

# Charlie Munger's 2015 Daily Journal Annual Meeting - Part 1

[+ Comment Now](#)   [+ Follow Comments](#)

With Berkshire Hathaway's annual meeting showcasing in a few weeks, I thought it would be instructive to hear what was on Berkshire Vice-Chairman Charlie Munger's mind these days. Munger is also chairman of the Daily Journal Corporation (ticker: DJCO), a legal publisher based in Los Angeles, and their annual meeting was held on 3/25/2015. As a shareholder, I just dropped in to see what condition their edition was in.

These notes, while detailed, are far from a transcript. Errors are mine.

*Q: I wondered if you could share with us how your vision of Journal Technologies has evolved, and also if you're at the liberty to discuss some milestones in the next 24 months that you're hoping to achieve.*

**Mr. Munger:** That's probably the best question anybody's ever asked at this meeting. It involves the entire future of the company. You set a record for doing the right thing.

[laughter]

What's happened, of course, is that we have a business where the technology and the culture is changing. A lot of the revenues, historically, came from giving lawyers the only practical way they had of getting information. That gave us a monopoly for years and years where we raised subscription prices, and circulation kept going up and up. We had a traditional print newspaper, which was a wonderful business. Then that monopoly went away, as lawyers more and more rely on electronic means for that information.

The other branch of revenue from the traditional business was public notice advertising, where the laws require being published in the newspaper. Of course, those laws were all passed before there was any Internet. Eventually public notice advertising would go the way of the dodos. We had a business on the way to extinction.

A lot of newspapers have faced that problem. A lot have died. A lot more will die, and a lot are limping along. Here, we decided, in what may not have been a terribly good decision at the time, to try and replace our newspaper business by selling software to courts and other government agencies.

That was about like a guy who decided he wanted to climb Half Dome in Yosemite Park, despite of the fact he only had one arm and one leg.

[laughter]

We tried it anyway. Luckily, we had a great boom in foreclosure notices, which gave us a temporary flood of revenue. We used that position to develop this software business, partly by purchase, and partly by self-development. It was a very odds-against-us thing. There's a name for a certain kind of rock climbing – 5/11 – that means it's not really possible, but occasionally somebody does it – and that's what we tried to do here. For some strange reason we're about halfway up Half Dome with our one arm and one leg.

It looks better today than it's ever looked. I would say the difference in our prospects between this time last year and now is enormously improved. Now, it's a game where we're going to continue to spend a lot of money, and we're going to be very conservative about the accounting, and we're going to write off everything we possibly can as we go, etc. But I'd say it has some prospect of working.

It was really, as I've said again and again, a venture capital-type activity, which I hate and isn't why I made my way in life. It's a really difficult honest way to make a living. It wasn't like shooting fish in a barrel, which

is what I prefer. My idea of shooting fish in a barrel, by the way, is to drain the barrel first.

[laughter]

It's really easy, then you shoot, preferably with a big shotgun. This is not what this company has done. But it looks like we may actually do it.

If we're successful it's a much bigger market than the legal newspaper market, which had no way of transferring from state to state except by buying some other local paper. This software business, if it works, will spread over the whole country, and we have a lot of business now spread over the whole country.

It's cost us a lot of money. It's cost us a lot of effort. It will cost us a lot of effort in the future, but I would say the momentum is gaining.

You people who came in as value investors, you've got something else. You've got a damn venture capital type investment.

I don't want to apologize because I'm sharing the same outcome myself, and it looks like it may work. If it does work, it'll be a long, slow grind, but it could be a way bigger business than the print business ever was.

We have now crossed the line. We have more software revenues now than we have from our traditional business.

The fact that it's costing us a lot of money does not bother me at all. I think a lot like Jeff Bezos [AMZN] on that.

[laughter]

I said to the directors, "There's no point in being rich if you don't use it to compete effectively."

I regard it as a total fluke. It isn't what I've done in life. You can argue that Berkshire Hathaway [BRK-A] has created a business from scratch once: the reinsurance department. It's worth a fortune, and is something that

we've done personally.

If we succeed, it's not only good for the shareholders, it's good for the world. This whole system the government uses is very inefficient, and needs a lot of automation. The software is very complicated, and the service is complicated. One of the reasons the opportunity wasn't available was it is very hard going. People like Microsoft hate this kind of business. It's too hard. They have their own way of shooting fish in a barrel.

I kind of like it if it's so hard, because if you win it'll be pretty hard to take away.



*Q: You have said that one of the most important things you picked up from Darwin was the value of forcing yourself to search for disconfirming evidence. What important thing did you pick up from Einstein?*

**Mr. Munger:** I didn't know anything about relativity until Einstein

taught me. I wasn't smart enough to figure it out for myself.

[laughter]

Of course, we look for disconfirming evidence. One of the directors said very simply, we should make a list of everything that irritates a customer, and then we should eliminate those defects one by one. Of course, that's the way to compete in a service business. It involves continued fanaticism.

One of the reasons we bought the little company in Logan, Utah, [New Dawn Technologies] is that we liked the service and ethos of the place, and their recruitment methods. Of course, our past accountants, damn their souls –

[laughter]

– just went crazy when we did that. It looked to them like we'd gone stark raving mad. How could it be worth anything? It just bothered them, and they raised hell with us for months and months, and it made our reports late. I feel very good about that acquisition today.

It's a miracle, because we should have failed, but I'm not at all sure we will. Of course, we learn from evolution. You're seeing a perfect example of Darwin: you're watching one business die, while somebody tries to replace it with another. Almost everybody else in the newspaper business that's tried to do that has failed. Some of them bought other businesses, like television stations, with the profits they had, but most of the people who just tried to take their newspaper and transform it into something else, most of them have failed.

That's the common result. I've heard Bill Gates say that in technology that's often the case. Here was Kodak [KODK] that owned the world in silver-based photography. It was the dominant company in the world, the second most important trademark in the world. Armies of Ph.D. chemists, who knew more about silver-based photography than anybody in the world. Fabulous business right through the Great Depression. Total widow and orphan stock. It wiped out the shareholder with technological

change. As Bill Gates said, it happens again, and again, and again, when technology changes enough.

General Motors [GM] was the most important automobile company in the world when I was young. It wiped out its shareholders. How do you start from being the most important automobile company in the whole world, and number two is not close, and wiping out your shareholders? That's very Darwinian. It's tough out there. Some businesses are dying all the time and new ones come up.

Technological change is one of the hardest things to cope with, which is why so many people fail at it. IBM [IBM], on the other hand, went from butchers' scales and what not to totally dominate the early computer market. Of course when the other evolutions came along IBM has failed a lot. It's normal to fail when there's a big technological change. It's hard to adapt to a world that's different.

What's really weird about it, look at the age of these people up here [DJCO's Board of Directors]. We have the oldest board of directors in the history of the world. The youngest one is 60.

[laughter]

The Chairman [Munger] is 91. Should we be climbing Half Dome with one arm and one leg?

[laughter]

But I'm telling you we are. And I don't understand computing.

[laughter]

*Q: I wanted to get your opinion on activist investors that got a lot of play in the news this year.*

**Mr. Munger:** I never like the pomposity of the old system, where the board of directors was absolutely permanent and did as it pleased. But

what's happened is what usually happens to me. I like the new system even less.

[laughter]

I don't think it's a great thing for a civilization where the people who are getting richest are a bunch of people who buy a block of shares and howl for change that helps the shareholders no matter what.

I didn't think the old system was perfect, either, but it can't be a great way to run a civilization. Carl Icahn's a very able man, but he should not be running the world.

[laughter]

*Q: If you were to redesign an education system, knowing what you know now about what's been important in your life, what ideas would you consider it important to include and to avoid?*

**Mr. Munger:** I have watched some of the smarted people in the world try to improve primary education, and it's proved amazingly resistant to improvement.

[laughter]

I've watched universities struggle. I would say in the liberal arts there's a lot of craziness, and I don't know exactly why.

There's a lot of envy. You have a lot of very bright people who aren't paid very well. Their main power is to give some student an A or a C.

Something makes the liberal arts professors, on average, a little crazy by my standards. I like them, and I probably prefer they marry into the family than people from a lot of other professions, but there's a lot of crazy alienation in the liberal arts professors in the modern world.

I think education is very hard to fix. I think the technical education keeps getting better and better. They keep driving people harder and harder. I

think that's one of the glories of the world. I think the other education is getting better, too, but it's got some very irritating defects.

*Q: Given so many kids in your home environment, how did you do all your reading?*

**Mr. Munger:** I have the kind of mind that when I want to read something I can tune everything else out. The people aren't even present. In fact, I frequently sit in a room and converse with dead people while the living people around me are irritated, so I don't think you should try my methods. It's a miracle they work for me.

[laughter]

I will say this: I know no wise person who doesn't read a lot. I suspect that you can read on the computer now and get a lot of benefit out of it, but I doubt that it'll work as well as reading print worked for me.

I think people who multitask pay a huge price. They think they're being extra productive, and I think when you multitask so much you don't have time to think about anything deeply, you are giving the world an advantage you shouldn't do, and practically everybody is drifting into that mistake.

Concentrating hard on something that's important, I can't succeed at all without doing it. I did not succeed in life by intelligence. I succeeded because I have a long attention span.

*Q: The U.S. had a \$0.9 trillion balance sheet in 2007. Now it's about six trillion. In anyone's lifetime in this room, will it ever go back to \$0.9 trillion under the credit economy?*

**Mr. Munger:** Of course, I'm so old I remember coffee at five cents, and all-you-can-eat cafeterias at 25 cents, and brand new automobiles for \$600. Over a span of many decades you can count on democracy to cause the money to deteriorate. That will continue because of human nature. It may even accelerate eventually.



Considering the experiences in places like Italy and Argentina and Brazil, I have been pleasantly surprised after the many bouts of inflation we went through. I anticipated more trouble than we actually had.

In my lifetime, over the past 50 years, the common stock averages (including their dividends) produced about 10 percent per annum pre-tax. I don't know what percent of that is real gain, and how much is inflation. Let's say it's seven percent real gain and three percent inflation. I work out those figures as unbelievably good.

Somebody my age has lived through the best and easiest period that ever happened in the history of the world, with the lowest death rates, the highest investment production, the biggest increases per annum that most people's standard of living ever got. The net death rate from war, from everything is better. Steven Pinker is right. It's the most fabulous period that ever happened.

If you're unhappy with what you've had over the last 50 years, you have an unfortunate misappraisal of life. It's as good as it gets, and it's very likely to get worse. It's always wise to be prepared for it getting worse. Favorable surprises are easy to handle. It's the unfavorable surprises that cause the trouble.

In terms of monetary authorities, you can count on the purchasing power of money to go down over time. You can almost count on the fact that you'll have way more trouble in the next 50 years than we had in the last. The technology is changing, so that a few nutcases could make the World Trade Center look like a picnic. We should all be prepared to adjust to a world that is harder.

*Q: What do you think about societal change, because of the labor displacement by technology and the accelerating of that.*

**Mr. Munger:** That's an example of what I'm talking about. If you're going to have free trade and better communication, more efficient container ships and so forth, and there's all this new competition from

very talented people who've been held down by stupid governmental systems and Malthusian traps and they're suddenly unleashed, of course that competition hurts the people who formerly were in the privileged position. It isn't because the Federal Reserve didn't do something right, or the politicians are unfair, or the rich people are mistreating the poor. The world has changed. Unless you're going to do away with free trade and modern technology and the liberation of these people who were working in penury on agriculture, of course that's going to hurt the prospects of hard working people with limited education, and it has. It's very hard to fix.

The people are still going, "All you have to do is tinker with the politics and you can fix it." That's what they tried to do in Greece. The Greek solution is idiocy. If we're going to prosper, we have to work. We have to have people subject to carrots and sticks. If you take away the stick the whole system won't work.

You can't vote yourself rich. It's an idiotic idea. Of course, the successful civilizations, they all have a social safety net. Look what happened in Japan. They were the export powerhouse of Asia. Up rose China and Korea, and Germany got way better. All of a sudden they're the export powerhouse.

When you have a wonderful monopolistic position, and then some more talented people work harder, of course you're less rich. These damned economists keep looking for ways to handle the federal reserve system in Japan or something. Think how stupid that is. The solution is really obvious of why they lost. They got huge competition they didn't formerly have when they were the export powerhouse. Japanese were better at quality control and so forth. Then other people learned to play the same game.

Koreans came up from nothing in the auto business. They worked 84 hours a week with no overtime for more than a decade. At the same time every little Korean came home from grade school, and worked with a tutor for four full hours in the afternoon and the evening, driven by these Tiger

Moms. Are you surprised when you lose to people like that? Only if you're a total idiot.

[laughter]

*Q: Are there other opportunities for acquisition of technology companies to add to the Daily Journal's existing unit, or are you simply trying to grow that organically going forward? I know you stated that this is not a mini Berkshire Hathaway, but if there was the right opportunity to shoot fish in a barrel, would the board consider it?*

**Mr. Munger:** Our aged board is capable of shooting fish in a barrel, but I don't think we'll get many opportunities. We got an opportunity like that when we bought Wells Fargo [WFC] stock at eight and change. I don't anticipate a lot of future opportunities like that one – I regard that as a one time fluke.

Now it was a the fluke we earned the right to have, by accumulating money from discipline and good service and so forth out of the foreclosure movement. If we happen to succeed in this, which is more likely than not, the experience has not seemed so easy to us that we want to try it again.

If you walk across a river from ice floe to ice floe — where if you fell in the water you're going to die – then you reach the other side where there's prosperity and you look back at that river, I don't think you'd want to step back and try it again. So I don't think it's going to happen again.

We would like something that would help what we're already doing, but we're not looking to be new venture capitalists at our present age. It's an activity we didn't do even when we were young. I don't know why we did it. It was mostly [DJCO Director] John Guerin's idea.

[laughter]

*Q: Do you have any morning procedures or rituals that you use, to which you might attribute your tremendous productivity in life?*

**Mr. Munger:** I eat whatever I want to eat. I have never paid any attention to my health. I've never done any exercise I didn't want to do. If any successes has come to me, it came because I insisted on thinking things through. That's all I was capable of doing in life, was thinking pretty hard about trying to get the right answer, and then acting on it. I never learned to do anything else.

All these people who think they are going to get ahead by jogging or something, more power to them.

[laughter]

*Q: Do you have any comments on the passing on of Singapore's Lee Kuan Yew?*

**Mr. Munger:** Oh, yes. Boy, I like people who serve me puffballs. As far as Lee Kuan Yew's going, I realized I made a mistake when he died. I'm going to commission a bust of Lee Kuan Yew and stick it somewhere important.

That is the most important governmental leader, the most important nation builder who ever existed in the history of the world. There is no other record equal to Lee Kuan Yew's unbelievable achievement.

A malarial swamp turned into a modern civilized powerhouse, and then using that example to utterly change and transform China. Not only China, but Vietnam. It was the example of Lee Kuan Yew that the North Vietnamese of all people turned to, to turn Vietnam into a powerhouse.

There's never been a career like Lee Kuan Yew's. There was one person in Lee Kuan Yew's high school who was smarter than he was. It was a female, one year older. So he married her.

[laughter]

This guy is very rational and other people went for the lady with the most curvaceous whatever. All his children are successful, and his son is the

prime minister of Singapore.

He had this practical judgment. When he came to power, he was surrounded by Muslims who hated him. He has no assets, no army, no nothing. He's in a dangerous position. He realizes that in his new nation he has to have an army. He asked the world to help him create an army and defense system.

Everybody in the world declines. After all, it's a malarial swamp. One country said, "We'll help you," and it was Israel. He thought, how can I have Israel help me when the Muslims hate Israel, and I'm surrounded by Muslims who hate me. He saw his problem. He accepted help from the Israelis, and he told everybody they were Mexicans.

[laughter]

He totally eliminated bribery. When he went on his anti-corruption kick, one of the first persons that succumbed was one of his best friends. When the guy committed suicide, the wife came to him and said, committing suicide is a loss of face for the family, can we cover the suicide up? He said, "I cannot help you in any way." Lee Kuan Yew was very tough about getting done what had to be done. Singapore was a very corrupt place. His example has caused China to clean up, which looks to me like it's better than a 50% bet. It will be one more unbelievable example of the achievements of the most admirable man – judging by consequences – of any with whom I've shared the planet.

*Q: I came to be here from India. It is an honor to be here. What is your advice to a 20-year-old individual who wants to achieve financial freedom through investing?*

**Mr. Munger:** Achieving success through investments has been pretty easy in my lifetime. If you were rational and disciplined, and you had a tailwind of a 10 percent per annum on average from carefully selected stocks going for you, pre tax, that was a big tailwind. If you saved your money, and you lived within your means, were shrewd and so forth, that was enough to take care of you. A little discipline in saving, and the passage of time will do it.

Now, if the world is going to get 10 percent out of indexes in the future, and I don't think it will, in real terms, getting more has proven to be quite difficult. Some of you who come along later are finding that if you stay in the big stocks, it's damn near impossible for most people. When things are damn near impossible, maybe you could stop trying.

That was not my system, but I do not recommend my system to everybody. I do, as a way of life, but I don't think all you have to do is read Charlie Munger and you'll get rich. If it were that easy, this place would be a football stadium.

[laughter]

**Mr. Salzman, Daily Journal CEO:** Charlie says the way to get rich is to keep \$10 million in your checking account in case a good deal comes along.

**Mr. Munger:** By the way, that was the advice of Howard Ahmanson to a young bunch of starving graduates.

[laughter]

Rich people sometimes get a little pompous.

*Q: Would you give us your thoughts on the Posco [PKX] position in the*

## *Daily Journal Portfolio?*

**Mr. Munger:** It's a very interesting example, as a matter of fact, that shows how hard the world is. That is the most efficient steel company in the world, and it had pretty close to a local monopoly of a whole country for a long, long time. In spite of that, in spite of having some very important steel technology they have that nobody else in the world has, Posco is selling like an ordinary commoditized steel company.

It's very hard to avoid being commoditized in high powered competition in the modern world. In places like Dow Chemical [DOW], have all our complex chemical products commoditized in spite of the fact they've got thousands of PhD chemists, and people as talented and brilliant as the people who created Posco just find the markets low and the prices bad and so forth.

It shows how hard and dangerous it is to make money in a commoditized business, and how many businesses that you formerly thought were hugely advantaged can be commoditized. So, you've done a wonderful service to this meeting by raising the case of Posco. Posco's an excellent example for everybody to think about. It really shows how hard it is.

*Q: You have said in the past, the private mortgage insurance solution is flawed. Can you talk about why you think the current insurance system like Fannie and Freddie works, and talk about some of the problems with bringing private capital to the mortgage insurance market?*

**Mr. Munger:** You remember what private insurance did in the big financial crisis in the United States. Crazy and immoral, that is not a good combination. They added a third, they were deeply full of pride about the fact that they were crazy and immoral.

And so, they damn near caused a catastrophe. The people who did it have one thing in common, not one has any shame at all. I've never seen anybody who contributed to the creation of the great financial crisis with shoddy underwriting, lousy bonds — I've never met anybody who

contributed to it who was ashamed of himself. It's always somebody else's fault, or maybe the government's fault.

That's just the way it is. We've stumbled by accident, and reacted to a crisis. All the things we did were great expedients, given the terrible problems we had, and it's working after a fashion. The main risk is, given the political pressures, the government will start going crazy the way everyone did, in reducing the standards and so forth.

You keep trying to enable your citizens to vote themselves rich by various stratagems, like unlimited credit to people who don't deserve credit, which is really a dumb idea. You'd think people would know that by now, but I don't think they do. I'm satisfied with the current system provided they keep the standards up.

But of course, they don't want to do that, they want to lessen them as fast as they can, and that's what the politicians will keep urging them to do. I think it's a terrible idea. I don't think there's anything wrong with having a conservative system, like the FHA was in the Great Depression, that happened to involve the government. Letting private agencies and private insurance do as they please? We've shown how well that works, our unregulated, wonderful people in finance. I'd rather trust some pathogens.





*Q: I'd like to get your thoughts on American Express [AMEX]. Do you think its moat has narrowed recently?*

**Mr. Munger:** I don't think it was desirable that it lost its contract with Costco [COST]. Again, that's an example of what tough capitalism is. Obviously, other people are willing to do it cheaper. It just shows how tough a position that looks impregnable can be in modern capitalism. It's what makes everything difficult.

To those who already have some money, I think that's just the way it is, and American Express has had a long period of very extreme achievement and prosperity. I think they'll have a lot of prosperity in the future, but it doesn't look quite as easy as it once did. Now, the head guy would say it's always been hard, he's been battling hard, but we paddled hard here too, and what good did it do us in Daily Journal's print business? We paddled like crazy, didn't we Gerry?

**Mr. Salzman:** We tried. It was hard.

**Mr. Munger:** Yeah, what happened is you just keep receding and receding. Welcome to adult life.

[laughter]

*Q: I recently watched an Elon Musk interview on YouTube, in which he said he had lunch with you and you had given him all sorts of reasons why Tesla would fail.*

[laughter]

*Would you be kind enough to educate us why you thought Tesla would fail, and what BYD [ticker: BYDDF] can learn from this?*

**Mr. Munger:** I think the auto business is very difficult, very competitive, and everybody is going to make wonderful cars. Everybody already has enormous size and wealth. So, I regarded it as a tough business. Elon Musk is a genius, and so if anybody has a chance to do it, he probably is the man.

But we have a saying at Berkshire that when a man with a reputation for genius takes on a business with a reputation for tough operating conditions, it's the reputation of the business that's likely to prevail. Without government help, getting electric cars off the ground is really hard. In China, it works a lot better than it does here, because their air is worse.

What Elon Musk really needs is for the whole country to have a disastrous smog attack that kills a lot of people. Short of something terrible like that, I think it's going to be difficult. He's a genius, but is going to have to be.

*Q: I'd like to ask you how you read, and how you retain and incorporate that information? Do you have a filing system?*

**Mr. Munger:** No, I've never taken notes; I never kept notes when I was student. I would just read what I pleased when I felt like reading it, and I think what I think when I feel like thinking it. That's my system.

[laughter]

I don't think it's the right system for everybody, but it seems to have worked well enough for to get by.

*Q: My question is about so called 'robo advisors'. What are your thoughts on the subject?*

**Mr. Munger:** The robo funds are the index funds, the big ones. You can hardly imagine more of a robo fund than an index fund. Of course, they're beating a large percentage of actively managed money over a long period of years, particularly the people who are managing billions. I just thank God that they didn't give me the assignment of managing \$200 billion and beating the indexes. I would not have welcomed that challenge.

The people who still have value in investing are people who are willing to work very diligently and intelligently in less efficient markets. I think it is hard to be a great value investor with \$200 billion under management. It takes a long time to buy in, a long time to sell out, other people copy your trades, it's very difficult.

*Q (Phil DeMuth): Financial economists in recent years have rediscovered that highly profitable, high quality companies are better investments than other companies. They try to figure out where this idea came from, it takes them back to Buffett, and then Buffett points to Munger. But this is an insight you had in the 1950s, or maybe the early 1960s, when you were an attorney. How did you come upon this idea? You weren't even Charlie Munger then.*

[laughter]

**Mr. Munger:** Everybody with any sense at all knows that some companies are better than others. What makes it difficult is they sell at higher prices in relation to assets, and earnings and so forth, and that takes the fun out of the game. If all you had to do was figure out which companies were better than others, an idiot could make a lot of money. But they keep raising the prices to where the odds change.

I always knew that. They were teaching my colleagues that the stock market was so efficient that nobody could beat it. But I knew people who beat the pari mutuel system in Omaha by knowing more about horses than other people. I knew it was bull. When I was young I never went near a business school so I didn't get polluted by the craziness.

[laughter]

I never believed it. I never believed there was a talking snake in the Garden of Eden. I had a gift for recognizing twaddle, and there's nothing remarkable about it. I don't have any wonderful insights that other people don't have. I just avoided idiocy slightly more consistently than others.

Other people are trying to be smart; all I'm trying to be is non-idiotic. I've found that's all you have to do to get ahead in life, be non-idiotic and live a long time. It's harder to be non-idiotic than most people think.

*Q: As chairman of a major hospital, can you speak to us about Obamacare?*

**Mr. Munger:** That's one of the most complex subjects on Earth. Of course, the system of medical care that's evolved in the United States has much wrong with it. On the other hand, it has much that's good about it, all new drugs, the new devices, the new operations.

Medicine has taken more territory in my lifetime than it took in the whole previous history of mankind. It's just amazing what's been done, and a lot of it has been obvious and simple, like inoculating children against infantile paralysis, scraping the tartar off your teeth so you don't wear plates when you're 55 years old, so on.

People now take those benefits for granted, but I lived in the world where a lot of children died, and every city had a tuberculosis sanitarium, and half the people who got tuberculosis died. It's just amazing how well medicine has worked. On the other hand, compared to the best it can possibly be, the American system is pretty peculiar.

It's very hard to fix, because one kind of incentive is to pay so much a month for taking care of the people, and everything you save is yours. That is the system the government uses in dealing with convalescent homes. That's a great name, the 'convalescent home'. You convalesce in Heaven; you don't convalesce in that home.

[laughter]

It's tempting to have this euphemistic name. But that creates huge incentives to delay care and keep the money, and the government has strict rules and compliance systems and so forth. If we didn't have that system, the cost of taking care of old people in convalescent homes would be ten times what it is. It was the only feasible solution.

The rest of the world is going in that direction because the costs just keep rising. If the government is going to pay A anything he wants for selling services to B, who doesn't have to pay anything? Of course that system is going to create a lot of unnecessary tests, unnecessary costs, unnecessary procedures, unnecessary interventions. Psychiatrists that keep talking to the patient forever with no improvement.

Of course that system is going to cause problems, and the alternative system also causes problems. Now, add the fact that you've got politicians, and add the fact that you've got existing players who are enormously rich and powerful, who lobby like crazy. A state legislature now, with a huge percentage of GDP going through the medical system, just imagine what the lobbying is like.

So, we get these Rube Goldberg systems, and we get a lot of abuse of various kinds. There's hardly an ethical drug company that hasn't created multiple gross abuses, which in substance go into the bribery of doctors, which of course is illegal. They've all committed big follies.

The device makers, if anything, have been worse. There's been a lot of abuse and craziness, and the costs, of course, just keep rising. That's in a system that averaged out as the greatest achiever in the history of the

world. It's very complicated.

I think it will get addressed and we probably will end up with systems that are more like we do with the convalescent homes. If you look at medicine, what's happening is that more and more they're going to a system where they pay somebody X dollars for everything they say they need.

That system has some chance of controlling the cost. If you go into a great medical school hospital today, and you're within one day of dying of some obvious thing like advanced cancer, the admitting physician is very likely to ask for a test of your cholesterol and every other damn thing, and all the bills go to the government.

As long as incentives allow that, people will do it, and they'll rationalize their behavior. Something has to be done on that, more than is now being done. I think the drift will be more in the direction of block care. I don't see any other system that would have controlled cost in the convalescent homes.

By the way, your doctor can't just walk by every bed in the convalescent home and send the bill to the government. That's not allowed by the law. But if you transfer the patient into the hospital, you can walk by the bed five minutes every day, and send a \$45 bill to the government.

If the incentives are wrong, the behavior will be wrong. I guarantee it. Not by everybody, but by enough of a percentage so that you won't like the system. I think that's enough on a subject that's so difficult. We can see where it's going. In the Netherlands, they have a system where the same people are giving a free system to everybody and a concierge system to the others. It's actually working pretty well, so that's a possibility.

*Q: A question in regarding to the Asian population in the United States. A disproportionate number of us go to elite universities in the U.S., and a lot of us have upper ranked performance in school and have better jobs after school, but very few of us make it to the top of the field, especially in investing. Why do you think that is the case? What's working against us*

*in this nation?*

**Mr. Munger:** No, what's working against you are the laws of arithmetic. It's a strange thing, but exactly 99 percent of the people are at the bottom 99 percent. That will always be true no matter what. Of course very few people will get to the top 1 percent. In fact, only 1 percent gets there.

[laughter]

*Q (Whitney Tilson): As a long time Berkshire shareholder, I was delighted to see the latest deal with the 3G guys announced last night. I understand you may not be able to comment on that specifically, but could you just talk about your experience with Heinz and with 3G and what you hope for the future? What's so special about these guys that they're able to squeeze out such extraordinary performance out of fairly stable, slow growth businesses?*

**Mr. Munger:** Through enormous discipline, enormous will, and enormous intelligence, 3G has adopted a zero-based budgeting system which is more extreme than anybody else's. Yet they've been able to do it time after time in a way where the place ends up as strong or stronger after they've removed a lot of the cost. Of course, that's a very interesting example.

The same thing went on in the nonprofit center. When the great financial crisis came, every university I know of laid off 6 percent, 8 percent, 10 percent of their people. I know of no case where the university didn't work better after they got rid of the 10 percent. None. Zero. Successful places tend to get bloated, fat, complacent. It's the nature of human life.

Somebody who is tough enough, shrewd enough, who knows enough not to cut the wrong things and to do everything fair, has an opportunity to buy things and cut out expenses they don't really need. 3G is probably the most extreme large operation in the world doing that.

I actually think they will probably end up increasing the sales as well. What's interesting about 3G is they're teaching us something about

reality: namely, that successful places contain a lot of unnecessary people...I could have told them that by observing them. If you went into the Department of Agriculture, would you have the feeling the thing was understaffed?

[laughter]

I think you'd find many a corporate headquarters going, "What in the hell are all these people doing?"

Now the Daily Journal I do not think is overstaffed. I don't think it ever has been. Gerry, what's your comment on that? He's watched it all these years. I don't think we've had a lot of unnecessary costs ever.

**Mr. Salzman:** We haven't had a lot of unnecessary costs. At one time, the Daily Journal by itself had approximately 300 employees. Now, we have about 150 employees. You can see that we have taken the direction of the company and reduced expenses accordingly. If you take the foreclosure business, which went from about 2006 to 2011 just like that, we added one and a half people to handle all of that additional work. When the boom went the other direction, we eliminated the one and half plus maybe a little bit more. So we tried to be ahead of the game in terms of anticipating and certainly using technology, because that's the way we were able to handle that particular sequence of events.

**Mr. Munger:** But, normally, if you're super successful, if the sky rains gold, everybody's president gets an assistant. Pretty soon, the assistant has an assistant. It's just the way human nature works. It's like cancer. Somebody who's really tough about that can remove a lot of costs, but only from certain kinds of companies. 3G would perish if it tried to reduce a lot of costs at the Daily Journal. They would starve to death.

[laughter]

*Q: Indexing has grown a lot in the last 30 years. You once said that if we ever get to the point where everybody's indexing, it's not going to work very well.*



**Mr. Munger:** It's far enough away from happening so that I don't spend much time thinking about it. I think human nature is such that it will never happen. I don't spend much time thinking about what is almost certain never to happen.

In the world as it is, indexing has gained a lot. It probably should have gained a lot, because it's quite rational. It's bad for a lot of people who would otherwise be earning money as stock pickers. It probably should have been bad for those people.

It doesn't make it pleasant to have it happen, any more than it helped Japan have a pleasant time when Korea came up so fast as a competitive powerhouse, and even more so when China rose. But I think indexing is here to stay.

If you stop to think about it, civilized man has always had soothsayers, shamans, faith healers, and God knows what all. The stock picking industry is four or five percent super rational, disciplined people, and the rest of them are like faith healers or shamans.

And that's just the way it is, I'm afraid. It's nice that they keep an image of being constructive, sensible people when they're really would-be faith healers. It keeps their self respect up.

[laughter]

*Q: Charlie, I'm here from Sydney, Australia. I'd like to just come back to Lee Kuan Yew. What are the chances of that culture continuing with the current government and future governments of Singapore?*

**Mr. Munger:** They're pretty good. Lee Kuan Yew left a base, eliminated the corruption, made it hard to get in, and paid the people a lot. There's no real incentive to steal in Singapore. Either in Parliament or as an advanced government administrator, you get paid very well, and you're admired, and so forth.

I think what he's left in Singapore will continue to do very well. But of course, he rose when he was doing it and China wasn't. Now Singapore has to compete with China. China makes it harder.

*Q: What about the changes since his son or predecessor came in, for example, allowing casinos to come into Singapore...*

**Mr. Munger:** I would have hated that. You make so much money running a casino, compared to any normal human business. There are no inventories, it's like having license to print money, and people just can't stand the temptation. So, he organized a casino business. Only foreigners can play; he didn't want to ruin the locals. I would not have slept with the devil that much. But Yew was no longer really in power when that happened. If he'd still been young, I'd like to think he would not have done that.

I do not consider it desirable in the United States that we've created casinos and lotteries everywhere. That was not a desirable development in an advanced civilization, and the damn politicians that solve their short-term problems by bringing in this poison deserve to be in the lowest circle of hell. That means that I'm consigning practically all of them, since practically all of them have done it. I can hardly find a place where they aren't putting in new casinos. And the advertising on TV is happy people winning at the table.

[laughter]

Talk about false advertising! You should look at the desperate faces of people trying to get even at the table. Imagine making your living putting those kinds of images on television.

*Q: How do you deal so well with failures and upsets and disappointments?*

**Mr. Munger:** I have so many fewer.

[laughter]

It's very simple. An isolated example that's very rare is much easier to endure than a perfect sea of misery that never ceases.

*Q: Recently you've written about the benefits of trust....*

**Mr. Munger:** Oh, it's just so useful dealing with people you can trust and getting all the others the hell out of your life. It ought to be taught as a catechism. The trouble with doing it is, in an ordinary school, you'd immediately cast 40 percent of the people into oblivion.

Nobody would even talk to them, and I'm not sure an egalitarian civilization is willing to be that tough. But wise people want to avoid other people who are just total rat poison, and there are a lot of them.

*Q: How does someone earn that trust?*

**Mr. Munger:** You do it partly by experience. The simplest way to get trust is to deserve it, and just keep deserving it.

Now, the casino has tried to deserve trust by having a happy winner up there on television, but do any of us trust casinos? Would any of us say, oh goody, when the daughter brings home a boyfriend who makes his living in the credit department of a casino?

[laughter]

And by the way, a lot of our major capitalistic institutions that parade as

really respectable, they're just casinos in drag. What do you think a derivative trading desk is? It's a casino in drag. People feeling they're contributing to the economy, and they're managing risk. They make the witch doctors look good.



*Q: About 20 years ago you gave a talk on the investment management of the endowment funds for nonprofits, colleges, and so on. Many people in the pension and endowment fund business are now following the Yale model, the so-called David Swensen model. This recommends a significant percentage of assets toward hedge funds and private equity. And I think recently I heard you say on a television program that if you were managing endowment funds, you would have it virtually all in common stocks.*

**Mr Munger:** I don't manage endowment funds, and I don't like the politicization that exists in places like big state pension funds and so forth. It's very difficult to manage umpteen-billion dollars. Since David

Swensen was so extremely successful at Yale, of course the system has spread. Any successful system will spread by example.

The other thing that's spread is the leveraged buyout system, and those people actually have an advantage in a world like the one we have. If common stocks are yielding 10 percent average over time pre-tax? And you have a different way involving investment in which you use leverage, and you also eliminate some unnecessary costs, like 3G, and a few other tricks. Just with the financial engineering, you have a natural advantage. Of course they'd have wonderful experience in selecting the top 25 percent of the LBO funds, and have served their endowment clients very well. That is part of what people like David Swensen did.

When it gets to hedge funds, Warren has been famously skeptical about trillions of dollars in hedge funds, and I think he's right. I think there'll be a lot of very bad experience. There will also be some good experience. A few people have been able to select a few advisors for some of these private equity things where they really done well by being shrewder.

Some of the money they made at Yale or Harvard was actually made shrewdly. They used leverage. I wouldn't have done it myself, because I don't like balance sheets swelling with vast amounts of leverage. I'm afraid of human nature.

Nonetheless, a lot of what they did was quite shrewd, and of course they did have large returns. I don't think it's easy to do. I don't think anything any ordinary person can do easily is likely to work that well. What David Swensen did, with the aid of Yale's reputation and his own, was select some of the smartest people around.

It was a like a guy who figured on how to make successful plays on Broadway. The fact it succeeded doesn't mean it was easy. He did something very remarkable and of course the example spreads. I don't think there's any real easy solution for anybody. Anything that's really likely to work, is likely to be hard.

*Q: What do you think of new Internet platforms for starting companies such as Kickstarter?*

**Mr. Munger:** I don't know anything about new Internet platforms.

[laughter]

*Q. All right. What advice would you give for early entrepreneurs, young game changers, in the old way of thinking?*

**Mr. Munger:** I don't know anything about the new world of managing a big network based on computer science. It all came up and developed after I was convicted in my habits, to then go back and learn to play a different game. What I was doing worked well enough, so I didn't feel deprived. I let it pass.

I wish everybody well who's good at it. I feel the same way about a guy that walks across the tight rope over Niagara Falls. It's his way of making a living, but I'm not inclined to try it.

[laughter]

I'm not trying to outdo Page and Brin at Google, and I don't have any advice for young people who want to get rich. Basically, I think the desire to get rich fast is pretty dangerous. My own system was to get rich slow.

It protracts a rather pleasant process, so I recommend my system to everybody. After all, if you get rich fast all you can do is be robbed by your own employees and your yacht and so forth. Whereas if you get rich slow you amuse yourself over a lifetime.

[laughter]

My advice to you is to go to the "get rich slow" system.

*Q: I'd be curious about your thoughts on long-term defensibility. Any themes you've distilled from the thousands of companies that you invested in?*

**Mr. Munger:** We tend to look for easy decisions, and we find it very hard to find easy decisions, but we've just found enough barely to handle our own problems. I don't have a system. Since I barely have enough for myself, I do not have a vast surplus to give to the multitudes. I'm not holding back on you, I just don't have them.

[laughter]

*Q: In the past you mentioned how you didn't want to use up the U.S.'s hydrocarbons. Now it's seems like the world is awash in oil. Could give us your updated thoughts on the global oil market.*

**Mr. Munger:** You'll be surprised to know that I've not changed my mind.

[laughter]

I think the hydrocarbon reserves in the United States are one of the most precious things we have, every bit as precious as the topsoil of Iowa. Just as I don't want to export all the topsoil in Iowa to Iran or someplace, just because they are willing to give us some money, I love the hydrocarbon reserves we have in the ground. The fashion is to be independent and to use them up as fast as we can. I think that's insanity as a national policy. I must in a minority of one percent tops, but of course I'm right.

[laughter]

We have no substitute for those hydrocarbons. We use them to make our fertilizer. It's chemical feedstock. We are not going to be able to run our airplanes without hydrocarbons. We do not want to use that all up. It's finite. It's not at all safe to assume there's a substitute.

They have a long record over time of appreciating in value. We're just damn lucky we didn't learn fracking earlier to remove them all or we would have done it. But everybody else just has the idea that anything that happens in the free market is all right even if it's an ax-murder.

[laughter]

They think exporting hydrocarbons makes sense. I think it's a ridiculously stupid policy, but if you have a little oil lease, of course you want to export, but I don't think it's good for the country at all. I love the fact we have a lot of hydrocarbons left that we haven't exploited.

Why wouldn't you be pleased to have it? How happy would we all be if we were importing 100 percent of our hydrocarbons right now, like Japan? We'd feel exposed and in danger. We'd be right to feel exposed and in danger.

Will we feel like some big power in the world that might prevent other people from misbehaving if we have no hydrocarbons at all, if we are dependent on others? No, I think the fact that that idea is so unconventional doesn't mean it's wrong. It just means other people don't think very well.

[laughter]

*Q: Going forward, what unexpected or under-appreciated changes changes do you think are most relevant, and which industries do you think will be most unhappy?*

**Mr. Munger:** I think the one that affects the next 50 years for young people: it's very unlikely that we won't have some major catastrophes. I think we've had a very favorable period, but I don't think it's terribly constructive to spend your time worrying about things you can't fix. As long as when you are managing your money, you recognize that a terrible thing is going to happen, in the rest of your life you can be a foolish optimist.

Benjamin Franklin said a very wise thing. He said, "You keep your eyes wide open before a marriage and half shut thereafter."

[laughter]



I think those are catastrophes that you can't fix. Franklin is right, keep your eyes half shut. I think that's what most of us do anyway. Though I think that's the change that's most likely.

I don't see how we bring back that age where an uneducated man can march ahead rapidly. As long as we have free trade and worldwide competition, and I don't want to stop having free trade with a big nuclear power like China. China and the United States have to get along. Each country would be out of its mind not to get along with the other. I think trade helps us to get along.

If it hurts some people, life is always going 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.

*Q: One of the more peculiar things that we see in the markets today is the existence of persistent negative interest rates on certain government bonds. I'm wondering if you just have any thoughts around that.*

**Mr. Munger:** This has basically never happened before in my whole life. I can remember 1½ percent rates. It certainly surprised all the economists. It surprised the people who created the life insurance industry in Japan, who basically all went broke because they guaranteed to pay a 3% interest rate. I think everybody's been surprised by it, including all the people who are in the economics profession who kind of pretend they knew it all along. But I think practically everybody was flabbergasted.

I was flabbergasted when they went low; when they went negative in Europe – I'm really flabbergasted. How many in this room would have predicted negative interest rates in Europe? Raise your hands.

[No hands go up]

That's exactly the way I feel. How can I be an expert in something I never even thought about that seems so unlikely. It's new territory....

*Q: Are there any specific unintended consequences that you are concerned about now that we've had such a prolonged period of low interest rates, which are clearly altering folks' risk behavior?*

**Mr. Munger:** I think something so strange and so important is likely to have consequences. I think it's highly likely that the people who confidently think they know the consequences – none of whom predicted this – now they know what's going to happen next? Again, the witch doctors.

You ask me what's going to happen? Hell, I don't know what's going to happen. I regard it all as very weird. If interest rates go to zero and all the governments in the world print money like crazy and prices go down – of course I'm confused. Anybody who is intelligent who is not confused doesn't understand the situation very well.

If you find it puzzling, your brain is working correctly.

*Q: This is the fiftieth year for the Berkshire Hathaway report. You and Warren each wrote a letter that neither had read before. I'd just like your comments on what you thought of Warren's.*

**Mr. Munger:** I think Warren's letter was very, very useful. I particularly liked it where he was criticizing banks. Take the growth of the conglomerate movement which is sort of a chain letter game that people played with financial accounting. The accountants all blessed it. The accountants never should have blessed the conglomerate craze, with constantly buying low quality earnings and making the earnings go up.

It was an evil system and an evil way to make money. It was an evil way to run an accounting profession to bless the outcomes. Nobody else was talking that way. I tend to admire Warren when he gets off on important subjects like that, where he's totally right. The chances that anybody will pay a lot of attention to him in a way that changes anything is, I think, quite small.

For a few of the cognoscenti, like you people, how many of you approve of the way, say, IT&T played the conglomerate game where their accountants blessed their earnings reports? Raise your hand if you thought it was wonderful.

[no hands go up]

The answer is it wasn't wonderful. I liked what Warren did. Nobody else is doing it. What other CEOs are saying that American financiers and their accountants grossly misbehaved for a long time? Nobody. I think it's useful when somebody does that. And he's totally right. It was awful, the fact that everybody went along with it, including the investment managers. It's still happening.

However bad you think it is, somebody actually comes by and does it worse. It wasn't moral the first time and the second outcome is not better. People are enthusiastic about it. I'm holding my nose. That's the only correct response.

*Q: What do you think is the least talked about or most misunderstood moat around a business ?*

**Mr. Munger:** Everybody would really like to have a misunderstood moat. You're the greediest fellow that's spoken.

[laughter]

All you want to know is if I have a moat that you can understand that other people don't. A modest wish.

[laughter]

You're going to ask a 91-year-old man how to do it? Reminds me of one of my favorite stories. A young man comes to Mozart and says, "With your help I want to compose symphonies."

Mozart says, "You're too young to be composing symphonies."

He says, "Look, you were doing symphonies when you were 10 years of age. I'm 21."

Mozart says, "Yes, but I wasn't running around asking other people how to do it."

[applause]

*Q: What are the customers' problems that Journal Technologies are trying to solve?*

**Mr. Munger:** Every government department needs all kind of automation it doesn't have. It's complicated. The systems interact with other systems. Software is more and more important. It's very difficult.

The governments have their own way of doing businesses that are created by history, local legislation, and so forth. There's nothing simple about it. A company like Microsoft got in a business somewhat similar to ours when they bought Great Plains Software, Inc. They've succeeded with it

moderately.

Even Microsoft finds it difficult to do anything but have moderate success when they buy some thoroughly proven software system — more or less similar to what we're trying to do. There's nothing easy about it. But it's very necessary. It's a huge market. The right idea, of course, is to really serve the customer correctly. Somebody's going to win.

*Q: I'm curious whether or not you see any parallels between what's happening today in television and what's happened to the newspaper industry.*

**Mr. Munger:** The newspaper industry, of course, is easy. It had a revolutionary change in technology. The worst single thing was to take the classified ads out of the paper, because that was the total goldmine. I don't think that's fixable.

Our newspapers were impregnable local powerhouses, and very constructive parts of the political system of the country. Of course, they've gradually been enormously weakened. That was not good for the country. It happened by accident. We lost all these local powerhouses that could have total integrity, because they had impregnable financial positions.

Television is different. I've been a little surprised how well the old broadcast networks have survived the new world of the Internet and cable television. I'm not sure I understand the situation well enough to predict what's going to happen over the next 25 years.

Something happened recently, which I watched in China. When the Berkshire Hathaway Annual Report came out, it created a great buzz in China. China is interested. We look Confucian to the Chinese. They like elderly rich men.

[laughter]

We're trying to be wise. That's the Chinese system. There was a great buzz of the Berkshire report all through China. All of a sudden, the buzz

stopped.

What happened? One woman in China took \$150,000 of her own money and a year of her life and created a documentary film. She ran the thing over the Internet.

It was a film. She got 200 million views. What she did was a long thing about smog, how the people were dying in China, and how Los Angeles fixed its smog problem by taking sulfur out of the air when people burn coal and oil and so on. Terribly well done.

This one woman is changing the policy of China. She isn't on the newspapers. She isn't on the television stations. Nobody had ever heard of her.

One damn documentary. That is a new world. That's a new source of power. I don't know where a world like that is going to end up. I just know it's different. It's important. In this case, it was very constructive.

China has been dead wrong to allow people to die 10 years early in Beijing because the air is so lousy. Immoral and stupid: not a good combination. China's going to fix it. This woman is actually helping, with one film.

The world changes like that so rapidly. It's hard to know who's going to have the power and what's going to happen. That's the way I feel about a lot of the media. I understood it better when the people who had the printing press controlled the newspaper, and the people who had the network allocation controlled the broadcasting.

Frank Murphy [of Murphy Radio, founded 1929] liked it better when broadcasting was all black and white, and there were only three networks. He had a big, strong position. He did not welcome all the new competition.

I do not understand how they get so much information through space at the same time.

You and I grow up in a world where these radio stations interfered with

one another. That's why you couldn't have very many channels. Now, one woman can put 200 million hits on a whole damn movie through God knows what. How do the bits not conflict with one another?

[laughter]

It's very complicated. I don't understand it. I understand peanut brittle.

[laughter]



*Q: What has surprised you the most about human nature?*

**Mr. Munger:** The one thing that has surprised me all my life is how many people with high IQs do massively stupid things. It happens everywhere. But it is surprising how extreme the stupidity is and how talented the people are who do them. I think the human mind was almost made to malfunction in a lot of different ways. It makes the world a very dangerous place.

The man whom you trust, he's your physician, your doctor, your investment manager, what have you, can go plum crazy. To give you an example:

I'm used to doctors who think a procedure that's good for them is good for you. But in Redding, California, a couple of doctors rose who gave everybody who consulted them open heart surgery. They really convinced themselves that everybody needed open heart surgery. A normal heart was a widow maker. If they replaced it with carbon, nylon, or something, they were way better off.

They did massive amounts of open heart surgery. By the way, their surgical results were wonderful. Nobody survives open heart surgery better than the guy who doesn't need it at all.

[laughter]

I expect the worst in human nature. But they thought they were doing the right thing and really helping the patients. That surprised me.

It seems impossible. How could anybody behave that way? How could it go on for year after year? Hospitals were sending their executives up there to learn how to run their hospitals this way.

[laughter]

They were making money and achieving status and demonstrating skill. But it's so extreme, you think that couldn't happen. If it did happen, you think it would be identified by other people early. It ran on for years. And their bosses were trying to get their other hospitals to have the same results. Amazing.

*Q: Were they sued?*

**Mr. Munger:** Of course.

[laughter]



They did take away the doctors' licenses, but nobody went to jail. You'd think they'd go the lowest circle of hell, but they didn't. They lost their licenses.

*Q: When might you believe the software industry will catch up with the law profession in the form of reduced billable hours due to the processes and systems?*

**Mr. Munger:** I wouldn't hold your breath.

[laughter]

I do think there is some trend to limit the idea of hiring a lot of young people and have them all go 13 hours and so on, trying to increase the billable hours. That is not just the law profession. The consultants do it. The accountants do it. Lots of people do it.

It's human nature operating. But I do think in law you're seeing the elements of rebellion. Some clients are insisting on different systems. It's gone too far.

*Q: In China there are debates about if China should learn Singapore's management style, because this type of management style might work in a tiny place like Singapore, a city-state, but not in a big country like China.*

**Mr. Munger:** What China adopted from Singapore was not its total management system. It adopted its system of an economic management business. It had private ownership of business. Before that, the Chinese government had owned practically everything.

They took part of what Lee Kuan Yew had done in Singapore. China's weird combination of authoritarianism and free enterprise has worked wonders for its economic output. Lee Kuan Yew's example had a lot to do with it. But he didn't think necessarily that was right for a small City State, was right for a whole backward country of a different nation.

Nobody thinks that it's his exact solution, but I do think the anti corruption part of China was right out of Lee Kuan Yew's book. China had a lot of corruption.

China increased its GDP at 8, 9, or 10 percent per annum for decades. They weren't perfect, but it was a lot of achievement from where they started.

What's really interesting is how much influence on this outcome one human being had. He started as a leftist labor leader. It's perfectly amazing. I wish it could happen more often.

[laughter]

*Q: What methods would you use to quantify the appropriate amount of debt in an investment, whether it be real estate, private equity, or a public corporation?*

**Mr. Munger:** The appropriate amount of debt varies with the circumstances. I don't have any general rule. Generally speaking, if you're investment is uncertain, say, as running a big complicated enterprise, there's a lot to be said for having a lot of extra wealth and liquidity.

You're a huge social safety net if you're a controller of capitalist power. Do we want them all to be leveraged to the gills so we can buy back the maximum amount of stock? They are big social enterprises that should have reserves of safety.

The idea that they should all leverage themselves to the gills to please a bunch of activists would be like taking all the safety margin out of bridges on the theory we'd save steel. That's a dumb idea.

*Q: Could you speak about the growing market share of indexing and the effect that will have on the relationship of shareholders to the companies that they own.*

**Mr. Munger:** It's likely to have a significant effect over time, because now you get a bunch of permanent owners. The people who run the index funds are now, in effect, permanent owners. They can't sell. Yes, of course,

they will drift into using more of that power. Will it be used intelligently, the new power? I doubt it.

[laughter]

*Q: Can you speak to the general level of market prices today? If you had all your money in a tax deferred account, would you be tempted to increase the level of cash?*

**Mr. Munger:** You're asking me for a position I don't occupy in life.

[laughter]

If you said, "Charlie, how would you practice dentistry if you've been a dentist?" I may not be able to give you as good an answer as I could about something I thought about a lot. I'm content owning virtually 100 percent stocks, but I really think that I own stocks that are better than other people's on average.

Therefore, my decision is easier. What I would have to do if I had to own average stocks like everybody else, I'm not so sure. I've carefully avoided that fate.

[laughter]

I've been able to do it for a lot of decades. Now, the margins are not what they used to be, but an old man is lucky to have any advantage at all.

[laughter]

*Q: Do you think companies like Google and Apple have long lasting moats, considering that they are right at the center of technology?*

**Mr. Munger:** I am not an expert on the moats of technology companies. The reason, by and large, I don't own them is because I do not understand whether or not there are moats that will last or not. I do think Google is a very remarkable company. If you put a gun to my head, said, "Charlie, you've got to buy a big technology company," I might choose Google.

They certainly hire brains. They're getting the best brains, I think, of anybody. They're certainly fanatic. They certainly have an entrenched position. Do I understand the value of their moat compared to the value of everybody else's? The answer is no. You're asking the wrong person.

By the way, anybody who does give you the answer is probably full of you know what.

[laughter]

*Q: Denmark was recently declared the most happy country in the world. Any thoughts on that?*

**Mr. Munger:** It may be true!

[laughter]

You've got a Nordic nation without a lot of tropical diseases. You've got a big social safety net. It's monoethnic, so they don't have the tensions of different groups making the place hard to govern. They're situated and surrounded by advanced civilizations, so they can live pretty well, whether they invent anything new themselves or not.

It's very favorably located. If you are in a small group with which you closely identify, you don't mind supporting one another more. It's just the way the human mind works. It may well be that if you measure happiness physiologically by time spent smiling, and so forth, then Denmark may well be happier than almost any place else. I suspect it's true. That does not make me want to live in Denmark.

[laughter]

I'll take the world the way it is, where I live. I prefer it.

*Q: I'm an engineer. How do we keep engineering undergraduates from running off into finance?*

**Mr. Munger:** The answer to that is, "I don't know." I don't think it's

good having all the brains go into finance. Just like it's not good to have so many gambling casinos in disguise in the financial markets. I don't think that the current development is good. If I were running the world as an omnipotent emperor, I would change the laws, so the outcome changed.

I would change the incentives. The chances of anybody paying attention to my ideas about the laws are zero.

*Q: At the Westco meeting about twenty years ago, you were asked the question, "What do you consider the most important invention of the twentieth century?" You said, "Air conditioning." You then talked about huge swathes of the United States that really were tropics before air conditioning. What would you say today has been the most significant invention of the last hundred years?*

**Mr. Munger:** It's hard not to say the Internet. We had the good transportation, the airplanes, the trains, the air conditioning, the good pharmaceuticals and so on. Having the Internet, the instant cellphone, the little portable computers, the iPads and so on, that's what made this one woman in China who didn't have any power before change a whole governmental outcome. It's having other dramatic changes, including destructive changes on investments. I would say the Internet is very important. Don't you think everybody feels that way?

*Q: Berkshire has put a lot of money behind MidAmerican Energy. How do you see that playing out?*

**Mr. Munger:** Very well.

[laughter]

I think it will work out very well. Again, we're trying to do the right thing by the regulators, the customers, the engineering, the safety, you name it. I think it'll work very well for Berkshire. I think it will work very well for the customers of MidAmerican Energy.

I wish I was that optimistic about everything, as I am about that one. I

regard that as almost a no-brainer.

*Q: What separated Teledyne's Henry Singleton from the other people who developed conglomerates, and why did you and Warren respect him?*

**Mr. Munger:** We respect Henry Singleton for a very simple reason: He was a genius. Henry Singleton never took an aptitude test where he didn't score an 800 and leave early.

[laughter]

He was a major mathematical genius, a Putman Fellow. Even when he was an old man, he could play chess blindfolded, at just below the Grand Master level. He had an awesome intellect, well into the top 1/1,000 of one percent.

This was an extreme analytic. Of course, he did create a conglomerate because it was legally allowed at the time. He did it the way everybody else was doing it, he did it better, and he made a lot of money. When they ran out of favor, the stock went way down, he bought it all back for less than it was worth.

Of course, he died a very wealthy man. He was a totally rational human being in things like finance. What I found interesting about Henry Singleton, which has interesting educational implications, is that in watching both Henry and Warren invest and operate at the same time, we had two great windows of opportunity to examine human nature.

Henry was very rational. He was quite similar to Berkshire in some ways. Henry never issued a stock option. He had certain commonalities with Warren that were just logical outcomes.

What was interesting to me was how much smarter Warren was at investing money than Henry. Henry was born a lot smarter, but Warren had thought about investments a lot longer. Warren just ran rings around Henry as an investor even though Henry was a genius, and Warren was a

mere almost-genius.

[laughter]

That is my last question because we reached the time when the directors meet, and besides, even for a group of addicts, you've probably had all you can take.

[applause]