

I'm Charlie Munger, Chairman of the Board of the Daily Journal Corporation (DJCO), and I welcome all of you, including the groupies....Our [new] independent accounting firm is here. We prefer you to our old one. You remind me of my own personal circumstances. They once asked me what one person accounted for most of my personal felicity in life, and I said, "That's easy – that would be my wife's first husband." You have an ideal position of the same sort.



I'm going to talk briefly on accounting and then I'm not going to talk any more on the subject.

To be as late in publishing an audit as the Daily Journal is absolutely unheard of. It's unbelievable. Had the mafia been running the company with the worst excesses in the world you wouldn't expect an audit to be this late. It set a new record in the history of the world. We obviously had an audit from hell, and the question is, what caused it? Our auditor would say it was our sloppiness in internal controls. God knows, we've had a few imperfections, but in my judgment they were trivial and of no practical consequence to anybody with any sense. The auditors would say that our difficulties were really serious. They were confused by the difficulties of our business, which God knows are confusing and difficult, but that's external reality. They were like the doctor who wants to fix a nose bleed by

feeling around in the groin, and charge for it by the hour.

It wasn't malevolent. They're a big bureaucracy and they did us enormous damage, the way an elephant would do damage if it went through a barnyard and stomped the chickens. It just comes with modern life, but [DJCO Board Member] Peter Kaufman always says that no occasion, no matter how terrible, is totally un-useful. It can always serve as a useful bad example. That's the way I feel about this audit.

We are a service operation ourselves. We're a bureaucracy, and we have plenty of power in this complicated software business of disappointing some customer who trusts us. We're using our audit as an example of the kind of thing we never want to do to anybody else ourselves: just unwittingly do something stupid that does a lot of damage.

Now of course our main competitor in this software struggle just loves our being in the headlines for not getting audits out on time. Just think of how a commissioned sales force reacts to that. The auditor was feeding our main competitor lots of red meat and billing us for it. It was not the happiest occasion in the history of auditing.

I don't think it hurt us at all in the financial community. Any ordinary company would have been crucified, but we have a reservoir of trust and reputation, so I think it was a non-event to people like you. I do think it hurt us with the customers. Whether our auditors hurt us five million dollars (counting opportunity costs) or some larger sum I cannot tell you, but it was a significant unpleasantness, and it was – in my judgment – totally unnecessary. But there is no feeling on our part that our auditor was any worse than any other member of the Big Four. I think when we have big bureaucracies and new responsibilities under the law you get some odd occasions. Our business situation being a venture capital-type situation would have confused practically anybody who was restricted to auditing experience. It was sort of a natural human craziness and it's not unexpected.

The right way to react to it I think is clear. Turning the other cheek didn't

start with Jesus at all. The real guy who figured that out was Aristotle. He just thought it was crazy to spend your time trying to get even based on some injury. You just suck up your gut. We paid all the invoices with the extra payments so they could hurt us more. We're not going to do any more. Our new auditor at least is local and we're a bigger client to it than we were to the old one. Part of our trouble was that our business situation was complicated and I'm sure we didn't draw the top talent to our tiny little business.

I also think that when something bad happens it's always partly your own fault. With 20/20 hindsight both Gerry [Salzman, DJCO CEO] and I have a fault, and I have it way worse than Gerry, and that is we get along beautifully with people we trust and admire – it really causes something more like love, which I like in business and in life – but the people we don't admire, neither of us is very good at disguising it. I think that this went from bad to worse, and I don't know how to fix people as old as Gerry, and of course I'm old, so we just have to soldier on as best we can.

Hopefully, the new auditors will be more admirable. It's hard to imagine that they could be worse. They have one of the easiest jobs in the whole world in satisfying a client. We're treating it like Aristotle. It may have cost the company quite a bit of money, counting its competitive effects. They did not do it on purpose. They did it utterly unwittingly, without the faintest idea that maybe if they delayed our audit report month after month after month it would hurt us in the market with a big competitor with a bunch of commissioned salesmen around spreading the happy news that the Daily Journal's internal controls were non-existent and they were no good and so on. That's all I'm going to say about auditing.

Daily Journal: the Business

As we have said over and over again, we have a declining business. The business of running a newspaper with information content delivered by printing presses, even when it's a legal newspaper, is declining. The golden revenues were from publishing foreclosures notices. We made a lot of money for a while. It was sort of like being an undertaker during the

Black Death. For two or three years it was a wonderful business and the population of Europe declined by 40 percent. That's what we went through.

We kept the money. I would say that we handled our situation very well, and we still have a 90% share of the public notices in foreclosures, but there practically aren't any right now. The banks, the lenders, have all tightened their standards and the real estate prices are back up, so of course the foreclosures are pretty close to zero. We have a declining business in its very nature.

If you take the whole history of businesses that make a fair amount of money and have a little surplus but their basic business goes to hell based on technological developments, the results are lousy. The normal result is Kodak (ticker: KODK). Imagine having a business like Kodak and having it go all the way to bankruptcy. That's the normal occurrence: technological obsolescence.

There are few exceptions in the history of the world. One of them is Thompson Reuters (ticker: TRI). They were a newspaper company with a few television stations added and they basically milked them as long as they could, sold them for high prices, and went into a different business – online information – and they successfully made the transition. That is really rare.

The other rare example, of course, is Berkshire Hathaway. Berkshire started with three failing companies: a textile business in New England that was totally doomed because textiles are congealed electricity and the power rates were way higher in New England than they were down in TVA country in Georgia. A totally doomed, certain-to-fail business. We had one of four department stores in Baltimore [Hochschild Kohn], absolutely certain to go broke, and of course it did in due course, and a trading stamp company [Blue Chip Stamps] absolutely certain to do nothing which it eventually did. Out of those three failing businesses came Berkshire Hathaway. That's the most successful failing business transaction in the history of the world. We didn't have one failing business – we had three.

Out of that little nothing, the excess capital that we took out and put somewhere else did better than anybody's ever done. As a matter of fact, we recently passed General Electric [ticker: GE] in terms of market capitalization, and GE was founded by Thomas Edison himself in 1892, and one of the most powerful companies in the world.

It was a considerable stunt. But the normal result is more like Kodak. Xerox [ticker: XRX] is an interesting case. They went to the brink of extinction and then came back, but they are a pale shadow of their former greatness. They actually invented most of the stuff other people made so much money out of, and they still failed. Bill Gates is a big student of this subject, and he says that the standard result is failure. Imagine General Motors [ticker: GM] who went bankrupt. Can you imagine how they towered over the economy when I was young? It was the biggest, more valuable, most admired company, and it took the shareholders to zero.

What Daily Journal is left with is a declining business. It may last quite a while, but at really modest profits. The future is our software business and we really like that. We think all these courts should be automated, and it should be a configurable system and it should be in the cloud and these public agencies should be serviced lovingly and honorably and loyally, and that's exactly what we plan doing. New Dawn Technologies, which so worried our auditors, I asked them a question today before we came in here: of your existing clients, how many are threatening to leave? They have about four hundred clients and they named one. As far as I'm concerned, I like the way that's worked out, as a venture capital type of investment. I like the people and I like the ethos and I like what we're trying to do. It's a great big market.

Most big software companies hate dealing with the government. IBM [ticker: IBM] got very good at it, but everybody else just hates it. You have a business like Microsoft [ticker: MSFT] and you don't need a bunch of RFPs [Request For Proposals] – it's just agony. We actually kinda like the agony. The people really need better products. Who knows, we may actually pull it off, but the objective evidence would be that we're trying to do something that very few people have ever succeeded at: take a

successful business, clobbered by a change in competition, and have it out of the ashes raise something that's pretty damn good. That's what we're trying to do.

I think the odds are better than even that we pull it off creditably. I don't think it will be a super-bonanza, but our standards of creditable are pretty satisfactory. As to the surplus money, thank God we have it. Most of the newspaper businesses – about half of them went broke or nearly broke and they borrowed so much to buy other newspapers because that's all they know how to do, with the aid of so many friendly investment bankers and consultants, that they basically took their own shareholders to zero after having long years of monopoly. That has not been the result here. We have all this extra money on the balance sheet and we're using it to create a software business.

I think you all would have liked the board meeting we had before we came in here. The people strike me as honorable, intelligent and cheerful about the difficulties of this very difficult business, which are a whole lot of bureaucracies, governmental in nature, with a whole lot of different consultants influencing the customer. It's not a bit easy, with very difficult questions of what you do and why you should do it, whether the new system is going to work, and if so, why? I actually kind of like it even though I don't understand it. I have the feeling that we're not going to get a lot of new entrants into this business. Our main competitor is in a formidable place, but if I were buying the product, I'd buy ours and not theirs, and that's my test of proper competition.

With those remarks, I'll take questions....

Q: What's one thing that you are excited about in the next year, professionally and personally?

Munger: That's spoken like a true groupie. Basically, I lead a very favored life. I've got wonderful associates. I've had problems that my abilities were able to solve. Working on a problem and lacking the ability to solve it is unpleasant. Luckily, I have selected very easy problems all my life, and I have a reasonable batting average.

I feel very thankful that I'm alive and that I've been so favored. It's very easy to get discouraged by what's wrong and forget what's right. There are a whole lot of developments that I really don't like.

I don't like the vast growth of legalized gambling, including the legalized gambling run by Wall Street in the form of derivatives trading and so on. It's bad for the country.

I think one legal drug is enough. I don't think society is going to be better with two or three or four legal drugs. If I look back in my own life, 95% of the people have handled liquor responsibly. It may even have been a slight plus in their lives. The other 5% have created enough misery to counterbalance all the felicity of the others. As I look back, at least one person in twenty has ended in total alcoholism and half of them died young and half of them recovered. It was a lot of damage.

I also don't like the increasing tendency of governments to pay off fraud. If I were running the world I wouldn't pay off anything that could be easily faked. It's so bad for people to learn to lie to get money from the government — just to have everybody hire somebody on a contingent fee to say his back hurts or his life adjustment is bad because of a psychiatric difficulty. I find this appalling. What kind of nut cases running our government would create a fraud like this? It's crazy — you're teaching people to be crooks, you're paying people to be crooks.

On the other hand, if you look back over 100 years, it's just fabulous what's been solved and how much better off the average person is. I was

recently at Harvard for a little bash, and Harvard really thinks they're about to create pancreatic cells from stem cells. Considering the prevalence of diabetes, that would be a considerable stunt. Some of that stuff is coming. Just take the quality of the cars we all drive. Think of what clever engineering it is, how much the safety has been improved, etc. A lot is done right.

I have this grandson who is at UCSB in computer science. I've had a whole bunch of the science and engineering students around my dinner table over the years. It makes you feel good about your country. Now, there are a lot of the people at the bottom of the pit around UCSB living in Isla Vista, but they weren't invited. Basically, if you want to have an orgy, I want you to have it somewhere else.

On balance, I'm not as optimistic as Warren [Buffett]. I don't see how anybody could be more optimistic than Warren. He has this real faith in the long term. I'm not quite so enthusiastic, but he's right that there's a lot good that's happening.

If you take what China has done from what China was, there's been no achievement on this scale in the entire history of the world. They've done a lot of things right at which we have failed, and we shouldn't be looking down our noses at them. Imagine taking an economy from subsistence agriculture to what they have done at these enormous rates of growth, and doing it not by borrowing from the rich world – which is what we did in the United States – they did it by saving the money. They were poor, and they were saving 45% of their income. They financed themselves and they're lending to us. We seem to have reasonable peace with China and are getting along. That's very important. All the trade helps.

Mr. Picketty [Capital] is a little daft. Put me down as hoping the Pickettys don't marry into my family. It isn't that some of his numbers aren't correct, but he just doesn't interpret them correctly. Of course if a place as big as China gets really good at manufacturing it's going to reduce some union jobs in the rest of the world in every trade. But they have a right to succeed. The rest of us can be mature enough to adjust instead of

bitching about the fact that the world is occasionally a little tougher than we would have chosen. Of course there are going to be parts of the economy that do better or worse over a twenty- or forty-year period. It's not some malevolent outcome. It's a huge change, and in terms of world equality it's enormously improved. To sit in a very rich country with a 36-hour week and complain about the fact that all the other people are coming up just doesn't strike me as a very mature or noble way to behave.



Charlie Munger (Photo credit: Wikipedia)

Q: What is the Daily Journal (ticker: DJCO) doing about pricing and

other competitive issues?

Munger: The market is competitive and the outcome is not certain. I believe our product is better. I believe our business methods will be better. I don't think all the customers we want will be wise enough to choose us. It's struggle forever. There's no easy bonanza ahead. Anybody who thinks that our use of the surplus cash — which has caused such remarkable results — is a permanent occurrence, that this is a mini-Berkshire Hathaway starting again headed by a Chairman who is ninety years old, is living in fantasy land. We made some very shrewd investments and we did it once every forty years. I'm ninety. That shouldn't give you a lot of optimism. (laughter)

The opportunities were remarkable. They were the type that come along very rarely and they happened to coincide with a time when we were the only undertaker in a town with the plague. Two plus two gave us this chunk of money. If worse comes to worse, the shareholders are not going to go to zero like the shareholders of General Motors did. We may actually pull this thing off, but it isn't a bit easy.

In the whole history of Berkshire Hathaway (ticker: BRK-A), I can only think of one new business that we started by ourselves at headquarters, and that was the reinsurance department. Now, that is a huge business, and it's made an enormous amount of money. Berkshire Hathaway, for all its glorious achievement, started one new business. Everything else we bought. On the other hand, you don't need a whole lot of achievements; you just need a few.

That's one place where we're different from everybody else. Imagine somebody who thinks he ought to be paid big sums for telling people they ought to divide their business into 200 individual pieces. There are grown-ups who think they ought to be paid for giving that advice. It's weird. There is more dementia about finance than there is about sex. It's a hard subject to be rational about.

Q: What do you think about tax inversions and how they should be

addressed?

Munger: Take the one that we're in headlines about at Berkshire. Tim Horton's (ticker: THI) is bigger than Burger King (ticker: BKW). We merge it and the bigger company with the most income gets the headquarters, and it's Canada, which is practically part of the United States. Anyone who thinks this is a great tragedy or great injustice is stark raving mad. Berkshire's taxes go up a lot. But once the press goes off on something that's complicated they go berserk.

Generally speaking, in a world of free trade, where corporations are mobile, you pay a big penalty for trying to have a corporate tax system where your taxes are way higher than the taxes in the rest of the world. If I were running the world I would have low corporate taxes, and get at the yearning for equality some other way, like consumption taxes. I don't care if somebody makes a lot of money and holds it like a miser. Most people have a vast propensity to spend, helped by spouses and children.

If you take the places in the world where the citizens have done the best – Singapore, low tax rate, Hong Kong, low tax rate – you're fighting against reality with a lot of left-wing envy. I think envy is destructive. I try to drive it out of my own system, and I'm pretty good at it, too. I wish my fellow citizens were less consumed by it, particularly the politicians. I don't think our problems are caused by inequality, although I do think it's a mistake to let a lot of people get rich out of legalized gambling, although they call themselves money managers and derivatives traders and so on. If I were running the world, I would whittle that class down by about 90%. It would take me a week to write the laws. It would totally change the real estate market in New York.

Another thing: if the rest of the world weren't so stupid and bureaucratic, we wouldn't be rich, and you [the people in the room] wouldn't be rich either. This room is full of people whose comfort has come from the stupidity of other people. The same people, when they see the stupidity acting counter-productively, want to keep all the benefits and have the stupidity go away. You're asking too much. The truth of the matter is, if

you stay rational yourself, the stupidity of the world helps you. As long as they don't blunder into World War or something – there are limits.

Q: How do you combat envy?

Munger: Well, you just don't care if somebody else does better. It's one of the deadly sins out of which you can never have any fun. It's a total loser: bad for the country and bad for you. The Jews were right to put those things in the Old Testament: don't envy thy neighbor's donkey, his wife...they kept laying it on because they knew it was important even for a bunch of herdsmen. They were right. It's a pernicious thing. I see in professional firms, where everybody is overpaid by 150%, and some guy gets \$10,000 more than somebody else in one year, and the guy who doesn't get it goes berserk. Is this rational, when you're overpaid by 150% and somebody gets 1/3 of 1% more? But it happens.

Q: Given your investments in big money center banks, what do you think of the big fines the government is extracting from them?

Munger: Two parts. Part one was their terrible, abusive behavior as mortgage lenders. It was like deliberately building a bridge they knew was going to collapse and kill people. It was morality on that scale. The people who did it thought they were perfect. As Maimonides once said, "Every man is straight in his own eyes." They did these terrible things and thought they were nobly serving capitalism and ought to be paid even more than they were. That was very, very regrettable.

I think if behavior is bad enough, as it was at [Enron's accounting firm] Arthur Anderson, even though the individual members of Arthur Anderson were very unfairly treated, I think you have to have some failure. The way it has worked out, very few individuals have been punished for ghastly behavior, and their companies have paid penalties that are very substantial. Whether that's exactly right is a very interesting question.

Mortgage lending became a dirty way to make money. You take people

that can't handle credit and try to make very high returns by abusing and encouraging their stupidity – that's not the way I want to make money in banking. You should try to make money by selling people things that are good for the customer. You'll never see Berkshire buy a gambling casino. Even though it's profitable and legal we're just not going to go there. There ought to be a big standard in corporate America of things that are perfectly legal but we don't do because they are beneath us. The standard that prevails is, "How low can we make our ethos and still not get in trouble? We don't want our competitor to be making money in some way that we are left out of." That's a huge mistake.

By the way, has it hurt Charlie Munger to have these ideas? Do I need more money gotten in some scroungy way? [DJCO Board Member] Peter Kaufman says something very smart: "If all these crooks and promoters knew how much money there was in being honest, there'd be more people who did it."

Take Berkshire. There have been eight large portfolio reinsurance transactions of over a billion dollars in the history of the world. We've done all eight of them. That's because people trust us. They think we'll do what we say thirty years ahead. There's money in being trusted. It's such a simple idea, and yet everybody rushes into every scummy activity that seems to work.

Our politicians want to solve their financial problems by bringing in legalized gambling. In Cass Lake, MN, they have an Indian Casino. When I was young there was no pawn shop in Cass Lake. Now there are five. All these people on pensions, they've got one chair and one television set, and they go in and lose 100% every month of everything they have above heating money.

Or the advertisements on television: imagine teaching ordinary people the way to get ahead in life is to trade securities actively on a daily basis. Is that an honest product? It's a legal product, but is it honorable? Would you want your son-in-law to do it? Well, maybe some of them are already doing it...it's a big crowd.

Q: What about succession planning at the Daily Journal?

Munger: When I came out to California, there was this playboy and he spent all his time drinking heavily and chasing movie stars. In 1950 he had ten million dollars that he got by being part of a crooked pool of some kind in the 1920s and everybody else when to jail and he came out here and chased all these starlets and drank all this booze. His banker called him in and said that he was very nervous about his behavior. He told his banker, “Let me tell you something: my municipal bonds don’t drink.”

The Daily Journal has a lot of assets that aren’t going away just because the people leave. We’re not stupid and we’re not taking the shareholders to zero. At the present time, people like you have bid out stock up to a price where I wouldn’t pay it myself. I don’t do anything about it. I don’t sell because it’s not my nature. I say to myself, well, if you have groupies, you’re going to get this crazy behavior. And – you might even be right. You won’t be right if the software business doesn’t work out very well. But I don’t think there are that many Daily Journal shareholders in the whole room. This is a different crowd of people. That’s all right – I like you all because you remind me of myself. Who doesn’t like his own image starring back at him? (laughter).

Question: The major banks have trillions of dollars in derivative contracts. What do you think about this – the size and the counterparty risk?

Munger: If you intelligently trade derivatives it’s like a license to steal, so you can understand why they all want to do it. Now, it’s very hard to control yourself when life is that easy, and banks have a way of getting into terrible trouble, and I think a lot of them will get carried away by excess. What’s the big plus of having everybody gamble with everybody else? Now you can say that it’s something that will always be with us because of the psychological nature of human beings, but I lived in a world with low gambling for decades when I was younger and I liked it better. I think it was better for the country. It’s like having thousands of professional poker players. What good are they doing for anybody?

If I were running a major bank I would have less blowup risk, and I would use different methods of determining risk. I would not be in the derivative business at all because I would regard it as beneath me. I like the banks when they get to be the trusted partner of business and extend credit to people who deserve credit. That's the most noble activity there ever was. I like it when the banks help somebody to buy a car or a washing machine or a truck and they give him an installment contract. Bank of America (ticker: BAC) pioneered all that stuff way early and it was a noble addition to the business activities of the world. But do I like this crazy borrowing on credit cards to finance vacations and so on? I know Germany seems to avoid it and they're doing fine. I think we slept with the devil when we encouraged this ballooning readiness to consume. It's a disease to max out every credit card. When I was young the banks didn't encourage it. Of course, they didn't make as much money, either.

We owned a bank at Berkshire for over ten years [Illinois National Bank & Trust AKA Rockford Bank]. Our bad debt losses were zero. Our returns on capital were higher than most banks. We never worried for one second, and for anyone who deserved credit, we were glad to accommodate them at fair prices. You don't have to go crazy because you are in banking, but a lot of people do.

Q: What are your thoughts on BYD [Build Your Dreams, the Chinese battery & automotive company -- ticker: BYDDY -- an investment of both Berkshire and Munger's Asian fund]?

Munger: BYD is getting widely recognized as being in some kind of a sweet spot in a world that's going to have to go to way more electric cars, buses, and taxis, particularly in China. In Beijing, where the average longevity is foreshortened by ten years by air that's so bad that children are gasping for breath, they have to stop burning gasoline. So far they just have given contracts to big employers who make ordinary automobiles. That can't last. China is recognizing that when you start killing people in large numbers you have to change behavior. BYD is the only Chinese company that has worked on electrical cars.

The evidence is that the iron phosphate solution BYD has to the lithium battery fire problem is a very safe one. It's counter-intuitive, because it's heavy. The people who tried to be light were out of their minds. Imagine Boeing [ticker: BA], to save the weight of two suitcases, going to a lithium battery that was very difficult to control. I'm not an engineer but I would have been smart enough to avoid that one. Even engineers go crazy. The customers want the last two pounds, says the sales department. But the last two pounds are the ones that finally kill you. So I think BYD is in a privileged position and I think it's likely to be intelligent in adapting to its opportunities.

Q: What do you think of the monetary expansion?

Munger: When you're as old as I am, you have seen a lot of inflation. I remember buying ice cream cones and hamburgers for a nickel. On the other hand, after inflation the country has done wonderfully. A lot of the people who were the Jeremiahs of that age basically have been proven wrong; the country could stand as much inflation as it got.

On the other hand, I'm not as optimistic as Paul Krugman, whom I always read because he's the smartest leftist I've ever read and he uses the King's English very well. If Germany had not debauched its currency in response to the reparations following World War I, I don't think we would have had Hitler. We wouldn't have had the holocaust. We would have avoided a lot. Flirting around with the debauch of the currency of an advanced civilization on which the whole world depends for its reserve currency, I think we ought to be pretty conservative and not just assume we can print all we want forever, whatever amounts our politicians think is convenient. I was way more afraid than Paul Krugman, but so far he's been proven more right than a lot of his critics.

Q. What do you think of Fannie Mae and Freddie Mac?

Munger: I have a peculiar attitude for a Republican. I think Fannie Mae and Freddie Mac, when they don't go crazy making lousy loans in response to the demands of politicians, are serving the country pretty

well, the way the system is now configured. The fact that we came into it by accident doesn't mean that it isn't a pretty good solution. Considering the crisis we had and the risks we faced, everybody behaved pretty well and the result is not awful.

Last time we loosened standards because everybody else was. The politicians hated them, and they couldn't stand that everybody else was making money on the subprime loans. This was envy and it was stupid. There is nothing wrong with keeping your head when all about you are losing theirs — Kipling was right. Why couldn't Fannie Mae say, we extend credit to people who deserve credit? Well, it's not egalitarian enough — we want to shovel money at the people who were deprived. The trouble with that is the whole system blows up. What looks like hard-headedness is really soft-headedness. The whole world is better when you don't reduce engineering standards in finance. We skipped a total disaster by a hair's breadth. Partly because both Democrats and Republican administrations, both Congress and the President, made decisions that were pretty much exactly right and did it under terms of terrible pressure. I'm a big fan of the people who took us through the crisis. I'm not a big fan of the people who caused the crisis. Some of them deserve to be in the lowest circle of Hell — not that I have any power to put them there.

Q: But what about when the government stripped away the profits of these enterprises?

Munger: They were private corporations with a little bit of government image and they were insolvent at the time. I don't think it was unjust. They had behaved terribly. If somebody asks you to do something that's bad enough, you can give up your damn job rather than do it. Fannie Mae did not have to cave. It was run by people who were cavers by nature. They were just looking for a place to sell out for personal advantage. That's what they did in life.

We want more people who say, "You're my boss, and if that's what you want to do, you'll have to get a different errand boy. I'm not going to do it." There ought to be way more of that. Elihu Root, probably the greatest

cabinet officer we ever had, said one of my favorite comments: No man is fit to hold public office who isn't perfectly willing to leave it at any time. Of course, he was the most famous lawyer in the world so he could immediately leave to success, whereas the other politicians, if they left, were nothing. The country would be better off if we had more people like Elihu Root making the decisions.

Q: What are you going to do with the technology companies at Daily Journal? Is there some thought to integrate the three brands?

Munger: We're going to integrate them as fast as reasonably practical. We've already started. Exactly what the timetable will be I can't tell you. One of them, ISD, was a very low risk transaction because they had contracts in place that would give us back most of our money. The other [New Dawn Technologies] was a real gamble: we basically paid \$15MM-\$16MM for a company with a net worth of about zero. We did that on a venture capital basis. I feel better about it now than when we did it. I've had an uneasy moment or two between then and now but now I really like the way it's working out. I like the people, I like the ethos, I like the people who are gone (I mean I like them being gone), and I'm glad we did it. I think I know more about it than our accountants do.

Q. How much investment risk did you take personally once you had made enough money to live well?

Munger: Most of the Munger money – I don't count the Daily Journal, it's just a little asterisk (laughter) – is in Berkshire Hathaway, Costco (ticker: COST), and an Asian fund. Now, you could go to the rest of finance, they think they know how to handle money, and they'd say it's totally unthinkable, Munger doesn't know what the hell he's doing. Doesn't fit our models. But I'm right and they're wrong.

If you're shrewd enough to choose well, three holdings – any one of which would support your family in perpetuity – is enough security. What difference does it make if somebody else in some year goes up 10% and you go down 5%, when you've got 1000 times more than you need

anyway? The people who make these crazy decisions don't actually have envy: what they have is clients who will fire them if they don't get the same results as everybody else. That is a crazy system. Everybody gets on the same merry-go-round. I never had any interest. As I sit here, all my securities are making new highs every day. Am I doing it wrong?

Q: Would Daily Journal consider selling itself to a competitor if the offer was right, or is it going to remain an independent company?

Munger: Generally speaking, we like selling to people we like and admire. Not everybody would fit that category. We're trying to run it so that any intelligent person would want to buy it. My attitude in running the Daily Journal, with its technology thing, is that Google would be out of its mind not to buy it. It's going to take years for them to figure that out, though.

Q: Last year you talked about Belridge Oil and how you made a mistake not buying more when you had the chance. Can you talk about your investment process?

Munger: In those days, Belridge was a pink-sheet company. It was very valuable. It had a huge oil field, it wasn't even leased, they owned everything, they owned the land, they owned the oil field, everything. It had liquidating value way higher than the per share price — maybe three times. It was just an incredible oil field that was going to last a long time, and it had very interesting secondary and tertiary recovery possibilities and they owned the whole field to do whatever they wanted with it. That's rare, too.

Why in the hell did I turn down the second block of shares I was offered? Chalk it up to my head up a place where it shouldn't be. So, that's why I made that decision. It was crazy. So if any of you made any dumb decisions, you should feel very comfortable. You can survive a few. It was a mistake of omission, not commission, but it probably cost me \$300 – \$400 million. I just tell you that story to make you feel good about whatever investment mischances you've had in your own life. I never found a way of avoiding them all.



Q: Given your accumulated wisdom, what do you know today that you wish you knew when you were first started investing in stocks?

Munger: Like Warren [Buffett], when I was young I scrambled around doing anything that would work, and I could get a tiny little obscure company that was too cheap because they were on the pink-sheets, and all kinds of things. As I got more money, I decided I didn't like all that scratching around. I was thinking about things I didn't want to think about. I wanted to admire the people who were running the business. I wanted to admire the business, think it well-placed, and going to do well. So, I drifted into this, good people, good company field in my old age, and I found it much more comfortable, and my returns haven't gone down that much. It's remarkable.

Q: What would you tell a young man today about what he should be reading on a daily basis?

Munger: You've got to have a main publication that's using some editorial discretion because you can't read 500 pages. *The Wall Street Journal*, with its editing, is a very convenient thing for me, and I'll bet all of you read it, too. Who doesn't read the Wall Street Journal? Raise hands if you don't read it.

(One hand in the room goes up)

Munger: Why don't you read it?

Audience member: It's a publication I haven't picked up yet.

Munger: What planet do you live on?

Audience Member: I live in Marina Del Ray.

Munger: Well, that may explain it. (laughter) I regard *The Wall Street Journal* as a must-read publication. I don't think it's lost its basic integrity. I think it's a pretty admirable and useful publication. The editorials I always thought were a little nuts. You know, going way back. They were so right wing and so pure. But, it seems to me that the editorials are saner now.

Q: What architectural challenges did you have for the Munger Graduate Residence Hall at the University of Michigan?

Munger: That was interesting. The idea of getting a whole lot of graduate students from multiple disciplines in one big building, which was exceptionally well-located, close to everything, with exceptional common facilities, and to get a bunch of visiting professors and a bunch of fellows (who were sort of equivalent to the Lowell fellows at Harvard), struck me as a very useful thing to do for Michigan. What was architecturally interesting about it was to get that many people on that irreplaceable site, we had to take the windows out of most of the bedrooms. That was not an automatic sale.

What I did, since I knew it would work, is I mocked-up a model. If it hadn't done that, Michigan never would have accepted it [Munger's \$110 million donation for the building]. It just sounded awful. No windows in the bedrooms? About 80% of the bedrooms have no windows. That's how we got so many on the site. It costs a hundred dollars more a month to have a windowed bedroom. I'm capable of learning from a little episode like that. In the architectural profession, that ability is usually

lacking. Particularly in a university setting where they're very tradition-bound. But, Michigan was smart: they saw it was right. It's going to be a non-event. Somebody has a fetish about a window in the bedroom, we've got some for fetishists.

Q: What books would you recommend?

Munger: People like you send me so many books, I don't have time to buy my own. Man came to dinner last night, a famous money manager. Brought me three books. I will like the books, I guarantee you. I have a torrent of books coming to me free. I'm a charity case. I actually like a lot of the books because the people have figured me out pretty well. So, I'm living in a very favored world and people give me free books. It was not my ambition in life to get into this position, but it happened, and I rather enjoy it.

Of course, I'm very selective, I sometimes skim. Sometimes I read one chapter and I sometimes read the damn thing twice. It's been my experience in life, if you just keep thinking and reading, you don't have to work.

Q: You mentioned recently that you enjoyed Ron Chernow's book on John D. Rockefeller, Sr.

Munger: Oh, hugely. If any of you haven't read that book, you should read it. That's a wonderful biography. [Titan, by Ron Chernow] It shows how high grade that man was as a business partner. He may have tough on competitors, but as a partner, he was one of the most admirable people who have ever lived. And as a philanthropist — you can actually chart what his philanthropy has accomplished — some of the most remarkable things in the whole history of philanthropy.

Let me give one example. In China, they had deaths by the millions every year. Woman tried to have a second child and their bones just wouldn't enable the child to be delivered. So the terrible, horrible deaths all these young women died, millions of them. Rockefeller sent doctors over there

and they figured out that in 4,000 years of intense farming, they bleached something out of the soil that these women's bones needed. It was pretty cheap to put back. Lo and behold, he did all kinds of things like that.

Just for small amounts of money, doing huge amounts of good. Look at the people who were financed by the Rockefeller Foundation. Very admirable people, the physicists in the 1930's and so on. He totally revolutionized medical education in the United States with 50 million dollars. He really revolutionized medical education in the world. If you haven't read that book you ought to read it.

It doesn't deal adequately with his philanthropy. But it deals adequately with the way he handled his partners. He would do things like say, "I know this bothers you and it's risky, but I think we have to do it. I'll put up all the money and if it fails, I'll take the loss. If it works, you can buy me out at my cost, so you'll get the benefit." When he did that, the other partners, who were also rich old men, would say, "Hell, John, if you feel that strongly about it, I'll put up my share."

Which is the right way. We had a person do that at Berkshire. The nice Mormon gentleman who sold us the furniture company in Utah [R.C. Willey Home Furnishings]. He wanted to go into Las Vegas and not open on Sunday. Which is not an intuitive decision. He said, "I'm asking you to do something very peculiar for my religion. I'll put up all the money, I'll take all the risk. If it works, you buy it out at my cost, and if it fails, I'll take the loss."

We weren't like Rockefeller. We took the deal. (laughter) That behavior is so rare, so noble, you shouldn't squelch it.

Q: I'm Jason Zweig from The Wall Street Journal. Thanks for the free ad. If you want I can ask Rupert [Murdoch] if he'd like to reciprocate for the Daily Journal. Late in his life, Ben Graham said that in his opinion there was no reason to imagine that an individual investor who thought appropriately couldn't outperform institutions. Do you think the relative playing field has shifted? Do individuals have a greater or a lesser

advantage today?

Munger: In markets as big as this, some shrewd guy who's willing to search out a few places where he has a real advantage will always do well. There's always going to be ways in markets this big for some smart people to figure out something where they'll make money at an unusual rate, just because they're smarter and more diligent. That will never go away.

I don't think there will ever be a universal easy solution where people can do that. The American market is tough now to outperform if you're buying big stocks in big quantities. I think it's a pretty damned efficient market, and I don't say it can't be done, but I just think it's plenty difficult. The evidence is overwhelming that even though there are zillions of people who have tried, the ordinary result is that they don't succeed.

I would hate the job, personally, of investing, say, in positions of a billion dollars each in 200 different stocks in America and outperforming the averages. I would shrink from that with horror. Peter Kaufman said something interesting to me the other day. He runs a very profitable company [Glenair, Inc.] that has very good returns on capital. He said, "You know, if somebody bought my company for three times sales, I wouldn't run it anymore, because I'd have a hard time justifying that price with anything I could do." He's already rich, why should he do something that difficult? He doesn't have to.

I think that's what happened in America. People know their own business is lousy. They know another business that is way better. But it's not better if you have to pay thirty times earnings for it. It gets so difficult that it doesn't work. I figured this out, but the consultants and investment bankers keep selling the same nostrum that you can save yourself by paying thirty times earnings for the kind of business you wish you had, instead of the one you've got.

Berkshire has been a huge exception. In this year's annual report Warren intends to deal extensively with: Why did it happen at Berkshire? Will it

continue? We've reached a size and the record is interesting enough that those are very important questions. If the rest of the world is as smart as I think it is, it will look at this report with great interest.

Part of what we did should be done by others, but it isn't. There are vast institutional pressures on people to do it differently. Will it continue? I think Berkshire's going to continue way better than most people think. Way better. But there's so much power in what we already have. Part of the reason we have a decent record is that we pick things that are easy. Other people think they're so smart, they can take on things that are really difficult, and that proves to be dangerous.

You have to be very patient, you have to wait until something comes along, which, at the price you're paying, is easy. That's contrary to human nature, just to sit there all day long doing nothing, waiting. It's 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.

You'll find that this year's Berkshire annual report very, very interesting. Three failing businesses together created Berkshire Hathaway. There are about the same number of shares outstanding now as they were then. I can't think of anything like it at this scale. You'd think people would be paying more attention to it than they do. I think it looks so peculiar that they can't handle it.

I read an article once by a famous man. I liked it so well (this was twenty-five years ago) that I sent him whatever I could send him without paying gift tax. I sent him \$20,000 dollars and said, "I really liked your article, here's a token of my respect." He sent the money back. So, I called him and said, "Why are you sending it back to me. I don't care if you give it to your charwoman or the graduate student who works under you. For God sake's, keep the damn money." Whereby, he took my money and gave it to some graduate student. His basic attitude was, if it was that easy, there must be something wrong with it.

I think that's part of the trouble with Berkshire Hathaway. It looks so damned easy, they think there must be something wrong with it. The people there don't work that hard. They have all these outside interests – Warren's playing bridge twelve hours a week (laughter). They just keep spinning and winning and it just looks too easy. So it's confusing. There must be something wrong with it. (laughter)

Q: What are your thoughts about Elon Musk [CEO of Tesla, SpaceX, SolarCity] and what he's doing?

Munger: I think Elon Musk is a genius and I don't use that word lightly. I think he's also one of the boldest men that ever came down the pike. Put me down as saying I've always been afraid of the guy whose IQ is 190 and he thinks it's 250. I like to think there's a little of that risk with Elon. He is a certified genius.

Q: What daily habits would you recommend practicing?

Munger: I have never succeeded very much in anything in which I was not very interested. If you can't somehow find yourself very interested in something, I don't think you'll succeed very much, even if you're fairly smart. I think that having this deep interest in something is part of the game. If your only interest is Chinese calligraphy I think that's what you're going to have to do. I don't see how you can succeed in astrophysics if you're only interested in calligraphy.

Q: If you were to start another Berkshire, in what form or structure would establish this. A partnership or a C-corp?

Munger: That's a very intelligent question. Berkshire happened by accident. Having a lot of marketable securities inside a corporation with 35% taxes on every gain: No investment vehicle chooses that. It's insane. We just stumbled into it. Now we made it work, but it's a huge disadvantage. It just shows that odd things can happen. The bumble bee shouldn't have been able to fly as well as it did, but it did.

We bought a lot of things that we just held, including a whole lot of private companies, so no capital gains taxes there. No dividend taxes. And, buying so many marketable securities that we just sat on. Not that we don't pay a lot of taxes, but we have a lot of capital gains taxes that are accrued but not paid on the balance sheet.

We made it work, but is it an intelligent system? No, it's insane. The

correct system is to have a partnership. That is such an easy question, I'm surprised you asked it. Maybe you're promoting private partnerships and you knew what my answer would be. (laughter)

Q: Can you tell us about your method?

Munger: Let me show you how my system works. Floated into my account yesterday, some old retirement IRA or something. I got a call: there's 120 thousand lying here, what do you want to do with it? Something I had forgotten about it. You know what I said, the great investor? "Give me your number and I'll call you back." I wanted to invest this money in U.S. Securities. I couldn't think of a no brainer security in my whole brain. I have plenty of things I can do that are okay, but I don't have a big no-brainer.

I think it's hard on the big securities, now. Take Costco [ticker: COST]. Is Costco worth 25 times earnings? I think: Yes. Am I ready to sell any Costco? No. Would I buy more Costco at 25X earnings? I'm probably wrong, but I'd certainly rather buy Costco at 25X earnings than 90% of the other stocks. But I'm so spoiled it's hard for me to buy anything at 25X earnings.

There's no rule I can't have crochets [crochet: a highly eccentric or individual opinion or preference, perhaps akin to 'heuristic' - PD]. I don't have to be totally rational. Don't we all do that? We probably should, as a matter of fact. Certainly a crochet that says this is too hard for me, I'm not going to try to understand it. That's a very useful crotchet.



Q: You mentioned the academic and financial illiteracy in the U.S. There seems to be a reluctance to begin teaching these principals in the education system. What are the possible solutions?

Munger: I think if you expect totally rationality either in humans or human institutions, you're expecting what's not going to happen. What is a little surprising is how stupid academia could be. The capital assets pricing mode is taught as gospel.

I could understand teaching the Bible as Gospel if you're a Christian, but why is the capital asset pricing model taught as if it were a principle of physics? To teach that stuff and have students actually work out problems, the way they would in algebra. Of course it's twaddle. There's a lot of silliness in economics.

Take a simple case. Japan, a modern nation, tried every Keynesian and monetary trick. They print money like crazy. You can't find a pothole in Japan on the side of a mountain, they've got so much stimulus. They had 25 years of stasis. Every economist in the world would have said that's impossible. They have all these tricks we taught them, they're playing our tricks, and they're befuddled. They're trying to solve their problem within this little narrow construct that somebody taught them.

What happened was that Japan rose as an export powerhouse. Right behind them were a bunch of people who were starving in subsistence agriculture and crowded them out of their own market. Think it's fun for Japan to compete with Korea? And China? Of course it got harder in Japan. But of course, the economists can't figure it out. They're looking only at Economics 101. If you're a prosperous businessman and some tough competitor opens across the street, is that good for you? It's not very complicated, you just have to keep an open mind and examine all the possibilities.

Q: What do you think is a pragmatic number of companies to own in a portfolio?

Munger: I don't think there's any one answer to that. It all depends. Obviously if you run an index fund and are scraping money off the top, there's no limit to what you can own. That is a pretty good business. They deserve the success they've had because they outperform people who use the conventional methods.

I talked to a very smart money manager not long ago. I ordinarily don't talk to money managers. I met with this guy because he agrees with me on practically everything, so he must be very smart. (laughter) He told me that he indexes the U.S. equities and he hires managers to work everywhere else. He regards the big time U.S. market as so tough that he's better off just indexing it. He finds more inefficient markets in other parts of the world. I think that's a very intelligent response.

Q: Have you had any thoughts on the recent troubles at Tesco [ticker: TESO]?

Munger: Tesco owned the world for a long time. It looked inevitable. Berkshire bought some. I think Lou Simpson bought it originally, and Warren bought some more. They had a formula that really worked. Then one day it stopped working so well. Partly it was hubris. They thought they were so smart, they could do something difficult that was fresh and easy, and some other adventures like that they found were way harder.

Then the home market got tougher, just as the Japanese had trouble when behind them rose Japan and Korea. Tesla got in trouble when Aldi came in one side and other people came in on the other. It got tougher. How many big companies stay totally on top forever? Maybe Wrigley's Gum.

Basically, the normal result is what happened to Tesco. Listen, Aldi is a tough competitor. Ruthlessly low cost, limited assortment, all private label. It's terribly efficient. You think Costco's any good for the rest of the grocery stores? And Sam's Club? It's a competitive world out there. Somebody is always starting something. Even for the branded goods makers, who looked so invincible for forty years. The natural course of competition is that it gets tough. It's the people who expect everything to just keep going wonderfully who are nuts.

Q: Can you tell us about your partnership with Warren Buffet?

Munger: People don't normally get a divorce after they've been together for this long. We've adjusted to it. (laughter) If we were going to get a divorce we would have done it earlier. I think the honest answer is pretty modest on my part. Einstein needed somebody to talk to. (laughter) As good as he was, needed a talking foil. I've occasionally helped in some other ways, but, basically, you would not want to sit home alone by yourself making the decisions. If Einstein couldn't do it, I don't think you should try it.

Audience member: Einstein had his wife, who was a physicist.

Munger: She was not very good.

Q: What do you think of Obamacare?

Munger: I thought you were going to ask a hard question. All you want to know is have we unraveled the mysteries of Obamacare. I can't do that. If you're an old rich man you can say impolitic things. If I were the benevolent despot of the United States, I would have single payer medicine that people were able to opt out of and buy their own forms of

private care, either from places like Kaiser or from individual doctors. I think we're at a big competitive disadvantage to other countries that don't have this big cost built into their manufacturing. And, I think that paying for medicine per item for all the old people causes a lot of unnecessary treatment. It wastes a lot of money and hastens a lot of death in this country. The medical interventions that are made purely for money are a national disgrace.

Now I've practically offended everybody. Brings out the absolute worst in me. I basically think the existing system is crazy.

Q: Do you think the increases in the standard of living that we've seen in this country for most people are likely to continue?

Munger: I think that it gets harder — just as Japan has troubles being as prosperous as it was against these powerful neighbors with these big populations getting more prosperous and eating Japan's lunch. If you have a system where a lot of people prospered in manufacturing, and you get free trade in rising countries like China, Vietnam, Mexico, and so forth, of course it's going to be harder for the people who had high-paying union manufacturing jobs under the old system.

It's in the nature of things that some people are going up and some people are going down, and it's the nature of politicians to identify anybody who is going down and try to make them feel terribly abused, and to profit personally by exploiting the angst. But there's some angst where the best solution is just to suck it up and cope. In other words, I don't think you can run a country that eliminates up and down distributional changes between groups. I think that's the flux of life.

What are we going to do about it? We live in one world. China comes up. The rise of China has not been good for American unionized textile workers. Now, China can't even make textiles; that's going to Vietnam. That kind of flux is just is natural, and the productivity comes from the fact that people suffer all the creative destruction of capitalism. So they don't like the damn flux when it happens to catch them. But the flux in

total is making the whole boat go up, and the fact that the boat never goes up with every group going up exactly the same all the time is inevitable.

Even if the government controlled everything, they'd still rig the system so some people went and others went down. Just put me down as not too worried about a lot of this modern clap trap.

Q: How do you and Warren balance the need for simplicity with the need to fully understand these complex ideas?

Munger: The interesting thing about Berkshire is that the results are prodigious and the people who are getting the results aren't prodigies. How did non-prodigies get prodigious results? This is a very interesting question that I hope we deal with in the annual report. The answer is: You've got a little better methods. One thing is absolutely essential: You know the edge of your own competency. That really helps and substitutes for a lot of IQ points. You know what you know and what you don't know, and you work it. I've had that concept down. You learn what to avoid.

One of my habits is, I get the no-brainers off my desk immediately. Otherwise it gets cluttered. Some people just pile up the desk and then get totally dysfunctional. I hardly know another human being in the world who's better at this than Jerry Salzman [Daily Journal CEO]. He would have been unable to do what he's done in life without that one trick. He makes a decision, maybe it'll be wrong, but his batting average is very high and the time span is approximately zero. That is just a huge trick to master.

The other thing we do if the problem is really hard and important, we rag it. You keep working at it and going back to it and so forth. You have a lot of time to do that because of all the things you avoid that other people do. We just have a few tricks, and they work so well, but they're not copied so much.

Some of you will get imprisoned. I would hate to be in a place where I had to pretend to believe all the things I don't believe in order to handle my

daily work and discussions. I just described the working lives of practically everybody. But not Warren, not Charlie. Sure, there are a few subjects we'd consider taboo, but mostly we can approach reality the way it is. If you work for some big company there are catechisms, there are all kinds of behaviors that are forbidden. If you're in academia there are all kinds of things constraining you.

Q: I went through One Santa Fe today [a new real estate development close to the Daily Journal HQ], and I'm curious about if you might turn this into a development site .

Munger: We already developed all the property we own. I think we bought these parcels fairly cheaply and we built these very nice, efficient buildings, and we have more than we need. Our business is shrinking. The last thing we're thinking about is developing. If you'd like to rent what we have, contact Gerry after the meeting. (laughter)

Q: I'm interested in your thoughts about how you think about Berkshire's intrinsic value relative to its book value?

Munger: I think Warren's ideas are pretty coherent and pretty right for Berkshire. I've got no disagreement with Warren on that. At a certain price, of course, we'd buy. But as long as we're doing as well as we are, we don't mind buying other things. We don't mind all these bolt-on acquisitions we have. If you ask me how much Berkshire's going to be able to spend intelligently, in just its utility business over the next fifteen years, it's a perfectly enormous amount of money. The chance we won't have a good return on that business is about zero. I think two years from now we will be the biggest utility company in the United States.

We'll deal with our assets at least as well as most people, probably better. We'll have huge opportunities. I like it. The fact that in one state, when we were young and poor, we could find things that paid 12%, and now we may have to make utility investments at 9% or 10%, probably with float that cost us nothing, that's okay. We're slowing down a little. (laughter)
We've very favored to have these opportunities when interest rates are

approximately zero. The idea to create more power and transmission and so on and get a guaranteed return on the investment is quite a favorable one to have.

Q: How did the advances in technology affect the natural course of competition?

Munger: Berkshire, of course, has consciously avoided rapid technological obsolescence. We own a railroad, we own a bunch of utilities, we own big insurance companies. Obsolescence is what's happened to the Daily Journal. We had a gold mine here for years. The advance sheets that lawyers need were published six weeks after the decisions were made. We had a big printing press. We could publish those daily, and the lawyers all had to subscribe, and we raised the subscription prices every year, substantially. It was wonderful. We looked like geniuses. Then, the technology changed. Now the lawyers get their stuff over the internet. It's way worse, and that's just the way the world is. So we don't like these technological changes. But at Berkshire we have tried to avoid them as much as we can.

Even where we look highly technical, like in carbide cutting tools [Iscar], we're one of the leaders in the whole world, and it's complicated. It's a good business, and I don't mind the technological complexity where we totally dominate, or pretty close to it. We don't solve the problem of technological obsolescence, we avoid it. I've failed you here at the Daily Journal. I'm sorry.

And, of course, Berkshire's failed in a lot of places. There are all kinds of things that happened to us. We couldn't fix the textile companies in New England. Our jewelry stores are not going to set any records: there are too many jewelry stores, it's just too tough. We haven't found some miracle exemption from the laws of nature. We have ducked a lot of the problems other people have willingly taken on.

Warren said, "We have not learned to jump over seven-foot fences. We found a way to step over little mud puddles and seize chunks of gold on

the other side.” You see, there aren’t enough mud puddles with gold on the other side, but there have been just enough for us. We work at it.

Q: Why did you feel comfortable grabbing Wells Fargo (ticker: WFC) in the depths of the downturn?

Munger: It was too cheap and we had the money. As a matter of fact, we bought it within one day of the bottom tick, so that was remarkable. You can say I was a little lucky on that. But, it wasn’t hard to realize that something was cheap.

Q: . You’re going to have a hard time convincing us that you failed at Daily Journal.

Munger: That’s an interesting story. We bought Daily Journal for 2 million 7. We took the 2 million 7 back about three or four years later. Everything that’s here now is profit. In that sense it’s a good record, but it’s a not record like Berkshire. It’s pretty good for a failing business. (laughter)

Q: How does having low expectations help?

Munger: It’s much more fun constantly exceeding your expectations instead of being disappointed. The secret of human felicity is not vast ambition, it’s low expectations. Where you really need it is in a spouse. (laughter)

On that comment I’m going to end. (applause)