

**Charlie:** Gerry, is there anything else that I'm suppose to do?

**Gerry Salzman:** That's it Charlie.

**Charlie:** It's very burdensome. (laughter) So many of you have come from such great distances (that) I'm going to speak briefly on a number of topics that may interest you and then I'm going to take questions.

It's amazing the number of people at the meeting of the little Daily Journal Corporation which after all is a pretty small operation. We've got two businesses one a steadily declining legal newspaper which now earns about a million in a year pre-tax and shrinking, and a computer software business where we're trying to automate courts and justice agencies and various other governmental departments. And that is now bigger by far in terms of prospects and customers and employees and so forth than our shrinking newspaper business. It hardly can be imagined how hard it is to deal with a whole bunch of different courts in different states and their advisers and the RFP process and the bureaucracy. This is a part of the software business that the giants tend to hate. They like a business where you just stamp out an extra copy of something and 98 percent of the revenues go immediately into the till as cash and there's no extra work. And that is not handling a bunch of justice agencies, attorney generals, state courts, federal courts, and so forth all over the country with different requirements, different consultants, and of course steady and aggressive competition. The nature of our business it's more like technical consulting than it is just stamping out software. It's a very high service business. It's very difficult. The computer science is time consuming and difficult. But just dealing with that much bureaucracy over that many different fields with the political realities...it's just immensely difficult. So it's a very slow grinding business and that's the nature of the game. We have always liked it because a business like this requires a company that's very rich and very determined and is willing to keep plugging. And of course that's what the Daily Journal has done.

How are we doing? Well that's hard to judge, but I would say watching it quite closely that it's like a pharmaceutical company with seven wonderful drugs in the pipeline. We have a lot in the pipeline that is very very important to us. Australia, Canada, California. We're talking big big markets.

Our main competitor is Tyler Technologies which is listed on the New York Stock Exchange and of course they've been at it a long time and are way bigger, but we are getting some significant volume and we have some very pleased customers. How in the hell does the little Daily Journal Corporation attract the Government of Australia? Australia is a big place. But I've gotten to love the Australians and I think it's going to succeed in Australia, mightily. And so it takes a long time and it's hard work and it's also very difficult work. Not everybody can do this. Just the mass of complexity. We would never be where we are if we didn't have Gerry Salzman to do everything he's done over the last ten years. Anybody else would have failed at this. Now Gerry is 80 and he and I have one thing in common, we both use canes. When I'm not in a wheelchair I use a cane. So the idea of taking on the whole world when the chairman is 95 and the vice chairman is 89 and the chief executive that does all the work is 80 and uses a cane...It's a very peculiar place that you people have come a long way to. What the hell are you thinking about? (laughter)

It's weird and what's happened of course is that we're standing a bit for some combination of basic morality and sturdy common sense. And it's amazing how well Berkshire Hathaway, and the Daily Journal for that matter, have succeeded with nothing more than basic morality and sturdy common sense. But of course when people talk about common sense they mean 'uncommon sense'. Every time you hear that somebody has a lot of common sense it means he's got uncommon sense. And it is much harder to have common sense than it is generally thought.

Let me give you an interesting example. The investment world involves an enormous amount of high IQ people trying to be more skillful than normal. You can hardly imagine another activity that gets so much attention. And weird things have happened. Years ago one of our local investment counseling shops, a very big one, they were looking for a way to get an advantage over other investment counseling shops. And they reasoned as follows. We've got all these brilliant young people from Wharton and Harvard and so forth and they work so hard trying to understand business and market trends and everything else. And if we just ask each one of our most brilliant men for their single best idea then created a formula with this collection of best ideas, we would outperform averages by a big amount. And that seem plausible to them because they were ill-educated. That's what happens when you go to Harvard and Wharton. So they tried it out, and of course it failed utterly. So they tried it again and it failed utterly. And they tried it a third time and it also failed. Of course what they were looking for is the equivalent of the alchemists of centuries ago who wanted to turn lead into gold. They thought if you could just buy a lot of lead and wave your magic wand over and it turned into gold, that would be a good way to make money. This counseling shop was looking for the equivalent of turning lead into gold and of course it didn't work. I could've told them but they didn't ask me. Nothing.

The interesting thing about this situation is that this is a very intelligent group of people that's come from all over the world. You've got a lot of bright people from China where people tend to average out a little smarter. And the issue is very simple. It's a simple question. Why did that plausible idea fail? Just think about it for a minute. You've all been to fancy educational institutions. I'll bet you there's hardly one in the audience who knows why that thing failed. That's a pretty ridiculous demonstration I'm making. How could you not know that? It's one of the main activity of America with an obvious and important failure. Surely we can [explain it!](#) You have to have stayed awake in your freshman college courses to answer that question. But if you ask that question at a Department of Finance at a leading place, the professors wouldn't answer it right. Now I'm going to leave you that question because I want you perplexed. (Laughter) And I will go on to another issue.

But that's one you should be able to answer. It shows how hard it is to be rational on something very simple. How hard it is...How many kind of crazy ideas people have and don't work, and you don't even know why they don't work even though it's perfectly obvious if you've been properly educated. And by the way ***my definition of being properly educated is being right when the professor is wrong. Anybody can spit back what the professor tells you. The trick is to know when he's right and when he's wrong. That's the properly educated person.*** And of course they're frequently wrong particularly in the soft sciences. In fact if you look at a modern elite institution, it's fair to say that a lot of the faculty are a little crazy. It's so left wing now in the humanities and it's very peculiar. That's another thing. Why should 90 percent of the college professors in the humanities be very left wing? I leave that question for you too. But it happens.

Another issue of course that's happened in the world of stock picking, where all this money and effort goes into trying to be rational, is that we've had a really horrible thing happen to the investment counseling class. And that is these index funds have come along and they basically beat everybody. And not only that, the amount by which they beat everybody is roughly the amount of cost of running the operation and making the changes in investments. So you have a whole profession that is basically being paid for accomplishing practically nothing. This is very peculiar. This is not the case with bowel surgery or even the criminal defense bar in the law or something. They have a whole profession where the chosen activity they've selected they can't do anything.

Now in the old days the people in the profession always had some of this problem and they rationalized as follows. 'We are saving our clients from the insurance salesman and the stock broker, the standard stock broker that serves the active trader.' And they were saving people from the life insurance salesman and the hustling stockbroker who liked active trading. And I suppose in a sense that the investing class is still saving those people from an even worse fate.

But it is very peculiar when a whole profession that works so hard, and is so admirable, and the members of which we are delighted when they marry into our families, and they just can't do what their profession is really trying to do, which is get better than average results. How is that profession handling this terrible situation, as index investing gets more and more popular and including a lot of fancy places?

Well it's a very simple answer, they're handling it with denial. They have a horrible problem they can't fix, so they just treat it as nonexistent. This is a very stupid way to handle a problem. Now it may be good when you're thinking about your own death which you can't fix and it's just denial all the way to the end. But in all the practical fields of life, this problem thoroughly understood is half solved or better coped with.

So it's wrong to have all these people in just a state of denial and doing what they always did year after year and hoping that the world would keep paying them for it even though an unmanaged index is virtually certain to do better. It's a very serious problem. And think of how much New York say needs a flow of money from finance. Think what would happen to Manhattan if there weren't any fees for investment management or trading spreads and so on. So it's a weird situation and of course it's unpleasant. Big investment counseling shops, some of them shrink and some go out of business. And the value investors, of course who many of I know because we came from that tradition, the value investors who were honorable are quitting. Boom. Boom. Boom. And what worked for them for years stopped working and they're honorable people they just quit. And they're also rich which makes it easy. But those who aren't rich have a hell of a problem. And it costs about fifty thousand dollars in the city of Manhattan to send your kid to pre-school. Non-deductible. And that's just the start of an endless procession of years of vast expense. So if your game is money management you have a serious problem. I don't have any solution for this problem. I do think that index investing, if everybody did it won't work. But for another considerable period, index investing is going to work better than active stock picking where you try and know a lot.

Now at a place like Berkshire Hathaway or even the Daily Journal, we've done better than average. And now there's a question, why has that happened? Why has that happened? And

the answer is pretty simple. **We tried to do less.** We never had the illusion we could just hire a bunch of bright young people and they would know more than anybody about canned soup and aerospace and utilities and so on and so on and so on. We never had that dream. **We never thought we could get really useful information on all subjects like Jim Cramer pretends to have. (laughter) We always realized that if we worked very hard we can find a few things where we were right. And that a few things were enough. And that that was a reasonable expectation.** That is a very different way to approach the process. And if you had asked Warren Buffett the same thing that this investment counseling did, "Give me your best idea this year.", and you had just followed Warren's best idea, you would find it worked beautifully. But he wasn't trying to know the whole...he would give you one or two stocks. **He had more limited ambitions.**

I had a grandfather who was very useful to me, my mother's grandfather, and he was a pioneer. He came out to Iowa with no money but youth and health and took it away from the Indians. He fought in the Black Hawk...he was a Captain in the Black Hawk Wars, and he stayed there and he bought cheap land and he was aggressive and intelligent and so forth and eventually he was the richest man in the town and owned the bank, and highly regarded, and a huge family, and a very happy life. He had the attitude...having come out to Iowa when the land was not much more than a dollar an acre, and having stayed there until that black topsoil created a modern rich civilization, and some of the best land in the world...His attitude was that in a favored life like his, when you were located in the right place, you just got a few opportunities if you lived to be about 90. And that the trick in coming out well was seizing a few opportunities that were your fair share that came along when they did. And he told that story over and over again to the grandchildren that hung around him all summer, and my mother who had no interest in money remembered the story and told it to me. But I'm not my mother's natural imitator and I knew Grandpa Ingham was right. And so I always knew from...when I was a little boy that the opportunities that were important...that were gonna come to me...were few and the trick was to prepare myself for seizing the few that came. This is not the attitude that they have at a big investment counseling thing. They think if they study a million things they can know a million things. And of course the result is that almost nobody can outperform an index. Whereas I sit here with my Daily Journal stock, my Berkshire Hathaway stock, my holdings in Li Lu's Asian fund, my Costco stock, and of course I'm outperforming everybody. (laughter) And I'm ninety-five years old. And I practically never have a transaction. And the answer is that I'm right and they're wrong. And that's why it's worked for me and not for them. **And now the question is do you want to be more like me or more like them?**

The idea of diversification makes sense to a point if you don't know what you're doing and you want the standard result and not be embarrassed, why course you can widely diverse. Nobody's entitled to a lot of money for recognizing that because it's a truism it's like knowing that two and two equals four. But the investment professionals think they're helping you by arranging diversification. An idiot could diversify a portfolio! Or a computer for that matter. **But the whole trick of the game is to have a few times when you know that something is better than average and to invest only where you have that extra knowledge. And then if you get just a few opportunities that's enough. What the hell do you care if you own three securities and J.P. Morgan Chase owns a hundred? What's wrong with owning a few securities?** Warren always says that if you lived in a growing town and you owned stock in three of the best enterprises in the town, isn't that diversified enough? The answer is of course it is...if they're all wonderful places. And that Fortune's formula which got so famous which was a

formula to tell people how much to bet on each transaction if you had an edge. And of course the bigger your edge, the more close the transaction was to a certain winner, the more you should bet...And of course there's mathematics behind it...But of course it's true. It's perfectly possible to buy only one thing because the opportunity is so great and it's such a cinch. There are only two or three. ***So the whole idea of diversification when you're looking for excellence, is totally ridiculous. It doesn't work. It gives you an impossible task. What fun is it to do an impossible task over and over again?*** I find it agony. Who would want to do it? And I don't see a way...

My father had a client, he was a lawyer in Omaha, he had a client whose husband had a little soap company. The guy died and my father's sold the soap company. This woman was one of the richest people in town in the middle of the depression, and what she had was a little soap company and the biggest mansion in Omaha's best neighborhood. When they sold the soap company she had a mansion in the best neighborhood and three hundred thousand dollars. But three hundred thousand dollars in nineteen thirty something was an incredible amount of money. A little hamburger it was a nickel a big hamburger was a dime, and the all you can eat cafe in Omaha would feed you all needed to stay alive for two bits a day. I mean 300,000... Well she didn't hire an investment counselor, she didn't do anything, she's a wonderful old woman. She just took that, she divided it into five chunks, and she bought five stocks. I remember three of them because I probated her estate. One of them was General Electric, one was Dow, one was Dupont, and I forget the other two. Then she never changed those stocks. She never paid any adviser. She never did anything, and she bought some municipal bonds, she never spent her income, and she bought some municipal bonds from time to time with the (inaudible). By the time she died in the 50s she had a million and a half dollars. No cost. No expenses. I said, "How did you decide to do that?" And "Well..." she said, "I thought electricity and chemistry were the coming things." She just chucked it all in and sat on her ass. I always liked that little old woman. My kind of a girl. But it's rare!

But if you stop to think about it, think of all the expense and palaver that she didn't have to listen to and all the trouble she avoided, and zero costs. And of course what people don't realize, because they're so mathematically illiterate, is if you make 5 percent and pay 2 of it to your advisors, you're not losing 40 percent of your future you're losing 90 percent. Because over a long period of time that little difference causes a 90 percent disadvantage to you. So it's hugely important for somebody who's a long term holder not to be paying a big annual toll out of the performance. And of course there are a few big time advisors now who are using indexation very heavily. And of course they're prospering mightily. And of course every time they get somebody it's just agony for the rest of the investment counseling business. This is a very serious problem. And I think these people who were used to winning as old-time value investors who are now just quitting the profession. That's a very understandable thing to do. I regarded it as more noble than staying in...you know...playing along with the denial. It's an interesting problem.

You can see I'm not trying to make your morning. I'm just trying to describe things the way they are. But this business... ***Why does Li Lu succeed so mightily? Well partly he's sort of a Chinese Warren Buffet. That really helps. And partly he's fishing in China! Not in this over-searched, over-populated, highly competitive American market, and there's still pockets of ignorance and lassitude in China that gave him so unusual opportunities.*** The first rule in fishing has always been fish where the fish are. And the second rule of fishing has always been 'Don't forget rule number one'. ***And Li Lu just went where the fishing was good***

**and the rest of us are like cod fishermen who are trying to catch cod where the fish have been fished out. It doesn't matter how much you work, when there's that much competition.** Every little idea I see in the world some are going after. I sat once on an investment committee at the University of Michigan and in came one of their successful investors located in London. And what had this investor done in London? He decided to invest in sub-Saharan Africa. And the only marginal securities were a few banks that traded in the Pink Sheets, so he would buy very tiny quantities of these banks. And every time some poor person got tired of having their money in the mattress and put it in a bank he did a little better. And of course he made a lot of money. Nobody else was investing in little tiny banks in Africa. But the niche was soon filled. What the hell do you do for an encore after you put your client's money in a bunch of little tiny banks in sub-Saharan Africa? The niche gets filled quickly. How many wonderful niches are there going to be when some guy in London is buying all these tiny little bank stocks in Africa? It's hard.

Then if you take the modern world where people are trying to teach you how to come in and trade actively in stocks. Well I regard that as roughly equivalent to trying to induce a bunch of young people to start off on heroin. It is really stupid. And when you're already rich to make your money by encouraging people to get rich by trading? And then there are people on the TV, another wonderful place, and they say, "I have this book that will teach you how to make 300 percent a year. All you have to do is pay for shipping and I will mail it to you!" (laughter) How likely is it that a person who suddenly found a way to make 300 percent a year would be trying to sell books on the internet to you! (laughter) It's ridiculous. And yet I've described modern commerce. And the people who do this all day think they're useful citizens. The advertising agents who invent the lingo. In insurance they say, "Well" they say, "the two people who shifted from Geico to the Glotz insurance company save four hundred dollars each." But what they don't tell is that there are only two such people in the whole United States and they were both nuts. But they mislead you on purpose. I get tired of it and I don't think it's right that we deliberately mislead people as much as we do.

Let me tell you another story that I think is an interesting one about the modern life, but this goes back to a different time. This man has this wonderful horse. And it's just a marvelous horse. It's got an easy gait, good looking, and everything. It just works wonderfully. But also occasionally it just gets so he's dangerous and vicious and causes enormous damage and trouble and breaks arms and legs for his rider and so on. And he goes to vet and says, "What can I do about this horse?" And the vet says, "That's a very easy problem and I'm glad to help you." And he says, "What should I do?" And the man says, "The next time your horse is behaving well, sell it." (laughter) Think about it immoral that is. And haven't I just described what private equity has to do? (laughter) When private equity has to sell something that's really troublesome, they hire an investment banker. And what does investment banker do? He makes a projection! **I have never seen such expertise in my whole life, as is created in making projections in investment banking. There is no business so lousy that it can't get a wonderful projection.** But is that a great way to make a living to have phony projections and use it to make money out of people you look right into their eyes of? I would say no.

By and large Warren and I, we never tried to make money out...stupidity of our dumb buyers. We tried to make money by buying, and **if we were selling horseshit we didn't want to pretend it was a cure for arthritis.** (laughter) And I think it's better to go through life our way instead of theirs. I think it's always been this way, I think there's always been chicanery. Think of



the carnivals, the carny operator. Think of how much trickery there is in a carny operation. ***People just seek out the weaknesses of their fellow man and take advantage. And you have to get wise enough so you avoid them all.*** And you can't avoid them if they're in your family. I have no solution to that one. (laughter) But where you have a fair choice, there are just so many people that should be avoided.

My father had this best friend and client and he also had this other client who is a big blowhard and he was always working for the big blowhard and he wasn't ever working for his wonderful client whom I admired. And I said, "Why do you do this?" And he said, "Charlie you idiot..." He says, "the big blowhard is an endless source of legal troubles. He's always in trouble. Overreaching and misbehaving and so forth. Whereas Grant McFadden treats everybody right. The employees, the customers, everything. And if he gets involved with some psychotic he walks over there and makes a graceful exit immediately. A man like that doesn't need a lawyer." My father was trying to teach me something and it really worked. I spent my whole life trying to be like Grant McFadden and I want to tell you it works. It really works. Peter Kaufman is always telling me if the crooks only knew how much money you could make by being honest, they'd all behave differently. Warren has a wonderful saying that I like, he says, "You take the high road. It's never crowded." And it's worked.

Take the Daily Journal Corporation. We made quite a few millions of dollars out of the foreclosure boom because we published legal notices and we dominated the publication of foreclosure notices in the worst real estate depression in the history of modern times. And we could have raised our prices at the time and made more tens of millions of dollars. But we didn't do it. You know what your fellow citizens are losing their damn houses in the worst recession... 'Charlie Munger billionaire raises prices'. It would look lousy on the front page of the paper (if people read the story). Should you do it? And the answer is no of course not. Warren always said it's probably always a mistake to marry for money and it's really stupid if you're already rich.

And it's really stupid when you're already rich to get a reputation of being a total no-goodnik. Rick Guerin always loved the story about the guy who had been a total miscreant all his life, and (when) he died the minister said, "Now is the time in the funeral ceremony when somebody says something nice about the deceased." And nobody came forward and nobody came forward and nobody came forward. Finally one guy stood up and he said, "Well" he said, "His brother was worse." (laughter) Well you can laugh but there are people like that. When [Harry Cohn](#) died here the saying was that everybody went to the funeral to make sure he was dead.

So there are a few simple truths that really work. And when it gets to this difficult business the Daily Journal is in, I wouldn't say it is a real pleasure to be serving these courts and agencies. They need the automation. Other people are trying to take advantage of them in ways that we aren't. And we're struggling against the odds (being) a little tiny company. And we're taking a lot of territory. It's slow going but the prospects are good. And of course the nice thing about being rich is that it doesn't matter if it's a little slow. And how do we get rich? Well we remembered Grandpa Ingham, and when one of the few opportunities came along we reached out and seized it. Think of how your life works?

In my life, to give another example, the Mungers would have twice the assets they now have if I hadn't made one mistake of omission back in nineteen 70s. And...really stupid. I blew an opportunity that would have doubled my present net worth. That is a normal life. You get one or two. And how things work out...We all know people that are out married, I mean their spouses are so much better. Think of what a good decision that was for them. And what a lucky decision. Way more important than money. A lot of them did it when they were young, they just stumbled into it. Now you don't have to stumble into it, you can be very careful. A lot of people are wearing signs, "Danger. Danger. Do not touch." And people just charged right ahead. (laughter) That's a mistake. Well you can laugh but it's still a horrible mistake.

It's been fun for the people on this board to know one another and work on these oddball things and handle life's vicissitudes. Of course it's very peculiar that we're so old. I mean imagine a place where Gary Wilcox is one of the young men. The guy's wife is still in golf champion. But that's (not because she's good when she's old.) I mean it's an amazing group. That's an interesting example too. Imagine me as an old and as impaired as I am and having a pretty good time. How does that happen? Well you...That is another story.

I'll tell a couple of other stories too because you like stories. Here's an apocryphal story that is very instructive. A young man comes to visit Mozart. And he says, "Mozart" he says, "I want to write symphonies". And Mozart says, "How old are you?" The man says, "I'm 23." And Mozart says, "You're too young to write symphonies." And he says, "But Mozart you were writing symphonies when you were 10 years old." And Mozart says, "Yes but I wasn't asking other people how to do it." Now there's another Mozart story. Here's the greatest musical talent maybe that ever lived. And what was his life like? Well he was bitterly unhappy and he died young. That's the life of Mozart. What the hell did Mozart do to screw it up? Well he did two things that are guaranteed to create a lot of misery. He overspent his income scrupulously, that's number one. That is really stupid. And the other thing was he was full of jealousies and resentments. If you over-spend your income and be full of jealousy and resentments, you're going to have a lousy unhappy life and die young. All you've got to do is learn from Mozart. You can also learn from that young man who was asking Mozart how to write symphonies. The truth of the matter is that not everybody can learn everything. Some people are way they hell better. And of course no matter how hard you try there's always some guy who achieves more. Some guy or gal. My attitude is 'so what?'. Does any of us need to be the very top of the whole world? It's ridiculous.

Another thing that people do that I regard as amazing is they build these enormous mausoleums. I think they figure they want people to walk by that mausoleum and say, "Gosh I wish I were in there!". (laughter)

Anyway. You can see we've have had some fun as we go along and it's worked so well. But if you actually figure out how many decisions were made in the history of the Daily Journal Corporation or the history of Berkshire Hathaway it wasn't very many per year that were meaningful. ***It's a game of being there all the time and recognizing the rare opportunity when it comes and recognizing that the normal human allotment is to not have very many.*** Now it's a very competent bunch of people who sell securities who act as though they've got an endless supply of wonderful opportunities. Well those people are the equivalent of the race track tout. They're not even respectable. It's not a good way to live your life to pretend to know a lot of stuff you don't know and pretend to furnish a lot of opportunities you're not



furnishing. And my advice to you is avoid those people, but not if you're running a stock brokerage firm. You need them. But it's not the right way to make money. This business of controlling the costs and living simply, that was the secret. Warren and I had tiny little bits of money. We always underspent our incomes and invested. And if you live long enough you end up rich. It's not very complicated.

Now there is a part of life which is, how do you scramble out of your mistakes without them costing too much? And we've done some of that too. If you look at Berkshire Hathaway, think of its founding businesses. A doomed department store, doomed New England textile company, and a doomed trading stamp company. Out of that came Berkshire Hathaway. Now we handled those losing hands pretty well when we bought into them very cheaply. ***But of course the success came from changing our ways and getting into the better businesses. It isn't that we were so good at doing things that were difficult. We were good at avoid things that were difficult. Finding things that are easy.***

By the way, when we bought the Daily Journal that was easy. What we're doing now in this software business is difficult. But due to the accident of these good associations and the fact that these old colleagues have lived so long, we're doing pretty well in the new business. It has potential. And it's fun to do. How many declining newspapers have hundreds of millions of marketable securities lying around and a new business with some promise? We're like the last of the Mohicans. (laughter)

Well I'll take some questions now. We need some system of order.

**Question 1:** In the book outsiders William Thorndike lists eight CEOs that achieved superlative performance to the S&P 500 and their peers, so other than Mr. Buffett and Mr. Murphy, did Berkshire or you invest in the other six companies? And if not, why?

**Charlie:** Well I can't answer that question, I don't know the others six companies. But I would say, generally speaking as things have gotten tougher, we've been better at sitting on our asses with what we have than we have in buying new ones. It's been hard to buy new ones. We haven't bought a whole company of any size since we bought the truck stop operator. So if you're having trouble with the present time with anything, join the club.

**Question 2:** Could you please comment on proposed legislation in Washington to restrict or tax share buybacks.

**Charlie:** Oh...(laughter)...Well. Rick tells a story about an old Irishman that used to steal from the church and drunk all the time. And when he's dying the priest asked him to renounce the devil. And he said I can't do that because in my condition I shouldn't offend anybody. And I don't think I should...If you get me started on politicians, I may be [impolitic](#). So let's go on to another subject.

**Question 3:** My question is about smaller banks. If you look at banks with assets greater than about a billion dollars in the U.S. and go up and stop at the super regional level, there's about

250 of those banks. And my question is, is that a hunting ground that you would think, applying the principles of value investing, is likely to yield one or two great businesses?

**Charlie:** Well thank you for answering that question, the answer is yes.

**Question 4:** You and Warren have advocated for decades that CEOs should tell shareholders everything they need to know to value a business. From visiting and calling courthouses around the country, I've personally seen the success that you've had being awarded contracts against larger competitors for JTI. However your opaqueness regarding contracts that have been awarded but not completed leaves a wide range that an estimated value could fall for. So if a shareholder unwilling to cold call 50 courts around the country to find these contracts that haven't been accepted yet, could you please provide a little bit of detail for us shareholders as far as the willingness for courts to accept these? Have you had any contracts that haven't been accepted after you put in the work?

**Charlie:** Well we've got contracts or possible contracts at every stage you could imagine. And it's very complicated and I don't purport to understand each one because I've trusted Gerry and the people who are doing it. But generally speaking I can see that the trend is favorable. But more than that I can only say you would be horrified if you watched it up close how difficult it is. It's difficult. But in spite of its difficulties we're doing pretty well. But we haven't got any magic wand. If you read all the reports... If I read all the reports in great detail and spent all my effort trying to understand it, I wouldn't understand it very well. So I think your chances are very poor.

**Question 5:** One of my favorite lines from you is you want to hire the guy with the IQ of 130 that thinks it's 120 and the guy with an IQ of 150 who thinks it's 170 will just kill you.

**Charlie:** You must be thinking about Elon Musk.

**Question 5 (continued...):** How do you assess someone when making a hiring decision?

**Charlie:** Of course I want the guy who understands his limitations instead of the guy who doesn't. On the other hand I've learned something terribly important in life. I learned that from Howard Ahmanson. You know what he used to say? "Never underestimate the man [who overestimates himself.](#)" These weird guys who overestimate themselves occasionally knock it right out of the park. And that is a very unhappy part of modern life. But I've learned to adjust to it. I have no alternative. It happens all the time. But I don't want my personal life to be a bunch of guys who are living in a state of delusion, who happen occasionally to win big. I want the prudent person.

**Question 6:** What did you see in Li Lu versus other investors in China? Because in his biography it looks like he's more of an outsider. And how similar or different is he versus Todd Combs and Ted Weschler? And is there any reason why you gave that [interview last year](#) with Li Lu in China?

**Charlie:** Well I did it because he asked me and I sometimes do that, I am foolish that way. And I said what I believed when they asked me the questions. The answer is [Li Lu](#) is not a normal...

He's the Chinese Warren Buffet. He's very talented. Of course I've enjoyed bagging him, but it's interesting that way...I'm ninety five years...I've given Munger money to some outsider to run once in ninety five years. And it's Li Lu, and of course he's hit it out of the park. It's very remarkable but it's also pretty picky. And of course once I've got Li Lu if I'm comparing to him, who else am I going to pick? And by the way that's a good way to make decisions and that's what we do. If we've got one thing we can do more of, we're not interested in anything that's not better than that. That simplifies life a great deal because there aren't that many people better than Li Lu. So I just sit. ***It's amazing how intelligent it is to spend some time just sitting. A lot of people are way too active.***

**Question 7:** Good morning Mr. Munger. You said in the past that you expect the U.S. to adopt a single payer health care system or Medicare for all the next time that Democrats control all three branches of government...

**Charlie:** I Do, yes.

**Question 7 (continued):** What will this mean for health insurers, hospitals, and medical device companies?

**Charlie:** Well it will be a hell of a mess. It'll still be a big business but it will be a hell of a mess. The existing system is so over expensive and over complicated and has so much unnecessary cost. So much unnecessary overtreatment of the dying. So much overtreatment of items that would be best left alone. So much unnecessary expense. Yet on the other hand it's the best system there is in the world in terms of the quality at the top. So it's a very complicated subject, but it's a hell of a mess. I find it demoralizing to see in [Singapore](#) they spend 20 percent of what we spend in America on medical care and their system is way better. And what they're doing is just the most elemental common sense. But of course it was created by one Chinese guy who was in control. Of course it's more intelligent than the outcome of our political process.

That Singapore system was created by Lee Kuan Yew. Of course it works better. But to have it cost 20 percent and work better in an advanced place likes Singapore...So there's a lot to be demoralized about in terms of the potential of our medical care system. And of course it isn't that our politicians are good at fixing systems like that. So if you don't like it now, I confidently predict you won't like it later either. (laughter)

**Question 8:** I read a lot of the stoic philosophers last year. Epictetus, Seneca, Marcus Aurelius...

**Charlie:** Well I can see why you would. There's a lot to be stoic about. (laughter)

**Question 8 (Continued):** And as I glean lessons from them there was one name that kept coming to mind, that is Munger, Munger, Munger....

**Charlie:** Well some people think that Marcus Aurelius is all right. (laughter)

**Question 8:** Can you talk to me about the influence that the Stoics had on you and some of your favorite advice from them.

**Charlie:** A lot. A lot have had (a lot of influence) on me, including [Epictetus](#) who started as a slave. No I like those old Stoics. And part of the secret of a long life that's worked as well as mine is not to expect too much of human nature. It's almost bound to be a lot of defects and problems. And to have your life full of seething resentments and hatreds, it's counterproductive. You're punishing yourself and not fixing the world. Can you think of anything much more stupid than trying to fix the world in a way that ruins yourself and doesn't fix the world? It's pretty stupid. I just don't do it. I have a rule for politicians. It's a stoic rule...I always reflect that politicians are never so bad, you don't live to want them back. When I was young, the California legislature was full of small time insurance brokers and lawyers looking for an unfair advantage. They were being entertained by restaurants with prostitutes and bars, by racetracks, and liquor distributors and so on and so on. Fade in fade out. We have a different kind of a legislature now, and I just want all those old crooks and lobbyists and prostitutes back. (laughter) You laugh but you young people, you're going to live to wish...Nancy Pelosi and Donald Trump we're immortal. (laughter)

**Question 9:** Could you share a reading recommendation for us, potentially a new one, that maybe fundamentally change your viewpoint on something?

**Charlie:** Well there are very few ninety-five year olds that are changing their viewpoint on things. But I do find that there are amusing anecdotes and so forth that I occasionally read and like. But I like the old anecdotes pretty well too. Like that one about the vet and the horse. It's so obvious though, some of these pithy stories. The storytelling really works to get messages around. One of the interesting things is look at our modern politicians and then think about Abraham Lincoln. (Which) modern politician reminds you of Abraham Lincoln? In either party? Lincoln at one time was hired by some guy whose partner had died, leaving practically no money to a wife and three children. And he owed some money to his surviving partner and the surviving partner came to Lincoln and said, "I want you to collect this money." And Lincoln said to this guy, he says, "Well" he says, "You look like an enterprising fellow who could get that much money back pretty easily through a little effort. And if you want to ring a little money out of this poor widow and her three children then you'll have to get a different kind of lawyer." Does that remind you of any of our modern politicians? That was Abraham Lincoln. What a story. No wonder he's remembered.

And you know who deserves the credit for Abraham Lincoln and never gets it? It's [his stepmother](#)! Abraham Lincoln was the child of two illiterates. But the step mother, who his father just married in desperation to help raise the children, she took a shine to Lincoln and saw he was bookish and she helped him all the way along. I am going to donate a picture of that stepmother eventually to a particular place because I admire what that stepmother accomplished in life. Imagine being responsible more than any other person for the life of Abraham Lincoln.

**Question 10:** My question is about the intellectual property because you are a lawyer by training. Given the complicated landscape in this field, is there a better way to share intellectual property across nations, especially in the case of Huawei, is there better legal framework to handle intellectual properties?

**Charlie:** Well you know, I don't know that much about the world of intellectual property. I made my way in insurance, and furniture stores, and little legal newspapers and so on. So other people are good at intellectual property. I'm good at avoiding subjects which I'm not good at. And one of them is intellectual property. I'm not surprised that the Chinese are stealing a little intellectual property. We Americans did it all the time. We [stole Dicken's work](#). We just reprinted his copyrighted stuff. We stole the technology from the English [textile manufacturers](#). It isn't as though people haven't been pretty aggressive about wanting to know other people's ideas. This is an old problem. I do think that allowing intellectual property to have these profits is desirable. But the exact complexities of how you handle it, I don't spend much time thinking about.

**Question 11:** In last year's Daily Journal meeting, you talked about one of the five aces of a money manager was a long runway.

**Charlie:** Yes.

**Question 11 (continued...):** I'm young and have at least hopefully a 40 year runway ahead of me.

**Charlie:** How are your legs? (laughter).

**Question 11 (continued...):** I passed my physical with flying colors, so thanks a lot. I'd like to compound my money at the highest rate and then give most of it away at the end. Which money managers would you recommend besides you and Warren?

**Charlie:** Well I just said I've only hired one myself in a lifetime, I don't think that makes me an expert. Although I must say that one did work out rather well. No I can't help you. Everybody would like to have some money manager that would make him rich. Of course we all would want that. I would like to be able to turn lead into gold. But it's hard. It's very hard. And if you're finding it difficult that just shows you understand it.

**Question 12:** Charlie and Peter Kaufman. I don't have a question, I just want to thank you both for putting together [Poor Charlie's Almanac](#). It has been an incredibly foundational book in my life and it has really helped inflect my thinking on many different things. So thank you both very much for your work on that.

**Charlie:** It was really Peter Kaufman's idea. He did the whole damn thing, and he paid for it himself, being a rich and eccentric man. I just wish there was one change in Peter Kaufman. Peter Kaufman has made me adored in India and China. I wish the hell he could do more for me in Los Angeles. (laughter) The Chinese version of Poor Charlie's Almanac has been pirated enormously in China. Totally pirated. But the legal sales are three hundred forty thousand or something. Peter has made me very popular in China but he does nothing for me in Los Angeles. (laughter)

**Question 13:** You've paraphrased Ben Graham in saying that good ideas are wonderful but you can suffer terribly if you overdo them.



**Charlie:** Yes.

**Question 13 (continued...):** How do you balance that against the risk that you potentially forego an opportunity altogether? Or are late to an opportunity for fear that a good idea has been overdone?

**Charlie:** The problem that is thoroughly understood is half solved. The minute you point out there's a big tension between good ideas yet over done so much they're dangerous, and good ideas that still have a lot of runway ahead, once you have that construct in your head and start classifying opportunities into one category or the other. You've got the problem half solved. You don't need me. You've already figured it out. You've got to be aware of both potentialities and the tensions.

**Question 14:** In your letter on Berkshire's past and future, you wrote about the principles that have made Berkshire successful over the years. My question is, why is it that Berkshire's organizational principles as a holding company have not been copied more by others given its incredible success and track record?

**Charlie:** Well it's a good question. I think the main reason is that it looks impossible. If you were in Procter and Gamble, with its culture and its bureaucracy, and you sat down to figure out, 'How can I make Procter and Gamble more like Berkshire Hathaway?', it wouldn't go immediately to the 'too hard pile'. It's just too hard. There's too much momentum.

But you raise by your question a very interesting thing that deserves more attention than it gets. One of the reasons that Berkshire has been so successful is there's practically nobody at headquarters. We have almost no corporate bureaucracy. We have a few internal auditors who go out from there and check this or that. But basically we have no bureaucracy. Having no bureaucracy is a huge advantage if the people who are running are sensible people. Think of how poorly all of us have behaved in big bureaucracy even though we have a lot of talent because we couldn't change anything.

So bureaucracy has a standard bunch of evils on a standard and bunch of stupid wastes and so forth, and avoiding it is hugely important. Of course there's a tendency of successful places, particularly successful governments, is to have more and more bureaucracy. Of course it's terribly counterproductive. And of course the bureaucracy, the individual bureaucrats they're benefiting from more assistance, more meetings, more this, more that. So what looks like poison to us from the outside, because the decisions are so terrible, looks wonderful for them, it's opportunity. I've just described the great tragedy of modern life. ***Modern life creates successful bureaucracy and successful bureaucracy breeds failure and stupidity. How can it be otherwise. That's the big tension of modern life.*** And some of these places that go into a stupid bureaucracy and fire a third of the people and then place works better? They're doing the Lord's work. But you wouldn't think so if you were working there. But there's a lot of horror and waste in bureaucracy and its inevitable. It's as natural as old age and death. With that cheerful thought, we can go on to the next one.

**Question 15:** I'm researching personality psychology and what makes partnerships successful, such as you and Warren. What are your thoughts on that?

**Charlie:** Well I'll tell you what makes a partnership successful. Two talented people working well together. Of course that works better.

**Question 16:** In the past you've praised the significance of cultures at firms like Glenair, Kiewit, and Costco. What are your views on the culture at Daily Journal and in particular Journal Technologies and similar to your Berkshire 50 year essay, can you share a multi-decade vision for Journal Technologies.

**Charlie:** Well you got to remember that I was old when Journal Technologies came into being. I guess I had a weak moment when...Guerin talked me into it. And it worked because Gerry took a hold of it and work miracles. So I don't deserve much credit. It's Guerin and Salzman who are responsible for Journal Technologies. I just clap. I'm good at clapping.

**Question 17:** You speak about the importance of fishing in waters with ample fish. If you were starting out today, what sea would you be fishing in, other than China of course.

**Charlie:** Well other than China, but...if there's one good place in the world that's more than my share. There are others I'm sure, but it's hard for me to believe that any can get better for the Mungers than China. So I can't help you. I've solved my problem. You'll have to solve yours. By the way, the water's fine in China. Some very smart people are wading in. And in due course I think more will wade in. The great companies of China are cheaper than the great companies of the United States.

**Question 18:** I have a question regarding long term investment and compound interest. In the last few years with very low interest rates out there it's been difficult to find opportunities for having a long term compound interest based strategy. So beyond investing in Berkshire, Value Investing, or index funding, where would you invite us to find opportunities for long term investment where compound interest is really that force?

**Charlie:** Well, my advice for a seeker of compound interest that works ideally is to [reduce your expectations](#). Because I think it's going to be tougher for a while. And it helps to have realistic expectations. Makes you less crazy. I think that...you know they say that common stocks from the aftermath of the Great Depression, which was the worst in the English speaking world in hundreds of years, to the present time may be an index that's produced 10 percent. Well that's pre-inflation. After inflation it may be 7 percent or something. And the difference between 7 and 10 in terms of its consequences are just hugely dramatic over that long period of time. And if that's 7 in real terms, but achieved starting at a perfect period and through the greatest boom in history, starting now it could well be 3 percent or 2 percent in real terms. It's not unthinkable you'd have 5 percent returns and 3 percent inflation or some ghastly consequences like that. The ideal way to cope with that is to say, "If that happens, I can have a happy life." Because why shouldn't you be happy in spite of the fact that civilization wasn't quite as easy as it was for my generation. Now beyond that, when it gets more difficult, how should you do it? Well the answer is, because it's going to be very difficult, you should work at it. And if all that gets you is 6 percent for a lifetime of work instead of 5, you should be cheerful about it. If you want to hit it out of the park easily, you should talk to Jim Cramer. (laughter)



**Question 19:** Building on the question about the corporate culture at Daily Journal Corporation, could we ask the other board members about the long term succession plan for the board.

**Charlie:** I don't think we want to go to another speaker. (laughter)

**Question 20:** Has the Berkshire Hathaway equity portfolio outperformed the S&P over the last five or ten years? And if it has not, why wouldn't Berkshire just invest in the S&P for its equity portfolio?

**Charlie:** I think Warren, who is after all a mere boy of 89, thinks that Berkshire can do a little better than the S&P. From this point. I don't think many people can, but he may be right about himself and the team he has in place. It won't be by huge margins, that I confidently predict.

**Question 21:** How do you think about downside protection and how do you know when to exit an investment?

**Charlie:** Well you're not talking to a great 'exiter'. My Berkshire I bought it in 1966. My Costco I bought... I mean I've been a good picker. But other people know more exiting. ***I'm trying never to have to exit.*** So you're talking to the wrong...I think there are working styles of investments that work well with constant exits. It just hasn't happened been my forte. So I'm no good at exits. I don't like even looking for exits. I'm looking for holds. Think of the pleasure I've got from watching Costco march ahead. Such an utter meritocracy and it does so well. Why would I trade that experience for a series of transactions that make me a little...In the first place, I'd be less rich not more after taxes. The second place is it's a much less satisfactory life than rooting for people I like and admire. ***So I say find Costco's, not good exits.***

**Question 22:** You mentioned that in an interview with CNBC on May 2018, Berkshire too restrained on buying more Apple stock. Do you still believe so?

**Charlie:** No I don't. I don't think the world would be improved by more comments from me on Apple. You know, I'm a very opinionated man and I know a lot, but I don't know everything. I like Apple but I don't have the feeling that I'm the big expert.

**Question 23:** Last year you said that you wish you had more of Apple stock, but now its price has declined by a lot, so what is your opinion about its moat or the competitive advantage. Why do you think it has declined?

**Charlie:** Well I don't know why Apple stock is going up or down. I know enough about it so I admire the place, but I don't know enough to have any big opinion about why it's going up and down recently. Part of our secret is that we don't attempt to know a lot of things. I have a pile on my desk that solves most of my problems, it's called the 'too hard' pile. And I just keep shifting things 'too hard' pile. And everyone once in a while an easy decision comes along and I make it. ***That's my system. Everything was the 'too hard' pile, except for a few easy decisions which I make, promptly.***

**Question 24:** When you're assessing the quality of a business do you place more emphasis on quantitative metrics such as return on invested capital or qualitative ideas like brand strength or quality of management?

**Charlie:** Well we pay attention to qualitative metrics and we also pay attention to other factors. Generally we like to pay attention to whatever's important in the particular situation and that varies from situation to situation. We're just trying to have that 'uncommon sense' I'm talking about. And part of our uncommon sense is just to refer a lot of stuff to the 'too hard' pile.

**Question 25:** The simple life is the obvious right answer, but most of America ends up like Mozart, in debt and overspending. How did you maintain the discipline to live the simple life in the face of all these other temptations?

**Charlie:** I was born this way. (laughter)

**Question 26:** I'm an engineer at BYD, and I was interested to hear your perspective on the current state of infrastructure in the U.S. and some areas of growth that you might see in the future for infrastructure.

**Charlie:** Well I think infrastructure will be a big deal. Practically everybody...in China where BYD is so active, by the way the Daily Journal owns some BYD, but BYD is going to be huge electric vehicles. They are already huge. And they're going to be much more huge. And then they're going to be huge in monorails which is also a business whose time has come. And they're also huge in these lithium batteries, and the lithium batteries are being improved...materially improved. And the place is full of fanatics, and by the way they're a big supplier to Apple and Huawei. And they're a very satisfactory supplier to those things. So I am terribly impressed with BYD and it's been one of the real pleasures of my life to...[Wang Chuanfu](#) is the eighth son of a peasant. An older brother recognizing a genius had been born into the family, he just gave up everything in life to nurture that little brother genius. Now that's Confucianism. And by the way Confucianism will do a lot better for civilization than the Ford Foundation did. Confucianism with a strong family ethos like that is a really constructive thing. And Confucianism partly created BYD. That older brother of Wang Chuanfu was a hero. And of course what Wang Chuanfu has done is a miracle. And of course that was a venture capital type investment. We bought marketable securities, not Berkshire, but Li Lu did. And it's been a wonderful investment and it's been a very admirable company. And I like being part of something that's inventing better lithium batteries and better monorails and so on and so on. So if you work for BYD, you're a very fortunate person and you're gonna have a wonderful life watching and participating. You could hardly have a better employer. At least if you like demanding achievement and 80 hour weeks.

**Question 27:** You mentioned earlier that when you had an opportunity to raise prices you didn't want to raise them during the Great Recession because it didn't seem right for Charlie Munger to be raising prices on people that were losing their houses. So I wanted to thank you for that as well.

**Charlie:** Nobody else ever has.

**Question 27 (continued...):** I wanted to ask you about the causes of the Great Recession, specifically the credit ratings agencies, and your twenty four standard causes of human misjudgment. I think they hit them pretty much all. Pavlovian Association, denial,...

**Charlie:** You're right about that. The financial behavior in our leading financial institutions was inexcusably awful. When other people were making money in a disreputable stupid fashion, everybody piled in because they didn't want somebody else to be making money and they're not participating. The standards in lending, the standards in managing...It was disgusting intellectually, disgusting morally, and of course it caused a whirlwind that could have taken the whole civilization down into a Great Depression. That's a pretty major sin. And none of those people's been punished. It's usual that I agree so thoroughly with Elizabeth Warren, but it was wrong to have that big of a mess and have nobody punished.

**Question 27 (continued...):** I've written a blueprint for a nonprofit credit ratings agency and I'd love to get your feedback.

**Charlie:** Things that far out I usually leave to other people and not because Berkshire Hathaway owns a big chunk of one of the credit rating agencies. But I can see why the existing situation would draw your concern. But there are some human problems I don't want to bother with. And you have just produced one. But you're right it wasn't perfect.

**Question 28:** My question relates to the country's national debt. We've just recently passed [twenty two trillion dollars](#) and our debt to GDP is above 100 percent now. At a time when our GDP may be near a peak and interest rates may be rising. It seems to me that politicians seem fine running the deficit because there when the crisis comes, and consumers are happy to take a deficit because it's better to consume now than tomorrow. My question is, do you think that there's something we can do about this? And if so, what should be done? Or is human psychology such that until the crisis is upon us, it's hard to imagine anything it's done?

**Charlie:** Well that's a very interesting question. The whole science of economics had no idea 15 years ago that it would be possible to print money on the present scale, and get so awash in internal debt as we have. And certainly in a place like Japan, which is way more extreme, nobody dreamed that was possible. And the people who did dream what was possible...and they were few...they would not have predicted 20 years of stasis in spite of everything the Japanese did which was very extreme.

There's a lot that's peculiar in what we're doing and eventually if you try and solve all your problems by printing money there'll be some disaster. When it's coming and how bad it will be, nobody knows. Nobody dreamed 15 years ago we could do as much as we have now with as little bad consequence. Churchill use to say that Clement Attlee had a lot to be modest about. Well that's the way I feel about the economics profession. They have a lot to be modest about. They thought they knew a lot, but turned out not to be so. There was a Greek philosopher that said, "No man steps in the same river twice." You know the river is different the second time he comes in and so is the man. And that's the way with economics. It's not like physics where the same damn principles are going to apply. You do the same damn thing at a different time and you get a different result. It's complicated.

And of course you're raising a very important question. And of course nobody really knows the answer. Who knows how much of this we can get by with. ***My personal bet is that these democracies will eventually borrow too much and cause some real troubles.*** I don't know when.

**Question 29:** A lot of people ask how you determine what investment or deal to do, and you tell people that you can do this fairly quickly. My question is how do you tell if a money manager or management of a company has the right character or the right integrity? How long does it take you to do that and what are some traits that you look for?

**Charlie:** Well now that I found Li Lu I don't look for anybody else. So I'm the wrong person. What are my chances I'm going to get somebody better than Li Lu. So it's very easy for me. What you need is a Li Lu and I don't know how to get you one.

**Question 30:** Last year we saw a record amount of share repurchases, and now we're hearing rhetoric out of Washington D.C. specifically legislation to curb stock buybacks. What's your take on stock buybacks and do you think politicians should be telling companies what to do?

**Charlie:** Well generally speaking I'm restrained in my enthusiasm for politicians telling corporations what they should do. But I will say this. ***When it was a very good idea for companies to buy back their stock they didn't do very much. And when the stocks got so high price that it's frequently a bad idea, they're doing a lot. Welcome to adult life.*** This is the way it is. But it's questionable at the present levels whether a lot of it is smart. Was Eddie Lambert smart to buy back so much Sears Roebuck? No. And there's a lot of that kind of mistake that's been made.

**Question 31:** Similar to your Mozart anecdote, I wanted to ask you, what advice would you have for someone my age looking to live a long successful life like yourself.

**Charlie:** Well I haven't had that much success changing any of my children. And I don't think I can give helpful advice to a perfect stranger. It's hard to improve the next generation, and the standard result is going to be mediocre. Some people are going to succeed. They're going to be few. That's the way human significance is allotted. Human significance will always go to the few. There's no way of creating enough (few in significance), to meet the demand. I think personal discipline, personal morality, good colleagues, good ideas, all the simple stuff. ***I'd say, if you want to carry one message from Charlie Munger it's this, "If it's trite it's right." All those old virtues, they all work.***

**Question 32:** You point out a great deal of human folly, but you don't seem to be that upset about it. Has that always been the case and is that a correct perception

**Charlie:** That's a very correct perception. It's my system. I've copied it from the Jews. I saw it work well from them, and it was my natural inclination anyway. And so, humor is my way of coping.

**Question 33:** What is your proudest accomplishment in life and why?

**Charlie:** I don't have a single accomplishment in life that I'm all that proud of. I set out to try and have more uncommon sense than most. Pretty limited objective. I am pleased I did as well as I did in that game. If I had to do it all over again, I think it'd be a lot harder. I think part of my success was being born in the right place at the right time. So, I'm not particularly proud of success that came from being born in the right place at the right time. I'm pleased but not proud.

**Question 34:** Mr. Salzman. I have a question for you. Could please comment on how Journal Technologies implements the invariant strategy principles? Things like trust, getting employees to go all in, positive sum, and win/win relationships.

**Charlie:** Gerry that's a simple question. How do you solve the problems of God?

**Gerry Salzman:** First of all you have to deal with each individual because each individual, each employee, each independent contractor that we have to work with, each client is different. And so you have to relate to their specific circumstance. You do not handle it because it's in a checklist or something.

**Question 35:** This question is for both of Charlie and Peter. Charlie once said any year that you don't destroy one of your best loved ideas is probably a wasted year. Have either of you destroyed any of your beloved ideas in 2018? And if so, what are they?

**Charlie:** Guerin have you destroyed any good ideas 2018?

**Rick Guerin:** ...Probably unbeknownst to me.

**Gerry Salzman:** We always think into the future, we're not worried about the past. It's just that simple. The day ends, we're on to something different. It's a different challenge every day. And the good part about my job, it changes every day. So I face something different. I'm more like a newspaper editor. I start with the blank page every day. Well how do I go to the next situation? How do I solve a particular problem? That's my day. That's what I do.

**Question 36:** In October 2008, a month after Lehman filed bankruptcy and in the depths of the abyss, Mr. Buffett famously wrote an editorial saying that he was buying stocks and he was bullish on America. You're famous for bottom ticking Wells Fargo in March of 2009. What made you decide to buy Wells Fargo in March of 2009 instead of October of 2008?

**Charlie:** Well I had the money in the later period. And the stock was cheaper. Those are two very important parts of the purchase.

**Question 37:** I've heard that you started some new real estate developments. What are you developing now and what's going to be the key to its success?

**Charlie:** No I bought some apartment houses for my grandchildren. It seemed like a good idea at the time. By the way that phrase, 'It seemed like a good idea at the time.', came to me from a man I knew many years ago. In five minutes between trains he managed to conceive an illegitimate child by somebody he met in the bar car. And my father was asked by the young

man's father, he had a nice wife and three children, "What the hell were you thinking about?" And you know what the young man said? "It seemed like a good idea at the time." (laughter)

**Question 38:** [Herb Kelleher](#) passed away recently and I'm hoping that maybe you have some anecdotes about Herb that you would like to share with us?

**Charlie:** Yeah well. Well he was a very remarkable business man. I never knew him, but he was an original and he created an amazingly sound company while drinking one hell of a lot of whiskey and smoking a hell of a lot of cigarettes. This is not my personal style. To do as well as he did with so much Bourbon and so many cigarettes, it set a new record in human life. So, we should all remember Herb Kelleher. And we should all wish we could have so much strength that we could abuse it so much and still perform. I didn't get such a hand. I regarded it as a miracle.

**Question 39:** If you didn't have access to Li Lu and to the Chinese exchanges through him, like many Americans don't, would you feel comfortable investing in the American Depository Shares of most Chinese companies that are comprised of a [V.I.E. Structure](#) and offer shareholders few rights and minimal protections from the Chinese government?

**Charlie:** I don't know much about depository shares. I tend to be suspicious of all investment products created by professionals. I tend to go where nothing is being hawked aggressively or merchandise...sold aggressively. So you're talking about a world in which I don't even enter. So I can't help you. You're talking about a territory I avoid.

**Question 40:** The derivative portfolios of major U.S. banks are getting quite large on the balance sheets. S.E.C. reporting doesn't require much transparency. So do you worry about this kind of stuff in the banks that you own? And do you worry about other banks as well?

**Charlie:** All intelligent investors worry about banks because banks present temptations to their managers to do dumb things. There's so many things you can easily do in a bank that looks like a cinch way of reporting more earnings soon, where it's a mistake to do it, long-term considerations being properly considered. As Warren puts it, "The trouble with banking is there are more banks than there are good bankers." And he's right about that. ***So I would say that if you invest in banks you have to go in at a time when you got a lot going for you. Because there'll be a fair amount of stupidity that creeps into banking.***

**Question 41:** When you don't have the luxury of picking your negotiation counter parties, what's your best recommendation for dealing with somebody who, not only won't negotiate rationally but will also criticize you for trying to negotiate rationally?

**Charlie:** You're talking about a situation I try and solve by avoidance. If I can solve that problem I'd have a line around the block. I mean you wouldn't be able to squeeze in here. Everybody who has an insoluble problem with a difficult person...Think of what we'd all do to solve that one? I'm afraid I don't have a solution to that one. Avoidance is my general principle method.

**Question 42:** I have two questions. Both you and Mr. Buffett worked in Buffett's grandpa's grocery store during your teenage years. Do you think that your early working experience helped

give you a strong advantage in this investing profession?

**Charlie:** Absolutely. I was able to learn from my dead great grandfather when I was a little boy. What I learned at a very young age when I was just a kid, I could see some of the adults around me were nuts and yet they were very talented. I could see how much irrationality there was in very talented people.

So I got interested in seeking out the patterns and understanding why it happened and learning tricks to cope and so on. And I did that when I was a little kid. And of course it helped me. Who is not helped by an early start in a promising activity? And what activity could be more promising than in diagnosing stupidity?

**Question 43:** What level of discount would you be applying to potential investments today?

**Charlie:** Well generally speaking, I think the professional investors have to accept less than they were used to getting under different conditions. Just as an old man expects less out of his sex life than he had when he was 20.

**Question 44:** I want to come back to William Thorndike books, and I now have the list of the eight companies. It is General Dynamics, Berkshire Hathaway, The Washington Post, DCI, Capital Cities, Teledyne, General Cinema, and Ralston Purina. I know that Berkshire Hathaway had the long-term investment in the Washington Post and Capital Cities and have been invested in companies of John Malone. But why did Berkshire not have a long-term investment into General Dynamics, Teledyne, General Cinema, or Ralston Purina?

**Charlie:** Well we did have a huge investment in General Dynamics for a long time and we made an enormous amount of money with it. After the defense business contracted, nobody else was willing to sell anything except for General Dynamics, which kept selling at higher and higher prices. And Warren noticed that. We had a huge position in general dynamics and made a fortune. We always admired the founder of Teledyne who was a genius. [Henry Singleton](#). But we admired him from afar, we never invested. It's just one of many mistakes of omission.

**Question 45:** I was happy to see you at this meeting turned 90, now you're ninety-five...

**Charlie:** You think you're happy, think of the way I feel! (laughter)

**Question 45 (continued...):** Well I hope you live to be 120 and I always thank you for your positive influence on our lives. My question is related to stress and sleep and longevity. In business, there are what I call 'criminal competitors'. You're honest and ethical but the competitor across the street is beating you by cheating and running a massive insurance fraud. Business and life can cause a lot of stress, but you've always seemed to stay cool. What mental tools do you use to de-focus and keep your equanimity for ninety-five years? How do you detach? And even during the Salomon Brothers scandal were you always able to get eight hours of sleep at night?



**Charlie:** Well that is not true. As a matter of fact, I had more difficulty sleeping when I was young, but I do have a tip that I've learned late in life. I never consciously blanked out my mind when I tried to go to sleep, so I allowed my mind to wrestle through my problems and keep me awake very very late while I lay in bed wrestling with problems. And then if I didn't sleep well one night I figured, "What the hell I'll sleep the next night." But that was pretty stupid. But now I actually deliberately blank out my mind I can go to sleep rather easily and I recommend it to all of you. It really works. I don't know why the hell I didn't get to it before 93. (laughter)

**Question 47:** You gave Robert Cialdini one share of Berkshire for writing influence, and a twenty thousand dollar check to Atul Gawande for writing a New Yorker article on health care. Are there any other writers you gave something to for their writing or ideas?

**Charlie:** I've forgotten, but there aren't many. [Atul Gawande](#) is a very remarkable person and so is Cialdini. So I do that kind of weird stuff occasionally, but I don't do it all the time. I'm proud of those two by the way.

**Question 48:** If someone can invent a time machine and you can go back and have dinner with your 41 year old self, what piece of advice would you give your former self?

**Charlie:** Well I'd avoid that one mistake of omission that cost me half of the net worth I would now have if I'd been smarter. We can all go back and make some decision better. But it's the nature of thing that you're going to blow one occasionally. My general idea is there's no point in fretting too much about what you can't fix. It's a big mistake to fill yourself with resentments and hatreds and so on. It's such a simple idea but so many people ruin their lives unnecessarily. Envy is such a stupid thing to have because you can't possibly have any fun with that particular sin. Who in the hell ever had any fun in envy? What good could envy possibly do for you? And somebody is always going to be doing better than you are. It's really stupid. So my system at life is to figure out what's really stupid and avoid it. It doesn't make me popular, but it prevents a lot of trouble.

**Question 49:** Could you comment on why there's so little health care in the Berkshire portfolio?

**Charlie:** I think we don't understand it well enough and we don't like a lot that we do understand. Those are two pretty good reasons for not investing.

**Question 50:** Do you have any thoughts on a winner-take-all business model, and have you seen it in the 50's and 60'?

**Charlie:** That's ideal if you can find one in advance and predict it accurately. It's perfect. Winner take all. It's obviously perfect. It's very difficult to do because everyone's looking for the same thing.

**Question 51:** I'm at a point in my life where I don't really know my circle of competence, so I would like to know how you found yours.

**Charlie:** Well it's a hugely important thing, knowing the edge. It's hardly a competence if you don't know the edge of it. You know, if you have a misapprehension regarding your own competency that means you lack competence, you're going to make terrible mistakes. I think you've got to constantly measure what you achieve against other people of achievement, and you have to keep being determinedly rational, and avoiding a lot of self-delusion. But after a lifetime of observing it, I think the tendency to be pretty rational about one's own competency is largely genetic. I think people like Warren and I were just born this way. Now it took a lot of education. But I think we were born with the right temperament to do what we did. And I have no way of taking you back and rebirthing you.

**Question 52:** In spite of being partners for so long, why is Warren so much richer than you?

**Charlie:** Well. He got an earlier start. He's probably a little smarter. He works harder. There are not a lot of reasons. Why was Albert Einstein poorer than I was? (laughter)

We are coming to the end of our allotted time. I'll take one more question and then we'll quite

**Question 53:** You've been very positive on the investment prospects for China and you've said that most of Americans are missing out on China. What do you think we're missing? And what should we be aware of when we invest in China?

**Charlie:** Well what you're missing is that there's more opportunities there than there is here. And I don't see how I can guide you any more firmly than that. Are you finding things so easy here you don't need China?

Well with that we're through.

**Gerry Salzman:** Thank you all for attending the Daily Journal shareholder meeting this year. We welcome you all back for next year.