Introduction

Patrick: [00:00:57] **We've had this interview with Charlie Munger scheduled to air for a while, coinciding with Stripe Press's launch of the amazing reprint of Poor Charlie's Almanack, which is launching today. Tamara Winter and the team at Stripe Press created a beautiful book worth its weight in gold. You should get one immediately. We were all stunned last week when we heard the news of Charlie's passing, but having consulted with those close to him, everyone agreed that he'd want us to release the interview as planned.**

In reviewing his remarkable uncompromising life, a few things stood out to me. The word curious doesn't do Charlie justice. He was a voracious truth seeker. He was funny. He was wise. But from my perspective, maybe the most impressive of all was that he was a great teacher. The sheer number of people who shared a meal with him and learned from him was staggering. He gave what he learned freely to those that were interested, and in the process, changed people's minds and their lives. That everyone listening can probably recite a few pearls of Munger's wisdom without looking it up is a testament to his reach and impact.

He says in this interview, if you don't look, you won't find. For me, and I hope for you, part of his legacy will be go seek, go learn, go look, never stop. Before I turn it over to John Collison, who conducted this interview with Charlie, I'll leave you with one final quote from Charlie. He said, the best thing a human being can do is to help another human being know more. Amen to that. We need more people like him. I'm thankful to be able to learn from him just one more time in this interview. Please enjoy and may Charlie rest in peace.

A Multidisciplinary Approach

John: [00:02:27] **We are here in Charlie's house in L.A. where you have lived for 61 years.**

Charlie: [00:02:32] Yes.

John: [00:02:33] **And I just learned that you designed this house.**

Charlie: [00:02:35] Right.

John: [00:02:34] **So we're here in your creation to discuss your creations, which I'm extremely excited about. I read Poor Charlie's Almanack pretty early in starting Stripe. I can't remember exactly where it was, but it was pretty early, the first few years. I feel like the book is an ode to thinking for yourself where, at least for me early on at that stage, there's all this received wisdom and how things work and it requires a certain bit of confidence to work up to actually question some of that received wisdom or come at things in your own way.**

And I feel I took away, obviously, there's the multidisciplinary thinking and multiple mental models, which have been very useful for me. But I feel like part of it as well and thinking about, say, for me, the Stripe business, but the quality of businesses generally is, I feel like a lot of what you get at is a sort of a map territory confusion where the professional financial world who very much discusses the map and the numbers of a business whereas you're a much more obsessed with, is this a good business,

is it long-term sustainable?

Charlie: [00:03:35] Well, it goes further than that. The conventional financial world is pretty reliable if you want to use electrical engineering or automobile transportation or a lot of things. But in a messy world of running businesses and institutions and so forth, the conventional religion is asinine. And my theory from very beginning was I want to eliminate all the most conventional asininity. And I saw that if I could just do that, I'd have an advantage over most people. And so I collected asininities as things I should avoid.

And when you get to the way the wealth advisory business is created, you can hardly find a place in the world where so many high IQ people are doing so many dumb things. And so it was a hog heaven field for somebody who can develop anti-asininity because there was so much of it to be avoided. And I was lucky that my temperament and my location forced me into the business of investing my own money shrewdly. And I was shrewd even when I didn't have much money. And that's the way I got ahead.

And when it worked, I just kept doing more and more of it and so forth. And I never paid any attention to the boundaries between disciplines. I early got the idea I would learn the big ideas in pretty much all the disciplines.

John: [00:05:01] **And because you're...**

Charlie: [00:05:02] Ideas to fluency by constantly using them. And that would give me an advantage in what might we call -- but other people call it common sense. Somebody says that old Joe has common sense. They don't mean that. They mean he's got uncommon sense. And the people who are sensible on right away everything they deal with, they're uncommon, not common, most people are a mass of crazy prejudices.

John: [00:05:25] **Did you learn the big ideas in the various disciplines because you were just intellectually curious about them? Or because you thought they'd be instrumentally useful in the work?**

Charlie: [00:05:33] Both. I saw instantly, for instance, when I was introduced to the math of Pascal and the elementary probability, I saw immediately how important this math was. My math teacher had no idea that he'd come to a part of the math that was very important in the regular world to everybody, but I saw it immediately and I just utterly mastered it. And I used it. I'm still using it. I used it routinely all my life quite intensely.

And when I got to study in the Harvard Business School, in the early days at the Harvard Business School, they were proudest of something called decision tree theory. And they taught it at the Harvard Business School, a lot of pomp and ceremony and many examples, all these graduate students.

Decision tree theory, it's a Harvard Business School -- in those early days, what they were teaching you was that Pascalian probability math works in real life. Here's the Harvard Business School needing to do remedial high school math to a bunch of graduate students, and they weren't wrong. They were right in those days to teach decision tree theory because other people hadn't mastered probability math the way it should be mastered.

My teacher in high school, if you don't pay attention to anything else, this stuff you ought to master. And he should explain how carny operators and casinos take advantage of ordinary people. It should have been taught, and it wasn't taught right in high school, and it wasn't taught right in college and it wasn't taught right.

Finally, the Harvard Business School got so they taught high school math to graduate students. And you can say how could that be correct? But it's because the earlier education was so ineffective.

John: [00:07:09] **In Poor Charlie's Almanack, you advocate the multidisciplinary approach and knowing the big ideas from all the different disciplines. And one of the ones that I particularly liked and stuck with me was the one from biology of stable ecosystems and understanding how entities prosper within ecosystems. And in particular...**

Charlie: [00:07:30] And how they perish too.

John: [00:07:33] **How you don't want necessarily to be in this robber baron, monopolistic, rent extraction position. But instead, businesses that sustain and endure over the long term are ones where they are not rent extracting the...**

Charlie: [00:07:46] Well, some of the robber barons last a long time. And there are a lot of real estate operators that are basically sleazy. And they don't even think their business is sound unless they're doing something sleazy. They're doing something sleazy, they have a safe advantage. And of course, that's exactly the opposite to my idea.

My idea is so simple, is that if you make your living selling things to other people that are good for them, that is safer and more profitable averaged out than selling them stuff that's bad for them like gambling, drugs, crazy religions, all kinds of things that are terrible for people. And so of course, you want to sell things that are good for them. And it's amazing the people who don't pay any attention to that rule.

And I think it was sleazy products and investment banking has sort of you willing to sell and the sleazy stuff that compensation consultants are perfectly willing to sell. And I just decided I wasn't going to do any of that. I was going to sell what kind of stuff that I would buy if I were on the other side. And I also wanted to work with the kind of people that I admired. And that's a very important thing to learn to just search out the reliable people that you can trust and be the kind of person in dealing with everybody else that they can trust.

It's just a huge advantage if you start doing that young and keep doing it consistently through life. It isn't very hard, stay awake in high school math and deal with the good people instead of the bad people and sell what you would buy if you were the buyer, not what you can sell by misleading people. These are very simple ideas. But it's just absolutely amazing how well they work for people who relentlessly follow these simple ideas.

John: [00:09:32] **Just because it's easy advice or simple advice does not mean it's commonly followed...**

Charlie: [00:09:36] It's better if it's simple.

John: [00:09:37] **You presumably also add be reliable to that. That's the point that you make…**

Charlie: [00:09:42] Who wants to be dealing with an unreliable person?

John: [00:09:45] **You mentioned the lesson your dad taught you about -- was your switch from the law to investing partly informed by this question of the counterparties you were dealing with prior in the law, so the adverse selection and the people who buy a lot of legal representation.**

Charlie: [00:10:01] People get into a lot of trouble or are skirting along the edge of dangerous regulation because they deserve to be dangerously regulated. It's extremely dangerous. If you weigh the list, you can hardly figure a more unethical way of making money in capitalism than the Sackler family did when they started selling illicit drugs under the cover of being a legitimate pain removal.

If you looked at the law firms and advisory firms and accounting firms that help the seculars along the way. There'll be a lot of very respectable names. I think it's stupid to take clients like the Sacklers. You don't want these people to even know your address, you don't want to have anything to do with them.

And yet a lot of law business is caused by the people who are right on the edge of something very immoral. And a lot of the big law firms will take those clients if they're successful enough. I don't agree with that particular model of law practice. I think you ought to be quite selective in the clients you take on.

John: [00:11:02] **What do you think is the societal fix for problems like the pharma company's role in the opioid epidemic?**

Charlie: [00:11:10] Well, that's a big issue. A lot of people rationalize selling drugs to other people to make money. If you go back to Franklin Delano Roosevelt, his money mostly came from his grandfather selling opium to the Chinese and he was selling it to Chinese bandits, too. And he was very respectable when he got back to the United States and lived in a big house, and I'm sure behaved well in dealing with those tradesmen and so forth.

But I don't want to make that money by selling opium to the Chinese. It's a terribly disgusting way to make money, but a lot of the early money that came to Harvard, Yale and Princeton and so forth, they also made money, those early tradesmen in that area, by selling opium to the Chinese.

So a lot of people have rationalized all the terrible conduct in the history of the world. And I think it's safer and surer and better just to eliminate that whole system from your repertoire. Just get the bad people out of your life and the bad activities out of your life, just exclude them.

The Map Is Not The Territory

John: [00:12:06] **And this gets back for me to the -- one of the big takeaways I had when I read Poor Charlie's Almanack is again, the map is not the territory. A business is not its income statement and balance sheet. You can have a business that looks very robust by the numbers but there's a question of, is the management honest? Is the product actually good for the people who are buying it? And you could have two businesses with very similar income statements, but one is a much more sustainable business and one is not.**

Charlie: [00:12:31] The trouble with investment is most business is going to perish. It's like evolution. Over a scale of 300 years, practically, everything perishes. All great retailers, 90% of them have perished in the last 100 years. And lots of other fields, Kodak perished, all kinds of big things that looked permanent.

And of course, successful investment, you want to anticipate things that are going to destroy businesses. For instance, as we sit here. Over the last 100 years, the people who control the big brands reliably made more money more easily with less risk and downside than frankly anybody else.

John: [00:13:12] **Brands like what? What's an example?**

Charlie: [00:13:13] Just any toothpaste, Procter & Gamble, you name it. But I remember when Ipana was a popular, fast growing toothpaste and it went out and it's gone totally. And I think that there are forces -- in fact, now they're going to make it harder for the people that control the big brands because these house brands like Costco has and the other house brands and the success of places like Aldi and so forth, I just think that there's more trouble coming to big brands than they've had in the last 100 years.

And if you're an investor, you should realize that even though you haven't seen it yet. And you wouldn't realize that modern big brands have a perish risk unless you were familiar enough with economic history to remember all the other things that perished that once looked investable and looked permanent and, of course, they weren't.

John: [00:14:03] **Because it feels like they're getting squeezed on two sides, right? On the one side, you have very large retailers like Walmart or Costco or Amazon, but then on the other side, you have companies selling direct-to-consumer over the Internet where they don't need a retail distribution channel. And so it feels like the brands...**

Charlie: [00:14:17] That too. I figure all investment is intrinsically damn difficult. Because obviously good ideas get bid to such high prices that They get dangerous just because there's no investment that is so good you can't ruin it by raising the price higher and higher, because none of them are worth an infinite amount of money.

John: [00:14:36] **This gets to one question I was wondering about, which is you and Warren famously say that you divide investments into yes, no and too difficult to reason about, and say, much high tech might be in that too difficult to reason about...**

Charlie: [00:14:48] For us anyway, yes.

John: [00:14:49] **For sure, yes.**

Charlie: [00:14:50] Well, we're the biggest shareholder in Apple. So we haven't totally failed.

John: [00:14:52] **No, understood. And I think that 5% position in Apple, my understanding is it's done pretty well for you. But you don't get to not reason about tech because you think about the Buffalo Evening News. Newspapers are fabulous toll road businesses until the Internet comes along, and then suddenly the economics of that business look very different.**

Charlie: [00:15:08] Basically, the wealth of the newspaper industry, with minor exceptions, it just all went away. They were invincible monopolies, gold mines and made their owners safely rich for 200 years even, and almost all went away.

John: [00:15:25] **So my question is, how do you think about the quality of the business when overarching tech changes are really going to shake it up?**

Charlie: [00:15:32] You've got to recognize the tech changes do cause some new businesses to flourish and other businesses that looked impregnable to fail. And that's one of the realities you have to understand.

John: [00:15:44] **So you secretly are a tech investor because your reasoning about the effects of tech on Costco or on...**

Charlie: [00:15:51] Yes, it's just that -- take, for instance, pharmaceuticals. The American pharmaceutical industry is better than any other pharmaceutical industry in the whole world. And number two is not remotely even close. So we have one of the great achievements in the whole history of the world in science and technology and so forth. At the same time, there's a fair amount of sleaze in the way pharmaceuticals are distributed. Everybody rooks the government...

John: [00:16:16] **The PBMs, yes.**

Charlie: [00:16:17] Yes. And that's just the system. By and large, we haven't invested in pharmaceuticals because we've got no edge. I don't know enough about biology and medicine and chemistry to have any edge in guessing which new pharmaceutical attempt is likely to succeed and other people who know those things, not that they have perfect knowledge, but it's way better than mine. Why in the hell would I play against other people in a game where they're much better at it than I am when I'm playing for something desperately important to me like a way of feeding my family. So of course, we didn't go near it.

I would argue that they're -- in practical life, you want to succeed, you got to do two things. You got to have a certain amount of confidence. And you have to know what you know and what you don't know. You have to know the edge of your competency. And if you know the edge of your competency, you're a much safer thinker and a much safer investor than you are if you don't know it. And I constantly meet people, better to have an IQ of 160 and think it's 150 than an IQ of 160 and think it's 200. That guy is going to kill you because he doesn't know the edge of his own competence and he thinks he knows everything.

Partly, Warren and I, we pretty much know what we know and what we don't know, what we're good at, what we're not good at. And one of the things we're not good at is guessing which new pharmaceuticals. So we don't even look at it. After all, it's a big universe out there and if we have to leave a certain kind of investment behind because we lack the capacity to deal with it as well as some other people. That's all right. We don't need an infinite number of opportunities.

John: [00:17:49] **Why did you never invest in Amazon? It feels very similar to Costco in the thesis of how it operates, economies of scale delivered back to the consumer in the form of lower prices, compounding over a long time.**

Charlie: [00:18:02] We've actually started a business or two, and we bought some little ones that we made big. So we have done some things that look like venture capital and some of them have been quite successful. But average that, we bought existing businesses that have a lot of momentum as well as all the talent and just wrote those things.

So we made way more money by finding something that's already working in a business and just buying in, then we have starting new ones from scratch. NetJets was an interesting business. We lost money or broke even for 10 to 12 years. And now it's just a gold mine of a business. We look like venture capitalists. I guess we were in that case.

John: [00:18:42] **NetJets is now a very good business?**

Charlie: [00:18:45] Good is an understatement. That's not an adequate word.

John: [00:18:49] **So one thing I observed about a lot of the very successful businesses that you're obsessed with is they seem particularly well designed to be capital efficient. And so NetJets and Coke might not look like similar businesses on the surface. When you think about Coca-Cola, they are the brand, they do the advertising, they manufacture the syrup, but the capital-intensive bottling work happens with partners who take on that CapEx. Similarly, with NetJets, they pioneered the model of not owning the aircraft, but they put the ownership and depreciation on to other people.**

Charlie: [00:19:23] What you've said is exactly correct. Of course, it's better to have a business that earns large profits without requiring any capital than it is to have one that you have to put a lot of capital to make the money. Of course, that's true. Naturally, everybody is drawn to a business that will produce huge profits with no capital or a huge return on the capital put up.

John: [00:19:43] **Do you specifically look for businesses that are good at pulling in other partners who invest the capital? So Domino's Pizza...**

Charlie: [00:19:50] We don't have any one model of being good. The harsh reality of business are good in various ways, and all we care about, is the way working. And by and large, they're working pretty damn well. But sure, of course, everybody loves the business that prints a lot of money without requiring any capital. Costco requires no working capital.

John: [00:20:09] **Why not?**

Charlie: [00:20:10] Because the turnover is so high that they don't have to pay the supplier until they've been paid by the...

John: [00:20:17] **They've shifted the inventory by the time they need to pay the supplier.**

Charlie: [00:20:20] Somebody else is financing their inventories. And we could, if we wanted to, lease all the properties. We don't. We own all the ones we can. But basically, you could run Costco with primarily zero capital if you wanted to. Of course, we like a business like that a lot better than ordinary businesses, there aren't many, unfortunately.

John: [00:20:38] **Would you agree that this is something that's much misunderstood in business is people are obsessed with percentage margins, but the capital efficiency of the business is a function of its percentage margins and the inventory turns and either of those can contribute to the capital efficiency?**

Charlie: [00:20:54] Well, I think everybody understands that who go to a modern business school. But they learn the wrong culture. They learn for instance, that if you just pay the suppliers in 90 days and sell in 30 days, then you get all this -- somebody else is furnishing your working gaps. So they abuse the supplier, who's a little supplier, because they can get by with it. I don't think those models are safe or good. I think that's a dumb way to treat little suppliers. So I don't believe in that kind of brutality to little suppliers.

People who are in the wrong religion, they say we want to reduce the capital. We'll just pay a bunch of little people who we want to trust us and love us and serve us well. We start treating them in a very improper way. That's vastly stupid. That's not smart.

John: [00:21:36] **So what examples do you prefer of businesses driving capital efficiency without squeezing small suppliers?**

Charlie: [00:21:43] Well, Costco is one.

John: [00:21:44] **By turning the inventory quickly?**

Charlie: [00:21:46] Yes and doing that because they have fewer stocking units and they're way more efficient.

John: [00:21:51] **You're on the board, right?**

Charlie: [00:21:53] Yes. I am somewhat the older member. But Costco, it's an amazing culture. The whole damn culture of the place is so subtle and it just marches from triumph to triumph. It was smart to have a small number of stocking units flowing through with enormous speed. It was right to have a membership system.

There are three things that Costco didn't want. Didn't want people who stole merchandise. They didn't want the people who used bad checks, and it didn't want people cluttering up his goddamn parking lot without spending a hell of a lot of money in stores. So a membership system, where they accept only a certain kind of a member, all of a sudden now they've got nothing but people who buy a lot per trip.

Costco has always had the lowest shrink rate in the world. Tricks the inside too. So the net theft rate at Costco was always below 2/10 of 1%. That's unheard of.

John: [00:22:46] **I hadn't thought of the parking lot efficiency with the membership system.**

Charlie: [00:22:49] You can't go to Costco just to buy bottle of iodine, just drop in. You got to be a member and then you got to pay enough, so to an ordinary person, they're not going to pay an extra $100 to buy a bottle of iodine or something. We keep the peach pickers, the little buyers out.

Sol Price used to say “A business should be careful in the business it deliberately does without”. Of course, that's straight out of a Munger book. You figure out what you want to avoid. And they want to avoid theft losses, embezzlements, bad checks and cluttering up the parking lot without buying much. And their system caused all those effects at once.

John: [00:23:27] **It's like your first speech in the book, start with the business you don't want, work backwards.**

Charlie: [00:23:30] I know, but it's so simple.

John: [00:23:32] **Any others? Of businesses driving capital efficiency without squeezing suppliers.**

Charlie: [00:23:35] There are lots of others. Practically all of the aerospace businesses have learned to make very high returns on capital.

Charlie: [00:23:43] They specialize in being good at something and handling the government well as a paying customer.

John: [00:23:49] **Did you ever look at TransDigm?**

Charlie: [00:23:51] Sure. I don't like that way of making money.

John: [00:23:54] **Because the price increases.**

Charlie: [00:23:56] It's too brutal. They figure out something that has a little monopoly due to the defense department regulations, and they raise the price 10 times. And they're famous for it. I regard that as immoral.

John: [00:24:08] **Did you ever look at Domino's Pizza?**

Charlie: [00:24:10] No.

John: [00:24:11] **You're familiar with the returns, though, right?**

Charlie: [00:24:12] I'm familiar that they have good returns. A lot of people get good returns on the investment when they get hot and get big volume through small. Listen, McDonald's earns a big return on capital. A lot of places do.

Identifying Monopolistic Businesses and Profitable Industries

John: [00:24:25] **One of the things you raised in the book is this question of when you have a small number of players in the industry, say, two or three players in the industry, it is not always easy to predict who will earn good profits and who will not. And so the airlines lost money since the Wright brothers versus the cereal manufacturers, very durably profitable. If you're looking at the business today and you know that the industry will consist of two or three players, how can you predict will those players make money?**

Charlie: [00:24:50] I don't think it's possible to be 100% accurate in making these predictions. But certainly, we're looking backward, the people who had branded profits like coffee and oatmeal and so forth, made very high profits and airlines basically made no profits at all for their shareholders.

John: [00:25:09] **But the airlines were branded goods.**

Charlie: [00:25:11] But everybody had big capital equipment if they didn't use it, they obviously were losing a lot of money. So that everybody was almost forced into a very destructive competition by the logic of the individual situations. There are a lot of businesses that are very hard to make money in permanently.

If you want to go into the business like restaurants, most people fail, small percentage of restaurants even last long enough to make a living to the people who own them. Too competitive. That's why they fail. Just like there are too many deer on an island and no predators, pretty soon there are too many deer. So all the deer suffer because there are too many of them.

John: [00:25:49] **But again, to go back to this question, if I want to understand, will the business be like an airline or like a cereal company. Is this then the ongoing capital expenditure that's required where airlines fundamentally, they have lots of CapEx on an ongoing basis, it's like the original Berkshire textile mills?**

Charlie: [00:26:02] The airlines are like a guy who builds a big hotel and it's just sitting there and he makes some incremental profit from filling it. And if it's got up and staff, that's better than just letting it sit there vacant. It almost forces irrational intense competition. The same thing does not happen within cereals.

John: [00:26:19] **The NSF was one of the biggest acquisitions you guys did. And my sense from the outside is that it's maybe even been more successful than you would have expected. Is that accurate? Or did you expect it to be this successful?**

Charlie: [00:26:31] The railroads were a lousy investment. There were a few people when they were first created that basically stole all the money by milking the government, bribing legislators and doing all kinds of terrible stuff. But by and large, most railroads are lousy investors, like the airlines for a long time. And finally, it got down after years of fighting unions and consolidations, so you get down to a few big systems.

Now there are just two big transcontinental systems, and we've got one of them. Of course, that's a less competitive market than it was -- than it existed earlier when there were 100 different railroads. But early railroads when they were terribly competitive, they were terrible places to invest money.

John: [00:27:12] **But again, airlines, bad business, not a good investment.**

Charlie: [00:27:16] Early railroads, bad business.

John: [00:27:19] **Early railroads, yes. Railroads today still require a lot of ongoing CapEx.**

Charlie: [00:27:23] Yes, but they're so dominant. Once you have a railroad that can put shipping containers on that stack too high on tracks. It's one of the most efficient ways of transferring assets all over the country. It's way more efficient than trucking. So that they have a system that just accidentally happened. Nobody anticipated you'd be able to double the capacity of the railroad just by shoving containers one on top of the other. So they got very efficient finally. And now they're so efficient. They're more efficient than anything else. And of course, they do well.

John: [00:27:53] **Okay. So nothing can compete with railroads in terms of efficiency, cost to actually move stuff, energy required to move stuff. And so with an airline, you might have three airlines competing on a route, whereas the railroad may have a route to itself. Were you ever tempted to invest in other forms of transit, infrastructure, ports, shipping?**

Charlie: [00:28:11] We've looked at things like that, But I can't remember -- and what we once bought a big position in a bridge.

John: [00:28:19] **A literal toll bridge business?**

Charlie: [00:28:21] A literal toll bridge, and then we decided that we didn't want to look like a goddamn monopolist. And besides, we just sold and moved on to something less monopolist.

John: [00:28:31] **Or at least it looked less monopolistic. Has investing gotten harder?**

Charlie: [00:28:35] Of course, it's gotten harder, way harder. It's gotten so hard that most of the people who are in wealth management have an almost zero chance of outperforming an unmanaged index like the S&P.

John: [00:28:47] **How has it gotten harder?**

Charlie: [00:28:49] It's gotten, a, there's so much more of this wealth invested in securities. And so we'll get a whole lot of big sums to manage. And of course, it’s a long time to buy in, a long time to sell out, costs are higher. And so it's way harder to manage a large sum of money to make a lot of money at high returns than it is to manage a small sum of money. And then way more brains came into the business. So it's gotten brutally competitive.

And then we have these manias that get -- when things are hot and they'll start running like the behavior gets almost crazy. It's almost like a delusion. Of course, it's harder. And in my lifetime, a guy just bought the best common stocks and sat on his ass, would have made about 10% per annum before inflation. Maybe 8% after inflation. That is not the standard return that a man can expect from investment. That was a very unusual period in a very unusual place. And I do not anticipate that the average result is going to be nearly that good over the next 100 years.

John: [00:29:53] **Why was the results so good? Why was it 10% per annum?**

Charlie: [00:29:57] Let's call it 8% after inflation. The Great Depression so demoralized everybody, they were utterly despised and then the economic system improved a lot. And the combination of the investment climate, the economic situation together evolving, just made it unusually good. If you go back to what the rich people of England did back, say, in 1900, they bought consoles, 2.5%, no inflation. Two and a half percent return was considered, that was, you wanted to stay safe, you'd be satisfied with that. No rich people thought there was any safe way of getting 8% if you go back to 1880 among the rich people of England.

And so this is an unusual period. And now everybody who's in investment management teaches everybody, you'll get 8% after inflation by dealing with us because that's the way it worked for the last 100 years. Just because it worked for the last 100 years does not mean it's going to work for the next 100 years.

John: [00:30:54] **So it's been a period of significant economic growth. I think there's also maybe the U.S. stock market that has outperformed...**

Charlie: [00:31:00] Yes, everything, United States, country prospered, a lot of good stuff happened at once that caused that very good result. It's not always going to work that way.

Assessing Today's Societal and Investing Landscape

John: [00:31:08] **Okay. So I say we have a 25-year-old investor who's thinking about investing over the next 50 years. If you take the lessons from Poor Charlie's Almanack about avoiding the relatively simple mistakes that can be avoided, thinking about investment as the underlying business and the**

quality and sustainability of the business, taking the punch card investing approach of making a small number of investments rather than trying to play your time in the market. Do you think that approach is still a recipe for success over the next 50 years?

Charlie: [00:31:35] Yes, but it requires considerable self-discipline and considerable skill. And most people will lack the discipline and skill.

John: [00:31:45] **What discipline will they lack? What will they screw up?**

Charlie: [00:31:48] Well, they get carried along too much by what other people believed at the time. They'll respond too much to improper incentives. In other words, they'll start buying stuff that's silly. They buy in to get the fees, they scrape off the top and they'll do a lot of things that are wrong. Not written in the stars that everybody has an automatic way of making 8% after taxes.

John: [00:32:11] **That's quite an achievement, yes.**

Charlie: [00:32:13] It's a huge achievement, a real return of 8%. And by the way, the ordinary customer or the ordinary stockbroker probably earns 2% or something instead of 8%. So the ordinary stockbroker is just an absolute menace to humanity, not that there aren't some honorable, good stockbrokers on earth because there are some. But there are a lot of people who are responding to the incentives that are under in a way that their investors who trust them are not going to get a good return at all.

John: [00:32:38] **You have been famous for criticizing gold earlier on and now cryptocurrency.**

Charlie: [00:32:46] I like to gold a lot better than I like cryptocurrency.

John: [00:32:49] **You've criticized both.**

Charlie: [00:32:51] Before there was cryptocurrency, I never bought gold. So I didn't like gold. But I don't hate gold as an investment as much as I hate cryptocurrency. I think cryptocurrency ought to have been driven out as illegal.

John: [00:33:03] **At the risk of maybe getting ejected from the premises, if I can try to defend cryptocurrency, isn't the perspective you have where -- I think you would say, invest in a productive business. Isn't that a reasonably U.S.-centric perspective, where absolutely, we have a great currency here. We have a great respect for property rights here. If you're in Turkey and their property rights aren't as strong, the currency is inflating 80% a year as it has this year, then the ability to move your wealth...**

Charlie: [00:33:34] Well, if I lived in Turkey, I might do something odd. Buy my gold if I were in Turkey, but I would never buy cryptocurrency.

John: [00:33:39] **Even in Turkey?**

Charlie: [00:33:40] No. I don't think that buying a percentage of nothing is a good investment, even though it's hard to create more nothing.

John: [00:33:47] **But isn't gold functionally an investment in the percentage of nothing?**

Charlie: [00:33:50] It is similar, except it's been established so long as a...

John: [00:33:57] **An agreed upon store of wealth...**

Charlie: [00:33:58] With the history we have and with the need for a currency and a currency that is backed by something and gold is hard enough to mine and so forth. Gold is a perfectly reasonable thing to use as a currency. And the evolution of use of gold as a currency was a very good thing for civilization. I don't have the feeling that gold is evil. Gold helps civilization develop. But I think cryptocurrency is scumball activity. And I think by and large, the people who promoted it are scumballs or delusionary. And I don't know which is worse, being a scumball or a delusionary. But I think they're both pretty bad.

John: [00:34:31] **Some people can manage to be both. There's plenty of scams in crypto. That's absolutely not up for debate. But are we talking about questions of degree here between gold and cryptocurrency, where they are societally agreed upon stores of value, which trade above...**

Charlie: [00:34:46] Let's put it this way. If we didn't have gold, we might have invented something like cryptocurrency as a substitute. But once we have gold and fiat currencies that are now long established, we don't need to add in cryptocurrency.

John: [00:34:59] **But isn't cryptocurrency handier? If you can work with it in just software, you don't need to actually go get some physical gold, trade it, melt it down. It's much harder to seize cryptocurrency than it is to seize gold in an autocratic regime.**

Charlie: [00:35:10] You don't have to bother with any physical inventories or anything has any intrinsic value. You can create system very efficiently dealing in it. I don't want to officially deal in nothing and craziness. I want to make it illegal. All nations have had anti-counterfeiting laws. And I think the anti-counterfeiting laws ought to have been used to totally bar cryptocurrency.

John: [00:35:33] **But nothing's being counterfeit here.**

Charlie: [00:35:34] Well, if I am a nation and I have a currency, I don't want a new currency established.

John: [00:35:38] **But it's not really a new currency. It's a new store of wealth.**

Charlie: [00:35:42] You can call it a store of wealth, I call it a store of delusion. I don't think it's good to participate in delusion even when it gets quite common. A second medium of exchange widely used. It's ideal for drug dealers, dope dealers, scam artists of various kinds. Every kind of criminal you can imagine. Very good in extortion, kidnapping.

Why would we want a wonderful crime facilitating new medium of exchange? Why wouldn't we just say this is like counterfeiting? You're coming into the government's business and you're trying to create a fiat currency and you can't do that. It's a feel they don't...

John: [00:36:18] **All right. Well, I will agree to disagree on crypto. But...**

Charlie: [00:36:20] You don't have to agree. I can handle it if you like crypto. I don't like it, but I can handle it.

John: [00:36:25] **We're staring into a recession, potential stagflation. What advice do you have for people thinking about how to work their way through the...**

Charlie: [00:36:35] I have one standard set of advice for all difficulties, suck it in and cope. That's all any human being can do, suck it in and cope. Partly, you have to be shrewd. That's one way of coping is to be as shrewd as you can possibly be. But that's my recipe. And I must say it's worked pretty well for me. It will work very well for any other person who uses my methods.

John: [00:36:59] **Berkshire made a lot of money in '08 with opportunities that might not have existed. Some of the bank deals, say, the preferred stock deals. Are there different ways investors should act at these discontinuous lows?**

Charlie: [00:37:11] We got some opportunities, which other people wouldn't have gotten because we were admired by a small minority of people who could be helped if we helped them. But that isn't our main way of getting ahead of Berkshire Hathaway. That amount of money we've made in those deals is pretty minor compared to the amount of money we've made elsewhere. We get occasional opportunities that other people don't get. I don't think it's at all easy to get the kind of opportunities that we got, and we don't get that many ourselves.

John: [00:37:40] **But there's maybe a lesson there in being a preferred counterparty. Berkshire was known to have lots of cash, be extremely trustworthy and be quick to deal with.**

Charlie: [00:37:47] Those are good reputations. Who wouldn't like an opportunity of being great, trustworthy and easy to deal with and always having a lot of money available? Is there anybody who would be hurt by -- of course, people would like that.

John: [00:37:59] **How do you feel about American society over the coming decades?**

Charlie: [00:38:03] Old men have always tended to think that new generation is going to hell. The old Romans, o tempora, o mores. That goes back to the earliest civilizations we had. The old guys were saying when I get out of the world, it's going to hell. And it really wasn't going to hell net by and large. But I do not like the way politics has morphed in my lifetime in the United States. I don't like democracy. The way it actually morphed into existence with these primaries and the dominance of two parties where only the most extreme members of each party have a lot of pulling power and therefore, they control the nominees and so forth.

I think our way of getting nominees is deeply flawed now. It may have worked pretty well up until now. It worked better when we had those old, crooked bosses in the cities then it's working now with the primaries. I wish those old, crooked bosses would come back and replace the present primaries. Wanted to control the patronage so they actually nominated some pretty good people like Teddy Roosevelt. And these modern primary systems, the worst people often win.

John: [00:39:06] **Just because they move further left and further right.**

Charlie: [00:39:09] Yes.

John: [00:39:10] **How do you feel about declining birth rates?**

Charlie: [00:39:11] It creates a different kind of a world. Well, I don't see that mankind would be at all smarter if everybody had six children. I think that just jams up population way too much starting with 7 billion for the whole world. So I think it's good that the population is growing more slowly. But do I think it is good for people to be quite self-centered below 35 and then get married compared to marrying at 21 or 22 and having a lot of children?

No, I think the people who married at 21 or 22 and grew up fast because they had to because they have those young children. In a sense, I think they were a luckier generation than the people who came along with all these different options and who delay marriage into late age and have one or two children, I'm not at all sure it's good for the people who are having these new options, but it is good for the population.

John: [00:40:01] **Why do you think the people who have kids at 21 were happier?**

Charlie: [00:40:04] It's very constructive to help other people and everybody feels pretty good about his own children. To have a lot of responsibility and bear it well, I think helps people. If you take the philoprogenitive people, say, the Mormon church, really still have the big families. If you measured human felicity in some objective way by measuring time spent smiling versus time spent frowning, the Mormons would average out way happier than the general population.

So early marriage in big families and believing in religion is somewhat hard to believe in its technical theology. It's very good for the occupants in terms of their personal happiness. I'm not interested in believing something I don't believe in just to be happier. I'm kind of a peculiar person that way. I have no doubt in my mind all that the Mormons are average out happier than the rest of us.

John: [00:40:55] **Does that make you worried because…**

Charlie: [00:40:57] No, it doesn't make me worry. I just live with it.

John: [00:40:59] **But people are being less religious and having fewer kids.**

Charlie: [00:41:02] I'm used to things not working perfectly. And so why should I expect my society is always going to be marching upwards because it has for a long time. I believe you just adjust to whatever society turns out to be and you do the best you can. And that's all any human being can do and that's all I'm going to do.

John: [00:41:20] **How concerned should we be about institutional sclerosis and the rise of it where you were just talking about this waterfront property that you've been working on developing for the University of Santa Barbara, but it's property on the water that you just can't develop now in the way that you could 40 years ago. And as you look across all sorts of different domains in the United States, it feels like the institutions are becoming more sclerotic and it's harder to do things.**

Charlie: [00:41:43] Of course. In our political system, the people with political power in these states and cities don't want a lot of new development. And they have the legal power to prohibit it and they do, and that's causing way less opportunity to have good housing for young people coming up than was common when I was young. And in a sense that's sad, but it probably does make the existing communities a little better off. They already have enough traffic. They don't want anymore.

They just want to make it very hard to get new building permits. You can understand where the city thinks it's better off not accepting the growth. It's a very serious problem, not at all clear that the cities are wrong in doing, it's in their self-interest, many of them not to grow. And so they use their legal powers to prevent it. That makes it hard for young people coming up.

I think the young people coming up now are going to find it a lot harder to get what more or less automatically came to my generation. At modest cost, we got a house in a good school district and a growing plus in civilization. And it was pretty widely available. And now in the big cities, I think it's going to be very hard to get a…

John: [00:42:52] **But isn't that very bad…**

Charlie: [00:42:53] A new house. It's sad, but it's sad they get old and die, too. Maybe civilizations have some sadness. They have to adapt to it just as human beings do. It's not automatic. Everything your life is going to be better than it was for your parents or your grandparents. Perfectly possible for a world to develop where it's a little worse in some ways.

John: [00:43:15] **Where do you think the world is getting worse?**

Charlie: [00:43:17] I think we have a political game problem that's probably as bad as we've ever had. We have some crazy dictators on the verge of creating a nuclear war. We've got lots to worry about. The world has never been a perfectly safe place and it isn't now.

John: [00:43:32] **Kind of a societal version of your avoiding mistakes framework from Poor Charlie's Almanack, where societies need to avoid the major mistakes just like individuals do, avoiding nuclear war.**

Charlie: [00:43:42] We're lucky to have done it so far. But if enough crazy people have enough hydrogen bombs, there will eventually be enough hatred, we'll have an atomic war of some kind someday. You can almost count on it. So you can say that our generation, it was quite unlikely, but I think it's getting more likely and not less.

What We Can Learn From Architectural Mistakes

John: [00:44:00] **I'd love to ask about your architecture interest. So again, you designed this house 61 years ago. And of late, you've been designing many more projects like the -- some of the buildings for the UC Santa Barbara where you donated the funds, but also designed the buildings. Why do you think architects get it so wrong?**

Charlie: [00:44:17] They don't get it so wrong. So I think architecture is the queen of the arts. In other words, I like it better than painting or sculpture or so on. I don't know, maybe music also deserves to be queen of the arts, too. But anyway, I regard it as very important, and so I think hardly anything in the arts is more important than architecture. But just as I think money management makes a lot of common mistakes. I think architects make a lot of common mistakes.

Too many of them want to create something different just because they are bored with the conventional forms. And so they compete in making it artsy-craftsy and crazy. And you get things like dorms at MIT, where people actually go into the dorm and they get seasick because all the walls are slanted, and massively stupid.

MIT has a school of architecture. Imagine having a school of architecture in a place that is so stupid they build a dormitory where all the walls are slanted so much everybody gets seasick. That really happened at MIT. So I think schools of architecture, they have a lot of folly to regret. It's not necessary for architecture to be stupid as some of it dead denizens are.

John: [00:45:27] **Okay, so architecture mistake number one is architects wanting to get creative or make their mark.**

Charlie: [00:45:32] By being peculiar. Peculiarity by itself is not art, in my opinion.

John: [00:45:36] **What are the other architecture mistakes?**

Charlie: [00:45:39] So you got to understand the customer's business and the customer's real needs in a way that is automatic with people like me. And I want to identify what the real needs of my customer is and really satisfy it intelligently. And I don't have some crazy, artistic preference of my own that I want to just see in three dimensions. Well, somebody else pays me to create it. And of course, you can serve your people better if you understand their business better. The architects aren't multidisciplinary enough. That's what I'm telling you. Practically, no profession is multidisciplinary enough.

John: [00:46:15] **And what's an example of where you are more multidisciplinary than the architects in some of the buildings you've designed?**

Charlie: [00:46:19] If you take the building, the graduate residence at the University of Michigan. They had a magnificent site with a parking lot. They had no other site. They'd used up all the land in the dormitory. They have a second campus, but on their main campus, they'd used up all the sites. And there is one little parking lot left. And I realized that if they used their power of eminent domain and doubled the size of that parking lot, they'd get it with a big square building on the site tha would hold a lot of graduate students.

But there was no way to do that without creating a window shortage in some of the bedrooms. And I also knew that it didn't matter that there was a window shortage in the bedrooms because I went around Ann Arbour and saw the private builders in Anna Arbour now have already created apartment rooms with no windows and relying on artificial light. And I walked side-by-side exactly identical bedroom, one with a real window and one with just a blank wall. And the one with just a bank wall renting for 10% less.

So it wasn't much of a problem. I looked for the evidence and then once I realized that, I could do all kinds of wonderful things in that building once I got over this prejudice that it was absolutely required under any and all circumstances that every bedroom have a window. So it's just an example of just the most elementary common sense. I looked at the evidence at Ann Arbor. I understood geometry well enough to know. And then too, I was well aware that every ship has exactly the same problem. Every ship has a window shortage automatically. Every cruise ship. Yeah, and they pay $20,000 a week to be on the ship and so forth.

And if they don't want a little light, they walk out of the ship and go into one of the common rooms. And of course, that's what I arranged they do in the dorm. So I was following correct precedents from marine architecture. But show me an architect that's learned anything from marine architect. I think you could go into any school of architect in the country and you won't find anybody studying marine architecture. They think it has nothing to do with it. It has a lot to do with what they're doing. If you don't look, you won't find.

John: [00:48:27] **I feel like another example of understanding the customer is giving the students in the dorms single rooms where most people design...**

Charlie: [00:48:32] Oh, well, that -- talking about insanity. Now, I have sent a lot of children through a lot of graduate education. And I've never had a child that liked being in a room with one or two other unrelated people sleeping in the same room.

John: [00:48:46] **At the age of 20 or 25.**

Charlie: [00:48:48] Or 18 or 16. Of course, they'd rather have a room of their own. And I just figured out how much the incremental cost would be of giving them an extra room compared to the value -- and I apparently realized that what everybody was doing was dead wrong. UCLA -- brand new housing in the last two or three years. They put three people in a little room to sleep, three unrelated strangers. Nobody likes it. It's crazy. And this stuff I've designed now is grinding slowly through the cost of the commission. Every single student gets his own sleeping area private to himself.

John: [00:49:19] **Why did this shared delusion persist for so long?**

Charlie: [00:49:22] What happened was that the fire codes, they worry that the fireman would need a ladder to go and look through the window and crawl in through the window and haul somebody who had passed out from smoke. So they required that every sleeping space have a window. So the fireman could crawl up on a ladder. There were two things wrong with that.

One, it never happened. Nobody could find a case were a fireman -- they would crawl up by ladder and look through and they had found somebody lying in bed passed out of smoke. And two, of course, a modern building with automatic sprinklers, that’s why there was going to be zero.

And that's why the fire codes changed. And when the fire codes changed because -- but the people are used to doing it in a certain way. Of course, they keep doing it the same way they've always done. Isn't it the Mayo Clinic is one of the best places on earth in terms of an admirable culture. They kept doing hip replacements by a procedure that the doctors knew how to do because the new one that was better for the patient was very hard for the doctor to learn. And so they just kept doing it the old way. Architects are no different. They do what they're used to.

John: [00:50:32] **Again, for say, someone who's 25 or 30, is the lesson that there are a lot of $20 bills lying on the sidewalks? There's a lot of inefficiency in the world to be rectified that people should not assume the world works efficiently?**

Charlie: [00:50:45] Well, of course, there's always a lot of things that can be improved, always a lot of people who are getting ahead by doing something new. And that's one of the pleasures of modern civilization. And imagine a postal clerk in the United States can go to Hawaii on a 2-week vacation on a superjet and have a nice time. A postal worker could do that in the world that you're up in.

You can learn a whole new profession just punching buttons on the Internet and so forth, so the possibilities of self-education is fairly enormous. So all kinds of things have been greatly improved. Of course, that causes new opportunities for some people, and it causes absolute economic destruction from certain people who get obsoleted.

Imagine the Kodak company, which hired all the PhD chemists, totally dominated the chemistry of film and so forth and had the most reliable trademarks in the whole world. Go through Africa when I was young, there are 2 things you always saw: a Coca-Cola and Kodak. That was the brands all over Africa, the poorest villages. And of course, Kodak went totally broke because somebody invented a new way of taking photographs and developing photographs. And it just obsoleted their whole damn business, and Kodak wiped out its common shareholders. That happens all the time, that kind of thing. And you can't blame the management for it and say, “Well, didn't Kodak invent its own destruction?” That's hard to do.

I mean for human nature, you've got a business as big as Kodak, everybody's lived over for years. They're like the surgeons who didn't want to learn a new trick that was lot harder to learn when they were old. People don't welcome having to learn something new. It's really hard to learn. Everybody would rather get ahead using what he already knows.

John: [00:52:36] **One of the bits of advice you emphasize in the book is to avoid getting addicted to chemicals, which again maybe sounds flippant. You give the example of some of the people you knew growing up...**

Charlie: [00:52:45] Oh my god. Of course. In the circles in which I was raised, nobody smoked even marijuana, but everybody drank, of course. And I would say it's something like 5%. All the people that I was raised amid got hooked on alcohol and became alcoholic. I think half of them just drank themselves to death and died and the other half licked it, got over it, became abstemious alcoholics. But that's a lot of people, 5%. They were not horrible people or weak people or something.

In Search of Win-Wins

John: [00:53:18] **You spend a lot of time in the book talking about businesses that are win-win for both sides and the importance of this for their long term.**

Charlie: [00:53:24] How can anything be more important? It isn't just that it works better in terms of creating plenty for all. It's better morality. Of course, both sides want both sides to win, that's more moral than trying to take advantage of other people when it's so obviously the right way to live and it's the right way to do business.

John: [00:53:45] **Who's falling to follow that?**

Charlie: [00:53:46] All kinds of people. If you're a carny operator, you're trying to cheat people on gambling games. And they do it all day long. If you're selling drugs, that's another way of cheating. And your whole life, you want to be on a win-win basis because that builds them. It's like capitalism. It's got these effects that multiply, and there's so much of it we have. That's why civilization works as well as it does so much if it is win-win.

But there are all kinds of people that are looking for ways to cheat people. We had a guy with us when I was in the military. Everybody called him honest John. And of course, they called him that because he was totally crooked. And if it wasn't dishonorable and crooked, he didn't think it was sound. He wouldn't consider any proposition that wasn't sleazy and that weren’t crooked. He was trying to screw people out of money. But how much better if you have a voluntary transaction where both sides are happy on a win-win basis? That's perfect. And capitalism in such a system causes this flourishing civilization. Of course it's the way to go.

John: [00:54:50] **Which Berkshire businesses do you think are most emblematic or...**

Charlie: [00:54:54] Everything is win-win. Take Dairy Queen. We have all these little shacks, particularly over north where they're just open in the summertime, because you don't have so much ice cream in the winter. All the parents come and get their cheap hot dogs and ice cream cones and so forth, and people will run a little shack, make pretty good money in the summertime and it's win-win.

Customers are getting something they want. The people who are manning the store get something they want. Of course, the Berkshire shareholders get some capital returns that they like. It's all win-win. Of course I'd rather do business that way. Who wouldn't prefer to do that than trying to sell -- think of all these people that sold drugs, the OxyContin thing. It was just disgusting, perfectly disgusting way to make money.

John: [00:55:38] **And so the businesses you exclude are tobacco, drugs, what else?**

Charlie: [00:55:43] I don't think you want mass mania either. Very uneasy by the Grateful Dead's popularity, with everybody in the audience using drugs as a way. There, the music was contributing to the decay of civilization.

John: [00:55:56] **So you wouldn't invest in drugs, tobacco or the Grateful Dead?**

Charlie: [00:55:59] No, that's correct. I would not. When I sell you a tennis racket for $100, one side gets the tennis racket they'd rather have than a hundred dollars they're partying. The other guy, he likes what he's getting, too. It's win-win.

That's the beauty of capitalism. It makes win-win transactions very easy and almost automatic. That's such a hugely important idea. And people like Bernie Sanders and Elizabeth Warren, both of whom I regard as quite talented in some ways, but they just don't get it.

John: [00:56:27] **But I think you mean that as a backhanded compliment.**

Charlie: [00:56:29] It's both a compliment and a criticism.

John: [00:56:32] **Is the fundamental thing they don't grasp that a lot of the win-win businesses are net positive and win-win for both sides and they...**

Charlie: [00:56:40] It's automatic in a capitalist transaction, unless one side is making a big mistake. And most people are pretty good at not making mistakes over and over again with their own money.

John: [00:56:49] **It's not fully automatic, right? We can…**

Charlie: [00:56:51] No, it's not. But a lot of good happens automatically.

John: [00:56:54] **Do you worry about the rise of this faction of the political spectrum who don't really believe in capitalism?**

Charlie: [00:57:00] Of course, look at the misery that's happened to the Russian people. They didn't like their old system with a bunch of serfs serving a bunch of landlords and so forth, corruption and so forth, so they went to something worse.

They were rebelling against something that was awful, so they substituted something that turned out to be actually worse. It's hard to create a new form of government worse than Russian serfdom, but Russia has managed to do it. And not only that. They're proud of having done it. You should never be proud of your defects.

John: [00:57:30] **What are Berkshire's defects?**

Charlie: [00:57:31] We haven't eliminated all mistakes of judgment or even all mistakes of morality. So nobody gets anywhere near perfect ever in human affairs. It's not exactly a defect. A lot of what worked for us in the early days, we can't do anymore because the world is more competitive.

The low-hanging fruit has all been picked, and we can't get fruit out of barren branches where the fruit has gone away. And so we have to go to something else. And of course, that's harder. A lot of people have that problem, and they go to the new systems in new ways.

John: [00:58:01] **I've always liked the quote capitalism is how we take care of people we don't know.**

Charlie: [00:58:05] It's certainly remarkable how it works. I like a social safety net, but I'm different from other people. If I were running the government, the modern civilization, I would be quite liberal at rewarding everything that can't be faked, like being blind or not blind or something. I'd just give a very blind person a lifetime pension, which goes up with inflation.

If life is tough enough for you, we can afford to do it, and you and your handlers can figure out how you use the money. So I would be very liberal. I would give anybody any education right through college, courtesy of the government, but it would be meritocratic. You have to be able to do the work or you don't qualify for the benefit.

So I wouldn't let people pretend to be learning things in some half-assed institution and send the bills to the government. But places like Caltech or MIT, anybody could get in and do the work, if I was the government I'd pay for it all the way through college and graduate school, which they do in places like New Zealand and Australia and so on.

Again, everything in medicine, that is almost automatic, I would pay for that, too. But would I pay for Freudian analysis? No. Stuff that can be gamed and it was crazy, I would not pay for. And I wouldn't allow the people to get rewards for low back pain, even though they have real low back pain. And it's easily faked. I wouldn't pay. It just causes too much cheating and the cheating gets to the eventual and so forth.

I would just say we can't do that. It's not that we don't sympathize with your low back pain and your poor life adjustment? But we can't give lifetime pay just because you say, "My lower back hurts." or, "my life adjustment is imperfect." That's the way I would organize the government. Nobody thinks the way I do. I feel lonely. I would be quite generous, but I will be quite tough on people with low back pain or psychological problems.

The Origins and Legacy of the Book

John: [00:59:47] **How did Poor Charlie's Almanack come to be?**

Charlie: [00:59:50] I went around and made a few talks because -- I did it because I kind of admired Ben Graham, the way he also invested money, but he also tried to be an educator, and so I made a few talks. It's a matter of civic duty. Enjoyed doing it, too. That's how it happened.

But I never would have circulated. Peter Kaufman came by and asked for permission to rifle through my files, and I said long as I don't ever have to do anything, you can go into my office. I don't have any dirty secrets in my office. I'm not worried. And so Peter just rifled through my office and created Poor Charlie's Almanack. It's his creation, not mine, in a very real sense.

John: [01:00:26] **What's the legacy of it been?**

Charlie: [01:00:28] What's happened is it's spread over the world, and that I'm way more popular in India and China than I am in my own country. And I don't mind that either. I think it's peculiar that these high-IQ nerds in China and India love me, and my own country, people think I'm a pompous old bastard.

John: [01:00:45] **Why India and China, in particular?**

Charlie: [01:00:47] I didn't set out to do it. It just happened.

John: [01:00:49] **But why do you think it's really resonated in those countries?**

Charlie: [01:00:52] It is a little Confuciun. Elderly male of wealth, lots of experience sharing, that sounded a lot like Confucius. And the Indians, I don't know. But all I know is in India and China, people really like it. There are people in the United States, too, but I've gone with Peter to Vedika places, and I just see a sea of Chinese and Indian faces. We go to Google or somewhere, that's what I see, those 2 groups who've been very successful in the high-tech world.

John: [01:01:24] **Is there also something about the cultural importance of striving and getting ahead?**

Charlie: [01:01:29] They like that, too. You can't find any 2 groups on Earth that are more interested in getting ahead than the people in India and China.

John: [01:01:36] **And inasmuch as the book is manual for that?**

Charlie: [01:01:39] Yes. That's a manual for going there. And it's a manual that's worked for the guy who's talking. That gets people's attention, too.

John: [01:01:46] **Yes. It's kind of a get-rich-slow mindset?**

Charlie: [01:01:48] Yes, it's mildly ridiculous. There is no other big conglomerate that succeeded as much as Berkshire did. Not in the whole world, as far as I know, and that is a very unusual thing to have happened.

John: [01:02:02] **If you could snap your fingers and transform Berkshire's corporate form, would you?**

Charlie: [01:02:07] No, I like it the way it is.

John: [01:02:08] **It wouldn't be better as a partnership or as a private company or...**

Charlie: [01:02:14] Well, it could have evolved. There are private places that make a lot of money and then stay private, but I think both Warren and I have actually enjoyed as much of the public life as we have in terms of the annual meetings and the Poor Charlie's Almanack stuff. And Buffett gives all these seminar talks and so forth.

I think we all enjoyed as much of this what you call educational slideshow that we do. We've actually enjoyed it, and we actually think it's constructive. As far as I'm concerned, what we're doing in the educational side, that's win-win, too. If people will listen to what we have to say, they'll be better for it, at least more successful.

John: [01:02:55] **Is Koch Industries maybe the closest business analog to Berkshire, where it's a very large diversified conglomerate?**

Charlie: [01:03:03] I don't know anything about Koch Industries other than they've gotten ahead mightily, but I would not want to be as active politically as they are. I just don't enjoy it that much. But Koch industries has been quite successful, yes, you're absolutely right about that.

John: [01:03:19] **On the book, you got a note from a reader just this week. "Hi, Charlie. I wouldn't expect you to remember, but I visited with you in a group of Stanford Graduate School of Business students in 2018 at your office before having dinner at your house. I read through Poor Charlie's Almanack at least once each year and just finished my 2022 read. I want to thank you for all your enthusiasm and worldly wisdom." How often do you get notes like this? And...**

Charlie: [01:03:39] A lot. Really a huge amount. And so much so that I can't really handle it. I don't want to spend my time answering notes of strangers. A lot of people are genuinely grateful for the book, and that's amazing. The accidental book has made a lot of people grateful, and what do you charge that book now, Peter? $60? It's selling faster now than it did when it came out. There is no book -- I don't think the Bible is selling more than it did. It keeps selling and selling.

John: [01:04:05] **This is like when John Lennon said he was bigger than Jesus? Be careful. You and Warren have been working together for decades. Patrick and I have been working together for a decade, singular. We plan to work together for many decades to come. What advice do you have for us in constructing a constructive partnership?**

Charlie: [01:04:21] You're very lucky to have a good life partner. Yes, I'm sure you're also very skillful and talented, but it's a blessing to do it with a good partner than to be all alone doing it. And of course it's better. Of course it's a blessing. Warren and I have not just succeeded in making money or something.

We have had a lot of fun, actual fun. We enjoy doing what we've done, mostly. We're associated with a perfectly marvelous group of human beings. It's almost unfair. The people with Warren and I associate with all day long are such high-grade people. Of course it is a pleasure to associate with high-grade people all day long. Talented people, too.

On Warren, the SEC, Buybacks and More

John: [01:05:02] **When you're saying it's fun for you and Warren together, just the relationship is fun outside of the results. What does that look like? Is it staying up late watching funny YouTube videos? Is it...**

Charlie: [01:05:09] No, no, no. We get fun doing, doing and understanding. We both like learning something new, preferably something useful that's new. And we both like accomplishing a certain amount and the fact it's difficult and you're still able to do it, of course it's a pleasure.

John: [01:05:25] **What do you and Warren debate? What's an ongoing topic of debate between...**

Charlie: [01:05:28] We don't debate. There are some things that I'm willing to do that Warren isn't. And of course, I just adapt.

John: [01:05:35] **Like what?**

Charlie: [01:05:36] Well, if he doesn't want to do it, we don't do it. That's very simple. Just is a matter of time budgeting. Now he will do some things because he likes doing them that aren't necessarily the best use of his time, and so will I, but we do a lot of stuff where we like doing it then, where we associate with good people and are accomplishing things. And we both believe that if you're unusually successful, you ought to share, to some extent. Some of your success, you should share by giving away to others, in fact.

You give away money and time and advice and so forth. Almost all the world's religions -- the Christian religion requires it. The Jewish religion requires it. So we enjoy the mix we have of education and philanthropy and operating the business. Now, we wouldn't want to make any one of it much bigger than it is. I'm not looking for a lot of the new opportunity. My life is pretty full the way it is now.

John: [01:06:28] **But what do you and Warren disagree on? Or what have you disagreed on?**

Charlie: [01:06:31] We don't disagree.

John: [01:06:33] **Well, you must.**

Charlie: [01:06:35] I called him and I said something, and he said, “Charlie, I don't want to think about new faces, anything that's small.” So he's budgeting his time. So Warren doesn't want to do anything that's small. He wants to do big bucks. He's disciplined that way. Now something small he enjoys doing, he damn well does it. But he doesn't want to look for new small business opportunities. He doesn't want us both waste thinking time to them.

John: [01:06:59] **Again, that's one example of a disagreement. What else?**

Charlie: [01:07:02] Well, that's not exactly a disagreement. It's just -- of course he's entitled to spend his time the way he wants to in his 92nd year of life. 93rd, he's now 92. But we've had a lot of fun. And of course, it's been very effective way to do pretty well in a worldly sense. We've enjoyed that. To crawl up from absolutely nothing as far as Berkshire crawled, of course that's a pleasure.

John: [01:07:24] **Why did you guys essentially merged? You were doing your own things with Wesco and Blue Chip and Berkshire, and then at a certain point, you merged the efforts.**

Charlie: [01:07:31] We didn't really mind it being all mixed up like that. But since so many financial operators are kind of manipulative and dishonorable, if we had all the different entities always buying stock in one another, it looked a little like mischief or something. And so we just put them all together so we would look like we were manipulating.

John: [01:07:52] **So no one could have any claims of conflict of interest-type things.**

Charlie: [01:07:56] And so many people who do a lot of different hands, they do manipulate, behave improperly.

John: [01:08:01] **What do you think of the SEC?**

Charlie: [01:08:02] We're a lot better with an SEC. The tendency to prosper through financial chicanery in all forms of wealth management is perfectly enormous. So of course, you need something to throttle that back and control it. So I'm glad we have an SEC. It would have been crazy not to have one. By the way, that came in as part of the Roosevelt, and I would argue that its main trouble is that it isn't tough enough.

John: [01:08:26] **Tough enough on what?**

Charlie: [01:08:28] Miscreancy. If I were running the SEC and had the power to do it, I wouldn't allow people to publish a record saying, “Here's what I did over the last 20 years, when I started with $2 and went up to $200 million." because it misleads people. And of course, we will create mutual funds, create little ones to get a phony big record. I would forbid that kind of stuff.

I would force everybody who is a big-time money manager to report his investment record per dollar year instead of historical, and that would take the miscreancy out of it. And it would be so simple, and it would radically change the whole industry.

And how many people have you ever heard say it will be mandatory that all wealth management will report its results per dollar year, which would be easier to do mathematically? And it would totally change the way everybody is promoting their service in a way that fosters truth and excellence and a lot of the things.

John: [01:09:22] **Sort of reminds me of the requirement to register clinical trials. Have you read of this movement where people can -- if they don't publish the ones that don't do anything and they do publish the ones that generate results, you can get a bias towards nonreplicable results being published? And so the idea that you need to preregister the clinical trials you're going to run in advance. It sort of reminds me of that.**

Charlie: [01:09:42] I am not an expert on pharmacology and how it's done, but I am in favor. What I just suggested is so goddamn simple and so obviously required in terms of honorable disclosure, that it ought to be automatic. And yet who has ever suggested -- why is little Charlie Munger, 98 years old, think the SEC or the government ought to require that all investment professionals report results per dollar year instead of per historical? Nobody suggest it. But to me, it's obvious it ought to be required.

John: [01:10:15] **And when you say per dollar year, you mean dollar weighted results, basically?**

Charlie: [01:10:17] Yes. How much return -- for every dollar year, what was your return? And of course, that's a very different figure. I know of a case of a hedge fund where the proprietor made a lot of money, but per dollar year, the net return was zero. Because when he got a lot of money, he really made a lot of dumb mistakes.

He made a lot of money when this one didn't matter much. And yet it looks like a wonderful record. But in fact, it was terrible. And why wouldn't that be a fair thing to require? Why aren't Bernie Sanders with Elizabeth Warren -- that's low-hanging fruit. They don't like the miscreants use of capitalism. This one could be easily fixed. Instead, they want to change the whole system so it looks more like Russia's. It's crazy.

John: [01:10:58] **Some people zero in on very odd things. Like the current war on share buybacks is very odd.**

Charlie: [01:11:02] That's just terrible. I'm against that because I don't like left-wing woke and I don't like right-wing nutcase either. I'm an equal opportunity hater of political orthodoxy.

John: [01:11:14] **War on share buyback seems very misguided and dangerous. Share buybacks are the way that we return money from less productive companies to more productive enterprises, and so we're kind of encouraging institutional sclerosis and ossification through large companies have to just get large and stay large and reinvest internally. That seems really bad.**

Charlie: [01:11:34] They'll get it. They'll get it differently in terms of opportunity cost. If your stock is selling for half of what it's worth, and in the external world, you have to pay and the company is managed by others you don't like as well, and selling it what it's worth or higher than, of course, you want the ability of buyback. When your shareholders are better off buying their own stock than they are doing something else, of course you ought to do it.

And the corporate manager should be a good fiduciary for the shareholders. You've got excess cash and your own stock is selling for cheaper than it's worth, of course you should buy your own stock. It's the right way to behave. And so I'm against all these crazies who think it ought to be made illegal. Other people do it just to pump it up so they can use it as currency or something. And that, of course, is disreputable. We never do that. We buy when it's too cheap.

Evaluating Stripe, NetJets, China's Prospects, and GE

John: [01:12:23] **If Patrick and I came and put you on Stripe, what would you want to understand about the business? What would your concerns be?**

Charlie: [01:12:30] That's an interesting question, considering how much Berkshire Hathaway has made out of other payment systems, including American Express. We recognize the power of having a dominant position in payments in a way that's very efficient. And of course, anything in modern payments that enables all this Internet stuff is very useful. So you've come into a field and made a contribution and made yourself very useful.

I'm for all these payment systems that get better and better. So I think you've made your money honorably and you've made a lot of it, and good for you. I admire what you people have done. Why wouldn't I? I regard everything that you're doing as a little bit threatening to American Express, but American Express actually has a position where it's like Hermes or something, and so it won't necessarily be ruined by Stripe.

John: [01:13:22] **In evaluating a business like Stripe, what questions would you want to answer for yourself?**

Charlie: [01:13:26] Is it likely to remain forever as a money generator? And that's a more complicated subject. It's hard to know how the world is going to evolve. If Kodak could suddenly be obsoleted away, maybe it's not utterly unthinkable if Stripe could.

The company that dominates software for architects, terribly prosperous company, but some other companies come up in that field a lot and it no longer dominates as much as it did. So not everything in software always wins. So I do not have the feeling -- the venture capitals tend to think everything in software is always going to win. I don't believe that for a minute.

John: [01:14:00] **That does seems to be a remarkable aspect of Berkshire is just the duration of the investments, where it's very hard to pick out companies in the Berkshire portfolio that you don't feel good about 50 years from now.**

Charlie: [01:14:12] It's even worse than that because the ones that were obvious mistakes were way too many jewelry stores. And we had low returns on capital and so on. It looked as bad as airlines. And of course, recently, the jewelry stores have been coining money, and we've closed about 75 of the stores and more coming. It's no longer look so bad.

We have trouble losing even when we try to. It's like Warren bought some baseball team to help his town because somebody asked him to do it and the goddamn thing started making money immediately. That's the way I feel about some of our investments. We don't deserve a lot of credit. We just stumbled into them.

John: [01:14:48] **Why has NetJets done so well?**

Charlie: [01:14:50] It's better in its niche than anybody else. In NetJets, the whole culture, safety is first, customer service is second. And after that, we'll start worrying about the capitalists who own NetJets. And of course, there's enough fanaticism of that kind of a culture. We create a hell of a product for the person who can afford anything. And ours is better than anybody else in the country, and it's now big. It's a big business. And we have yet to kill our first passenger. All these many years, we've never killed a passenger.

John: [01:15:21] **I didn't know that such.**

Charlie: [01:15:22] Well, now you do, and we're proud of that. We don't say it because we're afraid it might change. We get too bold in telling God we're so...

John: [01:15:33] **I can feature the magazine ads. NetJets- "No one has died yet".**

You're very bullish on China. Why?

Charlie: [01:15:41] Well, first reason is that their economy was growing faster than ours. That isn't necessarily true as we consider this exact minute, but for a long time, that economy grew a lot faster than ours. Number two, we could get way better and stronger companies at a much lower price in China than we could get in the United States. Now on the other side, we had to take the political risk of buying into a peculiar system of government that's not different from ours.

As long as we were getting enough bargains, I was willing to run the -- as with part of our assets is we would never invest all of our money in China, for Gods' sake. But we were certainly willing to invest part of it. That's perfectly logical. And of course, we were investing through Li Lu, he was a very exceptional money manager. And we put all those 4 things together, the ones, of course, that made sense.

John: [01:16:30] **Did you meet Li Lu through the book or separately?**

Charlie: [01:16:32] That was an interesting story. Li Lu was coming to visit because he was a hero of Tiananmen Square. A friend's wife, who was very leftist and loved him, being a -- Tiananmen Square thing. Of course, I'm not the least interested in Lu's revolutionary career, and so -- I'm interested only in his adapting to modern capitalism.

So he came up to meet me. My house was 100 yards away from the house he was visiting. And we talked for 3 hours. At the end of 3 hours, I did something I'd never done before. I said I'll give you some Munger money to manage if you will stop doing what you're doing now and invest only in Asia. And he did, just on the swap. So it took us exactly 3 hours to find one another, from meeting to financial commitment took 3 hours.

John: [01:17:19] **How does the current geopolitical hawkishness change your view on investing in China, if at all?**

Charlie: [01:17:24] Obviously, I'm more uncomfortable now than I was. The guy who changed the whole system and said, "I don't care if the cat is black or white as long as it catches mice.", he wanted the goddamn economy of China to work like Singapore's. Of course we love that guy. And the new guy isn't quite as much like that guy as we would consider ideal. We think the political risk in China should be run, and I think we should go out of our way to have a lot of friendly relations with big atomic powers.

Both China and the United States ought to get along with one another as a matter of wholly duty because they're 2 big atomic powers. And the way you get along best is we should carefully work out a bunch of win-win transactions between us and China and actually work to make them work even better. That is the right policy in the United States.

We should not be trying to discipline China by telling them like a nattering nanny how China ought to behave and say, "We know better. We're a democracy and you're not." We have a lot to be ashamed of in our own form of government. We shouldn't be going around lecturing everybody else. And we should organize win-win transactions with China. Anything else is madness.

And for a long time, we had that. You can argue that China came to modernity primarily in win-win transactions with the United States because we're so open to their imports. That's what enabled them to get ahead so fast. And I'm proud of that, and I'm glad we helped them. And I want to do more of it. I don't want this hostility on both sides.

John: [01:18:53] **Tom Wolfe wrote a short story about Bob Noyce. I'm a huge Tom Wolfe fan of his books, but he has a great short story about Bob Noyce. And you can read the short story as it's really about Grinnell, Iowa and the effect of Midwestern culture in Silicon Valley.**

Charlie: [01:19:11] It's a huge success, of course. And the success is interesting, but I would argue that the failure of Intel was just as interesting a story. Intel was on the ground floor of modern chip making. Absolutely ground zero. They were at the absolute best place. And they just grew and grew and so forth. And they eventually lost all their leadership completely, and they're just a little pissant company compared to the big guys now.

John: [01:19:40] **Why did that happen?**

Charlie: [01:19:41] Firstly, some of that's inevitable. In competitions, somebody are going to lose. It's -- partly it demonstrates the inevitable even if you're successful, so a little guy that really scrambles, be sure that there's some accidents, but partly, they were so interested in always reporting more earnings. They didn't go to the leap enough, just stay on top.

If you're serving along the edge of a new development like that, you have to just absolutely be going flat out all the time, and you have to be leading all the time. Berkshire, we don't have to invent new things, particularly, compared to most places. They're in the business of inventing new things, and you have to be totally fanatic.

And the truth of the matter is that the people in China were way more fanatic than Intel. In China, you had one old guy that controlled the place and he was a fanatic, and Intel had an army of bureaucrats, and they were interested in their executive rewards and the way the price earnings ratios and the approval of Wall Street. A whole lot of other things. And they were powerful. Now they look good for a while just by using their power to make the earnings go up.

But they should have been using their power to make sure their goddamn chips stayed way ahead of everybody else. And they had to be a totally reliable supplier, which they weren't. They disappointed a lot of customers, and you can't disappoint customers if you wanted to have a Mayo system of trust. That's the interesting part of that, not the Noyce story. The story of the failure of Intel was the great story there.

John: [01:21:03] **So you're talking about an obsession with reported earnings rather than the fundamental quality of the business. The book was published in 2005. Have you revised your view of Jack Welch, given the last 17 years of GE performance?**

Charlie: [01:21:15] Of course I've revised it, da da da. Of course I knew him personally, and he was a cocky conductor's son with a PhD in Engineering Thermodynamics. And he was terribly competitive. He wanted to win. He's been an athlete, he was almost a scratch golfer.

But he got obsessed with getting ahead and using the incentive system and force everybody else to get -- ran like an athletic team saying, "Everybody had to be more fanatic." And he wanted to be fanatic in abusing his buyers and pushing people and manipulating, and he thought it was his duty to make the earnings go up, and he kept comprising more and more in the way they…

John: [01:21:53] **It wasn't win-win.**

Charlie: [01:21:54] It was, for a while.

John: [01:21:55] **Who knows…**

Charlie: [01:21:56] It worked short term, but it ruined the country long term. Of course, if he lived long enough, he would have ruined his own reputation. After he was dead, everybody knew it was a failure and…

John: [01:22:06] **I mean it wasn't win-win, say with the suppliers, over squeezing them?**

Charlie: [01:22:09] No. I call that me-win. Win-win is one system, and me-win is another. Jack Welch had a me-win system.

The Principal-Agent Problem

John: [01:22:18] **It's very interesting reading the book with the lens post the financial crisis. It's also interesting to see you railing against derivatives in this a few years before the financial crisis.**

Charlie: [01:22:28] That derivative railing was so manipulative and they marked the books like, "Two guys that make a big trade, they both recorded a big profit to their accounts, the accounts would less the profit on both sides." It's the same trade. One was reporting a profit, and the other's reporting a profit. It couldn't both be -- if it gets too easy and too manipulative, and into that culture, the stock brokers, big banking, the guys who did the ordering, they take them to Las Vegas, they buy them a stack of chips, negotiable chips, and give it to them.

There was cocaine, they were prostitutes. It was not a pretty culture and kind of tolerated. What do you expect from a bunch of security traders? Everybody knew that his traders were behaving that way, but it was a mistake to let all that stuff to creep in. And it got pretty extreme. And then the bankers deal -- that deal that Goldman Sachs did with Malaysia, that sovereign wealth fund...

John: [01:23:21] **The 1MDB scandal, yes.**

Charlie: [01:23:23] Absolutely. And it's cute, that guy, the danger flags, he was absolutely, obviously, should have been avoided on moral grounds, and prudential grounds, too, but these get so intoxicated by the easy money.

John: [01:23:35] **It feels like a lot of the objections you have, sort of, say, professional money managers or Wall Street or whatever, can be summed up by people should be more cognizant of principal agent problems. Is that fair?**

Charlie: [01:23:46] You can hardly imagine a field more full principal agents with their money than wealth management. Of course the wealth managers take care of themselves. That includes the foundation manager. A foundation manager is basically -- he wants to get $400,000 a year while a professor gets $110,000.

He's got one way of doing it: picking money managers who get 3% off the top and in various forms of private equity. That's the only way he justifies his big peso. It's a principal agent problem. Of course you're going to want to invest a lot of money with private equity. And of course, private equity is going to do all kinds of horrible things to try and get 3 points off the top. Imagine you get 3 percentage points off the top of somebody else's money.

John: [01:24:29] **It's a good business model.**

Charlie: [01:24:31] You can only do that if you have some miraculous way of making money. By the way, the guys in your field, Jim Simons, Jim Simons is a world-class mathematician. Here's what he did. He just used his damn computers to identify trading patterns that had deep human psychological background.

One of them was very simple. He took his computer data and he found that patterns in the market as a whole, there are 4 different patterns: win-win, lose-lose, win-lose, and lose-win. If it's just random, then all 4 are going to be equal. And lo and behold, he sifted the data and win-win was more common than win-lose or lose-win. And lose-lose was more common.

So all they had to do is use program at computers to make these modest moderate-sized trades, or big -by his standards were moderate compared to the market. On that basis, the business whirled and whirled, the money just poured out of it.

John: [01:25:31] **The tax shenanigans.**

Charlie: [01:25:34] Billions poured out of the clearance system. And it was so simple and so elementary. And as a social utility of making money that way is about zero, so if I'd done that, I suppose I would be pleased that I was so clever, but I would have been a bit ashamed of not delivering anything to society in exchange for my big winnings. But luckily, I wasn't enough of a computer science to even think about such things, and I don't like short-term trading. And I don't want to be hanging over some trading desk punching keys.

John: [01:26:06] **Why do you think Sequoia has done so well?**

Charlie: [01:26:08] Sequoia got early into the game, and it's a fanatic meritocracy. So they work very hard, all of them. And they've gotten big and successful way ahead of everybody else, and they kept writing it like some chip manufacturers, each generation of chips they get. And in the end, they have a file. We have an example.

In our apartment houses, we use some little computer program in adjusting the rents or something or other that somebody -- and this one little guy, I had him check, Sequoia already had a file on this guy. So every little asshole with a little tiny computer program, they got an army of young guys out there finding every little guy and on big files and so forth.

So they see more -- they see better opportunities sooner and more than other people. And they've got the reputation. So people who are usually successful, they want to go with Sequoia, not some lesser firm. And the combination is just unbeatable. But lately, were they right to go into big Robinhood, but no, they made a huge mistake for Sequoia there, and they shouldn't have gone...

John: [01:27:15] **Morally or...**

Charlie: [01:27:16] Morally and professionally, it's a big mistake. Really stupid. But it got so much, we've got to be in every new thing that's hot. They got to thinking like investment bankers, but it was a huge mistake for Sequoia to get involved with Robinhood and...

John: [01:27:29] **Is your objection to Robinhood that it encourages short-term trading and trading options?**

Charlie: [01:27:33] Yes, they lie and so forth.

John: [01:27:35] **Do they?**

Charlie: [01:27:36] Oh my God.

John: [01:27:37] **What do they lie about?**

Charlie: [01:27:38] Anything that works. They try and sell it, hey, this is a new fraternity of freedom or it's -- the whole thing is a lie.

John: [01:27:45] **You don't like the movement aspect of it.**

Charlie: [01:27:47] Oh no, no. They're trying to create mass hysteria. I don't like luring people in and screwing them, basically. And Bitcoin. Why was -- you're successful with Sequoia and you're identified with financing people like Apple and so on, why in the hell would you take Robinhood, you know it's some goddamn crypto? It's totally crazy. You don't want to do all the business that's legal for you to do. You want to exclude all kinds of things because it's beneath you. This shows that you work at these things intelligently. It gets hard, but it doesn't get impossible.

But the other side of it is, if you take the -- I have been very well located in life. But with minor exceptions, what do I have relative to investments in life? I've got Costco stock, Berkshire stock, Li Lu's China fund and Avi's apartments. So I have four investments, basically, after 60 years or something -- by the way, I feel perfectly adequately diversified. Nobody teaches that's adequate diversification.

And they're dead wrong. Simple fact is that it's easier to find four things that are above average than it is to find 40. It's not that damned easy to find. You find something that's almost sure to work because you figure -- you're asking to finding a gold mine in your backyard. When it works, is that easy? How many gold mines are you going to find in your backyard? You shouldn't expect to have all that many opportunities that are clearly identifiable.

It's going to be very hard and you're lucky if you get only a few in a lifetime. And then you have to be a combination of very patient and very aggressive. You have to sit patiently waiting, watching, surveying, hunting and pounce very occasionally. You get four pounces in a lifetime that really work big time, and that's a very successful lifetime. And other people think -- like that guy on TV, he's an expert in every company every time. That's crazy. He's an expert in saying something that's mildly plausible. That's not being an expert investor.

John: [01:29:45] **Doesn't it feel like the narrative on that is changing, where I think people are coming to understand the merits of concentration in positions that really work?**

Charlie: [01:29:55] I had dinner with a whole crowd of Fidelity this very week, and they've got trillions under management, and they scrape only a modest amount off the top. And they've got a wonderful business, but they have the moral problem that they have no possibility at all of exceeding what an index man could do with their common stock investments.

Maybe they have an occasional analyst that's a little better than average that works into the system. Basically, what they do is they force everybody to be a closet indexer because nobody wants to be a stream outlier on the losing side because that can destroy your investment management business. But I would argue that the whole damn system is corrupt in investment management.

They take care of the agents way better than they take care of the principals, and they lie to themselves and they lie to others. And that's our system. And everybody that wants a fair amount of easy money pretty fast. And that requires a plausible narrative and a big V. That's what's admired now. I regard modern venture capital as investment banking in disguise. Just a little different form of investment banking, same morality, same obsession with a lot of quick wealth. There's nothing wrong with investment banking, properly done, venture investing.

The Secret of Berkshire's Culture

John: [01:31:17] **Is the secret of Berkshire's culture just the anti-bureaucracy bend? Could you sum it up...**

Charlie: [01:31:22] Berkshire is pretty extreme in culture. We are deeply aware of how bureaucracies tend to create their own internal dynamics so that everybody protects everybody else and nobody changes anything, ruffles any feathers. And the net result is that a lot of bureaucracies make some very stupid decisions and we try and avoid that.

But the way we've done it, mostly, is by not having anybody around. They can't be bureaucratic if they're not there. There is nobody in the head office. So we avoided the bureaucracy. We just don't want other people to do it. Nobody else is as extreme as we are in that. It's a huge advantage to us.

And another thing is, we like very trustworthy people. I'd rather have a brief telephone with somebody I trust than I would a 40-page contract prepared by the finest law firm in the world with somebody I don't trust. And so we like to deal with trustworthy people and to be able to count on their oral promises.

If you look to go into a Mayo operating room is what I call a seamless web of deserved trust. The surgeons trusting the anesthesiologist, the anesthesiologists trusting the surgeon, the nurses are trusting -- everybody trusts everybody else. There's no bureaucracy at all. They don't have time for bureaucracy.

It’s in patients’ interest to get it over as soon as possible. And so that seamless web of deserved trust can do these very complicated procedures. We like a business system that operates as much as possible like a Mayo operating room, and that requires having very good people who are experienced enough with one another to trust one another.

John: [01:32:55] **And that trust is internally between the Berkshire folks or between the Berkshire folks and the managers?**

Charlie: [01:33:00] Both. We want the internal and all the Berkshire people to trust one another internally, and we also want the customers to trust us. We're all for trust. Trust is one of the greatest economic forces on earth.

John: [01:33:10] **How frequently do you disagree with managers on how much cash to send up to the mothership versus how much to reinvest in the business?**

Charlie: [01:33:18] Of course, some of our subsidiaries hoard the cash, if we'd let them and so forth.We're not brutal.

In the early conglomerates like Teledyne, they just forced all the cash to headquarters. And if you wanted new cash, you had to ask for it back. We never went to that. Everybody in the business knows that we'd rather have the cash sent back. If it can be sent back, we'd really have it sent back.

John: [01:33:39] **And is that one of Warren's skills, is keeping those managers...**

Charlie: [01:33:42] He does not -- he's not brutal.

John: [01:33:43] **But he tickles it out of them.**

Charlie: [01:33:45] When they don't need it, it has a way of ending up back at headquarters without any big internal friction.

John: [01:33:50] **That sounds like some tickling is happening, yes.**

Charlie: [01:33:52] You can call it what you will. You're right, a lot flows to headquarters. It's interesting how much cash Berkshire does accumulate. It's a lot of cash.

John: [01:34:01] **5% of Apple sized amounts?**

Charlie: [01:34:03] Remember, I was there when there was nothing, and we have not issued many shares net since we started. So mostly what we have was created out of almost nothing.

John: [01:34:15] **One famous example of share issuance was the General Re acquisition in 2000. Was that because you guys felt it was a market top?**

Charlie: [01:34:22] It was true that our stock was then more highly valued than it is now. And of course, we valued General Re, we gave it more value than it really had, too. So...

John: [01:34:34] **But it all worked out.**

Charlie: [01:34:35] We made it work out well enough. The one that was awful was we gave Berkshire shares were Dexter Shoe Company, and the Chinese competition destroyed our business as the ink dried on the purchase every day. 2 years later, we could see we'd made a terrible mistake. Now it was only 2 percentage points of performance in 1 year. So in the history of Berkshire, it's not that big of a deal

John: [01:34:57] **You guys did okay in the end.**

Charlie: [01:34:59] No, but it was a big negative, but not very big. And as expected on Berkshire history, having 2 percentage points go away from 1 year, it's not that bad.

John: [01:35:10] **Is that an example of the do as I say, not as I do, where you and Warren would say don't try to time the market, but that was a very effective bit of market timing?**

Charlie: [01:35:18] Of course, we're more willing to buy heavily with the cash accumulation when things got -- go down, down, down. Of course we're less and less able to find things when things go crazy. But I like the way Berkshire has behaved. I like the way its businesses have turned out. I like the people we deal with. It's been a very satisfactory part of my life. I feel privileged to have been part of it.

When you stop to think about it, Poor Charlie's Almanack is a lot like the guy who created modern Singapore. And what he always said was figure out what works and then do it. Figure out what works and then do it. He just did that more relentlessly than anybody else and more intelligently. And he was probably the greatest nation builder that's ever exists in terms of quality of leadership. He's probably the greatest nation builder that ever existed, including Pericles and everybody in all history.

And it's very much like Poor Charlie's Almanack. Figure out what works and do it. Figure out what doesn't work and avoid it. And he just was relentless. That's all he did. And he started as left-wing labor lawyer. At the start, he was a left-wing labor lawyer, end up creating modern Singapore just by figure out what works and do it, and figure out what doesn't work and avoid it.

Just keep doing that over and over again. So as far as I'm concerned, the politician who looks the most like Poor Charlie's Almanack is Lee Kuan Yew. And I'm not surprised that he got ahead better than any other nation builder that ever lived. That was all he did. It was pretty goddamn simple.

John: [01:36:53] **Maybe a good example of that, that I love from Lee Kuan Yew's life of "find out what works and then do that" is about the deliberate choice of English as the national language, where Chinese would have been...**

Charlie: [01:37:01] Of course. He made zillions on decisions like that, that were totally correct. And not everybody has a political leader that tells the people to change their goddamn language. But when the logic required that he just figured out it would work better for Singapore, then he did it. Of course that's admirable. And of course it works. Everybody ought to study Lee Kuan Yew. In this house, I've got 2 busts of other people. One's a Benjamin Franklin, one of them is Lee Kuan Yew. That's all I have.

John: [01:37:30] **I could have guessed Benjamin Franklin. I wouldn't have guessed Lee Kuan Yew.**

Charlie: [01:37:33] You can see why I like him. He just, time after time, he was so smart. I think he's smart to have a death penalty for drug dealers. They do not have a big drug problem in Singapore because he's very tough. They kill drug dealers.

By the way, that's the way the Chinese got -- when 1 man in 6 in China was addicted to opium, the way they fixed that was death penalty for users. No exception. They did not have to kill all that many people. The problem went away. And I think more things ought to be dealt with in those Lee Kuan Yew-ish ways.

John: [01:38:05] **That's a very good set of lessons maybe to end on. Find out what works and then do it. Avoid the big mistakes. Take a multidisciplinary approach. Thank you so much for this, and we're very excited to be working with you on the project. It was a very meaningful book for me, and I'm excited to have lots more people read it.**

Charlie: [01:38:20] I'm glad to do it.