

# Fireside Chat with Charlie Munger: Full Transcript

[APRIL 3, 2017](#) / [RICHARD LEWIS](#) / [19 COMMENTS](#)

Following the 2017 Daily Journal meeting, Charlie Munger treated everyone who stayed to an informal fireside chat. For over two hours, he graciously answered any questions. I transcribed this fireside chat verbatim and as accurately as possible. It was transcribed from [this](#) fantastic 1 hour and 48 minute recording of the talk. Below is the transcript in its entirety.

<https://latticeworkinvesting.com/2017/04/03/fireside-chat-with-charlie-munger-full-transcript/>

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## FIRESIDE CHAT WITH CHARLIE MUNGER

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x RICHARD LEWIS

LATTICEWORKINVESTING.COM ✦ TRANSCRIPT



### Event Info

Location: 949 E 2nd St, Los Angeles, CA 90012

Event: Informal Fireside Chat following the DJCO Annual Meeting

Date: February 15, 2017

## Start of Transcript

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**Charlie:** ...Why do you want to strain and (feel like you) have more danger when you're already filthy rich? As Warren says, 'What difference does it make to him if he has an extra zero on his tombstone?'

**Question:** For return on invested capital, isn't that already taking into account leverage?

**Charlie:** Well of course everybody would rather have billions with a high return on capital.

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**Question:** What's your reading habits every day?

**Charlie:** I read 3 or 4 newspapers when I get up in the morning, and I always have two or three books that I'm reading. I kind of go back and forth between them. And that's what I do. **That's what I've done all my life.**

**Question:** What are your four newspapers?

**Charlie:** Wall Street Journal, New York Times, Financial Times, L.A. Times. (*Questioner: No Washington Post?*) No, no Washington Post.

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**Question:** (Question Regarding deferred gratification)

**Charlie:** What about medical school, that's a lot of work. You're not living very high or this or that. Later you're a doctor and you have a better life. That's deferred gratification.

**Question:** So Charlie, you're the chairman of the Good Samaritan Hospital, do you have any recommendations or any suggestions about lowering the prices...

**Charlie:** Well I took that because basically it was basically a losing hand and I play so many winning hands, so I thought, I should force myself to play a losing hand, and I must say it's been very difficult.

**Question:** Do you believe in a single-payer health system?

**Charlie:** I think a single-payer health system would work a lot better, yes. I think it will eventually come. I think the existing system is a ridiculous (inaudible) system. Ridiculous system.

**Question:** How should we help our children to avoid envy and jealousy.

**Charlie:** Well you can't.

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**Question:** What's your go to (valuation approach)?

**Charlie:** We don't have one way of doing it. We have certain things we avoid because we don't think we have the competency to deal with it. And we have certain things we kind of like because we're use to them. And so, we don't have just one set of rules. **We don't have any formulas that are exact or anything like that. And some of the stuff we do, we just know it's a little better than our alternatives.** We're doing all kinds of stuff now that we would not have done. We would have never bought Apple stock in the old days.

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**Question:** (Regarding Todd Combs. How he got introduced to Charlie and Warren)

**Charlie:** He seemed like very straight forward. But you see I get a million letters from people who want to come work for Berkshire. Or want to come work...I sometimes get a check from somebody who says, "Here's \$50,000, I'll pay this to work for you." I sent the \$50,000 back. I will say that it's kind of a brash thing to do, and I kind of admire it because it was kind of a smart-ass stunt, and I was something of a smart-ass when I was young myself. But I'm not looking for another starting helper or something. I'm playing out the end game. Anybody who's playing anything else but an endgame when they're 93 is crazy. It's an endgame.

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**Question:** So you bet against the jockey, not against the horse necessarily?

**Charlie:** Well, no...McKinsey. Skilling came out of McKinsey. There are a lot of manipulative types that (inaudible) McKinsey.

**Question:** So is it simply an observation of the people more so than the quantitative factors? You don't need to look at the balance sheet when you're looking at the person.

**Charlie:** Well I can see the chain-letter aspects of the game. And the huge leverage and the huge...he was just sort of building a chain-letter. It's intrinsically sort of a dishonorable thing to do. Because the nature of the thing you're...doing something that you can't continue on its own motion. You know, making it look like oil. So it's intrinsically sort of dishonorable. **So I don't like chain-letter operators and I don't like drunks. I don't like people who puff and lie and I don't like people who raise prices on drugs that people have to have by 500% overnight just because it would work.** There's a lot of flags we're flying.

**Question:** Charlie, we've seen a lot of folks boycotting retailers because they sell Trump brand merchandise and vice-versa because...

**Charlie:** I don't like all that. Basically, I'm not in favor of young people agitating them and trying to change the whole world because they think they know so much. I think young people should learn more and shout less. So I'm not sympathetic to anybody...young people are out in the streets agitating and I say, 'to hell with them'. That's not my system. I think if you got Hitler or something you can go out and agitate, but short of that, I think the young people ought to learn more and shout less. They ought to act more like Chinese.

**Question:** Did you personally know Richard Feynman and what do you think of him?

**Charlie:** Yes. I knew him slightly. Very slightly. Well he was a genius. On the other hand he was a screwball. He absolutely was nuts about screwing around with a lot of different woman, and going after the wives of his own graduate students (I think). That's disgusting. So he had this blind-spot. Now in physics, in teaching, he was one of the nobelist people we ever had. But in his personal life he was a little nuts.

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**Question:** Charlie, I have a question about real estate. When I look at real estate and stocks, real estate is just easier to evaluate. You know, comps, cash flow, and replacement cost. It just seems like an easier game than the equities market.

**Charlie: The trouble with real estate is that everybody else understands it.** And the people who you are dealing with and competing with, they've specialized in a little twelve blocks or a little industry. **They know more about the industry than you do.** So you've got a lot of bull-shitters and liars and brokers. So it's not a bit easy. It's not a bit easy. The trouble with it is, if it's easy...all these people...a whole bunch of ethnics that love real estate...you know Asians, Hasidic Jews, Indians from India, they all love real estate. They're smart people. And they know everybody and they know the tricks. You don't even see the good offerings in real estate. It's not an easy game to play from a beginner's point of view. Real estate. Whereas with stocks, you're equal with everybody. If you're smart. In real estate, you don't even see the opportunities when you're a young person starting out. They go to others. The stock market's always open. It's (like) venture capital. Sequoia sees the good stuff. You can open an office, "Joe Schmoe Venture Capitalists: Start-ups come to me!" You'd starve to death. **You got to figure out what your competitive position is in what you're choosing.** Real estate has a lot of difficulties.

Those Patels from India that buy all those motels? They know more about motels than you do. They live in the g.d. motel. They pay no income taxes, they don't pay much in worker's compensation, and every dime they get, they fix up the thing and buy another motel. You want to compete with the Patels? Not I....Not I.

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**Question:** You and Warren throughout your business history were incredible at judging people. Whether it's Mrs. B. (*Charlie interjects: We were pretty good, yes.*) What was it that you and he looked for. And what were mistakes that you made that you learned from along the way in judging who would be good business partners to work with.

**Charlie:** Well, first there's some very good people in Warren's family. One of them I worked under was Fred Buffett. So we had people we knew well that were really noble people. So we had basis to compare people against. And we had basis to compare people in terms of capacity and talent and so forth. So we had a lot of data in our heads that helped us. **And I think we had some genetic advantages. Not IQ points, just absolute quirks of nature that made us better.**

**Question:** Like Harry Bottle? Tell me about Harry Bottle and what you saw in him.

**Charlie:** Well I worked with him in an electronics business that got into terrible difficulties and he'd help us work out of that business trouble by downsizing. He knew how to do it. And Warren had a business that needed downsizing and Warren did not know how to do it. So I put those two together and of course it worked well. ([link](#))

**Question:** Charlie, could you talk about the episode at Solomon Brothers and what you really learned about people...

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**Charlie:** What I learned is that all that easy money and easy leverage and so forth in investment banking creates a culture that's full of envy, jealousy, craziness, over-reaching, over-leveraging. It's a very hard business to manage...investment banking. It was out of control. The envy was...these people went berserk. If one jerk got \$4 million some year, the other guy was furious that he only got \$3 million. And they just seethed and caused trouble. It was a very difficult business to manage. I think a lot of easy money that comes into finance just ruins practically everybody.

**Question:** Charlie, any thoughts on App

**Question:** Charlie, any thoughts on Apple Corporation?

**Charlie:** Well it's a very odd thing for us to do. Obviously we've got no special insights as to how sticky Apple's business is. Apple's whole supply chain is like one man with two million employees. That's very peculiar. And the man is not perfect. On the other hand, Apple has a very sticky bunch of customers. Will they be able to keep that going? And if so, how long? I don't know but I think the chances are pretty good that it's going to be quite sticky. And that's why we bought it. But as I said, we have a slight edge in our favor there. But it's not a big edge. We're doing that because we don't find the stuff we use to find where we knew we couldn't lose. **Apple we've got what we think is a little edge.** We don't have a big insight into "can't fail". But if you can't find...**if you've got the money and you have to put it somewhere and you can't find what you use to like, you have to put it with what's best available.** It's a nice problem to have, to have so much money. We shouldn't really be complaining about that it got harder. The reason it got harder was we have so much money. When we bought that Coca-Cola, it was a million shares. It took us 8 months to buy a million shares of Coke. We were buying like half of all trading every day. It's hard to get in and out of these big blocks.

**Question:** Are you good friends with John Bogle? ([link](#))

**Charlie:** No, I just...maybe I met him once or something. I mean...basically I think he's right about his basic approach. That other people are not going to match the averages and he is. And his idea has succeeded, and he's succeeded, and he was right. On the other hand, he's kind of a one trick pony. I don't think he has another...he had one good idea in his lifetime and he rode it very hard. That's all you need. He's an interesting example. **He had**

**one good idea, he pushed it hard, and it worked. You don't need a lot of good ideas, but you do need one.**

**Question:** Can you talk a bit about BYD?

**Charlie:** That again is something that we would have never done in the early days. When I got into that Li Lu. BYD had been pounded down so hard, it was a Graham type stock. It wasn't a start-up, but a small-type company.

**Question:** Would you see BYD doing infrastructure here in the U.S.?

**Charlie:** No. BYD'S now going into monorails. They'll do monorails in China.

**Question:** They wouldn't do that here in the U.S. though?

**Charlie:** Oh they would, but it would be pretty dumb. Monorails in the U.S. have been a peanut business forever. In China they can get permits. China...they just go do it.

**Question:** How about energy storage? Do you see that happening here in the U.S.?

**Charlie:** Of course. Everybody's going to do energy storage. You've got to time-shift the power if it comes from either the sun or the wind. Of course there's going to be a lot of storage.

**Question:** This might sound like Max Plank chauffeur kind of knowledge ([link](#)), but when it comes to find the sell-out price, the intrinsic value of the company when you want to compare that to the market cap (Charlie interjects: "of what?"), just BYD let's say.

**Charlie:** Oh that's hard. And again we've learned things there. When we bought in, we could see that a venture capitalist would have paid three times as much for that kind of a deal. So it was cheap as a venture capital...and we could see it was a good venture capital thing because the guy had worked minor miracles already. So that was a cheap stock, but it was one that took some special insight. And I wouldn't have had it without Li Lu who found that. And once we were in it, I got to know Wang Chuanfu even though he can't speak a word of English. And Wang Chuanfu's a genius. ([link](#)) And he's shrewd. And he's honest and he's fanatic and he loves his company and so on and so on and so on. And what he can do is just incredible. He learns whole new technologies.

**Question:** So it's mostly qualitative?

**Charlie:** It's partly what they have, and **partly I'm betting on the horseman there.** And he's got a bunch of Chinese. Young Chinese. You can't believe what those employees do. He's got 230,000 Chinese working for him. Berkshire only has 460,000 employees. That's a lot of employees. And they can do things you can't believe.

**Question:** Would you buy the whole company if they'd allow that?

**Charlie:** I don't think so because one of the reasons that he succeeds is that the Chinese are proud of an 8th son of a peasant that creates a little company all by himself and is doing so far. And a lot of the other stuff they're doing, joint ventures in automobiles, they're joint ventures with the west whose already ahead, so in a sense they love and are proud of their own man the son of a peasant that did it all himself and it's still Chinese. So I wouldn't want to destroy that Chinese image by buying BYD. It works better the way it's going. But you're right, I'm betting to some extent on the person. I was in their battery separator plant. There are about five companies on earth that know how to make battery separators. That goo comes by and hangs together laterally through its own chemical something, cohesion...it's the most complicated damn process that you ever saw. It's very hard to do. If you don't do it exactly right, the battery fails. **He just learned that, boom, what he needs to know he just figures out...**there aren't many people who can do that.

**Note:** Buffett said, "BYD was Charlie's idea,...**When he encounters genius and sees it operating in a practical way, he gets blown away.**" Berkshire bought a 10% stake for \$232 million in 2008. ([link](#)) As of April 2017, that stake is worth \$1.84 billion. ([link](#))

**Question:** Do you see similar qualities in Elon Musk or somebody of that sort?

**Charlie:** No I think that Wang Chuanfu knows what he can do and what would be really difficult. Elon Musk thinks he can do anything. **I'd rather bet on the man who has some limit to his self-appraisal.**

**Question:** Do you think Mr. Bezos knows the limits of his skills?

**Charlie:** Way better than you think. Bezos is utterly brilliant and utterly remorselessly ambitious. I would never bet against Jeff Bezos.

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**Question:** You mentioned earlier about Coca-Cola becoming a little bit less efficient than it used to be?

**Charlie:** No. For the first hundred years, all that caffeinated carbonated sugar water with the same flavor, just swept the earth. And every year more money came in. They were drowning in money. For the better part of a hundred years. Of course it was interesting. But of course that kind of spoils you. Now the basic stuff is going the other way.

**Question:** Do you think Coca-Cola and Pepsi still win the sparkling water battle?

**Charlie:** I don't know. I think they're both very strong companies. And I think they both have a lot of momentum in place.

**Question:** Do you think if they were run by 3G they would do better or worse?

**Charlie:** Well I guarantee they'd do a lot better the second year. (laughter)

**Question:** If Glotz came to you and asked you to make a new company today, (*Charlie: Who?*) Glotz. There's an article, "Turning two million into two Trillion.", it's about creating a company that would be worth two trillion...(*Charlie: Yeah, I know. I gave the talk. (Big Laughter)*) If he came to you today and wanted to do another company, what would you tell him? ([link](#))

**Charlie:** Well I wouldn't do that because I did that only retrospectively. In other words, I knew the outcome when I created the story. Of course that's a lot easier than starting now and projecting the future. So I can explain the past a lot better than I can predict the future. Surprise, surprise.

And by the way, that talk, it was a total failure when I gave it. It's been a total failure ever since. Now I think it's absolute right in that there's a lot that can be learned in it. And a few nuts like you make get something out of it. But in terms of the greater world, I bored the people. Some of them fell asleep. It was the most failed talk I ever gave. And so I published it when they did [Poor Charlie's Almanac](#) because I still think the basic lessons are right. It's just it's hard to understand. Most people don't understand basic psychology very well. ([link](#))

**Question:** Charlie, it looks like you hit a homerun with the physics institute in Santa Barbara. (*Charlie: Well all I did is create a building, they already had the institute.*) But it looks fantastic, the whole idea and everything.

**Charlie:** It's wonderful. **It's amazing what you can do if you have a lot of intelligent and unlimited money.** (laughter)

**Question:** How about a Munger Library somewhere?

**Charlie:** No, I'm working on another student building in UCSB.

**Question:** Hey Charlie, what scientific innovation is going on right now that you're really excited about? And what's one thing that you're really scared about?

**Charlie:** I really am deeply aware of this agricultural revolution. And everyone just takes it for granted. It wasn't...you know, it isn't like agriculture had productivity had ever increased by 300% in a few decades. I mean it was just amazing what happened. And of course the world needed it terribly. And so I'm quite impressed. And more of that's coming. So all this stuff about gene splicing to make plants grow better and gene splicing to make domestic animals produce better. All that's coming, some's starting to work already. And they'll push this cross-breeding of seeds...it's a hugely important thing that's happening. And the world needs it terribly. And it changed the whole world for everybody. We couldn't have this civilization without the food. And there isn't that much arable land. We have to get more product out of our existing land. And our existing land, the way we're farming it intensively, is degrading. And the reason we produce all this stuff is that we pour chemicals and so forth into the land. Fungicides, herbicides...insecticides too. But it's just amazing what's happened. We've created the miracle of rice, the miracle of grain. So I'm quite impressed by the fact that they keep doing that stuff. And to have one percent of the people produce all the food for America on their farms? When we used to have 80% of the people. It's just a huge, huge change in the human condition. And we'd all be doing stoop labor instead of running around in airplanes to hear people talk. If it weren't for all these revolutions that our predecessors created for us. So I just find that quite interesting. And we need it. Costco buys a lot of produce now from vegetables grown in hot-houses. And by in large those are Chinese. In a six-acre hot house, they really know where every damn blade is growing. It's not that different from rice growing, they're just very good at it. That has a lot of potential that is coming. So I like the agricultural stuff. Most people just ignore it. We take it for granted. But I'm quite impressed by it.

**Question:** Is America proving to be a ham-sandwich enterprise in the last few months?

**Charlie:** Well I think there's a lot of good left in the American economy and the American people. Partly because we're taking in so many talented people from these other nations. Think what we've taken in from China, India, even Japan. It's a lot of human talent. And in the old days we got the poor people. And you know that was harder because...and now the Chinese that come here, they're not the poor Chinese. They're the well-to-do Chinese. And the children of successful Chinese families that get high grades and so forth. And the same from India. Every once in awhile I meet an untouchable who's just gone up through the main technical institute of India and succeeded. But most of the Indians

I meet are all from the upper-castes of India. We're sucking the brains out of India. And of course that's good for us. Same with China.

**Question:** Is that a tragedy for China and India though?

**Charlie:** Well they've got a lot of people. (big laughter) They've got a lot of brains left. People shortage is not...When you can sift a population that big, you'll get some smart people.

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**Question:** You talk about committing when your opportunities come up. Do you have any mental checklists that help you stick with that or help you prepare before you get to your opportunity?

**Charlie:** Well if you haven't prepared, you won't have the courage to seize it. When I bought all that stock that the Daily Journal has in like one day, you know I knew something about the Bank of America. I've lived in the culture. I've known the Bank of America bankers. I know a lot about what's right with it and what's wrong with it. So I knew a lot. I knew a lot about Wells Fargo. I knew a lot about U.S. Bank.

**Question:** Did you pay cash or did you have to leverage up that day?

**Charlie:** No, I had cash.

**Question:** Do you have any thoughts on Chipotle and the food safety issues there?

**Charlie:** Well I do know this. If you run a business where people have to trust your food, you just can't afford to have a scandal in the food quality. Costco just sweats blood to avoid. Now every once in awhile we get a few cases of some fairly minor thing. You know some fairly minor thing. Nobody gets away from it. Be we are just fanatic about preventing it and stepping on it hard when it happens and so forth. And they got careless at that and, you know the Fried Chicken company in China, Yum Brand. And of course it hurt them terribly. You can't afford to have a scandal if you're selling food. And when people adulterated the baby formula in China. China killed the people that did that. They're dead. And they didn't take a long time doing it. No...a lot of appeals or anything. Kill our babies to make a little more money? You never will be missed. I have a little list. Off they went to the great beyond.

**Question:** Charlie, what about TransDyne?

**Charlie:** I don't know TransDyne. What is TransDyne?

**Question:** They're a supplier of aircraft parts to Boeing and to Airbus and to aerospace and defense companies. And there have been comparisons recently to TransDyne and Valiant. And was curious if you have any thoughts on the comparisons.

**Charlie:** Well I don't know anything about TransDyne. But of course it's generally a little easier to cheat the government than to cheat anybody else. And so a lot of people try and cheat the government defense contracts. And of course their suppliers, also of the...whole culture has some cheating. And so I regard it as a little bit dangerous territory. But I know nothing about TransDyne.

**Question:** Did Valiant clean itself out? Or is it still a sewer.

**Charlie:** Well I'm sure it's way better. You'd stop stealing if they already cut off your left hand. You wouldn't want to lose the other.

**Question:** Charlie, did you know Sumner Redstone in law school, and how do you think he could have handled his succession plans different for his businesses.

**Charlie:** Well, I never knew Sumner Redstone but I followed him because he was a little ahead of me in Law School. But Sumner Redstone was a very peculiar man. Almost nobody has ever liked him. He's a very hard driven tough tomato. And basically almost nobody's ever liked him including his wives and his children. And he's just gone through life...there's an old saying, screw them all except six and save those all for pallbearers. That is the way Sumner Redstone went through life. And I think he was into the pallbearers because he lived so long, so...One thing I've used Sumner Redstone for all my life is an example of what not to do. He started with some money and he was very shrewd and hard-driven. You know he saved his life by hanging while fire was on his hands. He's a very determined, high-IQ maniac. But nobody likes him, and nobody ever did. And the woman he paid for sex in his old age cheated him. You know he's had one disappointment after another. It's not a life you want to admire. I've used Sumner Redstone all my life as an example of what I don't want to be. But for sure talent drive and shrewdness, you would hardly find anybody stronger than Sumner. And he didn't care if people liked him. **I don't care if 95% of the people don't like me, but I really need the other 5.** (laughter)

**Question:** Any thoughts on the smaller networks with quality content like Viacom for example, with strong brands. Any thoughts on their future?

**Charlie:** I have the general impression based on 60 years of experience in the neighborhood. That the movie business is a tough business. Not a lot of people have done

well at it. But I don't know how to create a Star Wars. I don't know how to sell it for a price like that. **I'm going to let somebody else make money in those difficult ways.** I regard the movie business as a tough business. Now if it's your only way up and you're good at it, why of course you have to do it. **But I don't even think about those things I'm not good at.** Take Netflix. Who did House of Cards? The guy who gave them the money? Reed Hastings. Netflix did it, but HBO turned them down. That was really stupid. It had worked in England, it couldn't fail. But I am just not attracted. I don't want to try and be Reed Hastings.

**Question:** Charlie do you know Sol Price, the founder of Price Club? (*Charlie: Very well.*) Is he a good guy?

**Charlie:** Very good guy. Cranky, but a very very good human being. Honorable. Very Honorable. What he liked about Costco...he thought it was such an honorable way to make money. Try and make the stuff you're selling very good and very cheap for the people that bought it. And he's right, it was honorable, and he did it very well. So I liked Sol Price a lot.

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**Question:** Do you think Wal-Mart could turn into Sears?

**Charlie:** Well not for a long time.

**Question:** Charlie, do you think business moats are becoming more fragile with technology and transparency?

**Charlie:** Well our ancestors were pretty good at creating fragile moats too. I think it's natural (with what's up in one era). Think of what I've lived through in terms of people...DuPont looked impregnable. General Motors was the strongest corporation in the world. Kodak was one of the...boom, boom, boom, they're gone. Xerox. **I mean, it is hard to keep winning. And the world keeps changing.** ([link](#)) Look, the Daily Journal is hard. Imagine going into computer programming and dealing with a lot of agencies all over the world including South Australia. A little company like this. It's not a bit easy. And if we hadn't done it, we'd just be one more dying newspaper.

**Question:** Could you talk more about the airlines and what's changed from a couple of decades ago til' now?

**Charlie:** Well I don't know that much about it, but I do know that it's more concentrated now and there's no real substitute for it. It isn't like we have a substitute for air travel. And it's down to a relatively few players. In the old days they could always start a new airline. They had nothing but young people, they pay the pilots less, they don't have a union. They could

just start hitting the prices. They just kept ruining the business over and over again. And even now South West is just starting to go to Hawaii. So the vicious competition is continuing including people for doing it...**governments own these airlines and do it to show off how strong they are.** So I don't regard it as a perfect model and I don't think it's the greatest idea we've ever had. It's just something, considering how pounded they were and how the world has changed a little, we thought...as I say, we have a little advantage by that particular gamble. But it is not that we...it is not a synch.

**Question:** Is there an outlook on oil prices? (as it pertains to the airlines)

**Charlie:** I don't think oil prices will make that much difference over the long-term to the airlines. It's not that...if the kerosene ([link](#)) doubles in price I don't think, over time, I don't think it matters that much to the airlines. It's still...you put a hundred people in an airliner and fly somewhere, it's pretty efficient. And you can do a lot of flights per day. It's worth a lot of money to people who take the trip. And, there's not going to be a new airport in Shanghai you know. A lot of the airports are fixed. And a lot of them are out of capacity. It is obviously better than it was in the past. Whether it's good enough so that it will do well I don't know. Also, if it starts working, you get paid in advance for the tickets. So there's no credit. A lot of people lease the airliners. So if you make money, you can pile up pretty rapidly in cash.

**Question:** Is there a reason JetBlue wasn't in there?

**Charlie:** I don't know anything about individual airlines. Neither does Warren. We bought a bunch. It was a sector bet, it was not a bet on individual airlines.

**Question:** When industries like airlines and railroads rationalize and turnaround, how do you and Warren know?

**Charlie:** We don't know. It was easy...in the railroads, we waited until it was all over when we went in. In the airlines it's not over. But it's a little bit the same story. Years of consolidation and bankruptcies. Three, Four, Five, Six big bankruptcies already in the airlines.

**Question:** So for 50 years you continually read about these industries even though you have disdain for them?

**Charlie:** Yes, I talked about patience. I read Barron's for 50 years. In 50 years I found one investment opportunity in Barron's. Out of which I made about \$80 million dollars with almost no risk. I took the \$80 million and gave it to Li Lu who turned it into 4 or 5 hundred million dollars. **So I have made 4 or 5 hundred million dollars out of reading Barron's for 50 years and following one idea. Now that doesn't help you very much does it? I'm sorry**

**but that's the way it really happened. If you can't do it, I didn't have a lot of ideas. I didn't find them that easily, but I didn't pounce on one.**

**Question:** Which idea was that?

**Charlie:** It was a little automotive supply company. It was a cigar butt.

**Question:** Was that K&W?

**Charlie:** No. No, no. This was...I've forgotten the name of it. But it was a little. It was a little...it was the Monroe shock absorber and all that stuff. The stock was a dollar and the junk bonds which paid 11 3/8 percent were 35. You know, when I bought the junk bonds, they paid me the 35% and the went right to 107 and then they called. You know, it was...and then the stock went from \$1 to \$40, but of course I sold my stock at \$15. But...

**Question:** What did the article in Barron's say?

**Charlie:** It said it was a cheap stock. (laughter) But that's a very funny way to be, to watch for 50 years and act once.

**Question:** How long did it take to make that 15 bagger on that stock?

**Charlie:** Maybe a couple of years.

**Question:** How long did it take you to make the decision to buy it?

**Charlie:** Oh, about an hour and a half.

**Question:** What was it about that company, an auto-supply company?

**Charlie:** Well, I kind of knew from experience how sticky that auto secondary market was and how old cars needed Monroe shock absorbers and I just knew it was too cheap. I didn't know it would work for sure, but knew that...As I say...people were afraid it was going to go broke obviously if their bonds were selling at 35.

**Question:** Charlie, how do you define your edge of circle of competency?

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**Charlie:** Well each person's is his own. But it really helps to know what you can do and what you can't. **I don't like to gamble against odds. I have not lost a thousand dollars in my life betting against race tracks, casinos. The odds are against me, I just don't play.** ([link](#)) I don't even want to amuse myself playing against the odds. Now I have occasionally played bridge against better players where I'm really playing for the instruction which I can afford. But that's because I like the learning. But I won't even do very much even of that. I do not like playing against the odds.

**Question:** Can you maybe say one name that you invested in when you ran your investment partnership that performed beautifully for you and explain, as a case study, what it was about that company that attracted you? Because there's not much about the Munger limited partnership.

**Charlie:** Well I did all kinds of things in those days. In the first place, in those days, we had what were called "Jewish Treasury Bills". ([link](#)) And that was event arbitrage. If a company sells out \$100 per share, and the stock's selling at \$95. For 60 years, people who just went in and bought the stock at \$95 and made the 20% per annum with a little leverage...for 60 years, Graham, Newman, Warren, I, and Goldman Sachs made 20% per year on anything we did in event arbitrage. What happened was, when the stock brokers were all on commission, the deal's announced, every stock broker would call his client and say, "Oh your stock is way up, maybe you should sell that." You know, they're getting commission. **So you had dumb selling.** And so of course we did well. Nowadays people do not do all that well with event arbitrage. It's too tough, the deals are...**it's just too crowded.** ([link](#)) But it just worked fine for all those years. **We had all kinds of things in those days that we can't do anymore.**

**Question:** I was speaking with Rick Geuren and he was saying that if he was to start a fund today, he wouldn't do it. And he says he doesn't think it's hard because the size of a fund like Berkshire limits you to large companies. He just doesn't think that there's the same opportunities anywhere.

**Charlie:** There aren't. That's why people come to this meeting.

**Question:** Speaking of opportunities Charlie, could you talk a little bit about your thoughts on John Malone as an operator and what you think about the cable industry's moat going forward.

**Charlie:** I do not...I've always been troubled by the cable industry. For one thing it was thinly disguised bribery when they got the franchises. And I don't like to even think about all the scummy places that are getting their franchises by bribery. So I just sort of ignored it. I didn't want to think about it.



Malone is obviously something of a genius and he's a fanatic and doesn't like to pay taxes and he's been very successful. And I've just ignored it. I just don't want to think about it, so I haven't. I can afford the luxury, and I don't have to think about everything. But the starting bribery that got the franchises...I just didn't like it. And so I just haven't thought about it and I'm still not thinking about it. And the movie business I don't like either because it's been a bad business. Crooked labor unions, crazy agents, crazy screaming lawyers, idiosyncratic stars taking cocaine. It's just not my field. And I just don't want to be in it. And these other stuff, I find enough of the other stuff that I like.

We've got so many so many places in Berkshire that just do their work pretty well. I like that. You'd be amazed. The See's Candy, they make the good candy, they work on it. We've got lots of places like that. Our utility business. We probably have the best run utilities in the United States. We care more about satisfying the regulators, we care more about safety records, we care more about everything we should care about. When we bought Northern Natural Gas which Enron owned. Of course to show more earnings and more cash they just had done no maintenance. The g.d. pipeline can blow up and kill people! The minute the ink dried on that, everybody took six months off and we sent all these pigs through the...pig is a special name for...we went through the pipelines...we just caught up on all the deferred maintenance. We were not interested in killing people. That's the right way to behave. Enron is the wrong way to behave. **Imagine deferring maintenance on a pipeline so you can show more cash. It's disgusting. It's like killing people on purpose so that you can make more money. It's deeply immoral.** But they fix it fast. Of course I'm glad to be associated with the people who behave like that. Greg Abel is a terrific operator and a terrific guy. ([link](#)) Iowa and Nebraska are side-by-side...now Nebraska has public power. So they borrow tax exempt, build a new plants with General Electric, they're paying 3% on the debt or something. And an idiot could run a big public power agency. Our Iowa utility that Greg Abel runs right across the river, his rates are miles below Nebraska Public Power, entirely financed with...you know. And the other utility in Iowa, our rates are half theirs. Well of course I like being associated with a company that can the deliver the power (quite reliably). And more than 50% of all the power in Iowa comes from the wind. And the farmers are glad to have a few wind machines out among the corn. So we've just quietly created a revolution there. The regulators, the customers, everybody likes us. Of course I like people who do that and Berkshire's full of that stuff.

**Question:** Do you think that cheaper solar over time as it continues to get cheaper and cheaper, does that pose any potential threat to the utility business as people kind of take (a hold) of their own generation? Is there a potential for a death spiral there?

**Charlie:** Well Berkshire has something like \$8 billion worth of solar. Almost all of it in California. We (get) take-or-pay contracts from the two big utilities. And the way we leveraged it is like...we'll probably get 15 or 18 percent, or some ridiculous return on our equity. Just sitting on our ass while these little mirrors sit out there in the field. Now we have

to polish them every once in awhile. They'll get better, but they won't get 50%...there's a limit to how much better they can get. The first one we had they tracked not at all they just laid there. The second one they tracked east to west but not from the celestial stuff that goes on with the changing the seasons. The next ones will be pointed right at the sun through every kind of...But there's a limit to how efficient that stuff can get. On the other hand, since it's free and coming in from the sun, and doesn't pollute, and there's a lot of worthless desert in the United States. It's a pretty sensible way to get power eventually. So of course there's going to be more and more of it.

**Question:** But you don't think that the ability to generate electricity at home or on a business's own property, is that going to be some sort of threat at some point to the revenue model for all the...

**Charlie:** Well people try to make money out of the crap. But I am very skeptical about all this home stuff. That works if the utility will pay twice what the power is worth. Then you can reduce the electricity bill. Well why should the utility pay for twice what the power is worth? And so we think it's much more efficient to have some big place like us create the solar and just sell it to the utility.

**Question:** Do you talk to Ted and Todd, the new investment guys at Berkshire much?

**Charlie:** Not much, but I talk to them some. And they're different. It's not like they're clones. But they're both good in their own way. And they both love Berkshire. And they both make contributions.

**Question:** Did you think of the incentive, where each one gets 20% of their compensation from the other one's performance, who thought of that incentive? I think that's brilliant.

**Charlie:** I did. It's brilliant, but I don't think it's changed things at all. It's my own idea. And it looks good to you people and it looks good to me when I did it. I don't think it's changed any behavior at all.

**Question:** Charlie, how do you feel about auto dealerships with their service component and their low capital requirements?

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**Charlie:** Well that is very interesting. I don't want to be in the bottom 80% of the auto dealerships. I think these people are well up in the top 20. And so if we've got 80 dealerships making \$3 million a year after taxes, that's \$240 million. You have all of these dealer

protection laws, it's entrenched, we take this real estate which tends to be very good and stick it in our insurance companies where it's a decent insurance asset. It's what I call "ok."

**Question:** So that's "great" then.

**Charlie:** No it's not "great". It's "ok".

**Question:** If it's "ok" to you, it must be pretty great.

**Charlie:** No. No it isn't. It's not pretty good to me. It's "ok". I would prefer doing it to not doing it. There's nothing exciting to buying a bunch of auto dealerships. But if you got \$90 billion of float, you know, the idea of buying a bunch of auto dealerships that dominates...it's ok.

**Question:** Also, do you know Norbert Lew of Punchcard Capital and do you have any thoughts on him...*(Charlie: I don't know...why should I know him?)*

**Question:** Charlie going off of the auto question, what do you think of the advent of self-driving cars? How's that going to affect the ecosystem on insurance, scrap value, resale value, supply chains?

**Charlie:** Well you could change things so much that Geico would be a bad business. Everything can change. **That's the nature of the game it's that your great businesses are being eroded by something at all times.** I think it's a long time in the future. I think it's a very complicated subject. After all, if you're in a self-driving car, it works better if all the things are being self-driven by the same people. We have that already. The monorails don't have operators. Nobody's driving the monorail. But one guy owns the whole thing including the roadway. The minute you're sharing the roadway with a lot of other people...**If I'm driving down the road and some guy goes up and stands there with a machine gun? I will turn around. I'll do something. The g.d. computer won't! He's not programmed to care about machine guns!**

**Question:** Charlie, what do you make of the legacy that you and Warren have left? Do you have any idea of the sort of impact you have had worldwide? On investing, on just basically thinking. Not just investing.

**Charlie:** Well I think we've had some effect. But they're still teaching the efficient market theory. **The old ideas die hard.** [\(link\)](#) And by the way it's roughly right. It's just the very hard form which everybody believed. They believed it was impossible. They didn't think it was rare. They thought efficiency was absolutely inevitable. [\(link 1,2\)](#) It was like physics. I call it 'physics envy'. That's what they had in the finance field. They wanted to make their subject

like physics. **Now what kind of a nut would want to make the stock market like physics? It ain't like physics. It's more like a mob at a football game.**

**Question:** Charlie, would you like to know why I think you should know who Norbert Lew is? (Charlie: Yeah) Because he follows the Munger system. His hedge fund is called Punchcard Capital based out on the philosophy of punchcard investing. Since '08 he's killed the markets and he's done well for his investors by being invested in just three stocks. Wells Fargo, Berkshire Hathaway, and Baidu. I just thought you'd be interested.

**Charlie:** Well I am interested and I'm not surprised. And I'm not surprised that it's worked. It's just what I recommended. And he's picked some of the same stocks. **Well think of what a simple way that was to get rich.**

**Question:** Charlie, were you surprised on election day?

**Charlie:** Of course. Of course I was surprised on election day.

**Question:** Did you lose sleep for a few days?

**Charlie:** Well no because I expect to be disappointed with politics.

**Question:** Charlie, you were able to change Warren from Ben Graham to high quality companies. Was there any change that he brought to any of your systems?

**Charlie:** Well I didn't change him that much. You know Warren would have gotten there anyway. You know maybe I accelerated it six months. But Warren would have figured out that what he was doing wouldn't scale.

**Question:** Hey Charlie, I hear you talk about your grand-dad, but I hardly hear you talk about your Dad Alfred Munger. I was wonder if you had any thoughts on the lessons that he taught you?

**Charlie:** Well, I was very fond of my Dad.

[\(Video 16 of 22 9:06\)](#)

My Grandfather Munger was more disciplined than my Father. My Father made a good income as a lawyer. Which he carefully spent, except for his life insurance and his house and so on. My grandfather always saved his money. And when the Great Depression came he could

save the whole rest of the family. And so that's why I remember him more when I talk with investors.

**Question:** In the Alfred Munger foundation, what does that do? That foundation.

**Charlie:** That was named after my father, not my grandfather. I'm going to give away all that money before I'm dead if I last a little longer. It's not that much money.

**Question:** What do you want to give it to?

**Charlie:** Whatever appeals to me at the time. I don't ask anybody.

**Question:** How do you think about creating impact through your philanthropy?

**Charlie:** I do it myself, (I give anything out if I damn please. I regard it as a tax-exempt, bunch of Munger money. I got no staff, I just do it.

**Question:** Do you have any criteria that you follow? Or what kind of change were you trying to create?

**Charlie:** I do it when I want to do it, and I give it when I want to give it.

**Question:** What is your hope for your grandchildren?

**Charlie:** Well naturally we hope the grandchildren do well. And any grandchild...I've got one whose running a little tiny partnership. But my grandchildren are all doing different things. I've got one at Google whose a computer software engineer.

**Question:** Are there any other periodicals besides Barron's that you've read for 50 years? And do you have any other inspiring anecdotes out of Forbes, Fortune, Wall Street Journal?

**Charlie:** I've never bought...**I've read Fortune for 60 years, and I've never bought a stock. And I was not kidding about that deferred gratification.**

**Question:** Isn't it true that you got a new car when you were in your 50's or 60's? That was the first new car.

**Charlie:** I've bought them for my wives. But I always bought a Cadillac that had about 3,000 miles on it, way cheaper. Flew around in coach airplanes. I use to go to Berkshire Hathaway

meetings in coach and the Berkshire shareholders would say that they were all in coach too. And they'd stand up and clap.

**Question:** Hey Charlie, I wanted to read you a quote and get your opinion on it. "My religion consists of a humble admiration of the illimitable superior spirit who reveals himself in the slight details we are able to perceive with our frail and feeble mind."

**Charlie:** It sounds that's some scientist. (*Questioner: It's Einstein*) Yeah well, that's the way he felt. (*Questioner: What's your opinion on that?*) Well, I don't have his idea that, he was good at puzzles. Physics was a big puzzle to him. So he naturally loved that great puzzle maker in the sky, that made it difficult but you could figure it out. I'm different from Einstein. Of course I couldn't figure out the puzzles the way he did.

**Question:** Could you rephrase that, I didn't understand the answer.

**Charlie:** Well, Einstein has his own slant on religion. Certainly no conventional theology in Einstein. (He didn't talk about) being nice to other people or anything like that. He just thought there must be some God out there that created these wonderful puzzles for me to solve. That's a peculiar kind of religion. But that was Einstein.

**Question:** Charlie, you mentioned that one of your greatest achievements was family. Could you tell us things you'd do differently with a family, or things you did well with a family, in terms of investing into the family?

**Charlie:** Well I had a lot of children. Educated them all. And I take the results as they fall. What else can you do with a family? And I have a lot of very admirable children. Some of whom are out there today. And that's a huge blessing. One of the things I like about them is that they're decent, generous people. One of my daughters who was there, she had a friend who was married to a total jerk, straightened circumstances, bitter divorce. My daughter just bought her a house. I think she owns the house but this other family lives in it. That's a nice generous thing to do if you're rich. I'm glad my children are like that and not Sumner Redstone.

**Question:** What's your opinion of the Giving Pledge?

**Charlie:** Well, I told Gates that I wouldn't do it. Because I have already flouted it. When Nancy died, community property stayed. She left it up to me to decide where it went. Well I knew she would want it to go to the children. Every wife is always afraid that the old man will have his money taken away by some nurse or something (during his dotage). I knew Nancy would want it to go right to the children. So I shunted more than half the Munger fortune, quite a bit more than half, to the children. So I've already totally violated the spirit of Gate's

Pledge. I said, “Bill, I’m not going to publicly be a spokesman for something I’ve already totally flouted.” And I flouted it because I knew my wife who had helped me all these years would have wanted it that way. I’m not a good example for his pledge. So I won’t do it. I won’t pretend to be doing something I really didn’t do.

**Question:** Charlie it may be a little bit too personal, but is there anything you’d like to share about your wife Mrs. Munger?

**Charlie:** A long life has many disappointments and agonies. I watched a sister die a horrible death from Parkinson’s Disease, dying young, 64. I lost my first son to Leukemia. Miserable slow death. And in the end he kind of knew it was coming, and I’d been lying to him all along. It was just so awkward. And it was just pure agony. And you have some of those agonies that are going to happen. There’s not so much agony when somebody really old dies. You know they deteriorate so much that you almost don’t miss them...which I’m doing a good job of. **I think you take the hardships as they come, you take the blessings as they come. You have fun out of figuring out the puzzles as best you can.** It’s really, we’re very blessed to have...I’m mean we’re in the United States, we’re not in India, we’re not under some crazy dictator like Russia. We don’t live where everybody’s got to bribe...India. We’ve got a lot to be thankful for here. And we’ve got a lot of options, we can change jobs, we can move around, we can do this or that. We get a huge admixture here with all the cultures of the world without having to travel. So we’re not restricted to one narrow little group of Bulgarian farmers making olive oil or something. We’ve got this great mixture of people who are quite interesting and quite different, and they’re all cross-marrying. Which makes it even more interesting. And it’s amazing to me, there was a lot of added Jewish prejudice when I was young. And now every family I know, they’re all cross-married. I don’t have a friend hardly with a big family that doesn’t have a big Jewish in-law. The old ideas have sort of died.

**Question:** How’d you meet your wife and how’d she’d accept you?

[\(Video 17 of 22 7:09\)](#)

**Charlie:** Well with my wife of 52 years, who died 7 years ago. That was mutual friends who had introduced us. We were both divorced, both the same age, both had two children. All I can say is that I owe a debt of gratitude to the people that introduced us.

**Question:** Charlie, I’ve heard you and Mohnish talk a lot about the power of cloning great ideas, and I was wondering what you think about the floors or limitations or dangers of cloning. For example, when you’re not true to yourself. When does one get in trouble with cloning? When it doesn’t work?

**Charlie:** Well cloning is of course...it's not an ambiguous world, where you use it biologically. But when you take it into some other field, cloning is a very interesting idea. You do remove ideas from one place and bring them to another. And if that's cloning, I do it all the time. I like cloning.

**Question:** Charlie, can you take us back when you bought the Buffalo News Paper, and just the stress that you had to go through because it looked like it was going to go under at one point for a while.

**Charlie: We were never the weakest in the town. So we were betting that we'd be the survivor.** ([link](#)) And we were. So it was unpleasant because we showed no return for a long time. But when the other guy finally turned up his toes, we suddenly started making a lot of money. **So it was just delayed gratification. 7 years of like no profits. And he disappears and the sky rains gold.** Earnings went from nothing to \$70 million pre-tax. Boom, boom.

**Question:** On the topic of cloning, do you really believe as Mohnish has said that if investors look at 13F's of super-investors that they can really beat the market by picking their spots?...and we'll add spinoffs.

**Charlie:** It's a very plausible idea, and I've encouraged one young man to look at it. So I can hardly say that it has no merit. Of course it's useful if I were you people to look at other people you regard as great investors are doing for ideas. The trouble with it is that if you pick people as late in the game as Berkshire Hathaway, you're buying our limitations cost by size. You really need to do it from some guy that's operating in some smaller and finding prices with more advantage. And of course it's hard to identify the people in the small game. But it's not an idea that won't work. **If I were you people of course I would do that. I would want to know exactly what the shrewd people were doing and I would look at every one of them. Of course. That would be a no brainer for me.**

**Question:** What do you mean you encouraged one young man to pursue it?

**Charlie:** Well the young man is my grandson who has a fair amount of money, fascinated by securities. So I advised him, why don't you start there. So it's Mohnish's idea.

**Question:** Do you think the equity positions within Berkshire going forward? Or the wholly owned business?

**Charlie:** Well I think the wholly owned businesses will, because we won't pay any taxes on selling them. And I think they will continue to grow, and I think they'll do better. I think the wholly owned businesses of Berkshire, are the 80% owned or what have you, are on average better than the S&P. So I think we'll do better in that part than the S&P. And I don't think our



stocks located in a corporation subject to taxation will do enough better than the (APD to) pay the taxes. But if we're buying the stocks with the float in some insurance company, then of course the world changes. But no I would that say of course...If you buy Berkshire, you should not be buying it on the strength of its little portfolio. Look, we got \$8 billion in the biggest market cap in the country. It took a considerable period to get \$8 billion dollars in. It's not that big of a deal with a \$400 billion market cap. It was easier to get into it than other things. No, I...people who buy Berkshire, when you bought Berkshire back 30 or 40 years ago, you were getting a bunch of marketable securities at a discount and all the business were free. And of course those people made a lot of money. We outperformed the market by miles in those days and the businesses did well. And now we got businesses that are averaging out doing well. And our marketable securities are a small percentage of our cash...there were years when we had more marketable securities per share than our book value per share. Now it's quite different. And of course the market at its present multiples is a different world.

The one thing about Berkshire that's interesting is that we do get some opportunities other people don't get. If you're 3G and want a partner for your next deal, who the hell are they going to come to? They know we're a good partner. So we stuff other people don't see. That helps.

**Question:** Charlie, moving on to one of the smaller positions in Berkshire's portfolio, there was a recent position made in Sirius XM. Could you talk at all about radio assets and your outlook assets?

**Charlie:** I don't know anything about radio assets except that it's a very mature market. And the g.d. radio's basically an auto market. And it's totally concentrated. I never think about it.

**Question:** How much of your success can be attributed to Occam's Razor and Kelly's Formula?

**Charlie:** Well Occam's Razor is of course a good idea. It's a basic idea. Occam's Razor is like telling a fisherman to fish where the fish are. Of course you'll do better. Fishing where the fish are.

[\(Video 18 of 22 6:31\)](#)

**Question:** In those businesses that are not wholly owned, but maybe 85% owned, the 15% ownership, when there's massive investment within that business, how does that effect the ownership of the 15%?

**Charlie:** Take Nebraska Furniture Mart, owned by parts of the Blumkin, and (we didn't want a sellout). They loved the business, they're very rich, they have an enormous portfolio of marketable securities that came out of money left within their 20%, because there was a lot of surplus money that they've accumulated that's outside of the furniture business. And it's very interesting. Warren says those people, who he treats kind of like sons...they live in the same community, and he lets them control the dividend policy of the company. It doesn't make much difference to us, the dividends are mostly tax free. And he says, "Whatever dividend policy you..." We owned 80% of it! So he says to the minority owners, "Just choose the dividend policy for the whole company. Whatever you want is fine with me." Warren's always doing things like that with the right people. ([link](#))

So is Li Lu. I'll tell you a story about Li Lu that you will like. General Electric was always famous for always negotiating down to the wire. And just before they close they get one final twist. And of course it always worked, the other guy was all invested. And so everybody feels robbed and cheated and mad. But they get their way, that last final twist. So Li Lu made a couple venture capital investment and he made this one with this guy. And the guy made us a lot of money in a previous deal and we're now going in with him again on another. Very high-grade guy and smart and so forth. Now we come to the General Electric moment. Li Lu says, "I have to make one change in this investment." Sounds just like General Electric? Just about to close. I didn't tell Li Lu, he did it himself. He said, "You know, this is a small amount of money to us, and you got your whole net-worth in it. I cannot sign this thing if you won't let me put in clause saying, 'if it all goes to hell we'll give you your money back.'" That was the change he wanted. Now you can imagine how likely we were to see the next venture capital investment. Nobody has to tell Li Lu to do that stuff. Some of these people it's in the 'genepower'. It's just such a smart thing to do. It looks generous, and it is generous. But there's also huge self-interest in it. It's the right way to behave anyway and secondly it helps you. And Berkshire's helped by its past behavior to see things that other people don't see. But how many people...would Sumner Redstone have done that? Would General Electric have ever done that with the whole culture behaving otherwise?

**Question:** Ben Franklin talked about Morality being the best policy. But then you see the Sumner Redstones and Ichans and the Trumps doing very well by acting kind of the opposite of Li Lu. How do you reconcile that and still come out with what is no doubt the correct answer that it's wiser to be moral?

**Charlie:** Well of course Sumner Redstone and I graduated from Harvard Law School about a year or so apart. And he ended up with more money than I did. So you could say he's the success. But that's not the way I look at it. And so **I don't think it's just a financial game.** I think it's better to do it the other way. And sometimes when you think you're getting by with this...but General Electric has a letter that they file out when they take somebody over. And the letter says, "Dear Joe Schmo", the major supplier to the business they just bought, "We're going to accomplish wonderful things together,...(and so on)... but we have to harmonize the

systems of General Electric with,...(and so on)...and you're going to be paid in 90 days instead of 30 days." Which is just a horrible imposition on the supplier. But they got a whole department that's just organized to brutalize the suppliers and furnishing all the money.

They did that with one supplier that I know, and of course the sales manager said, "We're going to tell em' to go fuck themselves." And the guy says, "No don't do that, just bring me all the stuff where General Electric is my customer where they got no alternative." And he just raised the prices by about four times. I think it's a mistake to be quite that brutal. They compete in GE based on who can get the suppliers to furnish more and more of the capital. They're very tough. Now it's a great company with great products and they've got some very good people. I think Jeff Immelt is a good guy, but I would be very uncomfortable doing that. **My theory of life is win/win.** I want suppliers that trust me and I trust them. And I don't want to screw the suppliers as hard as I can.

**Question:** How'd you feel when Berkshire put money into GE during the crisis?

**Charlie:** Well it was fine. It was sure to work. With a high coupon. And it did work. When we buy something like that, we're not making a big moral judgment about the company. I don't think GE's that immoral. Averaged out, GE's one of our better companies. In terms of fanaticism about defect absence, and they're very good on that stuff. But I want to get ahead, and you final twist on every deal, just before the closing. And brutalizing all my suppliers for the last nickel (that I paid them). That's not my system.

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**Question:** Charlie you said in your Almanac, that one of the best deals you've ever encountered was one with a snuff manufacturer. Could you go a little bit more into detail into that?

**Charlie:** That was Conwood. It's an addictive product. People are totally hooked. They're the number two person in the market. They all believed in their product. Every damn one of them chewed tobacco. And the figures were just unbelievable. There was virtually no (financial issue), nothing but money. And the cancers caused by that mouth tobacco is maybe 5% of the cancer you get from cigarettes. But it's not zil. You definitely are going to kill people with that product who have no reason to die. Warren and I just...it was the best deal we ever saw, we couldn't lose money doing it, and we passed. Fade in fade out. Jay Pritzker who was then head of the trustees or something at the University of Chicago Medical School. Pritskers are big in Chicago. He just snapped it up so fast. The Pritskers made two or three billion dollars on it. (Pritsker Acquisition in 1985; \$400 million: [link](#)) (Pritsker Sale in 2006; \$3.5 billion: [link](#)) But do we miss the two or three billion we easily would have had? Not an iota. Have we had a moment's regret? Not an iota. We were way better off not making a

killing out of a product we knew going in was a killing product. Why should we do that? **On the other hand if it's just a marketable security, we wouldn't feel that the morality of it was ours.** But it was going to be our subsidiary. We're going to be paying the people that advertising on Tobacco? That's just too much for us. We're not going to do it.

**Question:** Charlie, is there any one question you've anticipated being asked in your whole life that you have not been asked yet?

**Charlie:** Some people ask me, "what question should I ask you that will help me?" Anyway.

**Question:** Do you have a favorite Mrs. B. story that you could share with us?

**Charlie:** Well she was very preemptory and bossy. She was illiterate in English although she was fluent in Yiddish. And she could make arithmetic computations in her head that you can't make. I mean she knew exactly how many yards there were in 26 1/2 by 104 1/4 in her head. And she was there. But she was a very bossy and domineering hardworking woman. She worked herself a hundred hours a week. And she had sons in law who were the nicest people, they worked maybe fifty hours a week after they were filthy rich. She called them "those bums". We know a lot of characters.

The other one is, we bought a business from...it was half owned by a daughter of Moses Annenberg. She was a very rich woman, and she owned half this business which was her husband's business. And she was driving a Cadillac. Her husband died but she had a company car, and she wanted the Cadillac to go with her (inaudible). And so she told her lawyer to ask Mr. Buffett if he'll give me the Cadillac. And she told the lawyer what to say. "Tell Warren" she said, "That a lot of people give money to poor people, but that's easy, they get their reward and fulfillment for helping the poor, observing the tenets of religion." She said, "The real charity that's unusual is giving money to the rich!" (big laughter) And so she made that pitch to Warren, the lawyer was very embarrassed to do it. Warren said, "Tell her I'll sell it to her at a full-sale Blue Book." Which she finally did. But she first made the pitch that we should give her the car because it was so much more generous to give to the rich. It was so more unusual. That woman had an adopted child who was a generous. So she would rent Carnegie Hall and let the child conduct an orchestra. **The rich can get quite eccentric.**

**Question:** Charlie can you go back the Nixon years when you bought the Washington Post and how that whole situation panned out?

**Charlie:** The market cap of the Washington Post was \$75 million when we bought in. You could have sold it in an afternoon, every single asset, for 4 or 5 hundred million. So it was a good business, not just a Graham stock, but it was also a Graham stock because it was so

cheap. And they also had a business that was likely to destroy its competitor making it a monopoly. Now it was only a tiny amount of money that can go in. That's what makes it hard for you people. It's a great investment, but maybe it'll absurd 4 or 5 million dollars. Which we did by the way. We got \$10 million into it. At the top it was \$1 billion. But we only did that once. So it's a great story, but...Now that helped us way back then to have that extra billion on our balance sheet. But that wasn't an opportunity that would take billions of dollars. That's why what happens in the past at Berkshire can't happen again. That little opportunity for a 10 million dollar investment was wonderful. But we don't have a lot...If you look at Berkshire, you'd think we'd have 10 investments that are (each of them), say 10 times. We put in a billion and now it's 10 billion. Then we have \$100 billion in 10 companies. Well we don't. We have three or something. **And it's not that damned easy to find these damn things that you can identify. It's not that damned easy.**

**Question:** Thank you again Charlie for all of your continuous sharing. Really appreciate it.

**Charlie:** I'm glad you guys are still having fun doing it, and I'm glad you aren't discouraged. You shouldn't be. But you know everybody who did the value investing in my generation and plugged away at it...you didn't have to be that smart even. They all did well. And yours is going to be more difficult. But you know you want something to do anyway. That's kind of interesting to do. So the fact that it's difficult shouldn't discourage you that much.

**Question:** Is there a good systematic approach to learning from one's mistakes so you don't repeat them. Is there something that's worked from you in terms of post-mortems?

**Charlie:** We were active enough so that we had some mistakes to remember. It's hard to learn...we learned a lot vicariously. Cause it's so much cheaper. But we also learned a lot from unpleasant experience. So just doing it, you'll automatically get those mistakes. Nobody can avoid them. And of course you'll learn from everyone. Mohnish is good at post-morteming his mistakes.

**Question:** What did you say when Dexter Shoes came up? Were you for it or against it at the time?

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**Charlie:** Well I didn't look at it very hard, but I didn't mind it. The company, it was loved by all the retailers, it was the number one supplier to JCPenney, it surpassed everything, it was a solid earner, dominated Maine, they were nice people...and of course the Chinese hadn't come up by that time. They just came up so fast. And they just took no prisoners in the shoe business. And they weren't just cheaper by a little, they were half-priced. And the shoe-

business is not that easy a business and of course people bought the half priced shoes. And the business just went to hell very fast. But that business, because it created such a huge lesson, and it looks awful in terms of what the Berkshire stock is worth. I mean we're the main charity in Maine if you call us. But at the time, it was 2% of one year's performance. That's what we lost by having it go to zero. So our return from one year went down by 2 percentage points. Now to be sure if we bought our own stock instead of this thing...you know, or not given away our stock, it's a huge error. But we learned from it. **I just think if you just keep going you'll make some mistakes and of course you'll learn from it.** How could you not learn from that one? We've learned how awful it is to have somebody who is really way lower priced come in hard and how no amount of managerial skill could protect us. ([link](#)) Now we have other shoe businesses in little niches that make \$20 million a year or something after taxes. Maybe a little bit of that is leftover Dempster even. But we made do...But don't you all have mistakes that are painful? And haven't you learned from them? And isn't that good? But I don't know what I would do now if I were...I live surrounded by Capital Guardian people. They have over a trillion dollars. And they hire all these guys who get A's in business school and they treat them well, (and on and on). And they divide them up and they get expertise in various places...it doesn't work to beat the indexes. I knew that company when it was smaller, you know 5 or 6 hundred million. They beat the index by a point a year. Which was fine because they were drawing the fees off the top and the clients...now they've lagged by a point a year or whatever in the hell it is. **And they handle that by denial. They just don't face it.** I was there the other day and this very nice portfolio manager whose very smart, polished, generous, nice man. His assistant, a very nice, intelligent, polished woman. And he said, "Well you know, we've outperformed in my fund which has a hundred million dollars by two percentage points a year." I raised my eyebrow. I just look at him for a while. He says, "Well I mean we outperform our competitors by two percentage points a year." And I said, "Yes, and in that over-performance a lot of it was a long time ago and you had way less money. And there was another horrified pause and finally the woman says, "He's on to us!" And we went on to discuss something else.

At any rate, it is awkward. You know you want to keep getting paid, you like your line of work, you're flying around interviewing management and so forth. And when all said and done...and they did it for a long time before. **It just got harder.** And then I see people leave. They say, "I can't manage \$30 billion, I'll manage \$3 billion, and now I'll outperform." And they've had that happen two or three times, and the new guys don't outperform either. Cause the new client still wants 10 stocks or something.

Oh and there was another experiment they've done about five...no not five times, three times at Capital Guardian. Follow what the great investors are doing, that's one way. They said, "We'll get the best idea from our best people and we'll make a portfolio just of our best ideas from our best people." Nothing could be more plausible. They've done it three times and it's failed every time. Now how would you predict that? **Well I can predict it because I know psychology.** When you pound out an idea as a good idea, you're pounding it in! So by asking

people for their best ideas, they were getting the stuff that people had most pounded in so they'd believe. So of course it didn't work. And they stopped doing it because it didn't work. **They didn't know why it didn't work because they haven't read the psychology books.** But they knew it didn't work so they stopped. And it's so plausible. Now I don't think that's true at Berkshire. I think at Berkshire if you asked me or Warren for our best ideas that would have worked. But it didn't work in a place like that, of a more conventional manager. By the way I don't think it would work that perfectly at Berkshire, I think it would work better than it did at Capital Guardian. But isn't that interesting that that would not work.

**Question:** Is it still true that you talk to Warren once a week now?

**Charlie:** No, no. It would be like talking to yourself. We don't have any new ideas. 87 and 93. I mean, what the hell. Anyway, but the young men make some contribution. **They caused us to think about things that we wouldn't have thought about before.** We would not have bought the airlines or the Apple if the young man hadn't come up with the idea. But once they did, Warren ran with it. And Warren's pretty great. It was hard to buy that much airline stock. Doesn't sound like much airline stock, you know by Berkshire standards, but we had to be a hell of a percentage of the market for a pretty long time. It's very hard to manage a lot of money.

**Question:** It must be an awkward conversation with Bill Gates after he bought the Apple stock.

**Charlie:** Bill Gates does not have any illusions on that subject. Bill Gates bought that \$150 million worth of Apple, I think they sold it. *(Audience: Yeah that was a good buy)* But it was not a good sale. *(laughter)*

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Oh I've got another story for you that you'll really like. Al Gore has come into your fella's business. Al Gore is in your (space, you know this) and he has made 3 or 4 hundred million dollars in your business. And he's not very smart, he drank a lot, smoked a lot of pot, coasted through Harvard with a 'gentleman's C'. But he had one obsessive idea that global warming was a terrible thing and (he'd protect the world from it). So his idea when he went into investment counseling was that he was not going to put any CO2 in the air. So he found some partner to go into investment counseling with and he said, 'we're not going to have any CO2'. But his partner's a value investor, and a good one. So what they did is, Gore hired a staff to find people who didn't put CO2 in the air. And of course that put him into services. Microsoft and all these service companies were just ideally located. And this value investor picked the best service companies. So all of a sudden the clients are making

hundreds of millions of dollars and they're paying part of it to Al Gore. And now Al Gore has hundreds of millions of dollars in your profession, and he's an idiot. And it's an interesting story. And a true one. So if you were idiots about global warming and the Vice President would push your theory...

By the way, that's not the only one. There's a leverage buyout operator in Los Angeles that I know casually. He's made 35% per annum for 35 years. All he buys is service companies. Instead of buying 100% and letting the management have 10, he always strives to buy 60% and let the old manager who created the company own the other 40. And he buys nothing but service companies and he knows a lot about it. And with that formula...you know, inventories, receivables, there's all kinds of horrible things in business that if you just buy service companies you can avoid. And it's amazing how well it's worked for...it worked for this guy who did LBOs just the way it worked for Al Gore. 35% per annum. And he's smart because he's causing people to have more skin in the game, they know more about it, they're more like partners, the new manager's not an employee. If some other guy was 40 and you owned 60, that's a different relationship. He's the founder. But what a clever way to do it. And it worked better. **And of course he knows more about it when he does nothing but service companies.**

I know another guy who does nothing but mail-order and internet companies. Also an LBO operator. He's made 20-something percent per-annum for a long-long time. But he knows more about getting customers and 'this ratio'...he knows more about these damn mail order internet companies...he really knows a lot. So two specialists, each one of them in a different specialty. Both working. Interesting. And that's why I made all the talk about specialization frequently works. **I've had more fun to go out and do everything, but these specialists do better averaged out. They know a lot.**

**Question:** So how is our little mail-order business Oriental Trading Company doing?

**Charlie:** That's one of these guys, this guy sold it. Not to us, but to one previous to us. Well it's a very humdrum damn business. But it's right there in Omaha. It's a non-event. It may be better than something else we put insurance float into, but it's going nowhere. But, you know if your float costs you nothing, and you suddenly make 10-12% on it, it's a beguiling. We got \$90 billion floating around.

[\(Video 22 of 22 9:01\)](#)

Speaking of that, Ajit. There have only been two transactions like that in the history of the world, \$10 billion each. Ajit does both of them. If you want him to do a port...(Questioner interjects: *The reinsurance with AIG?*) Yeah, that's the second one. But where else is AIG going



to go? Who else are you going to trust to pay off all that stuff 30 years from now except Berkshire? Nobody. It's nice to be in that position. And we get along with them.

**Question:** Charlie, do you still do a lot of work with Ron Burkle?

**Charlie:** I have not seen Ron Burkle in 35 years. He always tells people what a great friend he is of mine. I like Ron Burkle's father who was our last customer for trading stamps. I like Ron whose eager, but Ron, when he's made a lot of money, is a bit insufferable. I mean...he's my good friend if you listen to him.

**Question:** When you look at what's made you and Warren have relatively happy lives, is there some aspect of that that's imitable for the rest of us?

**Charlie:** Well it's all imitable. If your marriage reasonably works, and if your family life reasonably works, and that doesn't mean perfectly because nobody's family life works perfectly. Particularly with the children. And if your partnerships work well. We have had marvelous partners. Warren's been a marvelous partner for me, I've been a good partner for him. All of our other subsidiary partnerships, which don't overlap totally, have been a bit marvelous. I do not have a big failed partnership of any kind. But that's because I am a good partner. And Warren is a good partner. And so it's like, if you want a good spouse, deserve one. If you want to have a good partner, be a good partner. It's a very simple system. And of course it wouldn't work without it. And also get rid of the bureaucracy. If you deal with good people you trust...expense, trouble, lawyers, checking. We're always closing something with no audit. We basically are very old fashioned. We bought the Northern National Pipelines ([link](#)) ...they needed money Monday and it was like Saturday, and it was lots of money. We came up with it...the lawyers were having a fit. We just gave them the money and took the pipeline. Worked out the details later. Other people can't do that. Our whole culture is...there are all kinds of bureaucrats that want something to do. They can't make an exception.

**Question:** Going back to Enron, do you have any insight into whether Kinder Morgan would be a successor or rejecter of Enron culture?

**Charlie:** Well I don't think Kinder Morgan is anything like Enron. Enron was total fraud and bullshit and craziness and manipulation. They went berserk. And Kinder Morgan may puff a little and pretend that cash flow is really cash and there isn't really an obligation to replace a depreciating asset. But it's not Enron. Enron was just pure disgusting, awful. And I think most of those limited partnerships have a slight touch of the old mining companies on the San Francisco exchange. ([link](#)) And they all paid monthly dividends as they dug into the ore. And of course once they've done that, they had two divisions. They had a shuck the suckers divisions on the mining exchange in San Francisco. And a bunch of miners that mine

the mine. It was like a two handle pump. They'd flood the mine, the stock would go down, they'd buy it. They'd pump the water out of the mine, pay a big monthly dividend, up. Blump, blump, blump, blump (*Charlie simulating a two handle pump*) Shucking suckers over here by kind of fraudulent illegal...by modern standards...it was disgusting. But to some extent, the master limited partnerships pretend that the cash is really free, when a lot of it really isn't. They're taking out money the business is really going to need to replace what it's doing. In that sense, it's sort of a mildly immoral way of doing things. **And they're doing it because they can get by with it.** Do you have a different view about the Master Limited Partnership?

**Attendee:** No, it's crazy how they raise so much equity. Or they were. Like they issued equity like crazy.

**Charlie:** Well it's kind of dishonorable. Like the old conglomerate business where they issued the stock and then the stock sells at 30 times earnings and they keep buying a bunch of ordinary business. That was like a chain letter game. It was dishonorable. There's a lot that goes on in finance that's dishonorable.

**Question:** So what do you think about the last couple of books that have been written about you? And if there was an author here, what would you tell him?

**Charlie:** I haven't read...what books are you talking about? (*Questioner: Like the Tao of Charlie Munger?*) I never finished it. (*Questioner: Well any of the books that have been written about you?*) Well the answer is I don't finish them. (sigh) Of course people are going to tend to look at stuff that's been written about them. But when they just copy old quotes and so forth, why should I read it?

**Question:** Hi Charlie, I believe you've said that if you could have lunch with anybody it would be Benjamin Franklin, and if you did, what would you ask him or what would you talk about?

**Charlie:** Benjamin Franklin has already taught me what I want to know because he left such a record and his biographers have been so good and he was so famous in his own lifetime, and for so long. So I already have had my conversations with Benjamin Franklin. He actually gave us the Autobiography. And in the various biographies I've read, I can piece in the rest of the story. It was interesting that in the end he failed in his relationship with his only surviving son who was loyal to the crown. And that rupture never healed. It was just too much. Ben thought his son had a duty not to publicly have a big fight with his father who had raised him and gotten his fancy position with the crown for him and everything else. And the son felt that he had to protect the position he had. You could understand why they'd feel that way. Most people wouldn't do that. They would reconcile somehow. Or pretend to reconcile. But that really ruptured...he didn't even talk to that son at the end. It's

interesting. Franklin was capable of having more resentment than I had. I have conquered resentment better than Franklin did. I'm not that mad about the people I disapprove of. That's why I kissed off that Trump stuff by making him a compliment today. I don't want to...I don't think much of Trump as you can imagine. Imagine me voting for Hillary Clinton. It was very hard to push the pen. But I did.

## **End of Transcript**

Dear Latticework Investing Community,

Thank you for reading and subscribing! I hope you enjoyed the transcript.

Sincerely,

Richard Lewis, CFA

A handwritten signature in black ink that reads "Richard Lewis". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

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