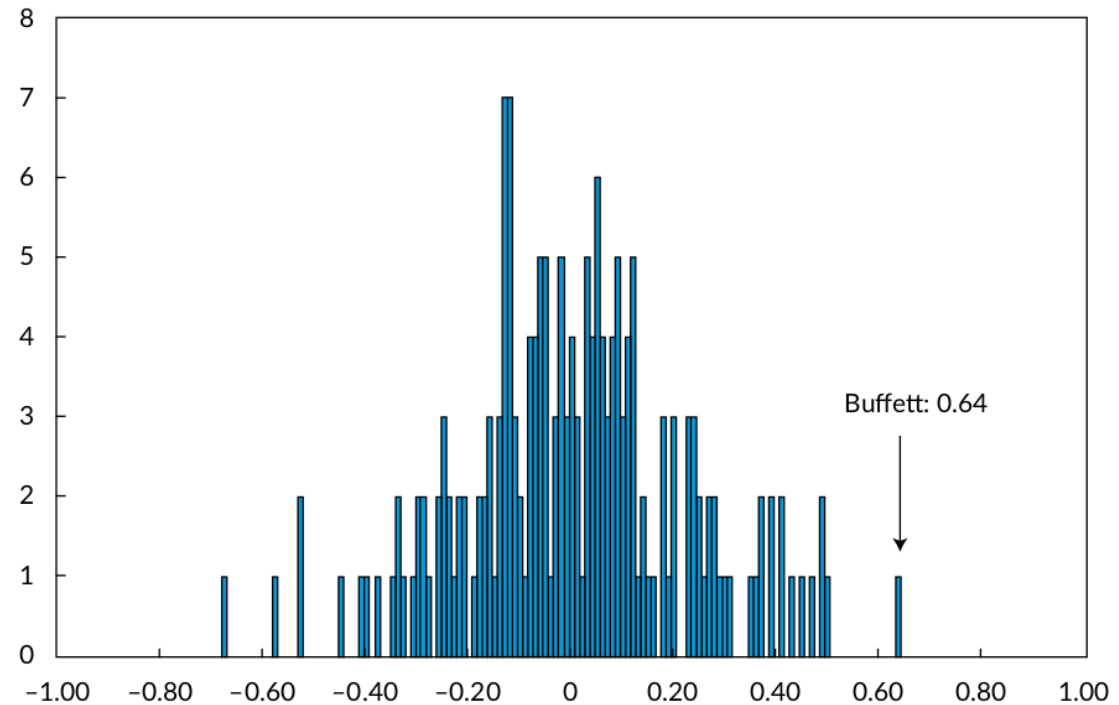
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Table 1. Buffett's Performance Relative to All Other Stocks and Mutual Funds, 1976–2017 (continued)

Stock/Fund Measure	B. Sample Distribution of Information Ratios					Buffett Performance	
	Number of Stocks/ Funds	Median	95th Percentile	99th Percentile	Maximum	Rank	Percentile
<i>Information ratio of common stocks</i>							
All stocks in CRSP data	23,257	0.08	0.76	1.39	3.04	1,655	92.9%
All stocks alive in 1976 and 2017	504	0.18	0.37	0.43	0.64	1	100.0%
All stocks alive in 1976 with at least 10-year history	3,774	0.14	0.43	0.58	0.81	17	99.6%
All stocks with at least 10-year history	9,523	0.13	0.45	0.60	1.03	70	99.3%
All stocks with at least 30-year history	2,021	0.13	0.35	0.45	0.64	1	100.0%
All stocks with at least 40-year history	1,111	0.13	0.33	0.42	0.64	1	100.0%

Notes: The information ratio is defined as the intercept in a regression of monthly excess returns on the excess return of the value-weighted market portfolio, divided by the standard deviation of the residuals. Sharpe ratios and information ratios are annualized.

Figure 1. How Berkshire Stacks Up in the Mutual Fund Universe



Notes: This figure shows the distribution of annualized information ratios of all actively managed equity funds in the CRSP mutual fund database with at least 40 years of return history. See also definitions in the notes to Table 1.

If an investment in Berkshire Hathaway were combined with an investment in the market, the optimal combination would put about 72% of the money in Berkshire, giving rise to a Sharpe ratio of 0.81. Hence, putting 100% of the money in Berkshire (rather than 72%) gives a result that is nearly the optimal Sharpe ratio.⁵

Berkshire Stock, 10/1976–3/2017

Alpha	13.4%	11.0%	8.5%	5.4%
	(4.01)	(3.30)	(2.55)	(1.55)
MKT	0.69	0.83	0.83	0.95
	(11.00)	(12.74)	(12.99)	(12.77)
SMB		-0.29	-0.30	-0.13
		(-3.11)	(-3.19)	(-1.17)
HML		0.47	0.31	0.40
		(4.68)	(2.82)	(3.55)
UMD		0.06	-0.02	-0.05
		(1.00)	(-0.25)	(-0.80)
BAB			0.33	0.27
			(3.79)	(3.04)
QMJ				0.47
				(3.06)
\bar{R}^2	0.20	0.25	0.27	0.29
Obs.	486	486	486	486

B. Berkshire Hathaway Stock and Buffett-Style Portfolio

October 1976 = \$1

