

# 2018 Daily Journal Meeting Transcript

0:00 Meeting Begins (Note: Tedious meeting details of the first 4 min. 33 sec. were edited out of the transcript.)

**Charlie:** We are waiting for some of our directors who are in the restroom. If you have a group of elderly males, they never get together on time. (laughter) Well I call the meeting to order, I'm Charlie Munger, Chairman, and here's the rest of the directors... We will now proceed to the formal business of the meeting, and that will be followed by pontification and questions... (laughter)

**Ellen Ireland:** (Votes for independent accountants)...For the auditors, 1,283,388. Against, 275. And Abstaining, 244.

**Charlie:** That is very interesting. That is a lot of votes to vote against an auditor. Some of this stuff is really weird. (laughter) Maybe they fired somebody who doesn't like them. ([link](#))

4:33 "Pontification" Begins

Now on to pontification and questions. I'll first comment briefly about the general nature of the Daily Journal's traditional business. We are surviving but at a very modest profit, and it's quite interesting what's going on. There's a huge...trove of valuable information burred in the court system that nobody could get out before under the computing power of the procedures of yore. And of course lawyers want to know what their judge did in all previous cases. And how many cases the opposing council has won or lost and so forth. So it's going to be a big business of delivering more information to people. But of course there are a horde of people trying to get into that. Some of them are computer science types and some are just other types. God knows how it's going to come out, but we're doing our part of that struggle. The chances that we get as dominant a position as we had before when we were the only newspaper that had timely publications and print, all the court opinions of courts where lawyers needed to have them is zero. In other words, our glory days are behind us in this traditional business. It may well survive creditably, but it's not going to be a big business.

Most newspapers by the way I think are going to perish. It's just a question of when. I mean they're all going to die. You know the New York Times will continue because people will pay \$5 for it in an airport. So there will be a few survivors, but by and large the newspaper business is not doing well. Berkshire Hathaway owns a lot of them. And buying them we figured on a certain natural decline rate after which the profits would go to zero. ([link](#)) We underestimated the rate of decline. It's going faster than we thought.

On the other side we have this second business in the Daily Journal Company which is this software business. That of course has taken a lot of treasure and a lot of effort to get started. But our software business now produces a lot more revenue than our traditional print business,

and it's generally doing quite credibly. It's a very competitive business, and it's difficult. A lot of people in the software business don't want to deal with a bunch of government agents. It's just too much agony. They're use to just printing money automatically...(inaudible)...not being overwhelmed by it, the money rolling in. And the way we're making money is slow and hard. It's a software business, but it's a slow hard software business. We have internal arguments about whether the first real revenue comes four years after the first customer contact or seven. That's the kind of business it is, it's constantly spending money now just to...(inaudible)...returns for a long, long time...before we have a lot of difficult bureaucracies to get through in the mean time. And the funny thing is, we actually got to kind of like it. If you do it right, these courts eventually trust us, and district attorney offices, etc. etc. And it's a real pleasure just slowly earning the trust of a bunch of customers by doing your job right and scrambling out of your glitches as fast as you can. I would say that business is doing well. Jerry would you make a few comments about this new business?

9:00

**Gerry Salzman:** The new business is slow in coming as Charlie indicated, but (it's long-term) once you get there. **You have to understand it'll be quite long because government agencies do not want to spend additional time changing software companies. It's very painful.** And one of the problems is always the conversions and the interfaces. Some of our clients have upwards of 20 different interfaces and an appetite for many more because they recognize that if there's an interface it probably takes a lot of effort. And so we have maybe 25 people primarily based in our office in Denver doing nothing but interfaces and conversion. And implementation of most systems depends on the implementation of the conversions and the interfaces. That is one of the continuing headaches because most government agencies have old systems and it's extremely difficult to convert information that went into their system 30 years ago. That's one of the problems we face on every single installation.

We have a large number of installations going on. Most will take upwards of a year, some much longer, depending on the client. Some clients have very few people that are assigned to work with us on the implementation. And other clients have upwards of 15 people. So we find that the 15 people is a great investment from the client's standpoint because it's much faster, and they learn how to do it and make changes into the future, and that's our objective, is to have them be totally familiar with the system, and when their requirements change they are then able to configure it and create documents in a very effective way. In contrast, historically, the government agencies would ask their IT department to do something, and it would take forever for the IT department to do it. Now it's much more efficient and very effective. And it helps the IT department feel important, and it's important for us that the IT department feel important because then the IT staff will stick around rather than find greener pastures. That enables us to get in and out much faster and satisfy the Client.

12:26

**Charlie:** There are two things that shareholders should know about our software business. One is that our system is more configurable than that offered by many of our competitors. That is a hugely good idea on our part. And the other thing is that we're slower to recognize revenue when somebody hires us than most of our competitors, and that is also a good thing because if

you agree to give somebody selling computer software a lot of pay for developing a system, you can spend a lot of money and get nothing back. Buyers are very wary. And we are playing to that by... **one of the advantages of being very rich is that we can behave better than other people. Not only are we very rich, we don't give a damn about what we report in any given quarter, and that gives us an advantage in saying to these government agencies, "You're not going to take a big risk with us because you're not going to pay us until the system is working."** And I think it's a very good idea that we're using conservative accounting and have that attitude towards dealing with our customers. **We want the customers to be right when they trust us.** It's rather interesting the way it has happened.

I will confess to one thing to this group of shareholders. I've fallen in love with the Justice Agency of South Australia. We have a contract there, and I think we trust them and they trust us. And we are going to do a hell of a good job for Australia. And it gives me an enormous pleasure. So I'm biased in favor of Australia. The shareholders will just have live with it. We may end up with pretty much all of our business in Australia. If we do, it will be because we deserve it. **That's our system, we try and deserve the business, that's the way we're trying to get it.** ([link](#))

Well, that's pretty much...It's been a long slog to date and there'll be a long slog ahead. We're taking some territory, but it's not rapid and it's never going to be the kind of thing that Google gets into, or Microsoft, where the sky just rains gold. It's going to be a long, long slog. But we have a big pack of money and we have a strong will, and we have a lot of good people working in the system, and I think we'll end up slogging pretty well.

Now, in addition to our businesses, we have a great bundle of securities. And I want to try and dispel for the hundredth time, that this is not...we do not have some minor version of Berkshire Hathaway which has a big bundle of securities in its insurance companies, plus a lot of operating business. We have a big bundle of securities by accident when we made a lot of money out of the foreclosure boom. And it just happened to come in about the time when the market hit bottom. And of course we look like a genius now because we put the money into securities because we preferred them to holding cash. But this is not a Berkshire Hathaway (version), this is a computer software company who has a stable but small print business, and we just have a lot of extra liquidity on hand, which came to us by accident. But of course when the money came to us by accident, we invested it as shrewdly as we could. But the chance that we will continually gain at the rate we have in the past 4 or 5 years is zero. Now having said that, we're going to report in the next quarter a big increase in net worth because our deferred taxes have gone down thanks to the Trump changes in the tax code. So we're going to look like a genius from another accident for one more quarter. (Laughter)

[16:55](#)

(Inaudible)...There's one security in there that is very interesting because BYD has gotten to be a significant position around here. That with Berkshire Hathaway and the Munger family money that went into it was really a venture capital type play even though it was in the public market. And BYD has developed into a huge company. It's got 250,000 employees more or less. It has a huge electric car business, it has a small gasoline car business, it has a huge battery business, it has a huge new lithium mine coming into production...(Inaudible)...near Tibet, but

has a lake full of toxic water that if you drank it, it would kill you. But it's perfect for mining lithium. And it's a big lake. One of the biggest in the world. So we have an interesting venture capital type business, and BYD has gone into a business they were never in before, which is monorails. And they are selling monorails like you can't believe. Boom-diddy, boom-diddy, boom to whole cities in China. And some even in other countries. And they're also selling those big electric buses, etc. etc. and so on. It's weird that anybody at Berkshire or in the Munger Family, or the Daily Journal would have anything to do with a little company in China that becomes a big company, but it happened.

And there's a buried story here that's wonderful. The man who founded BYD was like the eighth son of a peasant, and an older brother noticed that he was a genius and then with their Confucian system, the older brother just devoted his life to making sure the genius got educated. ([link 1](#), [2](#), [3](#), [4](#)) And he got to be a PhD engineer, and then he decided to go in to the business of making cell phone batteries, in competition with the Japanese who had all the patents. And he got \$300,000 from the Bank of China, he had a cousin that approved the loan...a very Confucian system. At any rate, from that tiny start, he created this enormous company. 250,000 employees. And of course the governments of Shenzhen and this province up in Tibet, love BYD. It's not some partially owned joint venture, it's a Chinese company created by Chinese, it's high-tech, it does wonderful things. And it hasn't disappointed anybody yet, in any significant way. So it's heartening for me to watch. Think of how hard it would be to create a big mono-rail business that suddenly starts to gallop. Think how few mono-rails there are in the United States. But of course the Chinese permitting system is totally different from the United States. If the Chinese want to do something, they just do it. Of course I love that system. That's the Salzman system. If Gerry wants to do something he just does it. But there are some varied stories like that, and it's a pleasure to be affiliated with people who are accomplishing a lot. And of course it's good that you have electric buses in place where you can't breathe the air, which is a lot of places. And it's good that we have a new lithium mine up in Tibet, or near Tibet, etc. etc. and so on. There are some weirdness around here. I don't think we were very weird in buying into banks when they were very depressed.

[21:00](#)

The Wells Fargo position is interesting, and I know I'll get questions about that, so I'll answer them again in advance. (laughter) Of course Wells Fargo had incentive systems that were too strong in the wrong direction. And of course they were too slow in reacting properly to bad news when it came. Practically everybody makes those mistakes. (Note: See Question 16) I think around here we make fewer than others, but we still make them in the same direction. I think Wells Fargo will end up better off for having made those mistakes. Any bank can make a lot of money by making a bunch of gamier loans at higher interest rates or abusing their customers with very aggressive treatments. And of course banks really shouldn't do that. And I think as a result of all the trouble, Wells Fargo's customers are going to be better off (for) this event, and I think it's time for the regulators to let up on Wells Fargo. They've learned. I can't think of anything else that deserves a lot of comment in our basic businesses.

I'm looking at a bunch of shareholder that really didn't buy Daily Journal stock because of its prospects. There's one exception. Big exception. But most of you here for some other reason,

you're groupies. (laughter) I know a few nerds when I see them, of all ages, and all I can say is, "takes one to know one." (laughter) Well I guess that's enough of the...oh, I might go on.

One of our directors came up with a list of qualities that any investment advisor should have. And he gave it to a future picker of professional investors, and the picker immediately fire half his picks. And I thought that was such a peculiar outcome that I'll let Peter Kaufman share with you his 'five aces' system for picking an investment manager. Peter, go ahead.

23:58

**Peter Kaufman:** So I came up with this list in giving reference to a very exceptional money manager. And I not only wanted to give what I thought was the correct reference, I wanted the person that I was giving the reference to, to in turn be able to relate this above to the real shot-caller. So that a compelling narrative would be transferred from me directly to the ultimate shot-caller. So I came up with what I call the "five aces". The five aces being the highest hand you can have in a wild card poker game. Ace number one is total integrity. Ace number two is actual deep deep fluency on whatever it is you say you're going to do on behalf of the client. Ace number three is a fee structure that is actually fair in both directions. Ace number four is an uncrowded investment space. Ace number five is a long run-way. Meaning that the manager is reasonable young in age. I further add that if you ever find a money manager who possesses all five of these characteristics, there are two things you should do. One, you should put money with them immediately. And number two, put as much money as you are allowed to put. Now I know we have money managers in the room, and we have...

**Charlie:** Do we ever! (laughter)

**Peter Kaufman:** And we have people who employ employee money managers who are in the room. If you employ money managers, this is an excellent formula to evaluate your money managers.

**Charlie:** Yeah, but it will cost you to fire half those you've hired..or you have hired. (laughter)

**Peter Kaufman:** But perhaps more importantly, if you're a money manager, this should be your list of five aspirations. What characteristics should I seek as a money manager to possess? I should be completely trustworthy. I should have actual deep fluency in what I claim that I'm going to do. I should adopt a fee structure that's generally fair in both directions. I should seek an uncrowded space because as we all know, **in business where there's mystery, there's margin. What kind of margin are you going to have in a crowded space?** (Note: See Question 21) And number 5, many of you in here, you're very fortunate. You get to check that box for having a long runway. Some of the best money managers in history only get four out of these five aces because they don't qualify for number five.

27:23

**Charlie:** Those include those who you're invested with. We do not have a long runway. That doesn't mean the company won't do well, (laughter) but in terms of investment management runway, it's rather interesting. Berkshire Hathaway's peculiar in that its directors are so old and

its managers are so old. The only institution that exceeds Berkshire Hathaway and the Daily Journal in terms of old directors in office is the Mormon Church. (laughter) The Mormon church is run by a group of people and they have two wonderful qualities. There's no paid clergy in the Mormon church. And the ruling powers in a group of males between about 85 and 100. And that system is more successful than any other church. No paid clergy and very old males. Obviously we are copying that system at Berkshire and the Daily Journal. (laughter) And we are so much older than the Berkshire directors who are also very old. Warren says we're always checking to see how the young fellows are doing at the Daily Journal versus Berkshire. It is slightly weird. But the world is...who would have guessed that the church with the best record for keeping people happy and so on and so on...(inaudible)...which is the Mormon church. Who would have guessed that it had no paid clergy, run only by males who are about 85 and up? Now that is a very odd result. I guess I should like odd results, because I'm sure as hell living a life of a lot of odd results. And I'm very surprised to be here. Somebody said, an old woman whom I liked, said at her 94th birthday party, "I'm very pleased to be here", in fact she said, "I'm very pleased to be anywhere." (laughter) Well that's what it is, and it is weird.

I think the incentive structure in investment management is very interesting. If you look at the people who have a ton of money from the past, like say the Massachusetts Investor Trust ([link](#)) or something like that, which pioneered Mutual Fund investing in the early days after Mutual Funds were allowed. It was certainly a respectable and honorable place. But once it gets to be \$700 billion or whatever it is, and hires a lot of young men and has a big staff and so forth...and young women too...and spreads its investment over 50 securities at least, the chances that it's going to outperform the S&P average really shrinks to about zero. And of course they wondered what we'll keep paying, whatever number of basis points Massachusetts Investor Trust's management operation charges for the long-term, and they may feel under pressure and that their world is threatened.

Another place that's threatened. Suppose you're charging say 1 and 20, one percent off the top and twenty percent of profits...or even worse, two percent off the top and twenty percent of profits...and you've got \$30 billion or so under management and an army of young ambitious people, all of whom want to get unreasonably rich very fast. What are your chances of doing better for your clients? Well the average entity that charges those fees, the chances the clients will do well is pretty poor. That's the reason Warren won that bet against the hedge funds. Where he bet on the S&P averages and they bet on carefully selected bunch of geniuses charging very high fees. And of course the high fees will just kill you. **It's so hard in a competitive world to get big advantages just buying securities, particularly when you're doing it by the billion, and then you add the burden of very high fees and think that by working hard and reading a lot of sell-side research and so forth, that you're going to do well. It's delusional. It's not good to face the world in a delusional way.** And I don't think, when Berkshire came up, we had an easier world than you people are facing this point forward, and **I don't think you're going to get the kind of results we got by just doing what we did.** That's not to say what we did and the attitudes that we had are obsolete or won't be useful, it's just that their prospects are worse. There's a rule of fishing that's a very good rule. The first rule of fishing is "fish where the fish are", and the second rule of fishing is "don't forget rule number one." And in investing it's the same thing. Some places have lots of fish and you don't have to be that good a fisherman to do pretty well. Other places are so heavily fished that no matter how good a fisherman you are, you aren't going to do very well. And in the world we're living in now, an awful lot of places are in the second category. I don't think that should discourage

anyone. I mean life's a long game, and there are easy stretches and hard stretches and good opportunities and bad opportunities. **The right way to go at life is to take it as it comes and do the best you can.** And if you live to an old age, you'll get your share of good opportunities. It may be two to a lifetime, that may be your full share. But if you seize one of the two, you'll be alright. Well with that pontification done, I'll take questions.

### 34:56 Q&A Begins

**Question 1:** How do you define mid-western values, and how have they influence you? How much are they embedded into the DNA of Berkshire?

**Charlie:** Well I think there is some Middle Western values embedded in Berkshire. I don't think it would be the same place if it had grown up in the middle of Manhattan island. **There's just so much buzz and craziness in finance in a place like Manhattan that I think it was actually an advantage for Warren to be brought up in a place out of Omaha.** ([link 1](#), [2](#)) Certainly I have a deep ties of affection and respect for my life in Omaha and my parents and their friends. And so I like what I think of as Middle Western culture. And I really don't like crazy culture. There's a lot of it in a lot of places. So yeah, I...(inaudible)...Mid-Western culture. I don't think it's that bad in the South or the East or the Rocky Mountains, but I have less experience with that culture. And I go to Montana to fly-fish, and I like Montana when I'm there, but that's too rugged for me. I like more intellectualism in the bigger cities. So Omaha was just right for me.

### 36:49

**Question 2:** My question relates to BYD. Given that you've successfully invested in commodities in the past, how do you view investing in things such Cobalt, Lithium, and Helium as technologies of the future?

**Charlie:** Well I'm hardly an expert in commodity investing, but certainly cobalt is a very interesting metal. It's up about 100% from the bottom. And it could get tighter, but that's not my game. ([link](#)) I don't know much about...I haven't invested in metals in my life much. I think I bought copper once with a few thousand dollars. I think that's my only experience.

### 37:53

**Questions 3:** When I reflect on where I am here in my 30's I often think about the multiple tuck-ins you were done with when you were my age, in Pasadena, shouldering your multiple griefs alone. In contrast to that, could you tell us about some of the people and experiences that helped you through that period? And my friend also has a question...

**Question 4:** Did you ever have aspirations to be a comedian? Because your jokes per minute are off the charts. (laughter)

**Charlie:** Well, I think you understand me best. I'm really what I call a "gentile Jew". You know if you look at the way the world is working and just about 2% of the people provide about 60% of the humor. And this is weird because this is a group that's had a lot of trouble. And so I just like

the Jews, I like the humor. My way of coping. And by the way, I recommend it to all of you. There are...I might tell a story about a darling little girl, wispy blonde hair, beautiful curls, charming lisp. She goes into the pet store, and the pet store owner says, "Oh you little darling blonde haired girl, what can we do for you?" "Wabbits, I want Wabbits." "Oh we've got wonderful 'Wabbits'. Grey wabbits, white wabbits, brown wabbits. What kind of wabbits do you want?" And she said, "I don't think my lovely big snake is going to give a shit." (big laughter) It does help to go through life with a little humor. One thing that's nice about the human condition is that people are always doing these utterly ridiculous things. You don't lack for new things to crack jokes about. ([link](#))

[40:56](#)

**Question 5:** I have a question about the talk you did about the talk you did back in 1995 at Harvard on "the Standard Causes of Human Misjudgment" ([link 1](#), [2](#)), and I thought you ended it in a very interesting way where you said, "I don't think it's good teaching psychology to masses, in fact I think it's terrible." Would you elaborate on that comment?

**Charlie:** Well it sounds as though I'm somewhat misquoted. I do think it's hard to teach the whole reach of psychology the way they do it in academia. Because the way they do it in academia is they want to do experiments and they want to learn things from the experiments that they can publish. Therefore the experiments have to be pretty simple, testing one particular triggering factor if they can. And by doing that over a vast number of triggering factors, they accumulate a big body of experimental events and you can drag some general principles out of it. **The great utility of psychology is when you know those principles as bluntly as you know how to read or something, really fluently. And you use those principles in synthesis with the rest of knowledge. The interplay of psychology with the rest of knowledge is a vastly productive area for correct thinking.** But the psychology professors can't do it because they don't know the rest of knowledge, and there's no reward in psychology for synthesizing the rest of knowledge with psychology. The rewards are for doing another experiment and publishing. And so it's mis-taught. It's a subject that intrinsically works best when you use it in combination with some other discipline. But academia is not set up for people to get good at using a blend of two disciplines. So the whole damn system is wrong. On the other hand it gave great opportunity to me because I always figured when I was young that if my professor didn't know it, it just didn't matter I'd figure it out for myself. I could tell though from the first instance that the big territory was synthesizing psychology with the rest of knowledge. **So I learned psychology so I could do it.** But psychology professors, they just try and learn it the way it's taught. There's no reward if you're a professor of psychology for synthesizing psychology with the rest of knowledge. **Now you people should follow my example. Not the example of the psychology professors. I guarantee you that you won't make any money doing it their way.** Occasionally you find a group like Thaler's group, Thaler just won the Nobel prize by the way. And he's trying to synthesize the process. And I say more power to Thaler. **May his tribe increase.** ("Abou Ben Adhem" [link 1](#), [2](#), [3](#)) And it's a good sign that the world has given it to Thaler...the Nobel Prize. He's doing exactly what I'm recommending.

[45:15](#)



**Question 6:** Speaking of Munger's system, if you had to teach the Munger system of mental models to primary children, would you focus on covering all the models or would you focus on teaching them how to figure it out themselves?

**Charlie:** I'd do both. Of course if you get the right number of models in your head it helps, and of course you want to get fluency of using the models, there isn't any real road to getting it done fast. At least if there is I've never found it. You can keep at it. But that's my system. My whole system in life is keeping at it. I'm a big admirer of Carlyle's approach, which was quoted all the time by Sir William Osler, who was one of the most highly regarded physician in the world. Carlyle says that "The task of man is not to see what lies dimly in the distance, but to do what lies clearly at hand." ([link](#)) I think that's right. I think that most of the time, you should get the work that's before you done and just let the future fall where it will.

[46:33](#)

**Question 7:** My Question is concerning commercial banks, obviously Berkshire has a very large \$60 billion portfolio there, and Daily Journal has a very sizable one. My question is, as I look at that portfolio, especially the Berkshire portfolio, there are quite a few banks that appear to be at or close to the quality of what's in that in that portfolio, some of which people like you think highly of. My question is, I realize they're pretty fully valued now, maybe 4 to 5 years ago when they weren't, why aren't there more of those high quality banks in the Berkshire portfolio? Is it just the concentration of the portfolio? Because \$60 billion's a lot. Or is there some pattern among those banks to make them less attractive to you and Mr. Buffett?

**Charlie:** Well, banking is a very peculiar business. The temptations that come to a banking CEO are way...the temptations to do something stupid are way greater in banking than they are in most businesses. Therefore it's a dangerous place to invest because there are a lot of way in banking to make the near term future look good by taking risks you really shouldn't take for the sake of the long-term future. And so banking is a dangerous place to invest and there are a few exceptions. And Berkshire has tried to (pick) the exceptions as best it could. And I haven't had any more to say on that subject except, I'm sure I'm right.

[48:26](#)

**Question 8:** Your thoughts on the valuation of software companies like Apple, Facebook, Google, Amazon, Alibaba. Are they over-valued, potentially under-valued, too early to tell?

**Charlie:** Well my answer is I don't know. (laughter) Next question. (laughter)

[49:04](#)

**Question 9:** This question is for Mr. Kauffman. You mentioned about the "five aces" and aligning the interests with investors with the right fee structure to benefit both. What have you seen as a good fee structure, both from a start-up fund with say \$50 million in assets, and then the larger funds with assets over billion?

**Peter Kaufman:** I'll let Charlie answer that because he can describe to you what he thinks is the most fair fee formula that ever existed and that's the formula in Warren Buffett's original partnership.

**Charlie:** Yeah, Buffett copied that from Graham. And Mohnish Pabrai is probably here...is Mohnish here? Stand up and wave to them Mohnish. This man uses the Buffett formula, and always has, he just copied it. And Mohnish has just completed 10 years...where he was making up for a high water-mark. So he took nothing off the top at all for 10 years, he sucked his living out of his own capital for ten long years, because that's what a good money manager should be cheerfully willing to do. But there aren't many Mohnish's. Everybody else wants to scrape it off the top in gobs. And it's a wrong system. Why shouldn't a man who has to manage your money whose 40 years of age be already rich? Why would you want to give your money to somebody who hasn't accumulated anything by the time he was 40. If he has some money, why should he on the downside suffer right along with you the investor? I'm not talking about the employees under the top manager. But I like the Buffett formula. Here he is, he's had these huge successes. Huge in Buffett's career. But who is copying the Buffett formula? Well we got Mohnish and maybe there are a few others, probably in the room. **But everybody wants to scrape it off the top, because that's what everybody really needs, is a check every month. That's what is comforting to human nature.** And of course half the population, that's all they have, they're living pay check to pay check. The Buffett formula was that he took 25% of the profits over 6% per annum with a high water mark. So if the investor didn't get 6%, Buffett would get nothing. And that's Mohnish's system. And I like that system, but it's like many things that I like and I think should spread, we get like almost no successes spreading that system. It's too hard. The people who are capable of attracting money on more lenient terms, it just seems too hard. If it were easier, I think there would be more copying of the Buffett system. But we still got Mohnish. (laughter)

52:50

**Question 10:** Why have you chosen to have your friends call you Charlie Munger when you could have instead chosen to go by "Chuck" Munger?

**Charlie:** The only people who call me "Chuck", call me blind on the telephone and ask me to invest in oil plays. (laughter) No I don't mind being called Charlie. My Grandfather was Charlie Munger. When he got appointed as a federal judge he thought it was undignified to be a "Charlie", so he reversed his initials, then he was T.C. Munger instead of C.T. But I didn't follow my grandfather's practice, I was quite willing to have an undignified name. (laughter)

53:46

**Question 11:** Two Questions. Could you give more detail around the Berkshire, J.P. Morgan, Amazon, healthcare partnership and why in the initial press release it said that the model would be spread beyond the employees of the three companies, but then the WSJ reported that the model would only be for the employees of the three companies? My second question is, can you give your view on 'what is Li Lu's talent'?

**Charlie:** Well those are two unrelated questions but there's no rule against it. But three are too much just for the record. (laughter) On the healthcare system, the existing system runs out of control on the cost side and it causes a lot of behavior which is not only regrettable but it's evil. There's a lot of totally unnecessary crapola that's crept into the medical system so that people can make more money. And the costs are just running completely out of control.

And other people have systems that have better statistics that cost maybe a fifth as much, if you talk about Singapore, or half as much if you talk about some liberal European country. So they're just concerned about something that's run out of control because the incentives are wrong and they want to study it and do something...for the three companies. Of course that's a very difficult thing to take on. I don't know how it will work out. The man in America that thinks about these subjects in a way that I much admire is [Atul Gawande](#) whose a professor of medicine at Harvard. He's not only the best writer that I know of in the whole medical profession, he's also a very honorable and very clear thinking man. Both his parents were physicians. This is a man that can check all the boxes. There's a lot wrong and these people are looking at it to see if they can do something. They're going to find it plenty difficult.

It wouldn't be hard if you were a benign despot to do something pretty dramatic. Take macular degeneration of the eye. Old people who have it, which is a lot, need a shot on a regular (basis). Well I can give that damn shot. It's not that hard to shoot a little gook into an eyeball if you know how to do it. It draws a lot of pay. And there are two different substances you use, and one of them costs and fortune and the other costs practically nothing and they both work about equally well. And of course what's really being used in a lot of America is the more expensive of the two substances. There's a lot wrong with that situation. It's just crept in. A lot of unnecessary costs. Medicine's just full of that kind of stuff.

And many a man whose dying is like a carcass in the plains of Africa, in come all the vultures and jackals and hyenas and so on. A dying old person in many American hospitals looks just like a carcass in Africa. Where the carnivores come in to feed. It's not right to bleed so much money out of our dying people. And there's not a hospital in America that doesn't have people lying in the dialysis ward who have no chance of waking up, who are being dialyzed to death. Easily immoral, stupid conduct. So the extent that somebody makes some assault on some of these asinities of our present healthcare system, I'm all for it. On the other hand, I'm glad I'm not doing it because it's really difficult. I'm too old for that one. But I welcome somebody who's trying to...It's deeply wrong what's happening. It's deeply wrong. And some stuff is not getting done that's very cost effect and a lot of totally unnecessary stuff is being done. Why shouldn't we do that? Well I'm all for somebody trying to figure it out. But if they asked me to serve on such a panel I'd decline. It's really hard going and you're stepping on a lot of...(inaudible).

The second question was Li Lu. What was unusual about [Li Lu](#). Li Lu is one of the most successful investors. ([link](#)) Imagine him, he just popped out of somebody's womb and he just assaulted life the best he could and he ended up pretty good at it. But he was very good at a lot. He's ferociously smart. It really helps to be intelligent. He's very energetic. That also helps. And he has a good temperament. ([link](#)) And he's very aggressive, and he's willing to patiently wait and then aggressively pounce. ([link](#)) A very desirable temperament to have. And if the reverse comes, he takes it well. ([link](#)) Also a good quality to have. So it's not very hard to figure out what works. But there aren't that many Li Lu's. In my life, I've given money to one

outside manager, and that's Li Lu. No others in my whole life. And I have no feelings that it would be easy to find a second. It's not that there aren't others out there, but they're hard to find. **It doesn't help you if a stock is a wonderful thing to buy if you can't figure it out. ([link](#))**

[1:00:13](#)

**Question 12:** My question is really about brands. In the past, you've talked about buying a business with a durable competitive advantage. You've talked at length about great brands with pricing power. Currently big consumer brands are losing their cache with younger consumers, new emerging brands started online, private label brands like Kirkland Signature are getting better by the day, and in turn big consumer brands are losing sales and pricing power. In a world where the durable advantage seems to be acquired through scale, like Amazon and Costco, has your view on big consumer brand moats changed?

**Charlie:** Well the big consumer brands are still very valuable. But they had an easier time in a former era than they're going to have in the future era. So you're right about that. And of course Amazon I don't know that much about except that it's unbelievably aggressive. And the man who heads it is ferociously smart. On the other hand he's trying to do things that are difficult. Costco I know a lot about because I've been a director for about 20 years and I think Costco will continue to flourish and it's a damn miracle the way the Kirkland brand keeps getting more and more accepted. You're right about that. So you're right that it's going to be harder for the big brands, but they're still quite valuable. If you could own say, the Snicker's Bar trademarks and so forth, it will still be a good asset 60 years from now. Now it may not be quite as good for the owner as it was in the last 60 years. But it doesn't have to be. But in fact it makes it harder for you investors. It use to be the groupie could buy Nestle and they'd think, 'Well, I'll just sit on... (inaudible)'. I don't think it's quite that simple anymore. It's harder. You're right. But you know that. It was a great question. (laughter) I just wanted you to breathe it in. **That's what everybody likes. You want the answering voice to agree with us.**

[1:02:37](#)

**Question 13:** You once said in an interview that you'd prefer that the U.S. would import oil instead of getting it from the ground. From where I come from, which is the Middle East, Kuwait, oil represents around 85 to 90% of the government's revenues. What do you think is the future for oil?

**Charlie:** Well, I said last year that oil was very interesting in that the great companies like Exxon were producing about a third as much as they use to at the peak, and yet they're still very prosperous because the price of oil has gone up faster than production has gone down. But it's a weird subject, what's going to happen with oil. Eventually it's going to get very hard to have more oil and eventually the price will go very high. As a chemical feed-stock it's totally essential, the hydrocarbons. So it's never going to go out of vogue, and of course we're going to need it for energy for a long, long time ahead. But as an investment I think it's a difficult subject, and I think you'll notice that Berkshire in its whole history has had few investments in oil. Some, but it's not that many. The Daily Journal doesn't have any. It's a tough subject and of course as I said here last year, I think the correct policy for the United States would be not to produce our oil

so fast. I think oil is so precious and so desirable over the long pull that I'd be very happy to have more of our oil just stay in the ground and just pay up front to the Arabs to use up theirs. I think that would be the correct policy for the United States. Only 99.9% of the rest of the people in world are against me. (laughter) But why would we want to use up all our oil as fast as we can? Why would that be smart? Would we want to use up the topsoil of Iowa as fast as we can? I don't think so. So I think our current policies are totally nutty. And if you go on, when I was young, there were about 2 billion bushels of corn in the whole production of the country. There are about 6 times as many bushels of corn (today), and a big chunk of that corn is being turned into motor fuel. That is an utterly insane policy that happens because of the political power of the farm states in our weird system. But nothing could be dumber than using of our topsoil to create corn to turn into motor fuel. It's really dumb. Yet it's there and nobody has any power of changing it. It's weird, the whole oil subject is weird. It's weird that companies prosper by producing less and less of their main product in physical terms, and it's weird that a whole nation could do something as dumb as turn a big percentage of the corn crop into motor fuel by edict of the government. So it's a weird subject. But the oil's totally essential, the hydrocarbons. Without the hydrocarbons, our great top soil doesn't work very well. The miracle grains are miracles if you use a lot of hydrocarbons, plus our good soil. The miracle grains don't work very well without the hydrocarbons. It's weird. The current population of the earth is being fed by miracle grains and their miracle is they turn oil into food. So you raised a weird subject, you must like weird subjects.

1:07:15

**Question 14:** Some of the greatest advancements to humanity seem to be the result of public-private partnerships. The railroads, electrification, the technology revolution. Now all those require some measure of rationality and foresight among politicians and business leaders. Do you see any opportunities today in terms of the possibility for partnering for infrastructure or basic research or that sort of thing?

**Charlie:** Well the answer is yes. I think one of the obvious needs is a really big national grid. Which takes new government legislation and a lot of other things. I think it'll come, we should have it all ready. It's the failure of the government that we don't have a wonderful electric grid. But it will come and I think Berkshire Hathaway will be a big part of it when it happens. But it's easy to over-estimate the potential...why don't we have a big electric grid that works already? There are a lot of things that should happen but don't happen, or happen very slowly. I don't think...calling it a public-private partnership sounds wonderful. Everybody wants what my friend Peter Kaufman calls a "robust narrative", that's what people specialize in in America, robust narratives. Public-private partnerships sounds like a robust narrative. It sounds to me like a bunch of thieving bankers who get together with a bunch of thieving consultants. (laughter) But it's a robust narrative.

1:09:13

**Question 15:** You once said, when you acquire a company, your time horizon is typically forever, that being said, what did you recognize about General Electric before you got out?

**Charlie:** Well, we made an investment in General Electric in the middle of a panic because it was a decent buy as a security to be passively held. It worked out for us fine. General Electric of course is a very complicated and interesting subject. It is interesting that a company so well regarded for acumen, education, technology, etc. etc. etc. Could end up so ill-regarded as a result of a long period of sub-par performance. People didn't expect it. Of course people are saying what caused the failure of performance at General Electric? My answer would be partly, life is hard and there's some accident in the world. That's part of it. And part of it I would say that the system at General Electric where you rotate executives through different assignments as though there are so many army officers building up a resume to see if they can be promoted to be generals. I don't think that works as well as keeping people in one business for a long time and having them identify with the business the way Berkshire does. So I would say to some extent, what's happened in the case that...maybe there should be a little less of this corporate management in the style of the U.S. Army. And maybe people should do actually a little more of Berkshire style where by and large people spend their whole careers in one business. ([link 1](#), [2](#))

[1:11:47](#)

**Question 16:** You served for many decades on a variety of boards, including for-profit sector and also the non-profit sector. Could you give us any lessons you learned from serving on a board and touch on the criteria you consider for hiring and when necessary removing executives.

**Charlie:** Well, I don't think I could do that in one short burst of pomposity. Each situation is different, but I would say this, that if you asked people with long experience in management what their mistakes were looking backward, the standard response is, somebody who should have been removed wasn't for way too long. So I think that general lesson is true practically everywhere. And in all contexts. But beyond that, I don't think I can...it's too broad a question for me.

[1:13:13](#)

**Question 17:** Are you concerned at all about the rising level of government debt to GDP at the same time that we're running large deficits late in the economic cycle.

**Charlie:** Of course I'm concerned about the rising level of government debt. This is new territory for us, and new territories probably has some danger in it. On the other hand, it is possible that the world will function more or less pretty well, even with a very different pattern of government behavior than you and I would have considered responsible based on history to date. Of course if you look at the inflation we got out of the last hundred years when the announced objective of government was to keep prices stable. Now the announced objective is 2% inflation. Well what the hell's going to happen? Well the answer is, we don't know. But isn't the way to bet that it's going to be...inflation over the long-term is way higher than 2%? I think the answer is yes. But I think that we have learned from what has happened in the past that macro-economics is a very peculiar subject and it doesn't work like physics. The system is different in one decade, than the system that was present in the last decade. Different systems have different formulas, but they don't tell you when systems have changed, and when the formulas have to change. ([link 1](#), [2](#))

So I don't expect the world to go totally to hell because...well, look at what happened in Germany after World War I. They had a hyper-inflation when the currency basically went to zero in value. They really screwed up big time. And what happened?...Well what happened was they recovered from it pretty quick. And they did it by creating a new Reichsmark backed by the mortgages which they put back on the houses and properties of the people who had unfairly gotten rid of their mortgages at no cost. And that new Reichsmark was working pretty well and Germany had pretty well recovered from that catastrophe and then along came the Great Depression. And the combination of the Great Depression and the Weimar inflation really brought in Hitler. Without the Great Depression I don't think he would have come into power. What happened...now you've got...by the late 30's, what was the leading economic power in Europe? It was Germany. Cause Hitler in his crazy desire for vengeance and so on, bought a lot of munitions and trained a lot of soldiers and so forth. And the accidental Keynesianism of Germany under Hitler caused this vast prosperity. So Germany was the most prosperous place in Europe in 1939. So all that catastrophe, they recovered from. So I don't think you should be too discouraged by the idea that the world might have some convulsions. Because there's a way of recovering. **Now I'm not advocating the German system (laughter), but I do think knowing these historical examples creates what I call "mental ploys."** ([link](#)) And you'd think that a country that destroyed (itself) in a silly war, destruction of your own currency, great depression, and by 1939 it's the most prosperous country in Europe. It's encouraging. I hope you feel better. (laughter)

[1:17:24](#)

**Question 18:** Since the mid-1990's, the number of DOJ cases filed annually under the Sherman Act has collapsed from 20 to almost zero. Over the same period, we've seen a dramatic increase in the 'winner-take-all' effect. Where market share of the top five companies across almost all industries have surged, not just technology and media. And the number of publicly traded companies has dropped close to 50%. So for example, from 8,100 to 4,300. Why do you think the DOJ has less active in enforcing anti-trust legislation over the past 20+ year and do you think the DOJ is likely to become more active and how do you think that will affect the financial markets?

**Charlie:** Well I don't know whether the DOJ is going to become more active or not. I am not terribly disturbed by the present state of the economy or the present state of concentration of economic power. Wherever I see companies by and large are having plenty of competition. And so I'm not...(inaudible)...on the theory that the whole world is wrong as it's presently constituted. There are companies now, that people were worried about them being too powerful like Kodak and they're not even here anymore. I think we have enough competition by and large. I do not think the world is going to hell from lack of activity in the Justice Department.

[1:19:02](#)

**Question 19:** How did Ajit Jain build Berkshire reinsurance from scratch?

**Charlie:** Well it's very simple. He worked about 90 hours a week. He was very smart. He's very honorable. He's very pleasant to deal with. And he talked every night to Warren Buffett.

Just find somebody else like that. **But he won't do as well because the game is harder now than it was then.** And that's my answer to your question.

1:19:49

**Question 20:** Question regarding Warren Buffett. In 2008 he wrote an [op-ed article](#) regarding the depths of the bear market, talking about how he (Buffett) had previously put his own money into treasuries, and in my mind he's normally thought of as a buy and hold investor, but in this case, a lot of his money, almost all of it was in treasuries. And I wanted you to speak to the value of holding money in a portfolio at the proper time.

**Charlie:** Well, it's possible that there could be when a wise investor would be all in treasuries. That is not an impossible event. It's virtually impossible for me. I can imagine such a world, but I don't think...I haven't been in that kind of a world yet. Generally speaking long-term treasuries are a losing (investment) over the long-pull. And that's my view.

1:21:05

**Question 21:** In 1999, Warren Buffett said that he could return 50% if he ran \$1 million. Give what you said about the investment landscape today being more difficult, what do you think that number would be today?

**Charlie:** Well I do think that a very smart man who's patient and aggressive in combination, is willing to work hard, to root around in untraveled places like thinly traded stocks and other odd places. I do think a person with a lot of shrewdness, working with a small amount of capital, can probably earn high returns on capital even today. However that is not my personal problem at the moment. And for me it's hard. And for Berkshire it's hard. And for the Daily Journal we don't have any cinch either. It's disadvantageous to have securities in a corporate vehicle like the Daily Journal Corporation. It's an accident that we have them there. We have them there because that's where the money was. The way it's worked out, it's not desirable if you're a shareholder and you have a layer of corporate taxes between you and your securities that are indirectly owned. And once you get public securities held in a public corporation taxable under sub-Chapter C of the internal revenue code, all kinds of factors, including income taxes affect your investment decisions. And it's much easier to invest in charitable endowment or your personal pension plan. Generally speaking, I would say, **if you're shrewd enough with small sums of money, I think you can compound pretty well.** The minute you get bigger sums, I think it starts getting difficult. It's way more difficult for all you people sitting here than it was for me when I was in your position. But I'm about to die and you have a lot of years ahead. (laughter) You would not want to trade your position for mine.

1:23:40

**Question 22:** What would you advise me as a teacher to help my students become better thinkers and decision makers and also become happy in life?



**Charlie:** I did not pick that up. You were trying to help me by hurrying up, that's not the best system...(laughter)

Well, that's a wonderful question. I would say the minute you have the attitude you've already expressed, you're already probably going to win at everything you want to win at. You just keep trying to live a good life, and a constructive life, and to be rational, and to be honorable, and to meet the reasonable expectations of people who depend on you. Of course you're going to get ahead over time. And of course the best way to teach is by example. And of course the example works better when you win and if you behave right you're more likely to win. So I would say, you're on the right track already. All you have to do is keep at it. With your attitude, you can't fail.

[1:25:32](#)

**Question 23:** Good morning Mr. Buffett...Mr. Munger.

**Charlie:** I'm flattered to be called Mr. Buffett. (laughter)

**Question 23 Continued:** The most recent annual report for Berkshire, as in the past reports, the growth in book value was shown and over the past 52 years it has grown from \$19 to \$172,000. Which represents a return of 19% a year. Is a large part of that outsized percentage attributable to the leverage inherent in the insurance company, such that you can own an investment in the insurance company which returns say 14% and it becomes 20% to book value?

**Charlie:** Well obviously there was a little leverage buried in the Berkshire numbers. Obviously the insurance business provided some of that. It's not over-whelming in its consequences. There were years when it was helping. There were years when Ajit made so much money that it was almost embarrassing. And then he'd give the money to Warren and Warren would make 20% on the money. So there were some years when some remarkable synergies between the insurance business and Berkshire Hathaway. But basically the insurance business is not some cinch easy way to make money. There's a lot of danger and trouble in the insurance business and its more and more competitive all the time now as we're sitting here. **Berkshire succeeded because there were very few big errors...there were like no big errors, really big.** ([link](#)) And there were a considerable number of successes. All of which would have been much harder to get under present conditions than they were at the time we got the results. And there are very few companies that have compounded at 19% per annum for fifty years. It's (a weird) in net worth. That is very peculiar. I wouldn't count on that happening again soon. It certainly won't happen at the Daily Journal.

[1:28:07](#)

**Question 24:** Question regarding margin trading for Charlie and Rick Gueren. With the recent decline in the stock market, there were a lot of margin calls to customers. I know back in your partnership days, there was a big bear market and a lot of big declines in your portfolio. Would you care to comment on the productivity of margin trading?

**Charlie:** Well of course it's dangerous when you have a margin account because the person whose giving you credit can wipe you out at the bottom tick just because he feels nervous. And therefore of course, people like Berkshire just totally avoid any position where anybody else would start selling our securities because he felt nervous. And of course there are a lot of people now that are pushing margin trading very, very hard. And...the minute you got weird new instruments like these VIX contracts that triggered new selling because existing selling happens. So you get a [feedback effect](#) that were a little decline becomes a big one and then a big one becomes and bigger one, and so on. And it rapidly goes down a lot in a short time. I'm afraid that under modern conditions the risk of what happened recently with the VIX is just part of the modern conditions. **And of course we'll always have margin traders who want to push life hard and we'll always have catastrophes.** Neiderhoffer ([link 1](#), [2](#)) was just wiped out by the VIX, and that's the second time he's been wiped out. And he's a very talented man. Neiderhoffer was famous at Harvard. His name became a verb. He learned to what was called "to Neiderhoffer the curriculum". He was a great card player and a great squash player, and a good national champion, and he was a scholarship student. He didn't have much money. So he had to get very high grades, and he didn't want to do any work. So he figured out how to "Neiderhoffer" the curriculum of Harvard. He signed up for nothing but the toughest graduate courses in economics. And the economics students in those advanced courses were doing a lot of the scut work for the professors, and so nobody ever gave them anything less than an A. And for a while Neiderhoffer didn't even go to class. They thought they had a new John Maynard Keynes at Harvard. And he was just signing up for courses where you couldn't get a low grade. Interesting story. Interesting man. Wiped out a second time. He's very brilliant. He was a very talented man. Pushing life that hard is a mistake. It's maybe a less of a mistake when you're trying to get out of the mire of mediocrity and get your head a little above the crowd. But when you're already rich, it's insane. **Why would you risk what you have and need in order to get what you don't have and don't need? It really is stupid.**

[1:31:50](#)

**Question 25:** Question about the U.S. high-speed rail system. As you know the high-speed rail act was introduced back in 1965 when Berkshire had their first annual meeting. What is your thinking, or outlook, or comments about the U.S. high speed rail system. Including the one that's being built here in California, as well as the possibility for a national high speed rail system.

**Charlie:** Well that's a very interest question. The high speed rail system which was aggressively create in China is a huge success and very desirable. So it's not like it's intrinsically a dumb idea. However in the...(inaudible)...we actually have in America, getting a big high speed rail system is really difficult, including having one even in California. And I'm not at all sure that trying to have a high speed rail system in California was wise all factors considered. But I'm not sure that it isn't on the other hand. Just put me down as skeptical, but not determinedly opposed. And I know it will cost a fortune, that I'm sure of. The trouble with it is that it's competing with something that works pretty well called the airplane. So, I can't answer your question except as I have. I know we need a big grid. I'm not sure the United States needs a high speed rail system for passengers. I would say that may have passed us by.

[1:34:04](#)

**Question 26:** Could you comment on whether you ever considered investments in Hershey's or Tiffany's over the long term and have offered attractive entry points?

**Charlie:** Well I'd be delighted to own either Hershey's or Tiffany's at the right price, wouldn't you? It's just a question of price. Of course they're great companies. But that's not enough, you have to have great companies available at a price you're willing to pay. Hershey's is a private company. Nobody's offering me Hershey's. I can buy the candy, but I can't buy the company.

1:35:30

**Question 27:** I'm here with my 92 year old Grandma whose spent the past 50 years investing for our family. As a college senior with a passion for value investing, it keeps me up at night knowing that I will eventually be entrusted with a portfolio she built for a lifetime. Based on the successful decisions that you've made for your large family here today, what advice do you have in regards to seizing the few opportunities when I will have to act decisively for my family without jeopardizing her life's work?

**Charlie:** Well of course I like any 92 year old person. (laughter) Particularly if it's a good looking woman whose also rich. (laughter) And whose descendants admire her. Instead of being eager to have her gone. (laughter) I'd say you have a big winner there in your family. Try to live your life so that you can be a big winner too.

1:36:54

**Question 28:** It looks like the A.I. will have a much bigger impact on society than the internet revolution, so would you mind maybe sharing some of your thoughts on how artificial intelligence will impact different industries in general and who it will impact the future of the human race?

**Charlie:** Well, that's a nice question. (laughter) The people who studied artificial intelligence don't really know the answer to that question. I'm not studying artificial intelligence because I wouldn't be able to learn much about it. I can see that artificial intelligence is working in the marketing arrangements of Facebook and Google, so I think it is working in some places very well. But it's a very complicated subject. And what its exact consequences are going to be, I don't know. **I've done so well in life by just using organized common sense, that I never wanted to get into these fields like artificial intelligence.** If you can walk around the shores and pick up boulders of gold, as long as the boulders keep being found and picked up, I don't want to go to the placer mining sifting vast amounts of data for some little edge. So you're just talking to the wrong person. And I'm not at all sure how great...I don't think artificial intelligence is at all sure to create an economic revolution. I'm sure we'll use more of it, but what are the consequence of using artificial intelligence to become the world's best (golden boy)? There may be places where it works, but we've thought about it at Geico for years and years and years, but we're still using the old fashion intelligence. So I don't know enough about it to say more than that.

1:39:16

**Question 29:** Questions about culture. How can an outsider really know a company's culture? And for that matter, how can an insider, at the top of an organization, really be certain about the culture of the company beneath him? And how would you go about assessing the culture of giants like Wells Fargo or General Electric? What is it that you look at that helps you understand culture?

**Charlie:** Well, you understand culture best where it's really down (low) in a place like Costco. And there the culture is a vast and constructive force. Which will probably continue for a very, very long time. The minute you get into General Electric, partly decentralized, partly not. Multi-business instead of one business. It gets very complicated. What is the culture of General Electric when the businesses can be so radically different? Maybe headquarters can have a certain kind of culture. And maybe the culture will be a little wrong. And maybe it's wrong to shift people around from business to business as much as they do. Which I strongly suspect. I do think...there are very few businesses like Costco that have a very extreme culture where everybody's bought into. And where they stay in one basic business all the way. **I love a business like Costco because of the strong culture and how much can be achieved if the culture is right.** But the minute you get into the bigger and more complicated places...I mean you can talk about the culture of General Motors or the culture of AT&T, it's a very difficult subject. **What big businesses have in common by and large is that they get very bureaucratic.** That's the one norm in culture is that they get very bureaucratic. And of course it happens to the government too. A big governmental body. And basically I don't like bureaucracy, it creates a lot of error. I don't have a substitute for it. I don't have a better way of running the U.S. government than the way they've been doing it. But I basically don't personally like big bureaucratic cultures and so I don't think very much about big bureaucratic cultures. I don't know how to fix bureaucracy in a big place. I would regard it as a sentence to hell if they gave me some company with a million employees to change the culture. I think it's hard to change the culture in a restaurant. A place that's already bureaucratic, how do you make it un-bureaucratic? It's a very hard problem. Berkshire has solved the problem as best it can...of bureaucracy. You can't have too much bureaucracy at headquarters if there's no bodies at headquarters. (laughter) That's our system. I don't think it arose because we were geniuses or anything. I think partly it was an accident. But once we saw what was working, we kept it. But I don't have a solution for corporate culture at monstrous places.

[1:43:08](#)

**Question 30:** What's your current view of climate change today?

**Munger:** Well, I'm deeply skeptical of the conventional wisdom of the people who call themselves climate scientists. I strongly suspect that they're more alarmed than the facts call for. And that they kind of like the fact that they can prattle about something they find alarming. I am not nearly as afraid as the typical so called climate scientist is, and I think the difficulties of what they urge as a remedy are under-estimated by these people. And besides, just because you're smart enough...suppose you, by knowing a lot of physics and so forth, could actively figure out that climate change was a huge problem, you were right. That would not automatically mean that you know how to fix it. Fixing it would be a vast complicated problem involving geo-politics, political science, all kinds of things, that just because you understood the chemistry of climate say, you wouldn't have any expertise as...So I think there's a hell of a lot of

non-sense being prattled on the climate change things. But no, there's no doubt that the CO2 does cause some global warming. But just because you accept that doesn't mean that the world is absolutely going to hell in a hand-basket. Or that the seas are going to rise by 200 feet any time soon and so on. So I'm deeply skeptical of a lot of these people, and yet I don't want to be identified with the no-nothings who really are vastly ignorant and wouldn't even recognize that CO2 does have some influence on temperature. Now I've tried to offend everybody...(laughter)

1:46:02

**Question 31:** In an age that's very different than the one you grew up in, if you're a young guy like me with a lot of runway like Peter talked about, where would you focus your attention?

**Munger:** Well, I'd approach life a lot like Carlyle. I would just get up every morning and do the best I could in every way and I'd expect over time to do pretty well. And it's not very hard. I'd try to marry the right person instead of the wrong person. Everything would be quite (trite). I would guess that practically everybody your age in this room is going to do pretty well. You're not that mad at the world here. You're trying to figure out how to cope with it a little better. You're going to do alright. People like that succeed. But if you all came in here with placards, sure you were right on every subject and wanted to shout back? You wouldn't have such a bright future. Those people are pounding their idiocy in instead of (shutting it out).

1:47:46

**Question 32:** Which cognitive biases are particularly at scale on a national scale these days?

**Charlie:** Well its hard, with so many cockroaches in the kitchen it's hard to identify each... (laughter) I would say every bias that man is prone to is always working. That's the nature of the system. It's amazing what people have come to believe. And it's amazing how polarized our parties are becoming. And now you turn on TV, and you can even turn to channel A and you've got your kind of idiot, or you click channel B and you got the other fellow's kind of idiot. What they have in common is that they're both idiots. **They're playing to an audience that is mentally defective.** (laughter) Of course it's a little disquieting. I was use to a different world. I liked Walter Cronkite. This choose your idiot form of news gathering, I don't much like. What do you do? I flip back and forth between idiot types. I will not stay with just one type of idiot. (laughter) So that's my system. But you're right. It's weird. Now the world has always had weird idiots. Hitler was an idiot...a smart idiot, but an idiot. We're always going to have crazy people and crazy people who follow crazy people. Part of what I like about that situation is...it gives you more incentive to think correctly yourself. **I find life works best when you are trying to stay rational all the time. And I must say, these idiots are giving me more incentive.** I don't want to be like any of them. Don't you feel that way when you turn on the TV and here's one idiot mouthing this way, and the other one mouthing this way, and misrepresenting the facts? I don't want to be like either of them! I don't know whether we're going to have more of what's developed or whether we're going to go back to something that's more pleasant. But it's kind of interesting to watch, I will say that.

1:51:11

**Question 33:** What do you think of the critical challenges that business models relying heavily on advertising as a source of revenue in a digital age?

**Charlie:** Well if I'm following that correctly, you do live in an age where people using computer science to sift out correlations that might be predictive and then to try trading on those algorithms on an instant basis, in and out. Where large amounts of money have been made, by say, Renaissance Technologies. And there's way more of that and it's worked for those people. And I don't consider it a good development. I don't see any big contributions to civilization, having a lot of people using computer algorithms to out-trade each other on a short-term basis. Some people think it creates more liquidity in the markets and therefore it's constructive. But I could just as soon do without it. I would rather make my money in some other way than short-term trading based off of computer algorithms, but there is more of it, you're right about that. And by and large, the one thing they have in common is that they can't take infinite amounts of money. You try and file too much money into an algorithm and it's self-defeating. And thank God it's self-defeating.

[1:52:51](#)

**Question 34:** I was hoping to gain some insight regarding your and Warren's discussions into airlines. Whether or not it was a light-bulb that went off in a certain year. Or whether it morphed over time. Just trying to get an idea about when you got open minded about maybe investing into airlines and how you changed your mind.

**Charlie:** Well, we did change our mind. For a long time, Warren and I (painted over) the railroad because there were too many of them, and it was too competitive, and union rules were too crazy. They were lousy investments for about 75 years. And then they finally... **the world changed** and they double decked all the trains and they got down to four big rail systems in all the United States in terms of freight and all of a sudden we liked railroads. It took about 75 years. Warren and I never looked at railroads for about 50 years, and then we bought one. ([link](#))

Now airlines, Warren use to joke about them. He'd say that the investing class would have done better if the Wright Brothers would never have invented flight. But given the conditions that were present when the stock was purchased and given the conditions of Berkshire Hathaway where it was drowning in money, we thought it was ok to buy a bunch of airline stocks. What more can I say? Certainly it's ok to change your mind when the facts change. And to some extent the facts had changed, and to some extent they haven't. It is harder to create the little competing airlines than it was. And the industry has maybe learned something. I hope it works better, but I don't think its... I think the chances of us buying airlines and holding them for 100 years is going to work that well. I think that's pretty low.

[1:55:19](#)

**Question 35:** Question about DJCO. The auditor's report discussed material weakness in segregated duties. I was curious if that was something you could speak on. If it's something you're fixing. Or not if not, whether or not it's rational.

**Charlie:** Well, all auditors are now paid to find some kind of weakness and then fix it. So there's very few companies that don't have some little material weakness that needs fixing. I am not that worried about the accounting at the Daily Journal. Basically it's more conservative than other people in our industry. And basically we're not trying to mislead anybody. And basically we've got a couple hundred million dollars in marketable securities and we're not mismanaging those, they just sit there. So I don't think we have big accounting problems at the Daily Journal. I think it's typical of the modern developments in accounting that the accountants have gotten... (inaudible)...and they've gotten new responsibilities and they're amorphous. Like "weakness". Well everybody has weakness, you, me. And I don't think there's some wonderful accounting standard where all the accountants know what's weak and what isn't and exactly how much and how dangerous it is. And so I am not much worried about the accounting at the Daily Journal. But I think this business of...everybody in America is worried about somebody hacking in and getting a lot of data, and everybody has some weakness, meaning they're all afraid of, and they're right to be afraid of it. You've got these amorphous terms. I'm just doing the best we can, and taking the blows as they come. Or the benefits too. But I'm not worried about material weaknesses in accounting.

There was a guy name B.B. Robinson when I came to Los Angeles, and he had gotten out of the pools, the stock pools of the 20's, as a young man with 10 or so million dollars, which was a lot of money to come out here in the 30's. When he got here with all this money, he spent his time drinking heavily and chasing movie starlets. And in those days the bankers were more pompous and old fashioned. And one of them called him in and said, 'Mr. Robinson, I'm terribly worried about your drinking all this whisky and chasing all these movie starlets. This is not the kind of thing our sound banks likes.' What B.B. Robinson said to the banker, he said, 'Listen. My Municipal Bonds don't drink.' (laughter) That's basically the answer to the material weakness problem with the Daily Journal. Our lovely marketable securities aren't drinking.

[1:58:38](#)

**Question 36:** If you're not willing to put the work into investigating specific stock investments, that you should perhaps put your money into a passive index fund. One of my advisers is very concerned about the move of capital into index funds for three reasons. First he says, there's an inadvertent concentration into (few) stocks because similar investments in different indexes. Second, he thinks long term, the concentration of capital into preferred companies that are in the index fund...that they're able to raise money easily despite poor performance. And third, he's also concerned long-term that the concentration of the management of these index funds into three institutions which is detrimental to the market place. I'd appreciate your comments.

**Charlie:** I think that a lot of people who are in the business of selling investment advice, hate the fact that the indexes have been outperforming them. And of course, they can't say, "I hate it, because it's ruining my life." But they say, "I hate it because it's too concentrated." Well the index contains 75% of the market capitalization. It's hardly so small. Index investing will work for quite a while when it's so broad. I don't think it's ruining the world or anything like that. It is peculiar that we lived a long time without this. I think it'll keep running a long time forward, and I think it'll work pretty well for a long time. And I suspect most money-managers just hate it. It's making their life hard. But you see I don't mind if people are having a hard life.

2:01:05

**Question 37:** History doesn't repeat itself, but it certainly rhymes. And we're seeing this mania in Bitcoin, that is often akin to the Tulip mania, and I'd like to see your views on how you and Warren navigated through these waters in your several decades of investing. And what it says about the human condition that we tend to keep constantly falling for these things despite what history teaches us otherwise.

**Charlie:** Well you're of course right to suspect that I regard the Bitcoin craze as totally asinine. To create some manufactured currency...A different payment system could happen like WeChat in China. It's a better payment system than the one we have in America. So something like that could happen. But Bitcoin where they're creating an alternative to gold...and then make a big speculative vehicle?...I never considered for one second having anything to do with it. I detested it the moment it was raised, and the more popular it got, the more I hated it. On the other hand, **I expect the world to do insane things from time to time.** Everybody wants easy money. And of course the people who are peddling things and taking money off the top for promoting the investment, they like it too. And so these crazies just keep coming and coming and coming. But who would want their children buying things like Bitcoin? I just hope to God that doesn't happen to my family. It's just disgusting that people would be taken in by something like this. It's crazy. I'm not saying that some different payment system might not be a good thing like WeChat. That could come and be constructive. But Bitcoin is noxious poison. Partly they love it because the computer science is quite intriguing to people with mathematical brains. It's quite a feat what they've done as a matter of pure computer science. But, you know, I'm sure you can get terribly good at torture if you spend a lot of time at it. (laughter) It's not a good development. And the government of China which is stepping on it pretty hard is right and our government's more lax approach to it is wrong. The right answer to stuff like that is to step on it hard, and it's the government's job.

2:04:30

**Question 38:** What are the qualities you look for in a life partner?

**Charlie:** In a life partner? Well I've been quoted on that. I think what you really need in a life-partner, if you're constructed the way I am, is somebody with low expectations.

2:05:23

Well I think it's 12 o'clock and that should probably do for this group. I know you...I'm use to the groupies, but standing up for two hours? I wouldn't stand up for two hours to listen to Isaac Newton if he came back. (laughter) So I guess our meeting is adjourned. I certainly wish you all well, you're my kind of people.