

IBM (NYSE:IBM): Long Premium in Big Blue

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Northern, WI 1/26/2012 -- [\(Streetbeat\)](#) -- [IBM \(NYSE:IBM\)](#). IBM made headlines in 2011 when Warren Buffet made his first Technology bet for [Berkshire Hathaway by investing \\$10 Billion](#). Understand that this made headlines because Berkshire never makes technology investments and [Warren Watchers](#) noticed that his new portfolio manager was making a call signaling an internal shift in investment strategy. Understand also that when you are the largest investor on the planet you must make big bets, there can be no small bets, you need to make game saving plays and bail out countries and solve world peace, these earth moving things are required if you manage money for Warren Buffet.

The size of the bet at \$10B is an average play (5%) for a \$200B portfolio if you measure the Berkshire Hathaway MarketCap ([NYSE:BRK.A](#)), and portfolio managers will tell you that a 5% bet is required if they are to move the needle on earnings and performance, a good portfolio manager will add to his winner, and I see the new PM buying into strength if we pass through the 200 price level. This is a bet Warren and his new portfolio manager needed to make.

Berkshire was smart enough to side-step the [volatility](#) in Technology in the 1990's, but the problem for Berkshire is they did NOT have a large enough investment in [Apple](#). In fact Warren Buffet had the opportunity to back Steve Jobs many moons ago and had multiple chances to invest as [AAPL roars to \\$500 p/s](#) and becomes the most powerful company in the world. Warren also missed the [boat on GOOG](#). So it was logical that he needed to buy [some IBM](#)...the thinking man's Technology Company.

So what now? Market watchers (fundamental and technical) are looking at the \$200 ceiling as a potential floor. In fact, I have been watching this story for awhile now and the [message boards are taking notice and are hot on the Warren trail](#) buying the [Feb 190 + 195 Calls](#).

Understand that when you buy calls you are (buying) option premium, which means you are [long volatility](#), and when you buy [Feb Vol](#) you are purchasing short term Vol..which means you need the stock to move...you want it to move up, and you want it to move past your strike priceand fast. If not you get decay in premium...and this reminds me of an old trader friend of mine back in my prop trading days at Morgan Stanley. I looked over at him with his head in his hands, and I said "Dusty whats wrong?", He said "Do you hear that sound?" "No" I said. "I dont hear anything". He said " If you listen very carefully you can hear the sound of my options decaying". That was my first lesson in watching option premium erode as Dusty sat with his head in his hands.

Options are a [vehicle to make limited risk bets](#), and buying short term call premium is a good way to participate if you think the stock is going up and IBM certainly has many reasons to go up, but make no mistake what your bet is here...you are [long IBM Vol for 30 days](#) and you need a move right now...not a 2 or 3 dollar move...you need a 10-15 dollar upside spike which moves the needle on Volatility...which will make Warren and his new portfolio manager happy, and you also..... if you are [long the Feb at the money](#) or higher (out of the money) Calls.

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