

Musings from Mr. Charlie Munger

Business acumen, Worldly wisdom,
Character & Values

Mentor & Teacher worth emulating

- Embodies the many qualities we respect in three areas of
 - Business and Investment Acumen
 - His comprehensive multifaceted learning's applied to the world and how it works (worldly wisdom)
 - His Character (rationality, stoic, intelligent, candid, honorable & generous)

A brief Introduction by Warren Buffett on his impact to Berkshire Hathaway

- It took **Charlie Munger to break my cigar-butt habits** and set the course for building a business that could combine huge size with satisfactory profits.
- From my perspective, **Charlie's most important architectural feat was the design of today's Berkshire.** The blueprint he gave me was simple: Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices.
- Consequently, **Berkshire has been built to Charlie's blueprint.** My role has been that of general contractor, with the CEOs of Berkshire's subsidiaries doing the real work as sub-contractors.
- Charlie shoved me in the direction of not just buying bargains, as Ben Graham had taught me. That was the real impact that he had on me. **It took a powerful force to move me on from Graham's limiting view. It was the power of Charlie's mind.**
- Listening to Charlie has paid off.

Buffett call Munger his junior partner in good years and senior partner in bad years



Background

- Born Jan 1 1924
- Studied meteorology
- Played poker while in the army (learnt when to fold when to hold and bet heavily when the odds are favorable)
- Studied law in Harvard Law School
- Worked as a lawyer and learnt a lot about business
- Developed an interest in becoming wealthy & become independent
- In 1959 met WB, early 1960's started an investment partnership and a new law firm (practiced only for 3 years)
- 1977 became Chairman of Daily Journal
- In 1979 became Vice Chairman of Berkshire Hathaway
- Now a billionaire philanthropist



Charlie on Investing

- Ben Graham had a lot to learn as an investor. His ideas of how to value companies were all shaped by how the Great Crash and the Depression almost destroyed him...It left him with an aftermath of fear for the rest of his life, and all his methods were designed to keep that at bay.
- Once we'd gotten over the hurdle of recognizing that a thing could be a bargain based on quantitative measures that would have horrified Graham, we started thinking about better businesses.
- In business we often find that the winning system goes almost ridiculously far in maximizing and or minimizing one or a few variables – like the discount warehouses of Costco.
- Free cash flows – it reminds me of the guy who looks at all of his equipments and says, 'there's all of my profits'. We hate that kind of business.
- The trick is to get more quality than you pay for in price. Its that simple.

Charlie on Investing

- Sit on your ass investing. We just tend to get into good businesses and stay there.
- You're looking for a mispriced gamble. That's what investing is. And you have to know whether the gamble is mispriced. That's value investing.
- (Waiting) That's contrary to human nature, just to sit there all day long doing nothing, waiting. Its easy for us, we have a lot of other things to do. But for an ordinary person, can you imagine just sitting for five years doing nothing? You don't feel active, you don't feel useful, so you do something stupid.
- If people weren't wrong so often, we wouldn't be so rich.
- This worshiping at the altar of diversification. I think this is really crazy.
- You should remember that good ideas are rare – when the odds are in your favor, bet heavily.
- View a stock as an ownership of the business and judge the staying quality of the business in terms of its competitive advantage

Charlie on Investing

- Charlie has simplified his strategy to invest in very few things. Runs a concentrated portfolio.
- Compares new opportunities to existing ones before adding
- Investment partnership 1961-1975 compounded at 24.3% CAGR
 - Blue Chip stamps accounted for 61% of the funds investment

Charlie's Worldly Wisdom

- Charlie has a wide-ranging brilliance WB
- **Know the big ideas in the big disciplines and use them routinely** – all of them, not just a few
- We are all learning, modifying, or destroying ideas all the time. You must force yourself to consider arguments on the other side.
- “To a man with a hammer, the world looks like a nail.” This is a dumb way of handling problems.
- I succeeded because I have a **long attention span**.
- It is remarkable how much **long term advantage people like us have gotten by trying to be consistently not stupid**, instead of trying to be very intelligent. It's the strong swimmers who drown.
- Warren is one of the best learning machines on this earth....if he had stopped with what he knew at earlier points, the record would be a pale shadow of what it is.
- All human beings work better when they get what psychologists call reinforcement. Learn from this and find out how to prosper by reinforcing the people who are close to you.

Charlie's Worldly Wisdom

- You must have the confidence to override people with more credentials than you whose cognition is impaired by incentive-caused bias..
- Too much liquidity will hurt human nature. I would never be tenured if I said that. But I am right and they are wrong.
- Don't get in a position where you have to go back to Go (starting spot in monopoly). Learn what you need to learn.

Charlie's Worldly Wisdom

- From all business, my favorite case **on incentives** is Federal Express. The heart and soul of their system – which creates the integrity of the product – is having all the airplanes come to one place in the middle of the night and shift all packages from plane to plane. If there are delays, the whole operation can't deliver a product full of integrity to Fed Ex customers. They could never get it done on time. They tried everything – moral suasion, threats, you name it. And nothing worked. Finally, somebody got the idea to pay all these people not so much an hour, but so much a shift – and when it's all done, they can go home. Well, their problems cleared up overnight.

Charlie Character & Values

- **Being rational is a moral imperative.** You should never be stupider than you need to be.
- The highest form that civilization can reach is a **seamless web of deserved trust** – not much procedure, just total reliable people correctly trusting one another...In your own life what you want is a seamless web of deserved trust.
- Its so useful **dealing with people you can trust and getting all the others the hell out of your life.**
- There's no way you can live an adequate life without many mistakes. I like people admitting that they were complete stupid horses asses. **Failure to handle psychological denial is a common way for people to go broke.**
- I think **one should recognize reality** even when one doesn't like it; indeed, especially when one doesn't like it.

Charlie Character & Values

- **Avoid extremely intense ideology** because it cabbages up one's mind.
- What's wrong with someone getting a little richer than you? Its crazy to worry about this.
- The best way to avoid envy is to deserve the success you get.
- Three rules for a career: (1) Don't sell anything you wouldn't buy yourself; (2) Don't work for anyone you don't respect and admire; and (3) Work only with people you enjoy.
- I'm getting more experienced at aging. 'so far this is not a bad ride'.

Charlie Character & Values

- Life is always going to hurt some people in some ways and help others. **There should be more willingness to take the blows of life as they fall. That's what manhood is, taking life as it falls. Not whining all the time and trying to fix it by whining.**
- I don't think it's terribly constructive to spend your time worrying about things you can't fix.
- You should not let one tragedy increase to two or three by your failure of will.

Miscellaneous Thoughts

- Best way of giving back. Be rational and lead a life worth living. Each one of us should do that.
- Always act honorably as possible.
- Deal ethically with others, face reality
- Learn from the mistakes of others
- Deserve your respect



- This presentation was an introduction to the brilliance of Charlie Munger in the three facets of business acumen and Investing, Applied learning of worldly wisdom and his character.
- There is a wealth of insights available online as Charlie has been a generous teacher and has articulated with deep insights on multiple topics over the last many decades.
- Consider studying him deliberately and making him your virtual mentor as I have!

References:

- Poor Charlies Amanack: The wit and wisdom of Charles T. Munger by Peter Kaufman
- Seeking Wisdom: From Darwin to Munger by Peter Bevelin
- Charlie Munger the Complete Investor by Tren Griffin
- The Tao of Charlie Munger by David Clark
- Damn Right! By Janet Lowe
- AGM notes (BRK, Daily Journal)