Singleton Prize for CEO Excellence:

Charlie Munger in Conversation with Todd Combs

April 19, 2022
The Maybourne Beverly Hills,
Beverly Hills, CA 90210

SINGLETON FOUNDATION
FOR FINANCIAL LITERACY & ENTREPRENEURSHIP™

ON HENRY SINGLETON

If you have a genius and you give them the power — you know, it's like that guy that wins all those swim tournaments, a big, tall guy. He had size 16 feet, and they were webbed. So no wonder he wins all the damn swim tournaments of the world. So Henry, he was in this mental stuff. He was like a guy who wears size 16 shoes and webbed feet competing with a bunch of ordinary people. That really was so cool. So he was fun to watch, because he was so cool and rational. And so imagine, you can understand how Berkshire, with Warren coming from investment management, would manage its own patient plans. But the world that Henry was in, it was not at all common for the guy who was the C.E.O. to say, "Get out of the way." Because he did it way better than them. However, because they had so many rules and conventions. He paid no attention to those. Nothing he did was, and Berkshire's done the same thing. He was loyal to them. And he was quite comfortable when he walked into things. Many C.E.O.s can't stand having anything around they haven't dominated. But that's not Henry, and that's not Warren Buffett. So there are some very close parallels. The thing that's interesting about it is, when Henry was buying stock in gobs, that was a very uncommon thing to do. And now, of course, it's very common. You could say Henry has triumphed. But Henry wouldn't be buying in a lot of the stock. A lot of people are buying stock now, but after it's selling for more than it's worth. They like growing their stock, no matter what its value. And people like Henry and Berkshire would buy their stock on the cheap. It's amazing, we haven't had another Henry in a long time. You stop and think about it, who else is like Henry Singleton? Been a long time since he's dead. It's not like we don't have a lot of smart people in the United States, but it's hard to believe there's somebody else you'd say is another Henry Singleton.

Tom Murphy's another C.E.O.

Yes, Tom is a very talented human being, but Tom can't play chess blindfolded.

That's correct. That is correct.

Neither can I, by the way.

He also had a long run in the chair. Can you share some of the characteristics you feel like made Tom Murphy so good?

Well, Tom was marvelous. What Tom did was he delegated enormously. And if it was really important, he went and did it himself. Very simple. And Henry was very simple. As a matter of fact, one of the last conversations I had with Henry, after he knew he was dying and he wanted to sell Teledyne as his final act to Berkshire for stock. And I said, "Henry, we're not going to issue stock or give away all our business that we know and like and understand to get in another business we don't know and don't understand. It can't happen." And he went on to do what he did, but it's just amazing how well he managed everything. You aren't going to see many Henry Singleton's in your lifetime. He was valedictorian of his class at MIT. He was valedictorian everywhere.

You've talked a lot about the power of fiduciary gene, Charlie, and it sounds like a lot of the people we're talking about certainly had those, the individuals had that in common. And it reminds me that you consider yourself in the top decile in valuing our good and great management, and you've commented to me how you've still underestimated it your whole life. Do you have any thoughts or comments you'd like to share around this and how you've identified great management?

Well, I think the great lesson of these careers is what I call The Wooden Lesson. And Wooden had the best basketball coaching record in the world, and nobody else was even close. How did he do it? The answer was, he concentrated almost 100% of the playing time on his top seven players. And of course, they got better and better during all the extra playing time. And that's what happens when you give so much power to a Wooden or a Buffett or something. You're doing the Wooden system, and it works like gangbusters, and as an investor, if you can find somebody, even as a mini-Wooden or a mini-Singleton or a mini-Buffett, and play them, and when they have a hell of a run, certainly that can be a very good way to invest. And some of these people, you can tell they aren't normal, some of these people. I've got another story about what's not normal. CalTech has a Rubik's Cube contest every year. And one year, a guy came in and he gave them scrambled cubes and he juggled three or four of them. As they went by, he was twirling them in his hands. Even though they were constantly in motion there. Nobody will ever top that. He solved all the cubes. The next year, in came a woman, they gave them two cubes all scrambled, and she looked at them for a long, long time. She put one in her left hand and one in her right hand and put them behind her back and started twirling, and then brought them out both fixed. That really happened. There are people who will make you feel that you're born into the wrong species.

So you grew up in Omaha. I think everyone here knows the story by now, how you met Warren, moved from law into investing, and opened Warren's eyes to the power of compounders versus chasing Ben Graham's cigar butts. If you hadn't met, if you hadn't been a lawyer and you hadn't met Warren, what do you think you would have been doing in life?

Well, I think I would have opened a law practice, because I understood my legal income, when I was a lawyer, and I was shrewd in investing my little pittance and I was saving. I actually had quite a bit of money back the time when I was in my mid-30s, and I think I would have, just as Henry Singleton would look at things and say "I think I can do better than that. Why am I the subordinate?" A lot of talented lawyers are like that. It happened to the Pritzkers. Pritzker & Pritzker was a law firm, and old man Pritzker knew that, "There's nothing my clients are doing that I can't do better." And he just kept the name Pritzker & Pritzker and stopped practicing law. And the Bings did the same thing. Leo Bing was a genius. He represented all of these developers in Manhattan. Bing & Bing, it was called. And he just kept the name and he just fired all the clients and started doing what his clients did, which was develop apartment buildings, but he could just do it to his own abilities. So we're always going to see some of that. But there aren't many people who can do it. There aren't many Singletons and Pritzkers and Bings. Leo Bing was so smart, you can't believe it, building those buildings. Every time he'd build one of those Bing apartment houses, he bought a brownstone, four brownstones that nobody could ever interrupt the view. And it was just such a logical thing to do, and that's the way Singleton was, just so remorselessly logical. You could say that a life like Singleton's, what it demonstrates is the vast power in being remorselessly rational.

That's actually a good transition to the next question. So I'm

anticipating Rock, Henry, yourself, Warren, fiercely independent thinkers, which I've heard you attribute in no small part to your experience as a child in the Great Depression. When asked how old you were when you figured out the secret to life, you said, "Seven. When I realized everyone's a little bonkers, and there's so much irrationality in the world." You went on to say you wanted to make money to have independence in life.

That's correct.

So the Great Depression was understandably formative for you, but many people's world shrunk dramatically, while yours seems to have opened up, and laid the groundwork for many incremental models and so forth. Do you have a formative experience that's seared into your memory from when you were seven in the Great Depression that has led to all this?

Well, of course it was an advantage to see the Great Depression. There had never been a depression that long in the civilized world. It just didn't go away. It had fluctuations, but basically, we went into the Great Depression, they threw everything at that they thought they knew how to throw at it, and it just stayed there. And the only thing that finally cured it was World War II. And the really interesting case was Germany — Germany had wiped out the currency in the Weimar inflation following World War I and created vast hardship. When Hitler came in with his crazy paranoia and wanted to re-arm and so forth, he created this big artificial Keynesianism. And Germany, in spite of having botched its currency, by the time about 1938 came along, Germany was the powerhouse of Europe. The accidental Keynesianism of Adolf Hitler had restored Germany. The new Reichsmark that Hitler created, it was spent like crazy on war preparation, but that made it a very strong currency. By the way, I think the government should be printing the currency, not a bunch of private you-know-what's.

So what happened at seven?

Well, I could see something very interesting. My father had a great friend whose father had been the chief mathematician at the University of Nebraska, and he played the violin. He was mechanically gifted. He was an enormously talented man. But he'd been very poor, because in those days, a mathematics professor of a university got paid practically nothing. And this man had conquered poverty all those years of scholarship, working 90-hours weeks. I loved him and admired him. His house was an alternative house for me. I went back and forth because he had children my age. And one day, the man got a leak in his house that caused some extra cost. And he practically went berserk. All that power he had, he took extra care of the home. Things like leaks — Of course, a surgeon would be very fanatic about leaks, too. Anyway, he went berserk. And I thought God Almighty, here's this genius going berserk. A world where even geniuses are that nuts, I have a chance…

> **I remember Warren telling the story — I don't know if you were with him or not — he went to Vegas when he was quite young. I think he was my age. He said, "Boy." He saw all the irrationality that was taking place, he said, "I'm going to do okay in this world."**

It's the same idea exactly. Yeah, there's going to be opportunity. There's so much irrationality out there. And of course, that occurs in the investment world too.

> **For sure. You've mentioned — You've often said, in fact, that we should all find ways to learn from the eminent dead. And some of your heroes, not exclusive, Lee Kuan Yew, Otto von Bismarck, Deng Xiaoping, George Marshall. They all seem to have a sense of duty and honor as a common thread. You also talked about the rarity of the fiduciary gene, which they also seem to exhibit. Are there other traits you see in these individuals that led them to become your heroes?**

Well, I like the fiduciary gene. Think of the difference between somebody like George Washington, who voluntarily left power, setting an example. And these paranoid rulers who come into power and start killing people to stay in power, trying to subvert the systems and so forth. And of course, the George Washingtons are way the hell better. I don't know exactly how you make George Washingtons and why you get Kim Jong-Un or something some other place. But certainly, the George Washingtons are better. What maybe the current world is teaching us is, our forefathers who gave us term limits, they understood human nature. They were trying to prevent some major rifts, and it has worked pretty well so far.

Couple of exceptions here and there, but...

Yes. Oh, yes. We've had people who threatened it. We've had several attempts to take over the United States, including Aaron Burr.

In addition to being an independent thinker, Charlie, you have an insatiable intellectual curiosity. I think that's why everyone is here this morning and admires you. It leads to an incredible range of interests and I've heard you referred to many times as a polymath, in a world that's full of specialists who seem to increasingly specialize. A modern-day Ben Franklin. You and I have talked about Ben Franklin a lot. Have you had a chance to see the Ken Burns PBS special?

I loved it. It pointed out that he held slaves and he never freed them, and so on and so on. He wasn't perfect.

None of us are.

No, I loved "Ben Franklin." You should all see it. But I don't think — Warren was around me and he used to say, "You really don't need to be very smart to be a very successful investor." And I think Warren was right. It's a field where the temperament is, it's good to have the extra mental horsepower that Henry Singleton had. That is helpful, but it's perfectly possible to do splendidly well if you have the right temperament. Just go at it over a long time. You talked about me. I'm not a polymath. What I am is a guy who has been able to take moderate obsession and a long attention span and turn them into pretty good results. Of course, a long attention span will help you a lot, if you're reasonably smart.

Of all of your varied interests, what are you most interested in

today? Architecture and...?

No, I'm more interested in the investment operations of the world. I'm interested in the others, too, but the ones I can't fix, I don't spend much time on them. I don't know how to fix [inaudible]. I'd love to be able to wave my hand and solve that problem, but I don't think that's given to man, to fix some of those problems. So I just stay away from the problems that can't be fixed and pick the ones that can – I don't like unlimited failure. I don't want to fish forever and never catch a fish. I have to have some reinforcement. And so I pick some things that can be done and do them. But I do think that if you're reasonably obsessed with something, even if it's intermittent, and you have a long attention span, you keep working over the serious problems, that you'll stumble into an answer. That's half the secret of life.

Fantastic.

Well, these buildings I've been talking about irritate some, because they don't have any windows in them. The Munger building in the University of Michigan has shorter windows. That's because it's so damn big, it has an automatic window shortage. Well, how did I decide to do that? Well, I knew those students would be better off close together. You get them close together, and then you get window shortages. Absolutely unavoidable. And so I thought, how in the hell can I handle this? Well, I went to the cruise ships and figured out how they handled it, because most state rooms -- not most, but a lot of state rooms on a cruise ship can't have real windows. They used artificial windows and they had a system where you could leave your own place and go into the light and air, all kinds of things. So I just copied the cruise ships and their invention. What kind of a mind, in designing a dormitory, imitates a cruise ship? Well, that's what my mind does, and it's coolly logical. That's the kind of mind Singleton had, too. He was just coolly logical. But if you don't think of the cruise ship, you get the wrong answer.

I think you told me a story about how the cruises put the windows in the cruise ship, they actually had an ocean, and so forth and so on, which I think you incorporated in the Michigan building.

Well, what the cruise ship did, what Disney did, of course, is for a long time, he charged more for the room with artificial window than he charged for the one that had a real window. They stopped doing that finally, but they did that for years and years and years.

Now, the reason for that was, a Disney window in a cruise ship that was an artificial window, little starfish came up and winked at your children. Of course, a real window couldn't do that.

You also used pre-fab material in Michigan, if I remember correctly. Is that right?

Well, nothing pre-fab. Yes, I caused Michigan, which had not built a pre-cast concrete building. They had one on the campus somewhere, but nobody even remembered who built it or why. It was that old. They said, we can't create with it, make this out of poured concrete, because that way, we can get three times out of the result, we trust it. I said, you can’t talk that way to me. You have to go talk to the guys that make pre-cast, a person in Michigan. Listen to him tell you everything he can do for you, then we'll decide how we're going to build the building. Of course, the pre-cast was so much better. It turned out to be the toughest winter in the history of Michigan, and they'd have had terrible troubles with quality and safety if they'd tried to build that building in the winter out of poured concrete. It's way stronger and safer. The building that's going in the UCSB is made to withstand way over 1,000 pounds per square inch pressure, and the concrete will outlast the pyramids. And that's the right way to do it. It can't be done in the field that way. It can't be done that way in a bedroom. And they have ways of making the joinery safe, so these pre-cast buildings are a marvelous triumph of the human mind.

You mentioned temperament. I'm going to come back to that in a second. But before we do, I want to come back to the concept of cigar butts, because it's so important really, what led the Berkshire we all know and understand today. So investing is often referred to as the last liberal art or social science of sorts.

It is a social science. Of course it is.

That plays well into your varied interests and so forth. And so coming back to this transition that you helped form from cigar butts to compounders, was that a sudden or a gradual awakening for you? Was there an epiphany or sorts?

Frankly, everybody who's smart eventually makes that transition when they think about investments. Of course, if you can get into a great company, stay in for a long time. That's the easiest and biggest money you'll possibly make. But it's so hard to do, because they bid the great companies, or things that look like great companies, up so high that it makes that strategy not work… [inaudible] Morgan Banking, they charged a quarter of a point. They got the Nifty Fifty and they say, 'We don't care about price. We've got to be in Nifty Fifty.' And of course, it was the biggest self-fulfilling prophecy for a while. But when it went bully, it was very unpleasant." So that's the trouble, is that they sell so high priced that they make it hard for you to get. But wouldn't you expect that? Why would you expect that something everybody can see is a great company, of course they're going to bid the price up so high that maybe it's not such a good investment.

Was there one stock or business or industry that you recall kind of turning the light switch on for you? Because Warren was in the investment field before you were.

You've got to remember that Warren made a lot of money running his Geiger counter over the '30s. He'd find something selling for 1/4 of the liquidation value, he'd load up. So for a long period of time, he had to have that hunting ground. All he had to do was go to lists of liquid securities and slowly buy them, and he could get these ridiculous bargains. And those bargains went away, and so he really had to change. Now, they haven't gone totally away. It isn't like there aren't some companies that are not great businesses, but they're still a great investment. I can remember Ballard Petroleum, one of the biggest independent refineries. I mean bought that stock personally at $17 a share. Inventories, [inaudible], buried reserves, selling below book value. It was just an incredible bargain, but it was still an ordinary commodity-type business. When it tripled, I sold it. It's doubled since then. That's long years ago. But it's perfectly acceptable to invest in the Ballard Petroleums of the world. But I think the people who tend to get the best results are these fanatics who just keep searching for the great businesses. And the best of them don't expect to find 10 or 20 or 30. They find one or two. And that's the right way to do it — but all you need are one or two. I know the guy who invests with the banker that backed the Costco copy which was Home Depot. He also backed Eli Lilly very early. He has several billion dollars between those two investments. He didn't need any more. And in a lifetime of investment banking, that's what he got: two. I regard that as a successful life. That isn't what they teach in our educational institutions. They need some mystery they can teach that will make you good at investing. It's total bullshit. There is no way to know enough about a thousand different stocks to be very good at it. If you insist on going, you go, “I want a thousand.” If you want to be good, you have to pick a few. That's what I call the Wooden system of stock picking.

Warren talks about the 20-card hole punch.

Oh, I love that. He said that most people would have better investment results if they got a punch early in life that you're very limited in investments. You're going to get 20 investments in your life and then you have to quit and put all your money in cash. He said if everybody was subject to those rules, your investments probably would be better. I think that's right. I think they would be better. The system, the people who are milking the money for fees and commissions, they lather up all these — anything to make the fees and commissions run liberally. And it gets to be the orthodoxy. That's what people do. And of course, it shouldn't be the orthodoxy. You know, sensible people control money for the long term. But it is the orthodoxy, and then, of course, what happens is accidental history. We have a liquid stock market which is two things at once — it's a place for people who are doing long-term investment rationally to go and make their transactions, and it's a place for another bunch of people to do casino gambling. We mix them up totally. It's an absolutely insane thing for the country. It would work a lot better if we didn't mix up — It's like we mixed up running the Army with child prostitution, or something. It's ludicrously crazy. But that's what we did, and everybody that's making money out of it loves it this way.

The incentives are a lie.

Oh, it's just awful. Now, I will say this. The poker tournaments are fashionable. People love this crazy for poker now, the bridge tournaments. The gambling instinct is really strong.

People love gambling.

They love gambling, and the trouble is, it's like taking heroin. A certain percentage of people when they start just overdo it. It's that addictive.

It's crazy what we ended up with. It's absolutely crazy. And civilization would have been a lot better without it. Now, we do get a certain amount of craziness in real estate, which doesn't have a liquid market. It isn't like, you wouldn't have a lot of excesses or speculation, even if the stock market were illiquid, as real estate, but it wouldn't be as bad as it is now. Now it's gone berserk. When I was in Harvard Law School, it was a rare day when they'd pay for a million shares a day. Maybe it would happen once or twice a year. Now they trade billions of shares every day. And the computers are trading with one another. One computer algorithm is trying to outwit the other. Now, what earthly good is it for our country to make the casino part of Capitalism more and more efficient, and more and more attractive, and more and more seductive? It's an insane public policy. On the other hand, I think the chances of changing it are practically zero. And yet it causes terrible things. You could argue that it caused the Great Depression. And the Great Depression brought in Hitler, which came pretty close to ending the civilized world. So I think this stuff is quite serious, but I don't think we can do much about it.

It certainly caused the global financial crisis.

Yes, yes, the global financial crisis. Absolutely. I think if we hadn't intervened the way we did, which we've never done on this scale before, we might have had one of the most unholy financial messes. We were headed for something that was going to try and become the Great Depression. And what they do is they feed on themselves. The process of capitalism automatically speeds up in both booms and depressions, and it feeds on itself for awhile. So it's like autocatalysis, in chemistry. It's just automatic. You get this speed up in both directions, which makes it very, very dangerous. Not just for the individual investors, but for the whole civilization. I am not being casual when I say that Adolf Hitler's rise came in part because of the Great Depression. He never would have been Chancellor of Germany without that. The Great Depression came from excesses which in many ways aren't as bad as those we have now. And with those cheerful thoughts, we should go on to the next question.

I was going to ask a question about the Fed, but I'll move off of that on the eve of intervention and acting like heroin – but capital allocation, enormously important for the compounding over time. The role of concentration, you discussed, and if you have intelligent capital allocation with intelligent concentration, that can lead to outsized returns over time. All of that comes back to

the point about temperament that you mentioned earlier. That's something that you and I discussed even the first time that we met. We have some students in the room. What personal temperament factors do you value the most, and do you think that contributed to your and Warren's success the most? And is there one trait, do you think, that's helped you most as an investor?

I almost worship reason. You can argue that Henry Singleton did, too, and certainly Warren Buffet does, too. The people I know that are good, they feel you have a duty to become as wise as you can be by constantly studying things and thinking about it. And that angle is partly temperamental. And partly, it was family example in my case. My Grandfather Munger, whose name I bear, was a self-made, self-educated man. He was a damn genius. And I watched him, and his life worked pretty well. He was not making many mistakes.

Is there a time you enjoyed investing most?

Well, that's the thing is, it's the sowing when you're almost sure of the wind is almost funner than the reaping. I'm not sure that I don't enjoy the sowing. I like them both, but I think I may like the sowing better than the reaping. When you know you're going to nail it, every single transaction, every day, that's a very satisfying feeling.

Warren likes to tell the story about the bet you had with friends about who could double the money the fastest and sometimes the oddest, and sometimes a day and so forth.

Well, we all had some bully stretches as young men.

Are you saying that in a complimentary fashion?

No, no. By the time I knew Warren, he was a very good investor. But it was so easy for him to buy these loaded situations. He made so much money, of course he would keep doing it. And you can argue that it was this conglomerate boom that forced him to liquidate his partnership. He didn't like a world where people were going crazy, and people who were making the money [inaudible] more and more crapola. He just quit.

It's kind of interesting to think about modern-day Berkshire, obviously, was running a Geiger counter, had Blue Chip Stamps, and you had Diversified Retailing... All of three of which, you know, more or less don't exist, or significantly have run off.

Well, the money and wealth remains, but the businesses are gone. And they were never going to last. But we earned so much money out of them that we were... And by the way, that still works. I think it's a little harder. I think Warren had the perfect time to be the value investor in those early days. He wants something like an insurance company. He wants his one-time earnings. I couldn't buy very much, you know? An occasional share or two, I was buying some [inaudible] businesses and whatnot. When we brought in the most amounts of our stock was in '74, '75 and so on. That was a very good time to be buying. That was the worst crunch in 50 years. We were very lucky to have money on hand at that time. Most people, we don't have tons of money to invest in the bottom of these booms. We're all in on them. We've been in it for a long time. We just ride it out. My Berkshire stock has gone down 50% three times in my lifetime. That's one of the most successful gambles — you can find something that works, but it still... And of course, can you imagine an ordinary investment management firm saying, "We don't mind going down 30%"? They'd be in terror or they'll be fired. And that means that 95% of the big-time national investing, they're closet indexers . That, again, is a deep moral compromise driven by incentives that none of us can do anything about. It's almost as ridiculous as having a stock market that's also a gambling parlor. And they can't avoid it. They would say, "I can't do it." The university endowment officers also have to be closet indexers by the standards of the university endowment. I guarantee you one thing that we're not, I guarantee one thing Singleton would never have been is a closet indexer.

I think you've said many times, "Look at the system, look at the outcomes, and I'll show you the incentives."

Yeah, the incentives that are driving it. You take the modern system of investment, I would say the modern big-time investment banking has shifted into the shadow banks and the other forms of private equity. They're just so huge and it's so much money and so much wealth being created. It drives people crazy because you want to get in on it, and so it gets bigger and bigger and bigger, but there's a lot of closet indexing in that, too. They all want to do the same thing. It's not my scene. We're not going there.

I want to get to index funds in a second, but before I do, you were just talking about compounders. I have one last question on this for everyone. So Einstein called compound interest the 8th wonder of the world. Warren had said, "Find someone hard-working, intelligent, and honest. If you don't have the third, run for the hills. Don't worry about the first two." You've spoken about the value of temperament and staying rational this morning. Warren talks about entering a zero into a multiplicative series, and you talked about avoiding path dependencies, finding the Lollapalooza effects, and the power of delayed gratification. Aren't all of these forms of maximizing compounding in a qualitative form?

Well, sure. Of course. It was so obvious to me when I was practicing law. If I helped some businessmen do some transaction and I got a fee. How could that be if [inaudible] a potential to making transaction like he was making and making them correctly. Of course there's use potential if you can do the compounding correctly, but it's very hard to do. The competition is very, very intense. You have to stay out of the seductive craziness that goes on around you all the time, when there are huge incentive pressures. And they aren't just incentive pressures. We all like to do what other people are doing. None of us wants to move to the North Pole and sit there for awhile with making one hundred million dollars. We all like to be in a pleasant places like Beverly Hills, having an expensive breakfast.

To come back to index funds now, you recently made some comments about index funds in particular. There's a big movement toward everything ESG, etc., etc., with these ISS, Glass Lewis, and so forth.

I hate that. Glass Lewis is a protection racket. They create the hazard and then they sell the protection. It's like the mafia. By the way, nobody at Glass Lewis thinks there was anything wrong with it. We live in a world where you can actually go into a business as evil as that and think you're doing the Lord's work. You know, Hitler thought he was doing the Lord's work. We have a record of his last thought in the bunker. Do you know what it was? The German people, it turned out, didn't deserve Hitler. It was their fault, not his.

> **I think you jumped to the end of my question, which was basically, Paul Graham recently had this fantastic piece titled "Heresy" on the value of not shutting down outlier opinions, the dangers of going down that path, and so forth, which obviously comes back, to some degree, to Germany as well. If Marc Andreessen, actually, I don't know if you saw that funny tweet the other day about the irony of index funds. He says, "they lack the confidence to pick stocks, but possess the confidence to redesign society."**

I know. It's such a joke. But there are a lot of people who think they would run the world. They'd run the world by eliminating stupid things like vaccines and — That's all that it is. You can steal the first thousand with a machine gun and you're going to go to prison. There are a lot of crazies out there.

> **I feel like it's an agency issue where that net of index funds provide better performance with lower fees, as Warren and yourself have pointed out, but that this is just a standard agency issue. We have these different vectors on the varied hyper-helpers and middlemen you and Warren have warned everyone about.**

[Inaudible] By the way, they only charge a quarter of a point for that. It's that whole investment management. They were the leaders of the investment management in the United States. That went on for, what, 20 years. They charge a quarter of a point. And everybody got these fabulous results because of the blue sky high. But it was an interesting career to watch. You started to have a similar thing when you're picking an index of 50, 100, 1,000 stocks, that's most of the market. It'll work for awhile, but eventually, if you get too much indexing, it'll have no chance of working. It'll be a Nifty 50 all over again.

It's been said software ate the world, and that AI will eat software. We've talked a lot about Carnegies and the Rockefellers who had these unbelievable businesses, but they were passive and capital-intensive, earning single digits of returns and so forth and so on.

But they got rich because they did it so long.

Right.

And they caught — you can argue that Rockefeller, after the first 30 or 40 years, they sold kerosene for lighting. They dominated the oil world. And as that business died with Edison and electricity and so forth, along came the engine running the automobile, and that use of oil was way better than their old one. So you can argue that they were just damn lucky that they were forced out of one business, God gave them a better business, and they had the possessions of all the big oil fields to ride it out. And they kept inventing new technologies, so whatever value they thought was there, it was really a little more. And the price of oil kept going up and up and up. What's interesting now about that is that nobody thinks it's illegal for a bunch of sovereign nations to have a cartel in producing their own oil, and every reason it can't happen is that, "oh, they're dumb this and dumb that." But it could happen, and you could argue if solar would be a good business.

As long as the cartel lasts.

Yes. Yes. The interesting thing about solar is that there are only, what, three or four players making the fertilizer. And that's an interesting thing to watch, and I don't know how it's going to play out.

But Russia and Ukraine being one of them?

Yeah. Obviously, nobody knows, but there are going to be some solar cartel-like things done by government, and I don't know anything about those. Somebody will make money by predicting that stuff.

The weak link is always the cartel breakdown.

Yes, of course.

So we have $10 trillion in market cap amongst 5 phenomenal businesses that really don't require any capital whatsoever. When you look at that contrast today to what the Carnegies and Mellons and Rockefellers built, it's all obvious in hindsight. Do you have any opinion, without giving a specific name or anything, on whether those moats will be as durable?

Well, I think the temperaments of these — the one that I find the most interesting anyways are the Mellons, and I think those temperaments still work. I mean, if you're like the Mellons, or Carnegie, it still works. They were pretty hard-working, aggressive, talented people. But there was some luck in it. You saw the thing about Carnegie steel — that's good steel. It eventually went to hell. Absolutely went to hell. But he wasn't building something that wondered what it was. The Rockefellers' empire lasted a lot longer. You can argue that Rockefellers' empire was the only business of the old days that really became a giant that's still lasting. Everybody else, it's all a type of mortality. They all die or become insignificant.

Most people in this room probably don't know, actually, Berkshire owned part of Union Tank Car, that was part of Rockefeller's operation.

Yes, absolutely. And Berkshire's pipelines. Rockefeller had a lot of pipelines.

That's actually a good pivot into inflation that we're seeing in the environment. Some of us have lived through it, but not the same way that you and Warren saw, the destructive inflation of the '70s. What should investors be thinking about when looking at companies with potential inflation of the '70s as a backdrop? Not saying it will, but...

I don’t think most people are going to do really well with inflation. I think most people are going to be way better off, at least the people that have any money will be way better off, if there weren't any inflation. And so it's just a question of how most of them aren’t going to profit. Most people are going to suffer. The idea is to suffer as little as you have to from it. But I think it's the nature of things that a bunch of democratically-elected politicians will eventually print too much money. Now, in my life, I would argue that what we have now is so valuable, the fact that the currency went down by 80% or 90%, it was worth having the depreciation of the currency to get growth. I don’t think it was a bad bargain for civilization so far, but on the other hand, the Weimar inflation that eventually led to Hitler's rising, that's a different problem. To get into that, I have no... It won't be my problem, if I'm honest. It may be your problem.

I think the answer's always to find the best businesses you can at the best price, regardless. Capital intensity is certainly an aspect of that. The pricing power.

Yes, but think of what's resulted. Just think of what I've seen wane. All the big department stores. All the big newspapers and monopolies. US Steel. Alcoa. At the end of the day, a lot is knowing…

Pretty much all the airlines. Pretty much all the auto manufacturers.

Yes, the auto manufacturers. Yes, compared to what they were. General Motors once stood in the world like a colossus, and it eventually wiped out its own shareholders and part of its own workers' pensions.

What about GE?

Well, GE is one of the worst cases of all, because I knew Jack Welch. He was likable and he was intelligent, but he went a little crazy trying to do well in the system. He was very competitive. He wanted to win at golf, he wanted to win at business, all over. He just let it… he got them into that wretched excess. In the end, he was lying about what had been accomplished. I think that that book, "Lights Out," which chronicles the decline of GE, ought to be required reading in every business school in the country. It won't be, because they don't want to offend anyone. But it should be. If there's anybody here's who's not read "Lights Out," you should buy it and read it.

I don't think Amazon's going to run out. No, the creative destruction we've seen — Do you feel like the standard thought is that it's accelerating because of software and computers?

No, I think it would have been better if we'd never had software. That may contribute to a lot of the change that destroyed some people. But I think the nature of capitalism is that all things die. But death is part of the creative process.

Do you feel like our rate of change is accelerating?

Well, that's a very interesting question. I think we can answer that in two ways. You can make a case for yes, and you can make a case for no. The case for no, of course, is that most of the basic needs are pretty well satisfied. The average life expectancy is 80 years for a male in America. He gets color television and jet travel, modern medicine, air conditioning. It's pretty much all the reasonable wants that a man can have. It's hard to even imagine something that is more important than what's already achieved. So in that sense, we've got a great majority of the progress-making behind us. But in another sense, it's just amazing what we keep finding out and keep doing. I'm not all that impressed by the fact that they made insurance and underwriting a little bit better. That's just like tweaking an automobile to get an extra horsepower. But what's already been achieved is just absolutely unbelievable. It all happened in the last 200 years. Two hundred years ago, we'd all be in a field, going to work and never leaving the little valley we were born in and having fungus we couldn't fix, watching our children die of nasty diseases. It was not an easy life.

It says a lot of the power of human ingenuity in compounding that there are more people that have been born and died in this world before 200 years ago in all of human history, and yet 99.9% of innovation minus the wheel and fire, has been created in the last 200 years.

Yes, that's what's happened. And of course, that makes some people optimistic. But you know, I think… is there going to be some major calamity for the human race in the next 100 years? What are the chances of a really major calamity? I don't know about you, but certainly it's at least 10%. Yes, I think flirting as close to nuclear war as we are now with these paranoid rulers, and it's dumb. It was an old history in mankind. [Inaudible] Mankind has always wanted to go take away the other guy's property and kill the guy he was subjecting. They did it over and over again. Then they got into the habit, which was followed by both Genghis Khan and by Oliver Cromwell, who was the Lord Protector of England. Cromwell would come to a nice city in Ireland, he would say, "Do I have to waste my soldiers killing all of you people?" Then he would write back, "I'm going to kill every damn one of you, and I mean it." And if they didn't give up the city, and he just killed them all. It was genocide.