Charlie Munger, Unplugged

The investing legend and longtime deputy to Berkshire Hathaway's Warren Buffett holds court

Charlie Munger, at his home in Los Angeles, discussed his philosophies on business, investing and life. PHOTO: MICHAEL LEWIS FOR THE WALL STREET JOURNAL

By Jason Zweig and Nicole Friedman

May 3, 2019 9:59 p.m. ET

Berkshire Hathaway Inc. BRK.B 1.24% Vice Chairman Charlie Munger, 95, spoke to Wall Street Journal reporters Nicole Friedman and Jason Zweig for six hours over dinner in his Los Angeles home on April 23. He covered a wide array of subjects. Here is an edited transcript from that conversation and a follow-up telephone discussion.

Q: What do you make of the world-wide fan club that you and Warren Buffett have attracted?

A: Well, the world is very peculiar. And these people that like me are mostly nerds in China or India. It's a very deep attachment. They're so passionately interested in improving themselves. Some of them just want to get rich in some easy way, but mostly they're trying to improve themselves.

An awful lot of graduates of great engineering schools are investors. I wouldn't call a man who uses computer science to sift vast amounts of data for correlation, and then starts trading the correlation and if it works, keeps going, and if it doesn't, stops, I wouldn't call him an investor. It's really, what he is is a trader. And those correlations are very peculiar.... Of course, the more people that try and trade that one correlation, once they find it, the less well it works.

Q: If you were just starting out as an investor, what approach would you take?

A: Well, the original [Benjamin] Graham approach of looking for cases where you're getting more than you're paying for is correct. All good investing involves getting a better investment than you're paying for. And you're just looking for it in different places, just as a fisherman can fish in one place or another. But he's always looking for more value than [he's] paying for. That will never go out of style. I mean, that is just basic and fundamental.

Some people look at it in stocks where the earnings are going up all the time, some look at consumer goods, some look at bankruptcies, some look at distressed debt. There are different ways to hunt, just like different places to fish. And that's investing.

And knowing that, of course, one of the tricks is knowing where to fish. Li Lu [of Himalaya Capital Management LLC in Seattle] has made an absolute fortune as an investor using Graham's training to look for deeper values. But if he had done it any place other than China and Korea, his record wouldn't be as good. He fished where the fish were. There were a lot of wonderful, strong companies at very cheap prices over there.

Let me give you an example. One guy in Korea, he cornered the sauce market. And when I say cornered, he had like 95% of all the sauce in Korea. And he couldn't stand anybody else ever selling any sauce. So he could have made two or three times as much if he wanted to by raising the prices.

Li Lu figured that out. It's called Ottogi. And of course we've made 20 for 1. There was nothing like that in the United States.

Q: How should brokers and bankers be paid?

A: I'm afraid that salesmen do have a wonderful incentive. On the other hand, what a salesman will do is just awful, if you give a man a family to support, in the commission system. And the reason that the brokerage houses need such big compliance departments is that, without them, the salesman who needs the commission to live, maintain status, to pay the bills and so forth, if it gets to the end of the month, he would sell a blind man any goddamn thing to get the gross.

It's disgusting. My dead wife had a relative, her mother's cousin, who was a blind doctor. And he had two adopted children. And after he was blind, and he was living on the savings that he'd made from very hard working, he came late to medicine from pharmacy, and he worked hard and he'd saved some money, and that's what he lived on—and this goddamn broker who was married to the adopted daughter, he just churned the old guy until he was broke. He was blind! He was his own father-in-law!

They just think if you need it enough, it's OK to do. And it happens everywhere. And what happened at Wells Fargo was just another instance of that. You get the incentives too tough and too many people will yield.

The mistake [at Wells Fargo] was, when it blew up, they just started firing the people that did it and they fired thousands without changing the incentive system. It was insane but again a dumb bureaucracy, a pompous CEO.

Q: Who would you want to see as the new Wells Fargo CEO?

A: Well, I would have liked to have [outgoing CEO] Tim Sloan stay. The way that place is run, he had no power at all over those divisions of the bank.

And in no sense did he make any of the decisions. And none of those decisions were evil, they were just stupid. They just didn't realize that the incentives were so strong that the people were misbehaving. And, see, the brokers do the same thing Wells Fargo did, they just have a compliance department. So [Wells Fargo] regarded themselves as having a compliance problem. It never occurred to them that something like their own incentive system could be a mistake.

Q: But Wells Fargo had other scandals—before and since.

A: When you have tough incentives that are driving everybody with quotas, of course you'll have scandals. They're now throwing out all those incentive plans, which they should have done in the first place.

Q: Were you and Warren Buffett too close to Wells Fargo to see the problems? Do you feel blame should stick to you?

A: Well, I don't want to be running away from blame. [But] it is completely counterproductive, if you've got a pompous, stupid CEO, to be criticizing him from our position. It's not going to do any good, not going to change, and we have a huge gain now that we'd have had to pay a huge tax if we sold it. So we do not tend—Kovacevich was there first. He never stops talking. And he's full of himself. He would not learn anything from anybody. [Editor's note:Former Wells Fargo CEO Richard Kovacevich declined to comment.]

And the new guy, the next guy, was almost as bad but not so loud and persistent. [Editor's note:A lawyer for John Stumpf, Mr. Kovacevich's successor as Wells Fargo's CEO, declined to comment on his behalf.] And nobody had done any good. So we don't, I can't think of a time—we do try to talk people out of things if we think we've got a chance.

Q: So Wells Fargo wouldn't listen to advice?

A: Kovacevich never listened to anybody. He talked. And the next guy didn't talk all the time, but it just didn't get through to him that the incentives were too tough. He just had—it was a cognitive glitch, not a malevolence.

And that is an interesting question. My own personal opinion is that more damage to the world comes from the cognitive glitches than does from malevolence.

Q: Tim Sloan had been CEO for more than two years. Some critics say he didn't do enough to fix the culture or respond to new scandals.

A: Well, I know more about it than they do. Sloan is a very honorable, good guy. And he's a very good bank lender. And all these banks are using the government's credit to get the money, and all of them will tend to make stupid loans. And so when you get a good lender, that's the last person you want to throw out. So I would have kept Sloan, myself, but nobody asked me.

Q: Who will get the job now?

A: That's a very interesting question. I will hope that it's a banker.

Q: Didn't Warren Buffett say he hopes it isn't somebody from Wall Street?

A: That's Wall Street. I would agree with [not wanting someone from] Wall Street. No, I would like a banker. We'd both like somebody who's already proved he's a good banker. Not from Wall Street. We don't like the Wall Street crowd that is making the damn decisions. They want to do the easy stuff and make a lot of money. They're financial engineers and sales types.

Q: Do you see anybody else who could succeed Warren and you and Jack Bogle [the late founder of the Vanguard Group and pioneer of index funds] in encouraging higher standards of business conduct?

A: You've got to remember, Bogle happened to be right about something important. But that [was] his only advantage. He was a monomaniac. And so that's an odd characteristic. I would not pick Bogle to have the run of the place. He just was very right on one very important subject [the importance of minimizing investment costs], and therefore he's been very useful.

You're asking a lot. You take a big [corporate] bureaucracy and let the wheels of industry grind, the kind of people that come to the top, we know what they look like. They're tall men and they're the kind of men with reasonably high IQs, but not super-brilliant, who would have been elected head of a fraternity house. So that's what rises, you know—what, 80% of the time? And of course that's not perfect. And you want some kind of a philosopher king that can also do the work. You're asking for a lot. It doesn't happen very often.

MORE ON BERKSHIRE HATHAWAY

- Warren Buffett's Empire, in 194,300 Square Feet
- Berkshire Meeting, Now 'Woodstock for Capitalists,' Had Humble Start
- Why Buffett's Play on Occidental Petroleum Looks Familiar
- Rare Move: Berkshire Pursues a Stock Buyback
- Try Your Hand at Berkshire Bingo

What most people don't understand, and this is from a lifetime of experience, and Warren and I have reached exactly the same conclusion: At the top, you need a certain kind of a mind that automatically makes sense about investments and money. Warren calls it the money sense. "The money mind," he calls it. And what I have discovered in a long lifetime is that people have it or they don't, and if they don't have it, you can't create it. It can't be just taught to somebody. You just have it. You either have it or you don't. And one of our secrets [at Berkshire Hathaway] has been that we try and throw the power to people who have it. It's almost an inherited knack. It's like a gift. You just automatically generate it.

But, you know, once you realize that some people have the knack and other people don't and that people with very high IQs, many of them lack the knack —so you can't solve your problem if you want correct thinking by just hiring the bright people, because they do many dumb things.

Once you've got that insight, which is a big one, something follows. And that is that if you're not a prodigy but just have this knack, and if you use the knack to avoid all the big standard asininities of life, just invert the normal thinking problems, I'm just going to, over a broad range of disciplines, I'm just going to avoid all the asininities and I'm going to do that better than other people, then you can become enormously powerful.

Q: What does your workday look like?

A: Well, I have always sought, since I quit law practice [in 1965], to have a lot of time in every day to read and think. And talk to a few friends about this or that. And I don't do that because it will make me more money, I do it because it's my nature. And I had to use that nature because I needed a living for a big family. But it's just my nature.

Warren's the same way. We both hate too many appointments in one day. We both have long segments [of free time]. The lives we live would look to anybody else like academics.

Q I'm surprised you even have a computer.

A: It's not a computer! It's a magnifier. I got this table to hold that magnifier so [with fading vision] I can eventually read a newspaper and so forth.

Q: How much time do you spend reading in a typical day?

A: Oh, it's huge. I read myself to sleep every night. I read enormously. I like doing it. Not only that, what I found very early in life was that once I learned to read and handle elementary math, I really didn't need professors or anything. I could figure out almost anything I wanted better from the written material than from having some professor tell it to me, because he'd be going too fast or too slow or telling me something I already knew or didn't want to know. And so of course I like doing it by reading.

You look at [Andrew] Carnegie and [Benjamin] Franklin, they had a few years of primary school, they learned everything by themselves by reading. Whatever they needed, they just learned. It's not that hard. Imagine educating yourself by firelight, no lamps, no electricity, after a day's brutal work. Our ancestors had it tough.

Q: Do any companies have a sustainable moat against competition from the likes of Amazon? Who is Amazon-proof?

A: I think that Amazon has more to fear from Costco than Costco has to fear from Amazon. Because [Costco has] a better warehouse situation, much cheaper, plus a public that totally believes that anything they sell will be high quality and low price, and so, and they're just the sleeping giant that nobody —they're coming late to any sort of delivery system. But in the end they'll be more efficient and they're already more trusted. So I would say all the figures show that Costco has nothing to fear from Amazon.

Q: What about Berkshire?

A: Everybody else has a lot to fear from Amazon. I didn't name Berkshire! I named Costco.

Q: Can big tech companies survive the political pressure to break them up?

A: The answer to that is yes. I don't think that when these tidal forces of change come in, the politicians, it's like pissing against the tide. It won't work. It's just, the tide is too strong. And my maternal grandfather was in wholesale dry goods. And that had been a permanent fixture of the economic world of the United States for a quarter-century, wholesale dry goods. And when the 1920s came and the chains and Sears Roebuck's rose, every wholesale dry-goods house in the country went broke. Nobody misses them! Nobody could stop the tide, and nobody's going to stop the internet that enabled me to get that table for $100. And everybody's threatened by it. And it's not going away. And it shouldn't go away. Those tides are important.

It's bad for the people whose business gets hit. But it's good for the world that the—what would it be like if we were all digging for potatoes together?

Q: Do you mind going into the living room?

A: Well, I don't like it. But I'm sullen, not rebellious. [Laughter. Mr. Munger stands, with help from his friend Peter Kaufman.] I walk so unsteadily these days. I can barely do it.

Q: Your approach to architecture isn't just a hobby.

A: No. Architects don't love me.

Q: Why not?

A: Because I do it my way. It's not that I don't ever get any good ideas from an architect. I do. But in the end I want the control.

Q: Did you study the basic principles of architecture?

A: Well, of course, I always had the idea, and I think it may come from [the 18th-century British author Samuel] Johnson, that "if a man can walk west, he can walk east." And so what I didn't know, I could always figure out how to do. Now I wouldn't apply that to brain surgery or something, but something like laying out a bunch of shapes on a piece of ground, that's not rocket science….

I have to have something that hits my sweet spots. That's what Old Man [Thomas] Watson used to say when he headed IBM . He said, "I'm only smart in spots but I stay near those spots."

Q: You didn't read any books on architecture?

A: No. Never. I looked at a whole lot of different ways to do things. And I hired people who had done things that I liked.

Q: What would you say were some of your breakthroughs in architectural design?

A: It took me a while. I'm ashamed to tell you how long ago it took me…. It shows that old German saying: 'We're too soon old and too late smart'…. I worked very hard on trying to figure out the right thing to do [with dormitory space] at the University of California, Santa Barbara. That is a very interesting architectural problem.

Q: How so?

A: Well, they don't have enough land. It's just, of course, it's difficult…everything in a crowded place. All these universities, when want to take in more people, they really jam it. And so I designed, I can't tell you, I worked for at least a year and a half on various designs. And the one thing I never got was below two people in every sleeping room because the economics forced the decision. But I always hated it. Because every student hates sharing your own sleeping space with some other person.

And finally one day I was working on it [and] I saw a way to give every student his own sleeping room, small, and the minute I saw that I realized that was the correct solution. And everything I thought before is massively stupid. And I'd worked a year and a half on it!

How can we get any simpler than using the ship-architecture principles on land? If it works on a ship, it'll work on land, and the minute you do that, you get a lot more density of use of land, get huge economic advantages, and the students are nearer one another, which helps the education because they educate each other.

Now, when I went to the University of Michigan, I knew nobody, basically, in the whole goddamn university except the people in my fraternity house, a pretty stupid way to go to a great university. Everyone did it that way in those days and it was really stupid, but I'm still trying to fix that stupidity. Throw people together in a pleasant way. Constructively. Let the little darlings educate one another.

The other thing that was amazing is that, at every campus, all the classrooms and everything are totally vacant except when the classes are there, which is massively stupid. I realized that the same space that would have held a class or a seminar could hold a bunch of students having a private meeting, or a recreational meeting, and the same space that held a lecture hall would do a movie or a musical performance. So I decided to put—into the housing —lecture halls and classroom space that would convert to recreational use.

And that's the most obvious idea in the whole goddamn world. Just think of what sense it makes. Anything else is massively stupid.

But the whole world has been massively stupid on both sides of the Atlantic on that subject for what, 300 years? I'm just changing it. And I know I'm right.

But I didn't come to this with some brilliant flash or something. It took me a long time of wrestling and doing it wrong and drawing and redrawing.

Part of the reason I've been a little more successful than most people is I'm good at destroying my own best-loved ideas. I knew early in life that that would be a useful knack and I've honed it all these years, so I'm pleased when I can destroy an idea that I've worked very hard on over a long period of time. And most people aren't.

Q: Most people hate that.

A: Yes. But actually, I know how much power and wealth is in it, so I like it. Plus that's enlightenment. Power, wealth and enlightenment. Not a bad combination.

Q: Why is it so hard to overturn entrenched ideas?

A: It's insane. I'm fixing a lot of insanity. But that's my standard thing. I don't know how to do anything complicated. I know how to avoid insanity, even if it's conventional. That's all I know. I don't even try to be smart. I just try and be not insane and pay no attention to the traditions.

You want the architecture to facilitate the world the way it is and the world the way it's going to be, not the way the world has been, and it's not very difficult. It's just the most elementary common sense. But you've got to throw away some of the old precedents, which are stupid.

The interesting question is, when things are perfectly obvious and you have a great profession like architecture, why is everybody so massively stupid? And the answer is it's hard to be reasonable. There are a million tricks the human mind plays on its owner. That's what causes stupidity. Think of how many times you've said to yourself, 'Why in the hell did I do that?'

It's just massively stupid. I don't like massively stupid. Berkshire tries to take the decision-making power, where it's important, out of the hands of the stupid and put it into the hands of those people that are good at thinking. That's our secret.

It's the same system as on [the late coach John] Wooden's [UCLA] basketball team, the best in the world. The top seven players did all the playing, and everybody else is just a sparring partner. They help with the training. And once he got to that system, he beat everybody. We're just that way. Every young man wants to buy securities. We don't want young men buying securities! We want a guy who starts above normal and that has a lot of experience like Warren. And Warren doesn't need just any young guy to buy a lot of securities, doesn't need every young man to help. So we have the Wooden system. It works a lot better. But think how much better our record is than the places with armies of people talking to one another.

Q: Do you think Berkshire's returns will shrink?

A: Well, I regard that as like having any concerns about getting old and dying. Of course I don't like it. But of course when you get billions and billions of dollars, the record in terms of percentage terms goes down. I'm not concerned by it, that's what I [expected] from the very beginning and I knew it would happen eventually, but there's no way you keep up the—it's hard to buy and sell billions and billions of dollars in securities and have this wonderful record. And if you care about taxes and so on, it gets even harder. And of course the great records converge down as the assets managed goes up and up.

Now, so far, Li Lu's record [at Himalaya] is just as good with a lot of money as it was with very little. But that is a miracle. It's no accident that the only outside manager I've ever hired is Li Lu. So I'm now batting 1.000. If I try it one more time, I know what will happen. My record will go to hell. [Laughter.]

We'll earn a lower return than we did on the way up. Not only is it harder to have all the extra money, but the times when we had idiot competition when we were young—now we've got tough competition scrounging every area and little niche with massive—no, it's way harder.

It's not a tragedy. In fact, you could argue that if it weren't like that, it would be too unfair.

Q: Should investors still buy Berkshire?

A: Well, compared to what? Compared to ordinary securities, of course. Compared to what we did when we were younger, well, if you've got, if you've got anything like what we had when we were young, then of course you shouldn't buy Berkshire.

Q: Compared to the S&P 500?

A: I think it we'll beat it a little. But that's not bad with a market cap of over $600 billion. That's difficult! Most people won't do as well as we will. I talked to Warren today. We're buying one little company…as we sit here. And we haven't bought anything big for a long, long time. It's really getting hard for us. These other people will pay a lot more.

Q: If there were one company other than Berkshire you would recommend for the next decade or two, what would it be?

A: In America it would be Costco. Other than in America, buy the strongest companies in China.

Q: A lot of young Americans seem to be turning against capitalism, on the grounds that income inequality is out of control. What can be done about that?

A: The world as I know it, from personal experience and from reading, has always concentrated power.

Without the inequality, you don't get modern private-ownership capitalism, which is what produces the plenty. And so even your kids, if they tried to make an equal civilization, and farm the land that way, would end up with not enough to eat. You've got to have individual ownership of a lot of things, with somebody getting and gaining for himself, because otherwise you don't get the plenty. And the only option you have is to make the social safety net big or small, and you can make it stupid or [you can make it] wise[r], the richer you are.

In other words, the better your inequality-producing civilization that produces the plenty is, the more you've got to put into the social safety net. Now if you get a place like Denmark or Sweden or something, a lot of these modern students would like it better, free education, free medical care and so forth. And if you have to bet, the United States will be way more like Canada pretty soon, in terms of more free education at the university level and more Medicare and some kind of medicine for all. And that we can afford without ruining the productivity of the civilization.

…. We can afford [a higher minimum wage]. If you make it too high it will be counterproductive but yes, a prosperous civilization can have a higher minimum wage the way it can have a social safety net. Don't make it too great and you can afford it.

I have more Democratic children than I have Republican children. I've got both.

Q: Why do you think the U.S. will end up looking more like Canada?

A: Because even so, even so, the existing medical system is a monstrosity. [I have a friend whose wife just had a baby,] and his deductible on his medical insurance is $5,000. Well, no ordinary person, a $5,000 deductible to have a baby, that's, they don't have insurance. Yeah. And it's, it's just, it's just deeply wrong. It's stupid. And all of these medical insurers and everybody, as long as they're making money, they don't care how hard it is on people. But people are getting madder and madder, and Todd Combs is working with JPMorgan Chase on this stuff. He would say that the majority of all back surgery in the United States, the students, the patients'd be better off without it. That may be too extreme or he may be right, but I'll bet you the amount of unnecessary back surgery on patients that's allowed to go on today is just—

And medicine is just such a mess now. So much unnecessary surgery, so much unnecessary testing and so much bureaucracy.

Q: What are they going to do at Haven [the new health-care joint venture launched by Berkshire in conjunction with Amazon and JPMorgan Chase & Co.]?

A: Well, it's hard for them. I avoid that like the plague, because it's so difficult. What's going to happen ultimately, I think—but it takes more wisdom than I probably should rationally anticipate—is that the way to eliminate the cost is to have the people providing a lot of the care get paid per head because [then] they've got no incentive to prolong dying to make more money and they've got no incentive to do a lot of unnecessary testing. And then we'll have a Cadillac plan so the rich can buy what they want, because all the rich countries have that—France, England and so forth. And then there will be a big system, elective system, that will look a lot like our present system. They have to have a system that is pretty good that everybody can have.

Q: Do you have any predictions about the Democratic presidential primary?

A: Well, I am fascinated, fascinated, by that [Mayor Pete] Buttigieg. I think he is, he's so refreshingly different from other people. I think he might go a long way. He's thoughtful and a pleasure. Bernie looks like an angry prof up there, lecturing you.

I think [Buttigieg] could go a long way. [Editor's note: Mr. Munger is a lifelong Republican.]

Q: Index funds now own more than 23% of Berkshire's B shares. Do you worry that they are becoming too powerful?

A: It may be good. The truth of the matter is that in the days when a little corporation could do whatever it pleases, provided it mounts the thing and goes through the proxy process, then you had a culture where you can do what you damn please. And the same little crowd, they're all directors of one another's companies. And so now you've got a real shareholder who is permanent in the index thing and of course they don't like it. And now that the index [funds] are starting to push people around a little, it may be a plus. It may make the thing more capitalistic.

Or the index people may go into the wrong hands. We don't know, but it could be a plus. But it will never be considered a plus by the people who are in the corporations. Hell, they like a system where they can do what they want and you would too, if you were at a venture like, something like Procter & Gamble or whatever. You wouldn't want anybody changing your world from the outside.

Q: The concern is that the index funds own every company within an industry and the index funds push them not to compete with each other.

A: Well, so far there's been zero of that. They hate each other so much, and the antitrust laws are so extreme, and people go to the penitentiary for violating them. I think you're actually worrying about something that's very unlikely to happen. We do not want, and the corporations are so big, we wouldn't want Chevron and Exxon getting together and deciding what to do with the price of oil. That would draw a lot of opposition. And the people in the index funds don't want to take it on an antitrust controversy. We [at Berkshire] have the same problem. We have four, five, six, eight, 10% of every airline. And of course the Department of Justice and—we don't even know who's running the airline. We don't know. We're just buying those things as securities and we're not—but my point is, there's this vast interest in our purchasing, and we don't have the slightest interest in how those people will behave or organize some kind of antitrust or trust cabal. And, but even so, there's a lot of watching and interviewing, and the Justice Department contacts us. One doesn't even know names of some of the people who run the airline.

Q: So it isn't a problem that the index funds own roughly a quarter of Berkshire's Class B shares?

A: That's not much voting power. And, and, besides, Warren does not look like a dangerous entrenched cabal of self-centered people. He takes nothing for himself and gives everything to charity. By the way, if you actually look at the part of the world, if you take all of the shares that are owned by foundations or pension plans, it's a very significant amount of the shares world-wide. So it's already pretty socialized. Now it's socialized in favor of the upper-income people because they have the bigger pensions, but, but nonetheless it's, it's quite socialized already.

I hardly know anybody who is living on a big pile of inherited wealth—outside of my own family. Those old families have had divorces and profligates. And there isn't that, there aren't that many. How many people do you know personally that just sit living on a big pile of money?

Q: Is it harder for companies to survive than it used to be?

A: It's not necessarily the internal weaknesses in the organization, it's a fact of life, sort of like death. If you take the hundred biggest corporations in the United States in, say, 1900, there is exactly one left alive [among the list of today's 100 biggest].

But that [turnover on the list] didn't happen because everything got weak. It happened because the competition and the change got so strong. And they all went down. Kodak went down, and Xerox went down [on the list], and the only one that's left is Rockefeller's Standard Oil [today'sExxon Mobil Corp.]. It's those two or three companies that were Rockefeller's that are still strong. Everything else has gone down. GE was the last one, and it's just gone down [off the list].

It's a natural law, but the law is not going down from weakness. A different way of putting it is that they just naturally died from the intensity of the environment. My mother's family business, wholesale dry goods, did not fail because they weren't good at wholesale dry goods. It failed because the goddamn world changed. Well, there wasn't any room for wholesale dry goods houses.

MORE ON CHARLIE MUNGER

- Munger's Side Gig: Designing College Dorms
- When Charlie Munger Calls, Listen and Learn
- Secrets of Buffett's Success, According to Munger
- Munger at 90: Hours of Zingers

Both things happen: The old places get pompous and weak, and the external climate gets tough. And the combination—Fuji [Fujifilm Holdings Corp.] didn't do away with [Eastman] Kodak [Co.]! What did away with Kodak was the new technology that didn't use silver iodide film. Digital photography. Fuji dented it with their competition. But they, but Kodak would still be here [as a top 100 corporation] if all they had was Fuji to worry about. It was the digital stuff that absolutely destroyed them.

Well, it's amazing. Imagine those companies, a name: the U.S. Leather Trust. It was once a trust. It was in the top 100. And so it's—well, they're all gone. And you know, it's even more extreme because since the Rockefeller [oil companies] back then were [traded over-the-counter] in the pink sheets, so it almost didn't trade. You constantly had it as it a private company that might never get listed 100%.

….I had a friend whose father had 1,800 acres of tung-nut oils down in the Gulf, in Mississippi. You put tung-nut oil into the paint, it was the best marine paint in the world. And therefore the U.S. Navy specifications, for decades, required this big percentage of paint in all the Navy vessels to have to come from the tung nut. And so this family, with this very productive supply of tung-nut trees, and this absolute requirement that the Navy use tung-nut oil, the paint with the tung-nut oil in it, they flew back and forth in a private plane between the Cypress Point Country Club and their home, and they minted money.

And then, suddenly, two things happened: No. 1, advanced chemistry got so they could make better artificial oil than the tung-nut tree could, and 2, all the trees died. I watched this family go from enormous prosperity to nothing.

It is dangerous. Who would think of that? It wasn't just one thing that happened, it was two. They couldn't replant or anything, even if they were prepared to wait, because their whole advantage from having tung-nut oil, which was better, went away. It's just—but capitalism is full of stories like what I just told you.

It is humbling, but you shouldn't be surprised. In a world where we all die and all the great institutions that led the world pass the torch to other countries, why should we be surprised that these individual enterprises die or get weak? From death comes life. Well, of course you can just watch the way life eats. You scarcely have time to die before the microbes are eating you, and the worms. Life eats some other life. Life eats life. Think of the extremophiles [microbes that live in harsh environments].

They take in hydrogen sulfide and shit sulfur. Now that was a big surprise. We hadn't known that, we had nothing like that, nobody knew that [there was] any such an alternative form of life. If you would ask a scientist, "Can any living organism take in hydrogen sulfide and shit sulfur and just go on happily living like that?" They would have said, "Are you out of your mind?" [Laughter] That's what they're doing.

Q: So, taking this natural-cycle metaphor, has Berkshire peaked and begun to decay?

A: Well, I think Berkshire on its own momentum will get bigger.... And so Berkshire will get a little bigger for quite a while in the future. But if you take all the conglomerates together, we're not the only successful conglomerate. There're 20 maybe, one of which is Honeywell , and, but we just lost one, the relative insignificance of General Electric —it isn't that there isn't a lot of power left in GE, but they really screwed that up. Again, got a CEO that's too cocky and thought he knew too much.

But they just, it's dangerous to think you know too much and have your ego all involved in showing how smart you are and all that.

It's not an accident we use all of this self-deprecatory humor at Berkshire. It's required for sanity. It really is.

And we do make mistakes. Imagine me taking a year and a half to recognize every student ought to have his own bedroom, a year and a half! How could anybody be that dumb in retrospect? The rest of the world was doing it. So it's following an established pattern. But how could I be that dumb? For that long?! It's just, it's not a difficult thought.

But again, why should there be so much massive stupidity in architecture? In my country club they hired these famous architects to fix the whole damn place. And they made these elementary mistakes with the acoustics, and they would say they had to, they had board members that said, "We can't affront historical preservationists." So they had reasons for the stupidity, but the end result was vast expense and a stupid outcome.

They have huge commercial pressures. Most people who are stupid are under commercial pressures to be stupid. Absolutely.

Q: Someone once asked you what accounts for your investing success, expecting a long complex answer, and you famously replied, "I'm rational." So how do you define rationality?

A: People who say they are rational [should] know how things work, what works and what doesn't, and why. That's rationality. It doesn't help if you just know what's worked before, because if you know why, then you'll be better at it. So rationality is: Across a broad range of disciplines, you know what works and what doesn't and why.

That's why somebody like [the late Singaporean prime minister] Lee Kuan Yew was the best nation-builder that probably ever existed in the history of the earth. His motto was: Always figure out what works and do it. Figure out what works and do it. You're going to figure what works and do it [while] the rest of the world wants to please others or they want to do something or other. I want to be: Figure out what works and do it.

And I get such pleasure out of figuring something out that's not really working. I'm quite happy sitting with engineering paper doodling, looking for some little thing that can make some project better—or make some investment make sense.

Q: Didn't Lee Kuan Yew say something about the importance of benefiting from lessons paid for by others?

A: Of course! I want to learn as much as I can vicariously. It's too painful to do it by personal hardship. Of course. I collect big calamities in my head and big stupidities. I do that so I can avoid them. Think of how little in the way of big calamity has ever come to Berkshire. And it's not that we don't ever have reverses and disappointments in that or never have whole businesses disappear. But averaged out, we have less misfortune than others.

Another thing that really helps is people, a lot of people think that real selfishness, very extreme, is what works. But it doesn't.

If you have a reputation for being decent to work with and unselfish, you make more money, not less. And at Berkshire, I can't tell you the things that we have bought where the people wanted a good home for something that they love and they trusted us to take care of their loved one. That sounds ridiculous to talk about, in that language about businesses. But why wouldn't you love something you spent your life building up? It's very natural to love it – it's your own creation. Of course you want it in good hands.

And so, so, good morals and a reputation for good morals are enormously valuable, and it's just so simple…. The right way to go through life is win-win. Just anything else is crazy. To be all take and no give is just an absolute disaster.

Q: What do you make of all the sexual-harassment scandals in the last couple of years?

A: Somebody like that ought to go to the lowest circle of hell. To use power to force everybody into your own, sort of a sexual plaything, it's deeply wrong. The world is changing…. Let me try one.

These goddamn payday lenders, they're the scum of the earth. Everybody's working on it but not hard enough. That's a group that ought to be forced out of existence.

And the way we abuse the poor with the lottery! Think of how contrary it is to the interests of the poor to play the lottery. It's like a tax on ignorance. They're vulnerable. I don't think we should be doing that, but of course everything like it I'm voting against. I always vote against legalized gambling. I just lose all the time. I feel like I'm pushing on a straw and somebody is just pushing back harder every time.

Q: There's talk of a delayed-gratification gene—

A: I've also got the money-sense gene. The first 13 years I practiced law, my income [from practicing law] was $300,000 total. At the end of that 13 years, what did I have? A house. Two cars. And $300,000 of liquid assets. Everyone else'd have spent that slender income, not invested it shrewdly, and so forth.

I just think it was, to me, it was as natural as breathing, and of course I knew how compound interest worked! I knew when I saved $10 I was really saving $100 or $1,000 [because of the future growth of the $10], and it just took a little wait. And when I quit law practice it was because I wanted to work for myself instead of my clients, because I knew I could do better than they did.

You only get a few opportunities, and you have to grab them aggressively when they come because even in the most favored life, they're really rare. My mother listened to all this stuff, and it meant nothing to her. She was never interested in money or worldly success, but she just appropriated the stories to me because they'd amused her.

I always feel that the opportunities are rare. I only get a few and then I have to seize them aggressively.

Now that lesson I just talked about, it is taught in no business school I know of. But…everybody who has any sense ought to know [that] at the start of life, and practically nobody does.

Maybe there will only be one Mr. Right or Mrs. Right. You missed that one and your life is not going to be the same. You've blown it—big time. [Laughter.] But why wouldn't they teach that in every business school? The answer is the professors don't know it!

I just described reality the way it really is. How many, if I took the 30 biggest transactions out of Berkshire [in the past] 60 years, what would Berkshire be? Not much. I mean we wouldn't be poor, but we wouldn't be rich either. Maybe once every two years we had a major opportunity. Not very many.

Charlie Munger (right) says his longtime business partner Warren Buffett (left) "gets a headache if he's in a big meeting where a lot of other people are saying dumb things." PHOTO: JOHANNES EISELE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Q: What about mistakes?

A: In 1966 Berkshire bought that department store in Baltimore, Hochschild-Kohn, and we knew within a few months. We knew we'd made a big mistake and it was going to go to zero eventually. And Sandy Gottesman [of First Manhattan Co.] knew some people who bought the thing, and we took a minor loss on it. And then we had all this money that came in in the middle of a panic…. And we bought our own stocks, all of them, a third of what they were worth. So our stupidity made us rich, buying Hochschild-Kohn.

It, it was really, it's a combination of aggression and stupidity, but I think that's a normal life. Without the aggression and the idea that opportunities will be few, you're not going to have a great result as an investor over a lifetime.

And of course they tend to teach things as if investment were radiology: Anybody can learn it. And anybody can learn radiology. They know what cancer looks like, what and what, and you can learn it. But there is no such thing in investment where you can just learn it and it will always work. There are times when it works well and times when it doesn’t, and there’s good fishing grounds and bad fishing grounds and there’s all kinds of things. That isn’t the way they teach it.

Q: What do you think is the biggest misconception that people have about you?

A: What people think about us is very simple. They think we’re interesting, we’re successful, we’re peculiar, and it really doesn’t matter to them. They live in a different world and it’s just, it’s too hard. We don’t fit the models. We’re disrespectful of conventional wisdom. Now, of course, people don’t like it, but since we’re polite and humorous, they don’t hate us, but they don’t really like it.

And if you take some profession that I really detest like, like, payday lending, I will say things about people like that that are distinctly critical. For that, I’m going to be hated by the payday lenders. But I’m not going to change. It’s too late.

What Warren and I have had that really is—if you would take the, our partners, our business associates and partners, we’ve had just one great moral relationship after another over a lifetime…. That has just been a huge success because we couldn’t do all this ourselves.

And Greg Abel, who runs Berkshire Hathaway Energy, he may be one of the greatest contributions. He isn’t as good an investor as Warren. But as a businessman, in many ways he’s better.

Q: Why do you say that?

A: Well, he knows how to run a bunch of utilities, all the engineering and everything else, and he’s very safety-conscious and he’s a marvelous human being.

And another thing that people don’t understand is the dysfunctions that come naturally with bureaucracy, just you get a whole lot of departments and a whole lot of that kind of thing.

But I don’t go to meetings. Warren doesn’t go to meetings.

Put that in your article: There’s practically no meetings in the whole Berkshire culture. There are a few telephone calls and no meetings. I don’t care if you print this. Warren gets a headache if he’s in a big meeting where a lot of other people are saying dumb things. He gets a sick headache. He’s not feigning it. He actually does.

So part of Berkshire’s secret is, we don’t have the meetings, we don’t have the bureaucracy. We’ve concentrated a lot of power in the Greg Abels and so forth. It works better averaged out.

But there’s no way to use Berkshire as a universal model.

Q: But why isn't Berkshire easier to emulate?

A: We're talking about very simple ideas of just figuring out the standard stupidities and avoiding them. And I actually collect them!

Some people collect stamps. I collect insanities and absurdities. And then I avoid them, and it's amazing how well it works, because I've gone by [the examples of] all these people that are more talented than I am.

If I had set out to invent more quantum mechanics, I would've been an also-ran. I just set out to avoid the standard stupidities, and I've done a lot better than many people who mastered quantum mechanics.

And it's a way for mediocre people to get ahead and it's, it's not much of a secret either. Just avoid all the standard stupidities. There are so many of them, and so many brilliant people do it.

Being a prodigy is hard. I'm not trying to be a prodigy, I'm just trying to avoid the inanities, including the inanities of the prodigies!

….That enables a man of moderate abilities and moderate work habits to get so much more than his logical deserts. Think of the talent it takes to make a lot of money.

Q: Are buyouts by private-equity funds causing a bubble?

A: No, it's not nearly as bad as it was in the, in the real-estate boom, when people went stark-raving mad. No, it's not nearly as bad…. It's building up toward trouble. There [in the mid-2000s], they were loaning to people who couldn't possibly pay the money back and dealing with crooked developers. This is not nearly that bad, but of course it's building toward trouble. So far, the loans are being paid and the private equity is working out. Not any ghastly big blowups yet. But what would happen if we had a big contraction, with this system, would not be pretty. It's not got a whole lot of safety shock-absorbers in it. That's not smart if you're running a capitalist economy.

I don't like people who make people hate capitalism, because I think they're bringing discredit on it among people like your children's generation, bringing capitalism into discredit it doesn't deserve.

They're damaging the republic, because I don't like investment bankers and I don't like most of these money managers that well…. They don't know anything. We have a lot of stupid people in the investment world.

You're constantly recruiting young men who want to get rich, of course it's going to go to excess. What do you expect with young men? They behave like the Duke basketball or lacrosse team or whatever it was and they just, that's just the way it is.

….Everything gets overdone and overpushed when you're feeding it gazillions of young men who want to get rich, and all of them are bringing in more young men want to get rich, and of course that's created a ghastly culture.

Even though you're very ambitious and you grab your opportunities and all that, you shouldn't go crazy. They'll keep piling on the leverage and piling on the aggression. Of course that eventually causes trouble.

What I do is I give power to unusually talented people. That's the only thing I can do. And really ridiculous ideas I don't let them do.

Q: Is being in the public eye partly an act?

A: My favorite quotation of all life comes from acting. Late in life, Sir Cedric Hardwicke, who I always liked, an old English actor, he said the following: "I have been a great actor for so long that I no longer know what I truly think on any subject." [Editor's note: QuoteInvestigator.com, a website that verifies quotations, wasn't able to verify the origins of this line.] And I think when you pretend to believe this or that all the time, it's so habit-forming to your mind that you do get confused about what in the hell you really know.

I think he was speaking the literal truth. That's what happens to our politicians and some of our business figures too. If you read the annual reports and the statements, say on CNBC, of our CEOs, it's always robust, they're solving all the problems, they've got great people. You know it has to be horseshit half the time, yet I think every one of them believes it. They're like Sir Cedric Hardwicke: "I no longer know what I truly think on any subject." They brainwash themselves. I don't do that.

If I have to be a little bit more cheerful about things, then I say to myself, 'I'm lying, but I'm going to do it anyway.' [Pause.] I had a son [Teddy] who died [of leukemia in 1955]. I told him he wasn't going to die. When he started his thing, I lied. It just killed me, but I just lied to him. [Long pause.] He was 9 years old. [Extended pause.] I'm sure I did the right thing, but it hurts. [Clears his throat.]

But Sir Cedric Hardwicke, he diagnoses it correctly. People—when you're shouting it out, you're pounding it in. That's the great rule of life. And that means it's dangerous to shout things out to impress other people.

It'll be much better if you say, 'Here's a lie I'm going to tell,' the way I did with my son, 'Here's a lie I'm going to tell, because I have to.'

….Carl Reichardt, the old CEO of Wells Fargo, I asked him why he'd done some dumb thing and he said, "Charlie, I had my head up my ass." Now, that is my kind of a CEO. He wasn't kidding, and he was one of the most successful CEOs in the world. And he gave an exact account of what he'd done.

I'll tell you something else. I know some wonderful people. If you take all the people I've worked with in my life, all my business partners, and I've had quite a few by now. All the people I've worked with including Warren, all the people we've worked with and for. It's been a wonderful ride. And there's been a lot of humor in it too.

You get good partners by deserving them. Everybody who trusted me when I was young is rich, if they stayed the course. Every single one. That gives me pleasure.

But I also think there was some luck in it. I think these good records that are really unusually high are always some able person that also has had some good luck. How else would you get a very outlandish result? Of course [it's] a combination of good luck and ability. How could it be otherwise?

Q: How about staying within the rules?

A: We don't allow our legal department to have that kind of power. We don't have a legal department. There's nobody to do it.

I hate to be too tough on the law business, which is my former profession and my father's and my grandfather's. But I don't like the way the law business has evolved. Paying these very high hourly rates amid this big internal pressure to bill more and more and more, and getting pretty pompous, and then a lot of make-work.

It's quite typical in the world of private equity to do what's called due diligence. And they send armies of young men around to check all the purchase orders or something, someplace. Berkshire has never done any of that. Ever! And we've acquired more good companies with good results than anybody else.

It's all just pure bullshit make-work crapola. And yet they do it, and it's very remunerative. But when you do that, time and time again, and you're staying up til 4 in the morning and billing $500 an hour to some unsuspecting bunch of pensioners, it's just disgusting.

[One private-equity firm,] they've got a fishing ranch right below my place in Colorado. They feed the fish with pellets all year round so every trout gains like 6 pounds. And they bring out these investment officers from XYZ pension fund, and they catch these big trout. This really happens! That's just normal business to them.

I think the correct rule on that stuff, if you're dealing with public pension funds, is you never talk to them anywhere except their offices and you never let them accept so much as a handkerchief. That's the correct rule. It just, it creeps otherwise.

Q: What do you think of the 1MDB scandal [in which Goldman Sachs Group Inc. bankers got entangled in 1Malaysia Development Bhd., a corrupt investment fund]?

A: That was a ghastly story, and of course Goldman Sachs does not look at all well in that. And they deserve to look terribly. I don't like a system where any way of making money you would refrain from only for prudential reasons. There's never a moral reason, where you say, "This is beneath me." Think of how crazy it is to have only a prudential limit put on your conduct, totally. Think of the trouble that causes. Why, if you're as rich as Goldman Sachs, do you want the headlines for being involved in a nasty cheating scandal in Malaysia? [Editor's note: Goldman Sachs declined to comment.]

Q: I wouldn't ask most people this, but I'm sure you won't mind. What would you want the first paragraph of your obituary to say?

A: Both Warren and I feel it's our moral duty to be as rational as we can possibly be. A lot of people who are brilliant in some ways tend to make these utterly asinine decisions in other ways. We both tend to collect the asininities of the world in a kind of checklist. And we try to avoid everything on the checklist.