

Quotations- Charlie Munger

“Charlie Munger is truly the broadest thinker I have ever encountered,” Bill Gates
<http://www.poorcharliesalmanack.com/recommendations.html>

More people would benefit from Charlie if his thoughts were more accessible and if he was as prolific a writer as he is a reader. The best way by far to know Charlie is to read: <http://www.poorcharliesalmanack.com/index.html>.

Academia:

“Warren once said to me, “I’m probably misjudging academia generally [in thinking so poorly of it] because the people that interact with me have bonkers theories.” ... We’re trying to buy businesses with sustainable competitive advantages at a low – or even a fair price. [The reason the professors teach such nonsense is that if they didn’t], what would they teach the rest of the semester? [Laughter] Teaching people formulas that don’t really work in real life is a disaster for the world.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“There’s a lot wrong [with American universities]. I’d remove 3/4 of the faculty — everything but the hard sciences. But nobody’s going to do that, so we’ll have to live with the defects. It’s amazing how wrongheaded [the teaching is]. There is fatal disconnectedness. You have these squirrely people in each department who don’t see the big picture.” <http://www.fool.com/news/foth/2002/foth020515.htm>

“a different set of incentives from rising in an economic establishment where the rewards system, again, the reinforcement, comes from being a truffle hound. That’s what Jacob Viner, the great economist called it: the truffle hound — an animal so bred and trained for one narrow purpose that he wasn’t much good at anything else, and that is the reward system in a lot of academic departments.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“I think liberal art faculties at major universities have views that are not very sound, at least on public policy issues — they may know a lot of French [however].” <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

Accounting

“Proper accounting is like engineering. You need a margin of safety. Thank God we don’t design bridges and airplanes the way we do accounting.”

http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

“F.A.S.B” ... ‘Financial Accounts Still Bogus’”. <http://www.bluechipinvestorfund.com/munger.html>

“I talked to one accountant, a very nice fellow who I would have been glad to have his family marry into mine. He said, “What these other accounting firms have done is very unethical. The [tax avoidance scheme] works best if it’s not found out [by the IRS], so we only give it to our best clients, not the rest, so it’s unlikely to be discovered. So my firm is better than the others.” [Laughter] I’m not kidding. And he was a perfectly nice man. People just follow the crowd... Their mind just drifts off in a ghastly way...”

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“...accounting [is] the language of practical business life. It was a *very* useful thing to deliver to civilization. I’ve heard it came to civilization through Venice which of course was once the great commercial power in the Mediterranean. However, double-entry bookkeeping was a hell of an invention. And it’s not that hard to understand. But you have to know enough about it to understand its limitations - because although accounting is the starting place, it’s only a crude approximation. And it’s not very hard to understand its limitations. For example, everyone can see that you have to more or less just guess at the useful life of a jet airplane or anything like that. Just because you express the depreciation rate in neat numbers doesn’t make it anything you really know <http://www.thinkfn.com/en/content/view/52/?id=124>

You’ll better understand the evil when top audit firms started selling fraudulent tax shelters when I tell you that one told me that they’re better [than the others] because they only sold [the schemes] to their top-20 clients, so no-one would notice. <http://www.tilsonfunds.com/brkmtg04notes.doc>

“Creative accounting is an absolute curse to a civilization. One could argue that double-entry bookkeeping was one of history’s great advances. Using accounting for fraud and folly is a disgrace. In a democracy, it often takes a scandal to trigger reform. Enron was the most obvious example of a business culture gone wrong in a long, long time.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

I also want to raise the possibility that there are, in the very long term, “virtue effects” in economics— for instance that widespread corrupt accounting will eventually create bad long term consequences as a sort of

obverse effect from the virtue-based boost double-entry book-keeping gave to the heyday of Venice. I suggest that when the financial scene starts reminding you of Sodom and Gomorrah, you should fear practical consequences even if you like to participate in what is going on.
<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Acquisitions:

“Two thirds of acquisitions don’t work. Ours work because we don’t try to do acquisitions — we wait for no-brainers.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3
At most corporations if you make an acquisition and it turns out to be a disaster, all the paperwork and presentations that caused the dumb acquisition to be made are quickly forgotten. You’ve got denial, you’ve got everything in the world. You’ve got Pavlovian association tendency. Nobody even wants to even be associated with the damned thing or even mention it. At Johnson & Johnson, they make everybody revisit their old acquisitions and wade through the presentations. That is a very smart thing to do. And by the way, I do the same thing routinely.
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>
“We tend to buy things — a lot of things — where we don’t know exactly what will happen, but the outcome will be decent.” <http://www.fool.com/news/foth/2002/foth020515.htm>
“We’ve bought business after business because we admire the founders and what they’ve done with their lives. In almost all cases, they’ve stayed on and our expectations have not been disappointed.”
<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Advertising:

“if you were Proctor & Gamble, you could afford to use this new method of advertising. You could afford the very expensive cost of network television because you were selling so many cans and bottles. Some little guy couldn’t. And there was no way of buying it in part. Therefore, he couldn’t use it. In effect, if you didn’t have a big volume, you couldn’t use network TV advertising which was the most effective technique. So when TV came in, the branded companies that were already big got a huge tail wind. Indeed, they prospered and prospered and prospered until some of them got fat and foolish, which happens with prosperity - at least to some people....” <http://www.thinkfn.com/en/content/view/52/?id=124>

“I’d say 3/4 of advertising works on pure Pavlov. Think how association, pure association, works. Take Coca-Cola company (we’re the biggest share-holder). They want to be associated with every wonderful image: heroics in the Olympics, wonderful music, you name it. They don’t want to be associated with presidents’ funerals and so-forth.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Advice

“Just avoid things like racing trains to the crossing, doing cocaine, etc. Develop good mental habits.”
<http://www.tilsonfunds.com/brkmtg04notes.doc>

“A lot of success in life and business comes from knowing what you want to avoid: early death, a bad marriage, etc.”
<http://www.fool.com/BoringPort/2000/boringport00051501.htm>

If you have only a little capital and are young today, there are fewer opportunities than when I was young. Back then, we had just come out of a depression. Capitalism was a bad word. There had been abuses in the 1920s. A joke going around then was the guy who said, ‘I bought stock for my old age and it worked — in six months, I feel like an old man!’ “It’s tougher for you, but that doesn’t mean you won’t do well — it just may take more time. But what the heck, you may live longer.” <http://www.fool.com/BoringPort/2000/boringport00051501.htm>

Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts... Slug it out one inch at a time, day by day, at the end of the day — if you live long enough — most people get what they deserve.” <http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Advisers:

you can hire your advisor and then just apply a windage factor, like I used to do when I was a rifle shooter. I’d just adjust for so many miles an hour wind. Or you can learn the basic elements of your advisor’s trade. You don’t have to learn very much, by the way, because if you learn just a little then you can make him explain why he’s right.

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Age

”Warren has gotten to be one hell of a lot better investor over the period I’ve known him, so have I. So the game is to keep learning. You gotta like the learning process... there’s an apocryphal story about Mozart. A 14-year-old came to him and said, “I want to learn to be a great composer.” And Mozart said, “You’re too young.” The young man replied, “But I’m 14 years old and you were only eight or nine when you started composing.” To which Mozart replied, “Yes, but I wasn’t running around asking other people how to do it.”

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“We’re not following the examples of any 40-year-old investors.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“We get these questions a lot from the enterprising young. It’s a very intelligent question: You look at some old guy who’s rich and you ask, ‘How can I become like you, except faster?’”

<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Allocation of capital

“We’re partial to putting out large amounts of money where we won’t have to make another decision.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

I don’t think our successors will be as good as Warren at capital allocation.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

American Express:

“It would be easier to screw up American Express than Coke or Gillette, but it’s an immensely strong business.

<http://www.fool.com/boringport/2000/boringport000501a.htm>

Annual Meetings:

A lot of [corporations’ annual] meetings are set up to avoid groups like you – they’re in inconvenient locations and at inconvenient times – and they hope people like you won’t come.

<http://www.tilsonfunds.com/wscmtg04notes.doc>

Auctions:

“Well the open-outcry auction is just made to turn the brain into mush: you’ve got social proof, the other guy is bidding, you get reciprocation tendency, you get deprivation super-reaction syndrome, the thing is going away... I mean it just absolutely is designed to manipulate people into idiotic behavior.

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“The problem with closed bid auctions is that they are frequently won by people making a technical mistake, as in the case with Shell paying double for Beldridge Oil. You can’t pay double the losing bid in an open outcry auction..”

<http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

Banks:

“banking has turned out to be better than we thought. We made a few billion [dollars] from Amex while we misappraisal it. My only prediction is that we will continue to make mistakes like that.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“Financial institutions make us nervous when they’re trying to do well.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

“What’s fascinating . . . is that you could now have a business that might have been selling for \$10 billion where the business itself could probably not have borrowed even \$100 million. But the owners of that business, because its public, could borrow many billions of dollars on their little pieces of paper- because they had these market valuations. But as a private business, the company itself couldn’t borrow even 1/20th of what the individuals could borrow.”

<http://fundooprofessor.blogspot.com/2005/11/one-valuation-rule-two-paradoxes.html>

Bankruptcy:

“I think much of [how bankruptcy is handled] is pretty horrible. It’s a situation were courts themselves have gone into the business of bidding to attract bankruptcy proceedings...” http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Behavior:

“How you behave in one place, will help in surprising ways later.”
http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

“If you rise in life, you have to behave in a certain way. You can go to a strip club if you’re a beer-swilling sand shoveler, but if you’re the Bishop of Boston, you shouldn’t go.”
<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Behavioral Economics:

“How could economics not be behavioral? If it isn’t behavioral, what the hell is it?”
http://www.vinvesting.com/docs/munger/human_misjudgement.html

“How should the best parts of psychology and economics interrelate in an enlightened economist’s mind?... I think that these behavioral economics...or economists are probably the ones that are bending them in the correct direction. I don’t think it’s going to be that hard to bend economics a little to accommodate what’s right in psychology.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Ben Franklin:

“There is the sheer amount of Franklin’s wisdom. “And the talent. Franklin played four instruments. He was the nation’s leading scientist and inventor, plus a leading author, statesman, and philanthropist. There has never been anyone like him.” http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

Ben Graham:

“The idea of a margin of safety, a Graham precept, will never be obsolete. The idea of making the market your servant will never be obsolete. The idea of being objective and dispassionate will never be obsolete. So Graham had a lot of wonderful ideas.” <http://www.fool.com/news/commentary/2003/commentary030509wt.htm>
“Ben Graham could run his Geiger counter over this detritus from the collapse of the 1930s and find things selling below their working capital per share and so on.... But he was, by and large, operating when the world was in shell shock from the 1930s—which was the worst contraction in the English-speaking world in about 600 years. Wheat in Liverpool, I believe, got down to something like a 600-year low, adjusted for inflation. the classic Ben Graham concept is that gradually the world wised up and those real obvious bargains disappeared. You could run your Geiger counter over the rubble and it wouldn’t click. ... Ben Graham followers responded by changing the calibration on their Geiger counters. In effect, they started defining a bargain in a different way. And they kept changing the definition so that they could keep doing what they’d always done. And it still worked pretty well.” <http://ycombinator.com/munger.html>

Berkshire:

“I’m a bull on Berkshire Hathaway. There may be some considerable waiting, but I think there are some good days ahead.” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“Personally, I think Berkshire will be a lot bigger and stronger than it is. Whether the stock will be a good investment from today’s price is another question. The one thing we’ve always guaranteed is that the future will be a lot worse than the past.” <http://www.fool.com/news/foth/2002/foth020515.htm>

“We stumbled into this two-person format. It would not work if it was just one person. You could have the wittiest, wisest person on earth up there, and people would find it very tiresome. It takes a little interplay of personalities to handle the extreme length of the festival.”
http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

“I don’t think it would work well to have a half-and-half management. We don’t need an operating guy; we have people running the businesses, and the main thing is not to destroy or damage the spirit they have.”

<http://www.fool.com/news/commentary/2006/commentary06053101.htm>

“Berkshire has the lowest turnover of any major company in the U.S. The Walton family owns more of Wal-Mart than Buffett owns of Berkshire, so it isn’t because of large holdings. It’s because we have a really unusual shareholder body that thinks of itself as owners and not holders of little pieces of paper.”

<http://www.fool.com/news/commentary/2006/commentary06053004.htm>

“The future returns of Berkshire and Wesco won’t be as good in the future as they have been in the past. The only difference is that we’ll tell you. Today, it seems to be regarded as the duty of CEOs to make the stock go up. This leads to all sorts of foolish behavior. We want to tell it like it is. I’m happy having 90% of my net worth in Berkshire stock. We’re going to try to compound it at a reasonable rate without taking unreasonable risk or using leverage. If we can’t do this, then that’s just too damn bad. The businesses that Berkshire has acquired will return 13% pre-tax on what we paid for them, maybe more. With a cost of capital of 3% — generated via other peoples’ money in the form of float — that’s a hell of a business. That’s the reason. Berkshire shareholders needn’t totally despair.

Berkshire is not as good as it was in terms of percentage compounding [going forward], but it’s still a hell of a business.”

<http://www.fool.com/news/foth/2001/foth010508.htm>

Beta

“Beta and modern portfolio theory and the like – none of it makes any sense to me.”

<http://www.fool.com/news/commentary/2004/commentary040507wt.htm>

Biology:

“Common stock investors can make money by predicting the outcomes of practice evolution. You can’t derive this by fundamental analysis — you must think biologically.

<http://www.fool.com/BoringPort/2000/boringport00051501.htm>

“I find it quite useful to think of a free market economy—or partly free market economy—as sort of the equivalent of an ecosystem....” <http://ycombinator.com/munger.html>

Black-Scholes

“Black-Scholes is a know-nothing system. If you know nothing about value — only price — then Black-Scholes is a pretty good guess at what a 90-day option might be worth. But the minute you get into longer periods of time, it’s crazy to get into Black-Scholes. For example, at Costco we issued stock options with strike prices of \$30 and \$60, and Black-Scholes valued the \$60 ones higher. This is insane.

“http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

”Black-Scholes works for short-term options, but if it’s a long-term option and you think you know something [about the underlying asset], it’s insane to use Black-Scholes.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Boards of Directors:

“A board member should be perfectly willing to leave at any time and willing to make the tough calls.”

<http://seekingalpha.com/article/14333>

“the institution of the board of directors of the major American company. Well, the top guy is sitting there, he’s an authority figure. He’s doing asinine things, you look around the board, nobody else is objecting, social proof, it’s okay? Reciprocation tendency, he’s raising the directors fees every year, he’s flying you around in the corporate airplane to look at interesting plants, or whatever in hell they do, and you go and you really get extreme dysfunction as a corrective decision-making body in the typical American board of directors. They only act, again the power of incentives, they only act when it gets so bad it starts making them look foolish, or threatening legal liability to them. That’s Munger’s rule. I mean there are occasional things that don’t follow Munger’s rule, but by and large the board of directors is a very ineffective corrector if the top guy is a little nuts, which, of course, frequently happens.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Brain:

“I think it is undeniably true that the human brain must work in models. The trick is to have your brain work better than the other person’s brain because it understands the most fundamental models- ones that will do most work per unit.”
LatticeWork, The new Investing quoting OID

“The basic neural network of the brain is there through broad genetic and cultural evolution. And it’s not Fermat/Pascal. It uses a very crude, shortcut - type of approximation. It’s got elements of Fermat/Pascal in it. However, it’s not good. So you have to learn in a very usable way this very elementary math and use it routinely in life - just the way if you want to become a golfer, you can’t use the natural swing that broad evolution gave you. You have to *learn* to have a certain grip and swing in a different way to realize your full potential as a golfer.” <http://www.thinkfn.com/en/content/view/52/?id=>

“Man’s imperfect, limited-capacity brain easily drifts into working with what’s easily available to it. And the brain can’t use what it can’t remember or when it’s blocked from recognizing because it is heavily influenced by one or more psychological tendencies bearing strongly on it. . .” “the Deep structure of the human mind requires that the way to full scope competency of virtually any kind is learn it all to fluency – like it or not.” Charlie’s AI

Brands:

“It’s hard to predict what will happen with two brands in a market. Sometimes they will behave in a gentlemanly way, and sometimes they’ll pound each other. I know of no way to predict whether they’ll compete moderately or to the death. If you could figure it out, you could make a lot of money.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

Bridge:

“the right way to think is [the way Zeckhauser plays bridge](#). It’s just that simple”
http://www.ksgcitizen.org/home/index.cfm?event=displayArticlePrinterFriendly&uStory_id=a47cfb0b-8c7d-4f0e-9984-8ba20794da06

“And your brain doesn’t naturally know how to think the way Zeckhauser knows how to play bridge. “for example,” people do not react symmetrically to loss and gain. Well maybe a great bridge player like Zeckhauser does, but that’s a trained response. Ordinary people, subconsciously affected by their inborn tendencies. . .”
<http://72.14.203.104/search?q=cache:3sSZnXLbvQEJ:www.loschmanagement.com/Berkshire%2520Hathaway/Charlie%2520munger/The%2520Psychology%2520of%2520Human%2520Misjudgement.htm+%22charlie+Munger%22+%22the+way+Zeckhauser+plays+bridge%22&hl=en&gl=us&ct=clnk&cd=1>

Bubbles:

“[The Internet bubble circa 2000 is] the most extreme in modern capitalism. In the 1930s, we had the worst depression in 600 years. Today is almost as extreme in the opposite way.” <http://www.fool.com/boringport/2000/boringport000501.htm>
One of the first big bubbles, of course, was the huge and horrible South Sea Bubble in England. And the aftermath was interesting. Many of you probably don’t remember what happened after the South Sea Bubble, which caused an enormous financial contraction, and a lot of pain. They banned publicly traded stock in England for decades.
<http://www.originaldissent.com/forums/archive/index.php/t-14214.html>

Bull Markets:

“Bull markets go to people’s heads. If you’re a duck on a pond, and it’s rising due to a downpour, you start going up in the world. But you think it’s you, not the pond.”

Bureaucracy

“The great defect of scale, of course, which makes the game interesting—so that the big people don’t always win—is that as you get big, you get the bureaucracy. And with the bureaucracy comes the territoriality—which is again grounded in human nature. And the incentives are perverse. For example, if you worked for AT&T in my day, it was a great bureaucracy. Who in the hell was really thinking about the shareholder or anything else? And in a bureaucracy, you think the work is done when it goes out of your in-basket into somebody else’s in-basket. But, of course, it isn’t. It’s not done until AT&T delivers what it’s supposed to deliver. So you get big, fat, dumb, unmotivated bureaucracies. . . . The constant curse of scale is that it leads to big, dumb bureaucracy—which, of course, reaches its highest and worst form in government where the incentives are really awful. That doesn’t mean we don’t need governments—because we do. But it’s a terrible problem to get big bureaucracies to behave.” <http://ycombinator.com/munger.html>

“Sears had layers and layers of people it didn’t need. It was very bureaucratic. It was slow to think. And there was an established way of thinking. If you poked your head up with a new thought, the system kind of turned against you. It was everything in the way of a dysfunctional big bureaucracy that you would expect.” <http://ycombinator.com/munger.html>

Businesses

“We’ve really made the money out of high quality businesses. In some cases, we bought the whole business. And in some cases, we just bought a big block of stock. But when you analyze what happened, the big money’s been made in the high quality businesses. And most of the other people who’ve made a lot of money have done so in high quality businesses.” <http://ycombinator.com/munger.html>

Business Schools:

“I was recently speaking with Jack McDonald, who teaches a course on investing rooted in our principles at Stanford Business

School. He said it’s lonely — like he’s the Maytag repairman.
<http://www.fool.com/boringport/2000/boringport00051500.htm>

Buying back shares:

“A lot of share-buying, not bargain-seeking, is designed to prop stock prices up. Thirty to 40 years ago, it was very profitable to look at companies that were aggressively buying their own shares. They were motivated simply to buy below what it was worth.” <http://www.fool.com/news/commentary/2006/commentary06053004.htm>

Capital Allocation:

There are two kinds of businesses: The first earns 12%, and you can take it out at the end of the year. The second earns 12%, but all the excess cash must be reinvested — there’s never any cash. It reminds me of the guy who looks at all of his equipment and says, “There’s all of my profit.” We hate that kind of business.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Capitalism

“When it gets into these spikes, with shortages and uproar and so forth, people go bananas, but that’s capitalism.” <http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger3.html>
“I regard it as very unfair, but capitalism without failure is like religion without hell.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3
“capitalism is a pretty brutal place.” <http://ycombinator.com/munger.html>

Cash:

“Our cash is speaking for itself. If we had a lot of wonderful ideas, we wouldn’t have so much cash.” <http://www.tilsonfunds.com/wscmtg04notes.doc>
“There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn’t awash in cash —and I don ’t want to go back.” <http://www.poorcharliesalmanack.com/pdf/page61.pdf>

Change

“Those who will not face improvements because they are changes, will face changes that are not improvements”
<http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799>

Character

“It’s hard to judge the combination of character and intelligence and other things. It’s not at all simple, which explains why we have so many divorces. (Laughter) Think about how much people know about the person they marry, yet so many break up. It’s not easy, it is in some cases. If people are splashing around with money like Dennis Kozlowski, with vodka at parties coming out of some body part, and if it looks like Sodom and Gomorrah, then maybe this isn’t what you’re

looking for. (Laughter) But beyond that, it's hard. If you have some unfortunate experiences while getting that knowledge, well, welcome to the human race. (Laughter) <http://www.tilsonfunds.com/wscmtg05notes.pdf>

Charlie Munger:

"I call myself the assistant cult leader," http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

China:

"At Berkshire Hathaway we do *not* like to compete against Chinese manufacturers." <http://www.tilsonfunds.com/wscmtg05notes.pdf>

Cialdini

"Cialdini does a magnificent job at this, and you're all going to be given a copy of Cialdini's book. And if you have half as much sense as I think you do, you will immediately order copies for all of your children and several of your friends. You will never make a better investment."

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Cicero:

"As I continued through Cicero's pages, I found much more material celebrating my way of life ... "

"Cicero's words also increased my personal satisfaction by supporting my long-standing rejection of a conventional point of view."

<http://www.fool.com/News/mft/2006/mft06072637.htm>

Circle of Competence:

"There are a lot of things we pass on. We have three baskets: in, out, and too tough... We have to have a special insight, or we'll put it in the 'too tough' basket. All of you have to look for a special area of competency and focus on that."

<http://www.fool.com/news/foth/2002/foth020515.htm> "If you have competence, you pretty much know its boundaries already. To ask the question [of whether you are past the boundary] is to answer it."

<http://www.poorcharliesalmanack.com/pdf/page53.pdf>

"We know the edge of our competency better than most." That's a very worthwhile thing."

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"Warren and I avoid doing anything that someone else at Berkshire can do better. You don't really have a competency if you don't know the edge of it." http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

Warren and I don't feel like we have any great advantage in the high-tech sector. In fact, we feel like we're at a big disadvantage in trying to understand the nature of technical developments in software, computer chips or what have you. So we tend to avoid that stuff, based on our personal inadequacies. Again, that is a very, very powerful idea. Every person is going to have a circle of competence. And it's going to be very hard to advance that circle. If I had to make my living as a musician.... I can't even think of a level low enough to describe where I would be sorted out to if music were the measuring standard of the civilization. So you have to figure out what your own aptitudes are. If you play games where other people have the aptitudes and you don't, you're going to lose. And that's as close to certain as any prediction that you can make. You have to figure out where you've got an edge. And you've got to play within your own circle of competence. If you want to be the best tennis player in the world, you may start out trying and soon find out that it's hopeless—that other people blow right by you. However, if you want to become the best plumbing contractor in

Bemidji, that is probably doable by two-thirds of you. It takes a will. It takes the intelligence. But after a while, you'd gradually know all about the plumbing business in Bemidji and master the art. That is an attainable objective, given enough discipline. And people who could never win a chess tournament or stand in center court in a respectable

tennis tournament can rise quite high in life by slowly developing a circle of competence—which results partly from what they were born with and partly from what they slowly develop through work.” <http://ycombinator.com/munger.html>

“Just as a man working with his tools should know its limitations, a man working with his cognitive apparatus must know its limitations” <http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799>

“When I run into a paradox I think either I’m a total horse’s ass to have gotten to this point, or I’m fruitfully near the edge of my discipline. It adds excitement to life to wonder which it is.”
<http://www.cs.purdue.edu/news/images/STolopka.pdf#search=%22%22Charlie%20munger%22%20and%20quotations%22>

Colleagues:

“You know the cliché that opposites attract? “Well, opposites don’t attract. Everybody engaged in complicated work needs colleagues. Just the discipline of having to put your thoughts in order with somebody else is a very useful thing.”
http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Committees:

Being controlling owners is key – it would be hard for a committee to make these kinds of decisions.
<http://www.tilsonfunds.com/brkmtg04notes.doc>

Commodities:

“ [Sarcastically]: I think we’ve demonstrated our expertise in commodities, if you look at our activities in silver. [Laughter] ... We didn’t get where we are by owning non-interest-bearing commodities.”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“... we’ve missed the biggest commodity boom in history – and we’ll continue to miss things like this! ”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Common Sense

“Organized common (or uncommon) sense — very basic knowledge — is an enormously powerful tool. There are huge dangers with computers. People calculate too much and think too little.”
<http://www.fool.com/news/foth/2002/foth020515.htm>

“Part of [having uncommon sense] is being able to tune out folly, as opposed to recognizing wisdom. If you bat away many things, you don’t clutter yourself.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“In the corporate world, if you have analysts, due diligence, and no horse sense you’ve just described hell.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Compensation:

“It isn’t enough to buy the right business. You’ve also have to have compensationsystem that’s satisfactory to the people running them. At Berkshire Hathaway, we haveno [single] system; we have different systems. They’re very simple and we don’t tend to revisit them very often. It’s *amazing* how well it’s worked. We wrote a one-page dealwith Chuck Huggins when we bought See’s and it’s never been touched. We have *never* hired a compensation consultant.”
<http://www.tilsonfunds.com/wscmtg05notes.pdf>

I’d rather throw a viper down my shirt front than hire a compensation consultant.
<http://www.tilsonfunds.com/brkmtg04notes.doc>

Carnegie was always proud that he took very little salary. Rockefeller, Vanderbilt were the same. It was a common culture in a different era. All of these people thought of themselves as the founder. I was delighted to get rid of the pressure of getting fees based on performance. If you are highly conscientious and you hate to disappoint, you will feel the pressure to live up to your incentive fee. There was an enormous advantage [to switching away from taking a percentage of the profits to managing

Berkshire, in which their interests as shareholders are exactly aligned with other shareholders]. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“CEOs have a duty...to dampen envy and resentment by behaving way more nobly than other people, and way more generously. People should take way less than they are worthy when they are favored by life. People are willing to pay tens of millions of dollars to be U.S. senators. Most of these people would pay to be CEOs....There is a lot to be said for backing off and taking less than their worth.”

<http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

“Everywhere there is a large commission, there is a high probability of a ripoff.”

<http://www.fool.com/news/commentary/2006/commentary06062914.htm> It is easy to have fair compensation systems, but about half of companies have grossly unfair systems in which the top people get paid too much.

<http://www.fool.com/news/commentary/2006/commentary06052706.htm>

Competition

“We may well have a competitive advantage buying decent businesses at decent prices. But they won’t be fabulous businesses and fabulous prices. There’s too much competition and money out there, with many buyout specialists.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“Many markets get down to two or three big competitors—or five or six. And in some of those markets, nobody makes any money to speak of. But in others, everybody does very well. Over the years, we’ve tried to figure out why the competition in some markets gets sort of rational from the investor’s point of view so that the shareholders do well, and in other markets, there’s destructive competition that destroys shareholder wealth. If it’s a pure commodity like airline seats, you can understand why no one makes any money. As we sit here, just think of what airlines have given to the world—safe travel, greater experience, time with your loved ones, you name it. Yet, the net amount of money that’s been made by the shareholders of airlines since Kitty Hawk, is now a negative figure—a substantial negative figure. Competition was so intense that, once it was unleashed by deregulation, it ravaged shareholder wealth in the airline business. Yet, in other fields—like cereals, for example—almost all the big boys make out. If you’re some kind of a medium grade cereal maker, you might make 15% on your capital. And if you’re really good, you might make 40%. But why are cereals so profitable—despite the fact that it looks to me like they’re competing like crazy with promotions, coupons and everything else? I don’t fully understand it. Obviously, there’s a brand identity factor in cereals that doesn’t exist in airlines. That must be the main factor that accounts for it.

And maybe the cereal makers by and large have learned to be less crazy about fighting for market share—because if you get even one person who’s hell-bent on gaining market share.... For example, if I were Kellogg and I decided that I had to have 60% of the market, I think I could take most of the profit out of cereals. I’d ruin Kellogg in the process. But I think I could do it. <http://ycombinator.com/munger.html>

“Even bright people are going to have limited, really valuable insights in a very competitive world when they’re fighting against other very bright, hardworking people. And it makes sense to load up on the very few good insights you have instead of pretending to know everything about everything at all times.” <http://ycombinator.com/munger.html>

Complexity:

“A rough rule in life is that an organization foolish in one way in dealing with a complex system is all too likely to be foolish in another.”

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Compounding

“Understanding both the power of compound return and the difficulty of getting it is the heart and soul of understanding a lot of things.” http://www.sandmansplace.com/Sandman_Favorite_Quotes.html

“Never interrupt it unnecessarily”

<http://72.14.203.104/search?q=cache:IuDIHXun74MJ:www.amazon.com/exec/obidos/tg/detail/-/1578643031%3Fv%3Dglance+%22Charlie+Munger%22+%22I+didn%27t+get+to+where+I+am%22&hl=en&gl=us&ct=clnk&cd=1>

“Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things” <http://www.feedblitz.com/ff/fbz?PreviewFeed=7799>

“We’re not crying wolf at how hard it is to compound at the old rates—it can’t be done. Look how tough it is to earn \$100 million pretax doing anything; few ever accomplish it. Then \$1 billion, the \$5 billion, then \$10 billion....” Poor Charlie’s at 77 <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

Confidence

“I have a black belt in chutzpah. I was born with it. Some people, like some of the women I know, have a black belt in spending. They were born with that. But what they gave me was a black belt in chutzpah.” <http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

Confirmation bias:

“Most people early achieve and later intensify a tendency to process new and disconfirming information so that any original conclusion remains intact. They become people of whom Philip Wylie observed: “You couldn’t ’t squeeze a dime between what they already know and what they will never learn.” <http://www.poorcharliesalmanack.com/pdf/page146.pdf>

“The great example of Charles Darwin is he avoided confirmation bias. Darwin probably changed my life because I’m a biography nut, and when I found out the way he always paid extra attention to the disconfirming evidence and all these little psychological tricks. I also found out that he wasn’t very smart by the ordinary standards of human acuity, yet there he is buried in Westminster Abbey. That’s not where I’m going, I’ll tell you.” <http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“The human mind is a lot like the human egg, and the human egg has a shut-off device. When one sperm gets in, it shuts down so the next one can’t get in. ... And of course, if you make a public disclosure of your conclusion, you’re pounding it into your own head.” <http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“This is why organizations solicit public pledges. Hell, it’s the reason for the marriage ceremony.” Talk at Cal Tech, “Bad Judgments, Common Causes, cited in Lowenstein at 169

Consultants:

“I have never seen a management consultant’s report in my long life that didn’t end with the following paragraph: “What this situation really needs is more management consulting.” Never once. I always turn to the last page. Of course Berkshire doesn’t hire them, so I only do this on sort of a voyeuristic basis. Sometimes I’m at a non-profit where some idiot hires one. [Laughter]” <http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Contrarian:

“We have a history when things are really horrible of wading in when no one else will.” <http://www.fool.com/news/foth/2002/foth020515.htm>

Corporate Governance:

“The system has deteriorated, and the reputation of the system has deteriorated even more than the system,” he said, noting that “a lot of people are mad at corporate governance,” including the kind of white-bread Republicans who should be the system’s biggest supporters. “When even they are mad at Corporate America, “Corporate America has a serious problem.” <http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

Costco:

”I admired the place so much,” Munger says, “that I violated my rules (against sitting on outside boards). It’s hard to think of people who’ve done more in my lifetime to change the world of retailing for good, for added human happiness to the customer.” <http://www.sandiegometro.com/1998/nov/money.html>

Costs

“We don’t have an isolated group [of senior managers] surrounded by servants. Berkshire’s headquarters is a tiny little suite. We just came back from Berkshire’s board meeting; it had moved up to the board room of the Kiewit company and [it was so large and luxurious that] I felt uncomfortable .” <http://www.tilsonfunds.com/wscmtg04notes.doc>

Cost of capital:

“Obviously, consideration of costs is key, including opportunity costs. Of course capital isn’t free. It’s easy to figure out your cost of borrowing, but theorists went bonkers on the cost of equity capital. They say that if you’re generating a 100% return on capital, then you shouldn’t invest in something that generates an 80% return on capital. It’s crazy.” http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Crime:

“A few public hangings will really change behavior. One of our Presidents said if he could execute three people each year for no cause, it would make it a lot easier to govern. When someone said that’s not enough, he said, “Oh yes it is, because I’d publish the list of people under consideration.” (Laughter) <http://www.tilsonfunds.com/wscmtg05notes.pdf>

Crowd Folly:

“‘Crowd folly’, the tendency of humans, under some circumstances, to resemble lemmings, explains much foolish thinking of brilliant men and much foolish behavior — like investment management practices of many foundations represented here today. It is sad that today each institutional investor apparently fears most of all that its investment practices will be different from practices of the rest of the crowd.” <http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Culture:

“For many of our shareholders, our stock is all they own, and we’re acutely aware of that. Our culture [of conservatism] runs pretty deep.” <http://www.fool.com/news/foth/2002/foth020515.htm>

“I think the foundation at Berkshire [Buffett’s stake in Berkshire will pass to the Buffett Foundation upon his death] will be a plus because there will be a continuation of the culture. We’d still take in fine businesses run by people who love them.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Our culture is very old-fashioned, like Ben Franklin or Andrew Carnegie. Can you imagine Andrew Carnegie hiring consultants?! It’s amazing how well this approach still works. A lot of the businesses we buy are kind of cranky and old-fashioned like us.” <http://www.fool.com/boringport/2000/boringport000501.htm>

“If Warren has kept the faith until he’s 75 years old, do you really think he’ll blow the job of passing that culture along? What could be more important? You all have a lot more things to worry about than the candle at Berkshire going out because some people eventually die.” http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Debt

“We have monetized houses in this country in a way that’s never occurred before. Ask Joe how he bought a new Cadillac [and he’ll say] from borrowing on his house. We are awash in capital. [Being] awash is leading to very terrible behavior by credit cards and subprime lenders -a very dirty business, luring people into a disadvantageous position. It’s a new way of getting serfs, and it’s a dirty business. We have financial institutions, including those with big names, extending high-cost credit to the least able people. I find a lot of it revolting. Just because it’s a free market doesn’t mean it’s honorable.”

<http://www.tilsonfunds.com/wscmtg05notes.pdf>

“Of course I’m troubled by huge consumer debt levels – we’ve pushed consumer credit very hard in the US. Eventually, if it keeps growing, it will stop growing. As Herb Stein said, “If something cannot go on forever, it will stop.” When it stops, it may be unpleasant. Other than Herb Stein’s quote, I have no comment. But the things that trouble you are troubling me. <http://www.tilsonfunds.com/wscmtg04notes.doc>

Decisions:

“If you took out our 15 best ideas, most of you wouldn’t be here.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Declining Prices:

“Over many decades, our usual practice is that if [the stock of] something we like goes down, we buy more and more. Sometimes something happens, you realize you’re wrong, and you get out. But if you develop correct confidence in your judgment, buy more and take advantage of stock prices.”

<http://www.fool.com/news/foth/2002/foth020515.htm>

Denial:

“If people tell you what you really don’t want to hear what’s unpleasant—there’s an almost automatic reaction of antipathy. You have to train yourself out of it.” <http://ycombinator.com/munger.html>

Disasters:

“We don’t think because it’s never happened that it won’t. There’s no actuarial science, it’s rough judgment. We just try to be conservative.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Deficits:

“Generally speaking, it can’t be good to be running a big current account deficit and a big fiscal deficit and have them both growing. You would be thinking the end there would be a comeuppance.” “[But] it isn’t as though all the other options look wonderful compared to the US. It gives me some feeling that what I regard as fiscal misbehavior on our part could go on some time without paying the price.”

http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

“We started from such a strong position. It’s not as if the alternatives are all so great. I can understand why people would rather invest in the U.S. Do you want to be in Europe, where 12-13% of people are unemployed and most 28-year-olds are living at home and being paid by state to do it? Or be in Brazil or Venezuela with the political instability that you fear? It’s not totally irrational that people still like the U.S., despite its faults. Whatever misbehavior there is could go on quite a long time without a price being paid.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Deferred Gratification

“Almost all good businesses engage in ‘pain today, gain tomorrow’ activities.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Denial:

“If you turn on the television, you’ll find the mothers of the most obvious criminals that man could ever diagnose, and they all think their sons are innocent. That’s simple psychological denial. The reality is too painful to bear, so you just distort it until it’s bearable. We all do that to some extent, and it’s a common psychological misjudgment that causes terrible problems.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Derivatives

“Everyone caved, adopted loose [accounting] standards, and created exotic derivatives linked to theoretical models. As a result, all kinds of earnings, blessed by accountants, are not really being earned. When you reach for the money, it melts away. It was never there. It [accounting for derivatives] is just disgusting. It is a sewer, and if I’m right, there will be hell to pay in due course. All of you will have to prepare to deal with a blow-up of derivative books. <http://www.fool.com/news/foth/2002/foth020515.htm>

“No CEO examining books today understands what the hell is going on.”
http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

The stupid and dishonest accountants allowed the genie of totally inappropriate accounting to descend on derivatives books. And once this has happened – people get status, etc. – it’s impossible to get it back into the bottle. <http://www.tilsonfunds.com/brkmtg05notes.pdf>

People don’t think about the consequences of the consequences. People start by trying to hedge against interest rate changes, which is very difficult and complicated. Then, the hedges made the results [reported profits] lumpy. So then they use new derivatives to smooth this. Well, now you’ve morphed into lying. This turns into a Mad Hatter’s Party. This happens to vast, sophisticated corporations. Somebody has to step in and say, “We’re not going to do it — it’s just too hard. . . Derivatives are full of clauses that say if one party’s credit gets downgraded, then they have to put up collateral. It’s like margin – you can go broke. In attempting to protect themselves, they’ve introduced instability. Nobody seems to have recognition of what a disaster of a system they’ve created. It’s a demented system. <http://www.tilsonfunds.com/brkmtg04notes.doc>

To say accounting for derivatives is America is a sewer is an insult to sewage.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Directors:

“Generally speaking, if you’re counting on outside directors to act [forcefully to protect your interests as a shareholder, then you’re crazy]. As a general rule in America, boards act only if there’s been a severe disgrace. My friend Joe was asked to be on the board of Northwestern Bell and he jokes that “it was the last thing they ever asked me.” [Laughter] I think you get better directors when you get directors who don’t need the money. When it’s half your income and all your retirement, you’re not likely to be very independent. But when you have money and an existing reputation that you don’t want to lose, then you’ll act more independently. <http://www.tilsonfunds.com/wscmtg04notes.doc>
If mutual fund directors are independent, then I’m the lead character in the **Bolshoi Ballet**. [Laughter]
<http://www.tilsonfunds.com/wscmtg04notes.doc>

A director who gets \$150,000 per year from a company and needs the money is *not* independent.
<http://www.tilsonfunds.com/brkmtg05notes.pdf>

I think it would be a great improvement if there were no D&O insurance . The counter-argument is that no-one with any money would serve on a board. But I think net net you’d be better off.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Disasters:

“Years ago, portfolio insurance was popular. People were selling it as a highly sophisticated way for large institutions to manage money and mitigate risk, and they earned a lot selling it. Then on Oct. 19, 1987, a relatively small amount of money that had been invested in portfolio insurance led to a one-day 22% drop. Each of the individuals who invested in portfolio insurance was intelligent, but in aggregate, they created a doomsday machine. I think the odds of something like this are magnified today compared to the 1980s. I don’t know who will yell “fire,” but when it happens, I’m sure the currency markets will play a role in the race for the door.
“<http://www.fool.com/news/commentary/2006/commentary06053101.htm>

Discipline

“We have this investment discipline of waiting for a fat pitch. If I was offered the chance to go into business where people would measure me against benchmarks, force me to be fully invested, crawl around looking over my shoulder, etc., I would hate it. I would regard it as putting me into shackles.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Discounted Cash Flow

“Warren talks about these discounted cash flows. I’ve never seen him do one.” [*“It’s true,” replied Buffett. “If (the value of a company) doesn’t just scream out at you, it’s too close.”*] 1996 Berkshire Hathaway annual meeting

<http://www.ndir.com/SI/email/q403.shtml>

Diversification

The Berkshire-style investors tend to be less diversified than other people. The academics have done a terrible disservice to intelligent investors by glorifying the idea of diversification. Because I just think the whole concept is literally almost insane. It emphasizes feeling good about not having your investment results depart very much from average investment results. But why would you get on the bandwagon like that if somebody didn’t make you with a whip and a gun? <http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html>

“The idea of excessive diversification is madness.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

Dividends

“The total amount paid out in dividends is roughly equal to the amount lost in trading and investment advice, so net dividends to shareholders are zero. This is a very peculiar way to run a republic.”

<http://www.tilsonfunds.com/brkmtg04notes.doc>

Downturns:

“If you, like me, lived through 1973-74 or even the early 1990s... There was a waiting list to get OUT of the country club — that’s when you know things are tough. If you live long enough, you’ll see it.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“It is an unfortunate fact that great and foolish excess can come into prices of common stocks in the aggregate. They are valued partly like bonds, based on roughly rational projections of use value in producing future cash. But they are also valued partly like Rembrandt paintings, purchased mostly because their prices have gone up, so far.”

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Earnings

“We don’t care about quarterly earnings (though obviously we care about how the business is doing over time) and are unwilling to manipulate in any way to make some quarter look better.”

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“What we don’t like in modern capitalism is the expectations game. It’s not the kissing cousin of evil; it’s the blood brother.” <http://www.tilsonfunds.com/brkmtg05notes.pdf>

“We don’t give a damn about lumpy results. Everyone else is trying to please Wall Street. This is not a small advantage.” <http://www.fool.com/boringport/2000/boringport00051500.htm>

EBITDA:

“I think that, every time you saw the word EBITDA [earnings], you should substitute the word “bullshit” earnings.” http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Economics

“Gigantic macroeconomic predictions are something I’ve never made any money on, and neither has Warren ” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“Economics is in many respects the queen of the soft sciences. It’s expected to be better than the rest. It’s my view that economics is better at the multi-disciplinary stuff than the rest of the soft science. And it’s also my view that it’s still lousy.” <http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

“...Max Planck the great Nobel laureate who found Planck’s Constant, tried once to do economics. He gave it up. Now why did Max Planck, one of the smartest people who ever lived, give up economics? The answer is, he said, “It’s too hard. The best solution you can get is messy and uncertain.” <http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

“economics should emulate physics’ basic ethos, but its search for precision in physics–like formulas is almost always wrong in economics.” <http://www.smalla.net/tidbits/quotations/index.shtml>

“Economists get very uncomfortable when you talk about virtue and vice. It doesn’t lend itself to a lot of columns with numbers. But I would argue that there are big virtue effects in economics. I would say that the spreading of double-entry bookkeeping by the Monk, Fra Luca de Pacioli, was a big virtue effect in economics. It made business more controllable, and it made it more honest. <http://www.originaldissent.com/forums/archive/index.php/t-14214.html>

“If you try and talk like this to an economics professor, and I’ve done this three times, they shrink in horror and offense because they don’t like this kind of talk. It really gums up this nice discipline of theirs, which is so much simpler when you ignore second- and third-order consequences.”
<http://72.14.203.104/search?q=cache:eO7qYBw3X78J:www.fool.com/news/commentary/2004/commentary040604wt.htm+%22Charlie+munger%22+transcript&hl=en&gl=us&ct=clnk&cd=1>

Economies of Scale

“On the subject of economies of scale, I find chain stores quite interesting. Just think about it. The concept of a chain store was a fascinating invention. You get this huge purchasing power — which means that you have lower merchandise costs. You get a whole bunch of little laboratories out there in which you can conduct experiments. And you get specialization. If one little guy is trying to buy across 27 different merchandise categories influenced by traveling salesmen, he’s going to make a lot of dumb decisions. But if your buying is done in headquarters for a huge bunch of stores, you can get very bright people that know a lot about refrigerators and so forth to do the buying. The reverse is demonstrated by the little store where one guy is doing all the buying. It’s like the old story about the little store with salt all over its walls. And a stranger comes in and says to the store owner, ‘You must sell a lot of salt.’ And he replies, ‘No, I don’t. But you should see the guy that *sells* me salt.’ So there are huge purchasing advantages...” 1995 lecture at the University of Southern California entitled “A Lesson on Elementary, Worldly Wisdom as it Relates to Investment Management & Business.” *Outstanding Investors Digest*. <http://www.fool.com/boringport/1999/boringport991020.htm?ref=yhoolnk>

“in terms of which businesses succeed and which businesses fail, advantages of scale are ungodly important. ... In some businesses, the very nature of things is to sort of cascade toward the overwhelming dominance of one firm. And these advantages of scale are so great, for example, that when Jack Welch came into General Electric, he just said, “To hell with it. We’re either going to be # 1 or #2 in every field we’re in or we’re going to be out.”
<http://ycombinator.com/munger.html>

Economy

“I think the main figure that matters to all of us, including people in the media, is: How does GDP per capita grow? And those figures have been very good. There is a huge flux both up and down, so it isn’t like we’re all static in status. What’s important is that pie grows.” <http://www.fool.com/news/commentary/2006/commentary06052706.htm>

Education

“I get flack for saying [when I visit a college and give a speech], “This is a nice college, but the really great educator is McDonald’s.” They hate me for saying this and think I’m a slimy creature. But McDonald’s hires people with bad work habits, trains them, and teaches them to come to work on time and have good work habits. I think a lot of what goes on there is better than at Harvard.” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“You could argue that [the decline of public schools] is one of the major disasters in our lifetimes. We took one of the greatest successes in the history of the earth and turned it into one of the greatest disasters in the history of the earth.” <http://www.fool.com/news/foth/2001/foth010508.htm>

“The theory of modern education is that you need a *general* education before you *specialize*. And I think to some extent, before you’re going to be a great stock picker, you need some general education.”
<http://www.thinkfn.com/en/content/view/52/?id=124>

“If you don’t keep learning, other people will pass you by. Temperament alone won’t do it – you need a lot of curiosity for a long, long time.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“To finish first you have to first finish. Don’t get in a position where you go back to go. What’s interesting is that some guy whose grandfather was a lawyer and a judge—hurriedly going to Harvard Law with a wave of veterans—I was willing to go into so many different businesses. I was constantly going right into the other fellow’s business and doing better than the other fellow did. The reason it was possible? Self-education—developing mental discipline, big ideas that really work.”
http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Efficient Market Theory

“We don’t believe that markets are totally efficient and we don’t believe that widespread diversification will yield a good result. We believe almost all good investments will involve relatively low diversification. Maybe 2% of people will come into our corner of the tent and the rest of the 98% will believe what they’ve been told.”
<http://www.tilsonfunds.com/wscmtg04notes.doc>

“Berkshire’s whole record has been achieved without paying one ounce of attention to the efficient market theory in its hard form. And not one ounce of attention to the descendants of that idea, which came out of academic economics and went into corporate finance and morphed into such obscenities as the capital asset pricing model, which we also paid no attention to. I think you’d have to believe in the tooth fairy to believe that you could easily outperform the market by seven-percentage points per annum just by investing in high volatility stocks.” <http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

“I think it is roughly right that the market is efficient, which makes it very hard to beat merely by being an intelligent investor. But I don’t think it’s totally efficient at all. And the difference between being totally efficient and somewhat efficient leaves an enormous opportunity for people like us to get these unusual records. It’s efficient enough, so it’s hard to have a great investment record. But it’s by no means impossible. Nor is it something that only a very few people can do. The top three or four percent of the investment management world will do fine.” <http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html>

“I have a name for people who went to the extreme efficient market theory—which is “bonkers”. It was an intellectually consistent theory that enabled them to do pretty mathematics. So I understand its seductiveness to people with large mathematical gifts. It just had a difficulty in that the fundamental assumption did not tie properly to reality.” <http://ycombinator.com/munger.html>

“The possibility that stock value in aggregate can become irrationally high is contrary to the hard-form “efficient market” theory that many of you once learned as gospel from your mistaken professors of yore. Your mistaken professors were too much influenced by “rational man” models of human behavior from economics and too little by “foolish man” models from psychology and real-world experience.”
<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

“Efficient market theory [is] a wonderful economic doctrine that had a long vogue in spite of the experience of Berkshire Hathaway. In fact one of the economists who won — he shared a Nobel Prize — and as he looked at Berkshire Hathaway year after year, which people would throw in his face as saying maybe the market isn’t quite as efficient as you think, he said, “Well, it’s a two-sigma event.” And then he said we were a three-sigma event. And then he said we were a four-sigma event. And he finally got up to six sigmas — better to add a sigma than change a theory, just because the evidence comes in differently. [Laughter] And, of course, when this share of a Nobel Prize went into money management himself, he sank like a stone.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Energy:

“I know just enough about thermodynamics to understand that if it takes too much fossil-fuel energy to create ethanol, that’s a very stupid way to solve an energy problem. [Laughter]

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“The interesting thing is the field is so big — it’s enormous. One thing a modern civilization needs is energy.”
http://72.14.203.104/search?q=cache:U59Ns6D8WZcJ:www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3+%22charlie+munger%22+%22this+is+a+good+lesson+for+anyone%22&hl=en&gl=us&ct=clnk&cd=1

Environment:

“People always underestimate the ability of earth to increase its carrying capacity.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“The laws of thermodynamics are such that if the water is getting warmer – and I believe it is – the energy of the weather is going to go up.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Envy:

“...Missing out on some opportunity never bothers us. What’s wrong with someone getting a little richer than you? It’s crazy to worry about this...” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“Here’s one truth that perhaps your typical investment counselor would disagree with: if you’re comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, *so what?! Someone will always be getting richer faster than you.* This is not a tragedy. <http://www.fool.com/BoringPort/2000/boringport00051501.htm>

“We have a higher percentage of the intelligentsia engaged in buying and selling pieces of paper and promoting trading activity than in any past era. A lot of what I see now reminds me of Sodom and Gomorrah. You get activity feeding on itself, envy and imitation. It has happened in the past that there came bad consequences.”

http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

“Well envy/jealousy made, what, two out of the ten commandments? Those of you who have raised siblings you know about envy, or tried to run a law firm or investment bank or even a faculty? I’ve heard Warren say a half a dozen times, “It’s not greed that drives the world, but envy.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“Suppose, any one of you knew of a wonderful thing right now that you were overwhelmingly confident- and correctly so- would produce about 12% per annum compounded as far as you could see. Now, if you actually had that available, and by going into it you were forfeiting all opportunities to make money faster- there’re a lot of you who wouldn’t like that. But a lot of you would think, “What the hell do I care if somebody else makes money faster?” There’s always going to be somebody who is making money faster, running the mile faster or what have you. So in a human sense, once you get something that works fine in your life, the idea of caring terribly that somebody else is making money faster strikes me as insane.”

“The idea of caring that someone is making money faster [than you are] is one of the deadly sins. Envy is a really stupid sin because it’s the only one you could never possibly have any fun at. There’s a lot of pain and no fun. Why would you want to get on that trolley?”

<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Estate Tax:

“Personally, I’m against the estate tax at its current rate, with its rapid rise to 55%. It hits owners of auto dealers, plumbers, etc. I think the exemption should be raised. “I have no problem with this rate [for estates] in the hundreds of millions of dollars. I have no problem personally with the estate tax.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Ethics:

“I think you’ll make more money in the end with good ethics than bad. Even though there are some people who do very well, like Marc Rich—who plainly has never had any decent ethics, or seldom anyway. But in the end, Warren Buffett has done better than Marc Rich—in money—not just in reputation.”

http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

“I think the best single way to teach ethics is by example: take in people who demonstrate in all their daily conduct a good ethical framework. But if your ethics slip and people are rewarded [nevertheless, then] it cascades downward. Ethics are terribly important, but best taught indirectly by example. If you just learn a few rules [by having ethics taught in school] so they can pass the test, it doesn’t do much. But if you see people you respect behaving in a certain way, especially under stress, [that has a real impact]. [] “The ethics of Wall Street will always average out to mediocre at best.... This doesn’t mean there aren’t some wonderful, intelligent people on Wall Street — there are, like those in this room — but everyone I know has to fight their own firm [to do the right thing].” <http://www.fool.com/news/foth/2002/foth020515.htm>

EVA:

“I think there’s an awful lot of twaddle and bull\$%#* on EVA. The whole game is to turn retained earnings into more earnings. EVA has ideas about cost of capital that make no sense. Of course, if a company generates high returns on capital and can maintain this over time, it will do well. But the mental system as a whole does not work.”
<http://www.fool.com/boringport/2000/boringport000501a.htm>

Executives

“Today, it seems to be regarded as the duty of CEOs to make the stock go up. This leads to all sorts of foolish behavior. We want to tell it like it is.” <http://netscape.fool.com/news/foth/2001/foth010508.htm?ref=foolwatch>

Expectations

“...People need to ask, “How do I play the hand that has been dealt me?” The world is not going to give you extra return just because you want it. You have to be very shrewd and hard working to get a little extra. It’s so much easier to reduce your wants. There are a lot of smart people and a lot of them cheat, so it’s not easy to win. (Nervous laughter)...”
<http://www.tilsonfunds.com/wscmtg05notes.pdf>

“One of the smartest things a person can do is dampen investment expectations, especially with Berkshire. That would be mature and responsible. I like our model and we should do nicely.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“I’ve heard that one-half of the students at elite schools want to go into private equity or hedge funds. They want to keep up with their age cohorts at Goldman. This can’t possibly end well in terms of meeting these expectations. ”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Experience

“If you’re going to be an investor, you’re going to make some investments where you don’t have all the experience you need. But if you keep trying to get a little better over time, you’ll start to make investments that are virtually certain to have a good outcome. The keys are discipline, hard work, and practice. It’s like playing golf — you have to work on it.” <http://www.fool.com/news/foth/2002/foth020515.htm>

Experts:

“... some important factor doesn’t lose its “share of force” just because some “expert” can better measure other types of force.”
<http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1>

Extraordinary Charges

“If it happens every year like clockwork, what’s so extraordinary about it?”
<http://www.fool.com/news/foth/2001/foth010508.htm>

Evil:

“Avoid evil, particularly if they’re attractive members of the opposite sex.”

<http://www.tilsonfunds.com/brkmtg04notes.doc>

Facts

“The first rule is that you can’t really know anything if you just remember isolated facts and try and bang ‘em back. If the facts don’t hang together on a latticework of theory, you don’t have them in a usable form.... You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and in life.”

<http://ycombinator.com/munger.html>

“An idea or a fact is not worth more merely because it’s more available to you.”

Failure

It’s a good habit to trumpet your failures and be quiet about your successes.

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

You don’t want to be like the motion picture exec who had so many people at his funeral, but they were there just make sure he was dead. Or how about the guy who, at his funeral, the priest said, “Won’t anyone stand up and say anything nice for the deceased?” and finally someone said, “Well, his brother was worse.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Float:

“Growing float at a sizeable rate at low cost is almost impossible — but we intend to do it anyway.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“I’ve been amazed by the growth and cost of our float. It’s wonderful to generate billions of dollars of float at a cost way below Treasury notes.” <http://www.fool.com/boringport/2000/boringport000501.htm>

Focus Investing:

“Our investment style has been given a name — focus investing — which implies 10 holdings, not 100 or 400. Focus investing is growing somewhat, but what’s really growing is the unlimited use of consultants to advise on asset allocation, to analyze other consultants, etc. <http://www.fool.com/boringport/2000/boringport00051500.htm>

Food:

“My idea of a good place to shop is Costco – it has these heavily marbled fillet steaks. The idea of eating some wheat thing and washing it down with carrot juice has never appealed to me.”

<http://www.tilsonfunds.com/brkmtg04notes.doc>

Forecasts:

“People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There’s always been a market for people who pretend to know the future. Listening to today’s forecasters is just as crazy as when the king hired the guy to look at the sheep guts. It happens over and over and over.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“It’s human nature to extrapolate the recent past into the future, but it’s terrible that managements go along with this.” http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

“We have the same problem as everyone else: It’s very hard to predict the future...”

<http://www.fool.com/news/foth/2002/foth020515.htm>

Foreign Currencies:

“In effect about half our spare cash was stashed in currencies other than the dollar. I consider that a non-event. As it happens it's been a very profitable non-event.”

http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

Foreign Investing:

“As for what we like least, we don't want kleptocracies. We need a rule of law. If people are stealing from the companies, we don't need that.” <http://www.fool.com/news/commentary/2006/commentary06062914.htm>

“We have a problem outside the U.S. because we aren't well known. The reason we could buy Iscar is because [Iscar was] so smart. We weren't smart enough to find them; they were smart enough to find us.”

<http://www.fool.com/news/commentary/2006/commentary06062914.htm>

“I agree with Peter Drucker that the culture and legal systems of the United States are especially favorable to shareholder interests, compared to other interests and compared to most other countries. Indeed, there are many other countries where any good going to public shareholders has a very low priority and almost every other constituency stands higher in line.

”<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Franchises

“You'll find many markets where bottlers of Pepsi and Coke both make a lot of money and many others where they destroy most of the profitability of the two franchises. That must get down to the peculiarities of individual adjustment to market capitalism. I think you 'd have to know the people involved to fully understand what was happening. <http://www.poorcharliesalmanack.com/pdf/page173.pdf>

Fraud:

“If we mix only a moderate minority share of turds with the raisins each year, probably no one will recognize what will ultimately become a very large collection of turds.”

<http://www.bluechipinvestorfund.com/munger.html>

“Where you have complexity, by nature you can have fraud and mistakes. You'll have more of that than in a company that shovels sand from a river and sells it. This will always be true of financial companies, including ones run by governments. If you want accurate numbers from financial companies, you're in the wrong world.”

<http://www.tilsonfunds.com/brkmtg05notes.pdf>

Future:

“It's a rare business that doesn't have a way worse future than it has a past.”

<http://www.fool.com/news/commentary/2006/commentary06053101.htm>

Gambling:

“I knew a guy who had \$5 million and owned his house free and clear. But he wanted to make a bit more money to support his spending, so at the peak of the internet bubble he was selling puts on internet stocks. He lost all of his money and his house and now works in a restaurant. It's not a smart thing for the country to legalize gambling [in the stock market] and make it very accessible.” <http://www.tilsonfunds.com/brkmtg05notes.pdf>

“Berkshire in its history has made money betting on sure things.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“You have a lottery where you get your number by lot, and then somebody draws a number by lot, it gets lousy play. You have a lottery where people get to pick their number, you get big play. ... People think if they have committed to it, it has to be good. The minute they've picked it themselves it gets an extra validity. After all, they thought it and they acted on it. Then if you take the slot machines, you get bar, bar, walnut. And it happens again and again and again. You get all these near misses. Well that's deprivation super-reaction syndrome, and boy do the people who create the machines understand human psychology. And for the high-IQ crowd they've got poker machines where you make choices. So you can play blackjack, so to speak, with the machine. It's wonderful what we've done with our computers to ruin the civilization. But at any rate, mis-gambling compulsion is a very, very powerful and important thing. Look at what's happening to our

country: every Indian has a reservation, every river town, and look at the people who are ruined by it with the aid of their stock brokers and others.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm> “To me, it’s obvious that the winner has to bet very selectively. It’s been obvious to me since very early in life. I don’t know why it’s not obvious to very many other people.” <http://www.ndir.com/SI/articles/quotes.shtml>

GM:

“I have a greater sin to confess to. I once thought GM was a bulletproof franchise. But we have a method of coping: We just put it in the “too hard” basket. If something is too hard, we move on to something that’s not too hard. What would be more simple?”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Gold:

If you have the opportunities of Berkshire, an investment in gold is dumb. <http://www.tilsonfunds.com/brkmtg05notes.pdf>

Government

“We’re here at an institution [Stanford] founded by a man [Leland Stanford] who bribed Congress to get his railroad franchises...I’m not constantly bewailing the failures of government — it’s not our main problem at all.”

http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Greed

“It’s amazing the way people have sold out. It’s insane.”

http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

“...all man’s desired geometric progressions, if a high rate of growth is chosen, at last come to grief on a finite earth. And the social system for man on earth is fair enough, eventually, that almost all massive cheating ends in disgrace.”

<http://www.bluechipinvestorfund.com/munger.html>

Guilt

“Economic systems work better when there’s an extreme reliability ethos. And the traditional way to get a reliability ethos, at least in past generations in America, was through religion. The religions instilled guilt. ... And this guilt, derived from religion, has been a huge driver of a reliability ethos, which has been very helpful to economic outcomes for man.”

<http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

Healthcare:

“I think that if you have a single payer system and an opt-out for people who want to pay more [for better service, etc.], I think it would be better – and I think we’ll eventually get there. It wouldn’t be better at the top – [our current system] is the best in the world at the top. But the waste in the present system is awesome and we do get some very perverse incentives.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“The quality of the medical care delivered, including the pharmaceutical industry, has improved a lot. I don’t think it’s crazy for a rich country like the US to spend 15% of GDP on healthcare, and if it rose to 16-17%, it’s not a big worry.” http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Hedge Funds:

“It’s amazing the brainpower being drawn into the hedge fund industry. When I was young, guys in the investment business were mediocre at best – they had eastern [East Coast] tailoring and didn’t know very much. Now, it’s a cascade of brainpower. Collectively, they add nothing to the GNP. Indeed, they’re adding costs, collectively. If you take the money invested in common stocks, and then subtract the 2% per year that goes out in investment management costs and frictional trading costs, that’s more than companies pay in dividends. It’s more than the twin deficits. This would fit very well into Alice in Wonderland: pay dividends of X and pay the same amount to investment managers and advisors.”

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“I don’t think there’s any business that we’ve bought that would have sold itself to a hedge fund. There’s a class of businesses that doesn’t want to deal with private-equity and hedge funds...thank God.”
<http://www.tilsonfunds.com/brkmtg05notes.pdf>

“You ask a heard hedge fund operator why the charge 2 and 20, and they say because I can’t get 3 and 30, he says. “[For hedge funds], it’s not about thinking what is fair and right — but merely how much can I get. It’s a ghastly culture ... there will be terrible scandal in due course” http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Hiring:

“This is a good life lesson: getting the right people into your system is the most important thing you can do.”
<http://www.tilsonfunds.com/brkmtg05notes.pdf>

Honesty

“I think track records are very important. If you start early trying to have a perfect one in some simple thing like honesty, you’re well on your way to success in this world.” Poor Charlie’s <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

“Bernie Ebbers and Ken Lay were caricatures – they were easy to spot. They were almost psychopaths. But it’s much harder to spot problems at companies like Royal Dutch [Shell].” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“Well in the history of the See’s Candy Company they always say, “I never did it before, and I’m never going to do it again.” And we cashier them. It would be evil not to, because terrible behavior spreads.”
”<http://72.14.203.104/search?q=cache:3sSZnXLbvQEJ:www.loschmanagement.com/Berkshire%2520Hathaway/Charlie%2520munger/The%2520Psychology%2520of%2520Human%2520Misjudgement.htm+%22charlie+Munger%22+%22the+way+Zeckhauser+plays+bridge%22&hl=en&gl=us&ct=clnk&cd=1>

Hurdle rates:

“We’re guessing at our future opportunity cost. Warren is guessing that he’ll have the opportunity to put capital out at high rates of return, so he’s not willing to put it out at less than 10% now. But if we knew interest rates would stay at 1%, we’d change. Our hurdles reflect our estimate of future opportunity costs.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Ideas:

“It’s not the bad ideas that do you in, but the good ones.” <http://www.fool.com/news/foth/2000/foth000907.htm>
“Our ideas are so simple that people keep asking us for mysteries when all we have are the most elementary ideas”
<http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799>

Independence:

“Like Warren, I had a considerable passion to get rich. “Not because I wanted Ferraris– I wanted the independence. I desperately wanted it. I thought it was undignified to have to send invoices to other people. I don’t know where I got that notion from, but I had it.’ From Buffett , The making of an American Capitalist, Roger Lowenstein at page 75. “I wanted to get rich so I could be independent, like Lord John Maynard Keynes.” <http://www.poorcharliesalmanack.com/intro3.html>

Insurance:

“I’m glad we have insurance, though it’s not a no-brainer, I’m warning you. We have to be smart to make this work.”
<http://www.fool.com/news/foth/2002/foth020515.htm>

Immigration:

“...I’m very pleased when the smartest people come [to the U.S.] and almost never pleased when the very bottom of the mental barrel comes in....” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“We have never had the will to enforce the immigration laws. What you see is what you’ll continue to get.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Incentives:

“His bread I eat, his song I sing.” <http://www.bluechipinvestorfund.com/munger.html>

“Expect hogs to eat a lot more in the presence of a lot of hog wash.”

<http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

“If you want good behavior, don’t pay on a commission basis. Our judges aren’t paid so much a case. We keep them pretty well isolated with a fixed salary. Judges in this whole thing have come out pretty well – there have been relatively few scandals.” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“I think I’ve been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I’ve underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Index Funds

“Our standard prescription for the know-nothing investor with a long-term time horizon is a no-load index fund. I think that works better than relying on your stock broker. The people who are telling you to do something else are all being paid by commissions or fees. The result is that while index fund investing is becoming more and more popular, by and large it’s not the individual investors that are doing it. It’s the institutions.”

<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html>

“[With] closet indexing...you’re paying a manager a fortune and he has 85% of his assets invested parallel to the indexes. If you have such a system, you’re being played for a sucker.”

<http://www.tilsonfunds.com/wscmtg05notes.pdf>

“stock brokers, in toto, will do so poorly that the index fund will do better.”

<http://www.tilsonfunds.com/brkmtg04notes.doc>

“One could imagine a period like Japan 13 years ago, however, in which indexing over time wouldn’t work.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Inflation:

“One of the great defenses if you’re worried about inflation is not to have a lot of silly needs in your life – if you don’t need a lot of material goods.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“I think democracies are prone to inflation because politicians will naturally spend [excessively] – they have the power to print money and will use money to get votes. If you look at inflation under the Roman Empire, with absolute rulers, they had much greater inflation, so we don’t set the record. It happens over the long-term under any form of government.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“I see almost no change in the price of the composite product that flows through Costco I don’t feel sorry for the people who pay \$27 million for an 8,000-square-foot condo in Manhattan. So inflation comes in places.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Interest Rates:

“Neither Warren nor I have any record of making large profits from interest rate bets. That being said, all intelligent citizens of this republic think a bit about this. In my lifetime, I’ve seen interest rates range from 1% to 20%. We try to operate so that really extreme interest rates in either direction wouldn’t be too bad for us. When interest rates are in a middle range, as they are now, we’re agnostic.”

<http://www.fool.com/BoringPort/2000/boringport00051501.htm>

Intrinsic Value:

“If you buy something because it’s undervalued, then you have to think about selling it when it approaches your calculation of its intrinsic value. That’s hard. But if you buy a few great companies, then you can sit on your \$%@. That’s a good thing.” <http://www.fool.com/boringport/2000/boringport000501.htm>

"The basic concept of value to a private owner and being motivated when you're buying and selling securities by reference to intrinsic value instead of price momentum - I don't think that will ever be outdated."
<http://72.14.203.104/search?q=cache:7GV1CjDlhk8J:www.capitalideasonline.com/forum/read.php%3Ff%3D3%26i%3D300%26t%3D105+%22Charlie+Munger%22+%22a+gre+at+business+at+a+fair+price%22&hl=en&gl=us&ct=clnk&cd=6>

"like the stocks of both Berkshire and Wesco to trade within hailing distance of what we think of as intrinsic value. When it runs up, we try to talk it down. That's not at all common in Corporate America, but that's the way we act." <http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Investing:

“Investing is where you find a few great companies and then sit on your ass.” Berkshire Hathaway’s 2000 Shareholder Meeting http://www.ticonline.com/archives_quotes.html

“The investment game is getting more and more competitive.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

“An investment decision in the common stock of a company frequently involves a whole lot of factors interacting ... the one thing that causes the most trouble is when you combine a bunch of these together, you get this lollapalooza effect.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“It’s not given to human beings to have such talent that they can just know everything all the time. But it is given to human beings who work hard at it – who look and sift the world for a mispriced bet – that they can occasionally find one. And the wise ones bet keenly when the world offers that opportunity. They bet big when they have the odds. And the rest of the time, they don’t. It’s just that simple.” **OID**, May 5, 1995

“If (investing) weren’t a little difficult, everybody would be rich.” Damn Right! Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003
<http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>

To us, investing is the equivalent of going out and betting against the pari-mutuel system. We look for a horse with one chance in two of winning, and that pays three to one. In other words, we’re looking for a mispriced gamble. That’s what investing is, and you have to know enough to know whether the gamble is mispriced.”
<http://72.14.203.104/search?q=cache:sVtHPKWG-bwJ:www.wedgcapital.com/documents/WW2Q05.pdf+%22Charlie+Munger%22+%22to+us,+investing+is+the+equivalent+of%22&hl=en&gl=us&ct=clnk&cd=1>

Investment Banks:

“The general culture of investment banking has deteriorated over the years. We did a \$6 million deal years ago for Diversified Retailing and we were rigorously and intelligently screened. They bankers cared and wanted to protect their clients. The culture now is that anything that can be sold for a profit will be. ‘Can you sell it?’ is the moral test, and that’s not an adequate test.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“The interesting thing about it to me is the mindset. With all these “helpers” running around, they talk about doing deals. We talk about welcoming partners. The guy doing deals, he wants to do a deal and then unwind it in the near future. It’s totally opposite for us. We like to build lasting relationships. I think our system will work better in the long term than flipping deals. I think there are so many of them [helpers] that they’ll get in each other’s way. I don’t think they’ll make enough money to meet their expectations, by flipping, flipping, flipping.”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“Warren talked to guy at an investment bank and asked how they made their money. He said, “Off the top, off the bottom, off both sides and in the middle.””
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

IPOs

“It is entirely possible that you could use our mental models to find good IPOs to buy. There are countless IPOs every year, and I’m sure that there are a few cinches that you could jump on. But the average person is going to get creamed. So if you’re talented, good luck. IPOs are too small for us, or too high tech, so we won’t understand them. So, if Warren’s looking at them, I don’t know about it.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

IQ:

“A lot of people with high IQs are terrible investors because they’ve got terrible temperaments. And that is why we say that having a certain kind of temperament is more important than brains. You need to keep raw irrational emotion under control. You need patience and discipline and an ability to take losses and adversity without going crazy. You need an ability to not be driven crazy by extreme success.”
<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html>

“A money manager with an IQ of 160 and thinks it’s 180 will kill you,” he said. “Going with a money manager with an IQ of 130 who thinks its 125 could serve you well.”
<http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html>

“The hedge fund known as “Long Term Capital Management” collapsed last fall through overconfidence in its highly leveraged methods, despite I.Q.’s of its principals that must have averaged 160. Smart people aren’t exempt from professional disasters from overconfidence. Often, they just run aground in the more difficult voyages they choose, relying on their self-appraisals that they have superior talents and methods.”
<http://72.14.203.104/search?q=cache:mgSaxC3O1loJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1>

“You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don’t have the cast of mind, you’re destined for failure even if you have a high IQ.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3
“A foreign correspondent, after talking to me for a while, once said: “You don’t seem smart enough to be so good at what you’re doing. Do you have an explanation?”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“When we were young, there weren’t very many smart people in the investment world. You should have seen the people in the bank trust departments. Now, there are armies of smart people at private investment funds, etc . If there were a crisis now, there would be a lot more people with a lot of money ready to take advantage.”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“It is remarkable how much long-term advantage people like [Warren Buffett and myself] have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.” **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003 <http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>

Judgment

“Although I am very interested in the subject of human misjudgment — and lord knows I’ve created a good bit of it — I don’t think I’ve created my full statistical share, and I think that one of the reasons was I tried to do something about this terrible ignorance I left the Harvard Law School with.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Korea:

“I live surrounded by Koreans in L.A. I would regard Korean culture and what they’ve created as one of the most remarkable in the history of capitalism. We don’t think it’s an accident that Iscar discovered Korea. If you try to

find 10 countries better than Korea ... you won't get through one hand. We are huge admirers of Korea." <http://www.fool.com/news/commentary/2006/commentary06062914.htm>

Lawyers:

"... With Congress and the S.E.C. so heavily peopled by lawyers, and with lawyers having been so heavily involved in drafting financial disclosure documents now seen as bogus, there was a new "lawyer" joke every week. One such was: "The butcher says 'the reputation of lawyers has fallen dramatically', and the check-out clerk replies: "How do you fall dramatically off a pancake?..." <http://www.bluechipinvestorfund.com/munger.html>

"The lawyers have escaped most criticism [and undeservedly so]. The tax shelters [were approved by lawyers, who got paid huge commissions to do so] and every miscreant had a high-falutin' lawyer at his side. Why don't more law firms vote with their feet and not take clients who have signs on them that say, "I'm a skunk and will be hard to handle?" I've noticed that firms that avoid trouble over long periods of time have an institutional process that tunes bad clients out. Boy, if I were running a law firm, I'd want a system like that because a lot of firms have a lot of bad clients." <http://www.tilsonfunds.com/wscmtg04notes.doc>

"[Lawyers who file class-action securities suits] is not a group you would want to marry into your family. "That said, more than half the time the people being sued by the Lerach firm are guilty of outrageous conduct. The problem is, they don't mind (suing) the other half. They are an equal opportunity litigator." <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2004/06/22/BUGRK79OT81.DTL>

"Accounting incomes were reduced by discrepancy [but] "the net amount paid by lawyers for lawyerly discrepancy is close to zippo. In this case, the goddess of justice was blind." <http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

Legal System:

"The definition of hell in the legal system is: endless due process and no justice; (in the corporate world) it would be: endless due diligence and no horse sense." - 2002 Berkshire Hathaway Shareholder Meeting http://www.ticonline.com/archives_quotes.html

Leadership

"There are always people who will be better at some thing than you are. You have to learn to be a follower before you become a leader." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003 <http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>
"We want very good leaders who have a lot of power," he said, "and we want to delegate a lot of power to those leaders....It's crazy not to distribute power to people with the most capacity and diligence...Every time I see an opportunity to choose somebody, the second best guy is just awful compared to the guy we hire. Usually the decision is a no-brainer. We have to give power to the people who can wield it efficiently in serious game of survival." <http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

Learning

"We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side. If you can't state arguments against what you believe better than your detractors, you don't know enough." <http://news.morningstar.com/article/article.asp?id=169398>

"The game is to keep learning, and I don't think people are going to keep learning who don't like the learning process." http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%22life%20is%20just%20one%20damn%22%22

"The name of the game is continuing to learn. Even if you're very well trained and have some natural aptitude, you still need to keep learning" <http://www.feedblitz.com/f/f/bz?PreviewFeed=7799>

Leverage: (see also debt)

"Berkshire's past record has been almost ridiculous. If Berkshire had used even half the leverage of, say, Rupert Murdoch, it would be five times its current size." <http://www.fool.com/news/foth/2001/foth010508.htm>

Leveraged Buy Outs:

“In the LBO field there is a buried “covariance” with marketable equities, toward disaster in generally bad business conditions, and competition is now extremely intense.”
<http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+in+vesting&hl=en&gl=us&ct=clnk&cd=1>

Lies

“Lou Vincenti [former Chairman of Wesco], who used to sit here, said, “If you tell the truth, you don’t have to remember your lies.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

Life:

“You have to realize the truth of biologist Julian Huxley’s idea that ‘Life is just one damn relatedness after another’ “So you must have the models, and you must see the relatedness and the effects from the relatedness.”
http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%20%20%20%20is%20just%20one%20damn%22%22

Liquidity:

“I think the notion that liquidity of tradable common stock is a great contributor to capitalism is mostly twaddle. The liquidity gives us these crazy booms, so it has as many problems as virtues.”
<http://www.tilsonfunds.com/brkmtg04notes.doc>

Litigation:

“Litigation is notoriously time-consuming, inefficient, costly and unpredictable.” Lowenstein at 217

Loyalty:

“There are exceptional loyalties and there are old fashion ideas about how you get loyalties, and after all the auditorium is full of people who have co-owned shares with the managers for many decades, and in many cases they co-invested when everyone was young and obscure. Also when you come back to a place like that you are celebrating old loyalties, and of course the basic idea behind so much of Berkshire is the old fashioned idea that the best way to get loyalty is to deserve loyalty.”

Luck

“Well, some of our success we predicted and some of it was fortuitous. [Regardless,] like most human beings, we took a bow. (Laughter)” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

Management

“I think corporate managers should learn to be better investors because it would make them better managers.”
<http://www.tilsonfunds.com/brkmtg05notes.pdf>

“Understanding how to be a good investor makes you a better business manager and vice versa.”

<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html>

“We don’t train executives, we find them. If a mountain stands up like Everest, you don’t have to be a genius to figure out that it’s a high mountain.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“Our success has come from the *lack* of oversight we’ve provided, and our success will continue to be from a lack of oversight. (Laughter) But if you’re going to provide minimal oversight, you have to buy carefully. It’s a different model from GE’s. GE’s works – it’s just very different from ours.”

<http://www.tilsonfunds.com/brkmtg05notes.pdf>

” ...management matters.... I do not think it takes a genius to understand that Jack Welch was a more insightful person and a better manager than his peers in other companies....you do get an occasional opportunity to get into

a wonderful business that's being run by a wonderful manager. And, of course, that's hog heaven day. If you don't load up when you get those opportunities, it's a big mistake." averaged out, betting on the quality of a business is better than betting on the quality of management. In other words, if you have to choose one, bet on the business momentum, not the brilliance of the manager. But, very rarely, you find a manager who's so good that you're wise to follow him into what looks like a mediocre business." <http://ycombinator.com/munger.html>

"Good businesses can survive a little bad management." <http://www.fool.com/news/foth/2000/foth000907.htm>

Management Fees

"All the equity investors, in total, will surely bear a performance disadvantage per annum equal to the total croupiers' costs they have jointly elected to bear. This is an inescapable fact of life. And it is also inescapable that exactly half of the investors will get a result below the median result after the croupiers' take, which median result may well be somewhere between unexciting and lousy."

[http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Master%27s+Class:+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing+-+By+Charles+Munger+\(Philanthropy+Magazine+March+1999\)&hl=en&gl=us&ct=clnk&cd=1](http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Master%27s+Class:+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing+-+By+Charles+Munger+(Philanthropy+Magazine+March+1999)&hl=en&gl=us&ct=clnk&cd=1)

"Why would you want to invest with a guy whose thought process says, 'If a second layer of fees is good, then let's add a third layer.'" <http://www.tilsonfunds.com/brkmtg04notes.doc>

"If a foundation, or other investor, wastes 3% of assets per year in unnecessary, nonproductive investment costs in managing a strongly rising stock portfolio, it still feels richer, despite the waste, while the people getting the wasted 3%, "febezzlers" though they are, think they are virtuously earning income. The situation is functioning like undisclosed embezzlement without being self-limited. Indeed, the process can expand for a long while by feeding on itself. And all the while what looks like spending from earned income of the receivers of the wasted 3% is, in substance, spending from a disguised "wealth effect" from rising stock prices. "

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Margin of Safety

"In engineering, people have a big margin of safety. But in the financial world, people don't give a damn about safety. They let it balloon and balloon and balloon. It's aided by false accounting.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Marriage:

What's the best way to get a good spouse? The best single way is to *deserve* a good spouse because a good spouse is by definition not nuts." <http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Math:

"If you want to understand science, you have to understand math. In business, if you're enumerate, you're going to be a klutz. The good thing about business is that you don't have to know any higher math...."

<http://www.tilsonfunds.com/brkmtg04notes.doc>

"There is bound to be a regression toward the mean."

http://money.cnn.com/magazines/moneymag/moneymag_archive/1997/07/01/228497/index.htm

Even in pure mathematics they can't remove all paradox, and the rest of us should also recognize we are going to have to endure a lot of paradox, like it or not.

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Without numerical fluency, in the part of life most of us inhabit, you are like a one-legged man in an ass-kicking contest." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003

http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912_descCd-tableOfContents.html and

http://www.economist.com/media/globalexecutive/damn_right_e_02.pdf#search=%22%20%22charlie%20Munger%22%20army%20and%20playing%20poker%22

Mental Models:

"You need a different checklist and different mental models for different companies. I can never make it easy by saying, 'Here are three things.' You have to derive it yourself to ingrain it in your head for the rest of your life."

<http://www.fool.com/news/foth/2002/foth020515.htm>

For some odd reason, I had an early and extreme multidisciplinary cast of mind. I couldn't stand reaching for a small idea in my own discipline when there was a big idea right over the fence in somebody else's discipline. So I just grabbed in all directions for the big ideas that would really work. Nobody taught me to do that; I was just born with that yen.
<http://www.tilsonfunds.com/MungerUCSBspeech.pdf>

“You must know the big ideas in the big disciplines, and use them routinely — all of them, not just a few. Most people are trained in one model — economics, for example — and try to solve all problems in one way. You know the old saying: to the man with a hammer, the world looks like a nail. This is a dumb way of handling problems.”
<http://www.fool.com/BoringPort/2000/boringport00051501.htm>

“If you skillfully follow the multidisciplinary path, you will never wish to come back. It would be like cutting off your hands” <http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799>

Microsoft:

Every business tries to turn this year's success into next year's greater success. It's hard for me to see why Microsoft is sinful to do this. If it's a sin, then I hope all of Berkshire Hathaway's subsidiaries are sinners. ...Someone whose salary is paid by U.S. taxpayers is happy to dramatically weaken the one place where we're winning big?!”
<http://www.fool.com/boringport/2000/boringport000501a.htm>

Mispriced bets:

“... we came to this notion of finding a mispriced bet and loading up when we were very confident that we were right....”
<http://ycombinator.com/munger.html>

Mistakes

The more hard lessons you can learn vicariously rather than through your own hard experience, the better.

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“Although I am very interested in the subject of human misjudgment — and lord knows I've created a good bit of it — I don't think I've created my full statistical share”

http://www.vinvesting.com/docs/munger/human_misjudgement.html

Since mistakes of omission don't appear in the financial statements, most people don't pay attention to them. We rub our noses in mistakes of omission — as we just did. <http://www.tilsonfunds.com/brkmtg04notes.doc>

“The most extreme mistakes in Berkshire's history have been mistakes of omission. We saw it, but didn't act on it. They're huge mistakes — we've lost billions. And we keep doing it. We're getting better at it. We never get over it.” There are two types of mistakes: 1) doing nothing; what

Warren calls “sucking my thumb” and 2) buying with an eyedropper things we should be buying a lot of.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

After nearly making a terrible mistake not buying See's, we've made this mistake many times. We are apparently slow learners. These opportunity costs don't show up on financial statements, but have cost us many billions.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“Chris Davis [of the Davis funds] has a temple of shame. He celebrates the things they did that lost them a lot of money. What is also needed is a temple of shame squared for things you didn't do that would have made you rich. Forgetting your mistakes is a terrible error if you are trying to improve your cognition. Reality doesn't remind you. Why not celebrate stupidities in both categories?”

<http://news.morningstar.com/article/article.asp?id=169398>

There 's no way that you can live an adequate life without [making] many mistakes.

<http://www.poorcharliesalmanack.com/pdf/page228.pdf>

“Our biggest mistakes, were things we didn't do, companies we didn't buy.”

http://money.cnn.com/magazines/moneymag/moneymag_archive/1998/07/01/244582/index.htm

Moats

Kellogg's and Campbell's moats have also shrunk due to the increased buying power of supermarkets and companies like Wal-Mart. The muscle power of Wal-Mart and Costco has increased dramatically.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

“How do you compete against a true fanatic? You can only try to build the best possible moat and continuously attempt to widen it.” Poor Charlie’s at 59 <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

Money

There are a lot of things in life way more important than money. All that said, some people do get confused. I play golf with a man who says, “What good is health? You can’t buy money with it.”

http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Money Management:

It’s my guess that something like 5% of GDP goes to money management and its attendant friction. I define it broadly – annuities, incentive pay, all trading, etc. Nobody else has used figures that high, but that’s my guess. Worst of all, the people doing this are among the best and the brightest. Hundreds and thousands of engineers, etc. are going into hedge funds and investment banking. That is *not* an intelligent allocation of the brainpower of the civilization.

<http://www.tilsonfunds.com/wscmtg05notes.pdf>

I think money management is a low calling relative to being a surgeon. I don’t like the percentage of our GDP and brainpower and professional effort that’s in money management. I don’t think it’s a good thing for our country, and don’t expect it to end well. The present era has no comparable precedent in the history of capitalism when so many people are trading pieces of paper. We have a higher proportion of the intelligent sections of society involved in buying and selling bits of paper and trying to make money doing it. There are more people doing this than at any time in history. A lot of this reminds me of Sodom and Gomorrah. <http://www.tilsonfunds.com/brkmtg05notes.pdf>

The general systems of money management [today] require people to pretend to do something they can’t do and like something they don’t. It’s a terrible way to spend your life, but it’s very well paid.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“It’s natural that you’d have more brains going into money management. There are so many huge incomes in money management and investment banking — it’s like ants to sugar. There are huge incentives for a man to take up money management as opposed to, say, physics, and it’s a lot easier.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

I think the reason why we got into such idiocy in investment management is best illustrated by a story that I tell about the guy who sold fishing tackle. I asked him, “My God, they’re purple and green. Do fish really take these lures?” And he said, “Mister, I don’t sell to fish.” Investment managers are in the position of that fishing tackle salesman.

<http://ycombinator.com/munger.html>

In investment management today, everybody wants not only to win, but to have a yearly outcome path that never diverges very much from a standard path except on the upside. Well, that is a very artificial, crazy construct. That’s the equivalent in investment management to the custom of binding the feet of Chinese women. <http://ycombinator.com/munger.html>

I think a select few—a small percentage of the investment managers—can deliver value added. But I don’t think brilliance alone is enough to do it. I think that you have to have a little of this discipline of calling your shots and loading up—you want to maximize your chances of becoming one who provides above average real returns for clients over the long pull. But I’m just talking about investment managers engaged in common stock picking. I am agnostic elsewhere. I think there may well be people who are so shrewd about currencies and this, that and the other thing that they can achieve good long term records operating on a pretty big scale in that way. But that doesn’t happen to be my milieu. I’m talking about stock picking in American stocks. <http://ycombinator.com/munger.html> The whole concept of the house advantage is an interesting one in modern money management. The terms of the managers of the private partnerships look a lot like the take of the croupier at

Monte Carlo, only greater.

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Morals

Once you start doing something bad, then it's easy to take the next step – and in the end, you're a moral sewer.
<http://www.tilsonfunds.com/wscmtg04notes.doc>

We believe there should be a huge area between everything you should do and everything you can do without getting into legal trouble. I don't think you should come anywhere *near* that line. We don't deserve much credit for this. It helps us make more money. I'd like to believe that we'd behave well even if it didn't work. But more often, we've made extra money from doing the right thing. Ben Franklin said I'm not moral because of it's the right thing to do – but because it's the best policy. <http://www.tilsonfunds.com/wscmtg04notes.doc>

We don't claim to have perfect morals, but at least we have a huge area of things that, while legal, are beneath us. We won't do them. Currently, there's a culture in America that says that anything that won't send you to prison is OK.
<http://www.tilsonfunds.com/brkmtg04notes.doc>

“With so much money riding on reported numbers, human nature is to manipulate them. And with so many doing it, you get Serpico effects, where everyone rationalizes that it's okay because everyone else is doing it. It is always thus.”
<http://www.fool.com/BoringPort/2000/boringport00051501.htm>

“The old culture had come out of poverty, out of English customs,” he said. “People did not have the vast sense of entitlement, that they were entitled to be rich. People were damned glad to have a decent job where they might advance.”
<http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

It is not always recognized that, to function best, morality should sometimes appear unfair, like most worldly outcomes. The craving for perfect fairness causes a lot of terrible problems in system function. Some systems should be made deliberately unfair to individuals because they'll be fairer on average for all of us. I frequently cite the example of having your career over, in the Navy, if your ship goes aground, even if it wasn't your fault. I say the lack of justice for the one guy that wasn't at fault is way more than made up by a greater justice for everybody when every captain of a ship always sweats blood to make sure the ship doesn't go aground. Tolerating a little unfairness to some to get a greater fairness for all is a model I recommend to all of you. <http://www.originaldissent.com/forums/archive/index.php/t-14214.html>

The cash register did more for human morality than the Congregational Church. It was a really powerful phenomenon to make an economic system work better, just as, in reverse, a system that can be easily defrauded ruins a civilization. A system that's very hard to defraud, like a cash register, helped the economic performance of a civilization by reducing vice, but very few people within economics talk about it in those terms.
<http://www.originaldissent.com/forums/archive/index.php/t-14214.html>

Mr. Market

“Ben Graham [had] his concept of “Mr. Market”. Instead of thinking the market was efficient, he treated it as a manic-depressive who comes by every day. And some days he says, “I'll sell you some of my interest for way less than you think it's worth.” And other days, “Mr. Market” comes by and says, “I'll buy your interest at a price that's way higher than you think it's worth.” And you get the option of deciding whether you want to buy more, sell part of what you already have or do nothing at all. To Graham, it was a blessing to be in business with a manic-depressive who gave you this series of options all the time. That was a very significant mental construct....” <http://ycombinator.com/munger.html>

Models:

the great economist Keynes, “Better to be roughly right than precisely wrong.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Mutual Funds

“Mutual funds charge 2% per year and then brokers switch people between funds, costing another 3-4 percentage points. The poor guy in the general public is getting a terrible product from the professionals. I think it's disgusting. It's much better to be part of a system that delivers value to the people who buy the product. But if it makes money, we tend to do it in this country.” <http://www.tilsonfunds.com/brkmtg04notes.doc>
this mutual fund study is roughly right, it raises huge questions about foundation wisdom in changing investment managers all the time as mutual fund investors do. If the extra lag reported in the mutual fund study exists, it is probably caused in considerable measure by folly in constant removal of assets from lagging portfolio managers being forced to liquidate stockholdings, followed by placement of removed assets with new investment managers

that have high-pressure, asset-gaining hoses in their mouths

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Newspapers:

“For years I have read the morning paper and harrumphed. There’s a lot to harrumph about now.”

http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

It is way less certain to be a wonderful business in the future. The threat is alternative mediums of information. Every newspaper is scrambling to parlay their existing advantage into dominance on the Internet. But it is way less sure [that this will occur] than the certainty 20 years ago that the basic business would grow steadily, so there’s more downside risk. The perfectly fabulous economics of this business could become grievously impaired.” <http://www.fool.com/BoringPort/2000/boringport00051501.htm>

Objectivity:

The life of Darwin demonstrates how a turtle may outrun a hare, aided by extreme objectivity, which helps the objective person end up like the only player without a blindfold in a game of Pin the Tail on the Donkey.

<http://www.poorcharliesalmanack.com/pdf/page146.pdf>

Opportunities:

The general assumption is that it must be easy to sit behind a desk and people will bring in one good opportunity after another — this was the attitude in venture capital until a few years ago. This was not the case at all for us — we scrounged around for companies to buy. For 20 years, we didn’t buy more than one or two per year. ...It’s fair to say that we were rooting around. There were no commissioned salesmen. Anytime you sit there waiting for a deal to come by, you’re in a very dangerous seat.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Opportunity Costs:

If you take the best text in economics by Mankinaw, he says intelligent people make decisions based on opportunity costs — in other words, it’s your alternatives that matter. That’s how we make all of our decisions. The rest of the world has gone off on some kick — there’s even a cost of equity capital. A perfectly amazing mental malfunction. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“There is this company in an emerging market that was presented to Warren. His response was, ‘I don’t feel more comfortable buying that than I do of adding to Wells Fargo.’ He was using that as his opportunity cost. No one can tell me why I shouldn’t buy more Wells Fargo.

Warren is scanning the world trying to get his opportunity cost as high as he can so that his individual decisions are better.”

<http://news.morningstar.com/article/article.asp?id=169398>

Finding a single investment that will return 20% per year for 40 years tends to happen only in dreamland. In the real world, you uncover an opportunity, and then you compare other opportunities with that. And you only invest in the most attractive opportunities. That’s your opportunity cost. That’s what you learn in freshman economics. The game hasn’t changed at all. That’s why Modern Portfolio Theory is so asinine.

<http://www.fool.com/news/commentary/2006/commentary06060104.htm>

Opportunity cost is a huge filter in life. If you’ve got two suitors who are really eager to have you and one is way the hell better than the other, you do not have to spend much time with the other. And that’s the way we filter out buying opportunities”

<http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799>

Overconfidence:

Most people who try it don’t do well at it. But the trouble is that if even 90% are no good, everyone looks around and says, “I’m the 10%.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“...in the 5th century B. C. Demosthenes noted that: “What a man wishes, he will believe.” And in self-appraisals of prospects and talents it is the norm, as Demosthenes predicted, for people to be ridiculously over-optimistic. For instance, a careful survey in Sweden showed that 90 percent of automobile drivers considered themselves above average. And people who are successfully selling something, as investment counselors do, make Swedish drivers sound like depressives. Virtually every investment expert’s public assessment is that he is above average, no matter what is the evidence to the contrary.”

<http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1>

“[GEICO] got to thinking that, because they were making a lot of money, they knew everything. And they suffered huge losses.

All they had to do was to cut out all the folly and go back to the perfectly wonderful business that was lying there. <http://ycombinator.com/munger.html>

Panic:

When you have a huge convulsion, like a fire in this auditorium right now, you do get a lot of weird behavior. If you can be wise [during such h times, you'll profit].
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Passion:

What matters most: passion or competence that was born in? Berkshire is full of people who have a peculiar passion for their own business. I would argue passion is more important than brain power.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Patience:

most people are too fretful, they worry to much. Success means being very patient, but aggressive when it's time
<http://www.tilsonfunds.com/wscmtg04notes.doc>

If you took the top 15 decisions out, we'd have a pretty average record. It wasn't hyperactivity, but a hell of a lot of patience. You stuck to your principles and when opportunities came along, you pounced on them with vigor. With all that vigor, you only made a decision every two years. We do more deals now, but it happened with a relatively few decisions and staying the course for decades and holding our fire until something came along worth doing. <http://www.tilsonfunds.com/wscmtg04notes.doc>

“We just keep our heads down and handle the headwinds and tailwinds as best we can, and take the result after a period of years.” http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

We just throw some decisions into the “too hard” file and go onto others.
<http://www.tilsonfunds.com/brkmtg05notes.pdf>

We don't feel some compulsion to swing. We're perfectly willing to wait for something decent to come along.”
“We're rich in relation to the business that we're doing. “In certain periods, we have a hell of a time finding places to invest our money. We are in such a period.”
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“Patience:

The art of waiting without tiring of waiting.” <http://72.14.203.104/search?q=cache:sVtHPKWG-bwJ:www.wedgecapital.com/documents/WW2Q05.pdf+%22Charlie+Munger%22+%22to+us,+investing+is+the+equivalent+of%22&hl=en&gl=us&ct=clnk&cd=1>

“It is occasionally possible for a tortoise, content to assimilate proven insights of his best predecessors, to out run hares which seek originality or don't wish to be left out of some crowd folly which ignores the best work of the past. This happens as the tortoise stumbles on some particularly effective way to apply the best previous work, or simply avoids standard calamities. We try more to profit by always remembering the obvious than from grasping the esoteric. It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”

People:

“When you have doubts about a person, you can pass,” he said. “There's enough nice people to interface with.”
<http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html>

“You know the cliché that opposites attract? Well, opposites don't attract. Psychological experiments prove that's it's people who are alike that are attracted to each other. Our minds [his and Buffett's] work in very much the same way.” <http://www.metnews.com/opinion/persp-munger.htm>

“It's amazing how few times over the decades we've have to remove a person — far less than other companies. It's not that we're soft or foolish, it's that we're wiser and luckier. Most people would look back and say their

worst mistake was not firing someone soon enough.
<http://www.fool.com/boringport/2000/boringport00051500.htm>

Performance:

“Don’t confuse correlation and causation. Almost all great records eventually dwindle...”
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Pessimism

“Is there such thing as a cheerful pessimist? That’s what I am.”
<http://www.fool.com/news/foth/2001/foth010508.htm>

Phil Fisher:

I always like it when someone attractive to me agrees with me, so I have fond memories of Phil Fisher. The idea that it was hard to find good investments, so concentrate in a few, seems to me to be an obviously good idea. But 98% of the investment world doesn’t think this way. <http://www.tilsonfunds.com/brkmtg04notes.doc>

Philanthropy:

those of us who have been very fortunate have a duty to give back. Whether one gives a lot as one goes along as I do or a little and then a lot [when one dies] as Warren does is a matter of personal preference. I would hate to have people ask me for money all day long. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“Is anyone really surprised that Warren, who is the ultimate embodiment of concentrated decision-making power, picked somebody [Bill and Melinda Gates] who he thinks is like him in many important ways? It was a noble and sensible decision.” http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Physics:

“The tradition of always looking for the answer in the most fundamental way available — that is a great tradition, and it saves a lot of time in this world.” *Damn Right*, page 34
<http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>

Planning:

“There has never been a master plan. Anyone who wanted to do it, we fired because it takes on a life of its own and doesn’t cover new reality. We want people taking into account new information.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“Strategic plans cause more dumb decisions than anything else in America.”
<http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html>

Poker:

“Life in part is like a poker game, wherein you have to learn to quit sometimes when holding a much loved hand.”
<http://www.poorcharliesalmanack.com/pdf/page228.pdf>

“Playing poker in the **Army** and as a young lawyer honed my business skills ... What you have to learn is to fold early when the odds are against you, or if you have a big edge, back it heavily because you don’t get a big edge often.” **Damn Right!** *Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe* John Wiley & Sons, 2003 <http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>
Poor Charlie’s Almanack

“This book was a crazy thing to have done, and not everyone will like it, but what the hell.”
<http://www.poorcharliesalmanack.com/recommendations.html>

Price

“We bought a doomed textile mill [Berkshire Hathaway] and a California S&L [Wesco] just before a calamity. Both were bought at a discount to liquidation value.”
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“Wrigley is a great business, but that doesn’t solve the problem. Buying great businesses at advantageous prices is very tough.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“If you can buy the best companies, over time the pricing takes care of itself.” – (OID)

“The investment game always involves considering both quality and price, and the trick is to get more quality than you pay for in price. It’s just that simple. **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003
http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912_descCd-tableOfContents.html

Pricing Power:

“There are actually businesses, that you will find a few times in a lifetime, where any manager could raise the return enormously just by raising prices—and yet they haven’t done it. So they have huge untapped pricing power that they’re not using. That is the ultimate no-brainer. . . . Disney found that it could raise those prices a lot and the attendance stayed right up. So a lot of the great record of Eisner and Wells . . . came from just raising prices at Disneyland and Disneyworld and through video cassette sales of classic animated movies. . . . At Berkshire Hathaway, Warren and I raised the prices of See’s Candy a little faster than others might have. And, of course, we invested in Coca-Cola—which had some untapped pricing power. And it also had brilliant management. So a Goizueta and Keough could do much more than raise prices. It was perfect.”
<http://ycombinator.com/munger.html>

Priorities:

“Trying to prioritize among things we’re unlikely to do is pretty fruitless.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

Predictions:

Berkshire is in the business of making easy predictions. If a deal looks too hard, the partners simply shelve it.”

http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

“We’re the tortoise that has outrun the hare because it chose the easy predictions.

<http://www.fool.com/news/commentary/2006/commentary06062914.htm>

Preparation:

“Opportunity comes to the prepared mind.”

<http://72.14.203.104/search?q=cache:IuDIHXun74MJ:www.amazon.com/exec/obidos/tg/detail/-/1578643031%3Fv%3Dglance+%22Charlie+Munger%22+%22I+didn%27t+get+to+where+I+am%22&hl=en&gl=us&ct=clnk&cd=1>

“a lot of opportunities in life tend to last a short while, due to some temporary inefficiency. . . . For each of us, really good investment opportunities aren’t going to come along too often and won’t last too long, so you’ve got to be ready to act and have a prepared mind.”

<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Private Equity:

“In the 1930s, there was a stretch here you could borrow more against the real estate than you could sell it for. I think that’s what’s going on in today’s private-equity world.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Problems

“Some people seem to think there’s no trouble just because it hasn’t happened yet. If you jump out the window at the 42nd floor and you’re still doing fine as you pass the 27th floor, that doesn’t mean you don’t have a serious problem.”

http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

“Let me know what your problem is, and I will try to make it more difficult for you.”
<http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

Prospect Theory:

“I mean people are really crazy about minor decrements down. And then, if you act on them, then you get into reciprocation tendency, because you don’t just reciprocate affection, you reciprocate animosity, and the whole thing can escalate. And so huge insanities can come from just subconsciously over-weighting the importance of what you’re losing or almost getting and not getting.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Prospectus

“Any time anybody offers you anything with a big commission and a 200-page prospectus, don’t buy it. Occasionally, you’ll be wrong if you adopt “Munger’s Rule”. However, over a lifetime, you’ll be a long way ahead—and you will miss a lot of unhappy experiences .”<http://ycombinator.com/munger.html>

Psychology:

“The elementary part of psychology - the psychology of misjudgment, as I call it - is a terribly important thing to learn. There are about 20 little principles. And they interact, so it gets slightly complicated. But the guts of it is unbelievably important. Terribly smart people make totally bonkers mistakes by failing to pay heed to it. In fact, I’ve done it several times during the last two or three years in a very important way. You never get totally over making silly mistakes. There’s another saying that comes from Pascal which I’ve always considered one of the really accurate observations in the history of thought. Pascal said in essence, “The mind of man at one and the same time is both the glory and the shame of the universe.” <http://www.thinkfn.com/en/content/view/52/?id=124>

Public Company:

“...the cost of being a publicly traded stock has gone way, way up. It doesn’t make sense for a little company to be public anymore. A lot of little companies are going private to be rid of these burdensome requirements....”
<http://www.tilsonfunds.com/wscmtg05notes.pdf>

Purpose:

“That I’ve profited from being shrewd with money is not by itself satisfying to me. To atone, I teach and try to set an example. I would hate it if the example of my life caused people to pursue the passive ownership of pieces of paper. I think lives so spent are disastrous lives. I think it’s a better career if you help build something. I wish I’d built more, but I was cursed at being so good at stock picking. ‘The man is the prisoner of his talents.’ You can laugh, but I’ll bet this room is full of people who are prisoners of their talents. It tends to be the human condition.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Rationality

“Rationality is not just something you do so that you can make more money, it is a binding principle. Rationality is a really good idea. You must avoid the nonsense that is conventional in one’s own time. It requires developing systems of thought that improve your batting average over time.”
<http://news.morningstar.com/article/article.asp?id=169398>

“We have a high moral responsibility to be rational.”
http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

“The manipulation still works even though you know you’re doing it. And I’ve seen that done by one person to another. I drew this beautiful woman as my dinner partner a few years ago, and I’d never seen her before. Well, she’s married to prominent Angelino, and she sat down next to me and she turned her beautiful face up and she said, “Charlie,” she said, “What one word accounts for your remarkable success in life?” And I knew I was being manipulated and that she’d done this before, and I just loved it. I mean I never see this woman without a little lift in my spirits. And by the way I told her I was rational.”
<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Reading

“We read a lot. I don’t know anyone who’s wise who doesn’t read a lot. But that’s not enough: You have to have a temperament to grab ideas and do sensible things. Most people don’t grab the right ideas or don’t know what to do with them.” <http://www.tilsonfunds.com/brkmtg04notes.doc>

“In my whole life, I have known no wise people (over a broad subject matter area) who didn’t read all the time – none, zero. You’d be amazed at how much Warren reads – at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.” <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

“...by regularly reading business newspaper and magazines I am exposed to an enormous amount of material at the micro level.. I find that what I see going on there pretty much informs me about what’s happening at the macro level.” <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

Real Estate:

“We don’t have big advantages — no special competence — so we spend almost no time on it.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“REITs are way more suitable for individual shareholders than for corporate shareholders. And Warren has enough residue from his old cigar-butt personality that when people became disenchanted with the REITs and the market price went down to maybe a 20% discount from what the companies could be liquidated for, he bought a few shares with his personal money. So it’s nice that Warren has a few private assets with which to pick up cigar butts in memory of old times – if that’s what keeps him amused.” - 1999 Wesco Annual Meeting http://www.ticonline.com/archives_quotes.html

Regulation

In our early days, we tended to overestimate the difficulties of regulation. We refrained by buying the stocks of television stations because we thought it was peculiar that someone could ask to have the government pull your license any year – and the government could do it. <http://www.tilsonfunds.com/brkmtg04notes.doc>

“How often does it happen that someone who was an intimate member of an industry is really the right person to clean it up?” “Will anybody be as tough as I’d like to see? The answer is no.”

Regret:

“I don’t spend much time regretting the past, once I’ve taken my lesson from it. I don’t dwell on it.” **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger, Janet Lowe John Wiley & Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912_descCd-tableOfContents.html

Reinsurance:

“Reinsurance is not as much of a commodity business as it might appear. There’s such a huge time lag between when the policy is written and when it is paid that the customer has to evaluate the insurer’s future willingness and ability to pay. We have a reputational advantage, though it’s not as big as it should be.” <http://www.fool.com/boringport/2000/boringport000501.htm>

“Our record in the past if you average it out has been quite respectable. Why shouldn’t we use our capital strength?” “We’d be out of our minds if we wrote weather insurance on the opinion global warming would have no effect at all.” http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

Responsibility

“But if you rise high in a corporation or elsewhere in life, you have a duty to be an exemplar – you have a duty to take less than you deserve, to set an example. This goes all the way back to Athens.” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

Returns:

“If I’m wrong (about future stock market returns being in the mid-single digits), it could be for a bad reason. Stocks partly sell like bonds, based on expectations of future cash streams, and partly like Rembrandts, based on the fact that they’ve gone up in the past and are fashionable,” Munger said. “If they trade more like Rembrandts in the future, then stocks will rise (at double digits), but they will have no anchors. In this case, it’s hard to predict how far, how high and how long it will last.”

http://www.findarticles.com/p/articles/mi_m5072/is_22_23/ai_75455080

“Well, the questioner came from Singapore which has perhaps the best economic record in the history of developing an economy and therefore he referred to 15% per annum as modest. It’s not modest—it’s arrogant. Only someone from Singapore would call it modest.” 1997 Berkshire Hathaway Annual Meeting

http://www.ticonline.com/archives_quotes.html

“Warren said [at the Berkshire annual meeting] that he hoped to do modestly better than the market. 15% would be a hell of a number, so the target is the 6-15% range. You’re in the same boat we are.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“The normal expectancy of the average investor — for example, the pension funds of AT&T or IBM — is 6% for a long time.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“The average result has to be the average result. By definition, everybody can’t beat the market. As I always say, the iron rule of life is that only 20% of the people can be in the top fifth. That’s just the way it is.”

<http://ycombinator.com/munger.html>

Revenge:

“I don’t think vengeance is much good.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

Risk

“Using [a stock’s] volatility as a measure of risk is nuts. Risk to us is 1) the risk of permanent loss of capital, or 2) the risk of inadequate return. Some great businesses have very volatile returns – for example, See’s [a candy company owned by Berkshire] usually loses money in two quarters of each year – and some terrible businesses can have steady results”

“I know a man named John Arriaga. After he graduated from Stanford, he started to develop properties around Stanford. There was no better time to do it then when he did. Rents have gone up and up. Normal developers would borrow and borrow. What John did was gradually pay off his debt, so when the crash came and 3 million of his 15 million square feet of buildings went vacant, he didn’t bat an eyebrow. The man deliberately took risk out of his life, and he was glad not to have leverage. There is a lot to be said that when the world is going crazy, to put yourself in a position where you take risk off the table. We might all consider imitating John.”

<http://news.morningstar.com/article/article.asp?id=169398>

“This is an amazingly sound place. We are more disaster-resistant than most other places. We haven’t pushed it as hard as other people would have pushed it. I don’t want to go back to Go. I’ve been to Go. A lot of our shareholders have a majority of their net worth in Berkshire, and they don’t want to go back to Go either.”

<http://www.fool.com/news/foth/2001/foth010508.htm>

Role Model:

“Early Charlie Munger is a horrible career model for the young because not enough was delivered to civilization in return for what was wrested from capitalism. And other similar career models are even worse.”

<http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1>

“I feel that by getting rich in the way I did, I think my own example has hurt my own country.”

<http://www.tilsonfunds.com/wscmtg05notes.pdf>

“Ben Franklin and Samuel Johnson, he credits their wisdom for his success. “They were both utterly brilliant men. And powerful communicators. Both have helped me all the way through life. Their lessons are easy to assimilate.” http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

“Whoever makes you smarter a little earlier in life makes you better,” <http://seekingalpha.com/article/14114>

Sales

“...If you take sales presentations and brokers of commercial real estate and businesses... I’m 70 years old, I’ve never seen one I thought was even within hailing distance of objective truth.... ‘incentive-caused bias,’ causes this terrible abuse. And many of the people who are doing it you would be glad to have married into your family compared to what you’re otherwise going to get....”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

SEC:

“The SEC does way more good than harm – the last thing I would do is get rid of the SEC... if accounting were thoroughly fixed, a lot of other sins would go away. We’re paying a huge price for deterioration of accounting.”

<http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/>

See’s Candy:

“See’s candy company was the first high-quality business we ever bought,”

<http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html> If

See’s Candy had asked \$100,000 more [in the purchase price; Buffett chimed in, "\$10,000 more"], Warren and I would have walked — that’s how dumb we were. Ira Marshall said you guys are crazy — there are some things you should pay up for, like quality businesses and people. You are underestimating quality. We listened to the criticism and changed our mind. This is a good lesson for anyone: the ability to take criticism constructively and learn from it. If you take the indirect lessons we learned from See’s, you could say Berkshire was built on constructive criticism. Now we don’t want any more today.

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“It takes almost no capital to open a new See’s candy store. We’re drowning in capital of our own that has almost no cost. It would be crazy to franchise stores like some capital-starved pancake house. We like owning our own stores as a matter of quality control.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Science

“It’s very useful to have a good grasp of all the big ideas in hard and soft science. A, it gives perspective. B, it gives a way for you to organize and file away experience in your head, so to speak.”

<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html>

Shareholders:

“We like our current shareholders and don’t want to entice anyone to become one. It would help current shareholders to hear our CEOs [of the Berkshire operating subsidiaries], but we promised them they could spend 100% of their time on their business. We place no impediments on them running their businesses. Many have expressed to me how happy they are that they don’t have to spend 25% of time on activities they didn’t like.”

<http://www.tilsonfunds.com/brkmtg04notes.doc>

Short Sale

“It’s dangerous to short stocks.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

“Being short and seeing a promoter take the stock up is very irritating. It’s not worth it to have that much irritation in your life.” http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

“It would be one of the most irritating experiences in the world to do a lot of work to uncover a fraud and then at have it go from X to 3X and at h the crooks happily partying with your money while you’re meeting margin calls. Why would you want to go within hailing distance of that? [Laughter]“

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Size:

“size will hurt returns. Look at Berkshire Hathaway – the last five things Warren has done have generated returns that are splendid by historical standards, but now give him \$100 billion in assets and measure outcomes across all of it, it doesn’t look so good. We can only buy big positions, and the only time we can get big positions is during a horrible period of decline or stasis. That really doesn’t happen very often.” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“All large aggregations of capital eventually find it hell on earth to grow and thus find a lower rate of return.”
<http://www.fool.com/news/foth/2002/foth020515.htm>

” It took us months of buying all the Coke stock we could to accumulate \$1 billion worth — equal to 7% of the company. It’s very hard to accumulate major positions.”
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Social Mobility:

“if the same family were always on the bottom, then you’d have big resentments. But if DuPonts go down and Pampered Chef up, [that’s good]. That much churn makes people think the system is fairer. Buffett: We don’t like churn now, but we liked it more 30-40 years ago.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Social Security:

“...Social Security is amazing how we’ve run it. It’s inflation protected. It’s easy to sneer at it, but it’s one of the most successful government programs ever. It’s low cost and encourages work. People say if you never change the revenue base, it’ll run out of money. But if 10 years from now, the country is 30-40% richer, why not use a higher percentage of GDP to pay people? Young people benefit too – the money is paid to people who might be moving in with them. (Laughter) Everybody’s going to get older, but also richer, so why wouldn’t you spend a higher percentage of GDP on them? Why is that so unthinkable? I’ll tell you what’s unthinkable: that so many people are that stupid! (Laughter)...” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“Regarding the demographic trend called Baby Boomers, it’s peanuts compared to the trend of economic growth. Over the last century, [our] GNP is up seven times. This was not caused by Baby Boomers, but by the general success of capitalism and the march of technology. Those trends were so favorable that little blips in the birth rate were not that significant. We can keep social peace as long as GNP rises 3% annually – this can pay for spending by politicians. If we ever got to stasis [no growth], then with all the promises, you’d get real tensions between the generations. The Baby Boomers would exacerbate it, but the real cause would be lack of growth.”
<http://www.tilsonfunds.com/wscmtg04notes.doc>

I think the Republicans are out of their cotton-pickin’ minds to be taking on this issue at this time. The thought that more of our GDP will be going to the elderly over time is not anathema to me. Social Security is very successful. Apart from disability – a small part – there’s almost no fraud; it’s hard to fake being dead. (Laughter) It rewards work, it’s low cost. It’s one of the most successful government programs ever. For the current administration, which needs to face down North Korea and Iran, deal with Iraq, etc., to waste political capital on this twaddle... <http://www.tilsonfunds.com/brkmtg05notes.pdf>

“Of course if we don’t change anything, Social Security will run low on funds. But if we grow, then it’s child’s play to [deal with this problem]. And it’s crazy to think we’d freeze the amount we’d pay to the elderly. Social Security is a low-overhead, efficient program.”
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Statistics

“[What was] ... worked out in the course of about one year between Pascal and Fermat... is not that hard to learn. What is hard is to get so you use it routinely almost everyday of your life. The Fermat/Pascal system is dramatically consonant with the way that the world works. And it’s fundamental truth. So you simply have to have the technique... At Harvard Business School, the great quantitative thing that bonds the first-year class together is what they call decision tree theory. All they do is take high school algebra and apply it to real life problems. And the students love it. They’re amazed to find that high school algebra works in life... By and large, as it works out, people can’t naturally and automatically do this. If you understand elementary psychology, the reason they can’t is really quite simple: The basic neural network of the brain is there through broad genetic and cultural evolution. And it’s not Fermat/Pascal. It uses a very crude, shortcut-type of approximation. It’s got elements of Fermat/Pascal in it. However, it’s not good. So you have to learn in a very usable way this very elementary math and use it routinely in life – just the way if you want to become a golfer, you can’t use the natural swing that broad evolution gave you. You have to *learn* to have a certain grip and swing in a different way to realize your full potential as a golfer. If you don’t get this elementary, but mildly unnatural, mathematics of elementary probability into your repertoire, then you go through a long life like a one-legged man in an ass-kicking contest. You’re giving a *huge* advantage to everybody else.” <http://www.thinkfn.com/en/content/view/52/?id=124>

“I’m not sure that I can even pronounce the Poisson distribution. But I know what a Gaussian or normal distribution looks like and I know that events and huge aspects of reality end up distributed that way. So I can do

a rough calculation. But if you ask me to work out something involving a Gaussian distribution to ten decimal points, I can't sit down and do the math. I'm like a poker player who's learned to play pretty well without mastering Pascal. And by the way, that works well enough. But you have to understand that bell shaped curve at least roughly as well as I do." <http://ycombinator.com/munger.html>

"Practically everybody (1) overweighs the stuff that can be numbered, because it yields to the statistical techniques they're taught in academia, and (2) doesn't mix in the hard-to-measure stuff that may be more important. That is a mistake I've tried all my life to avoid, and I have no regrets for having done that."

Stock Exchanges:

"I think we have lost our way when people like the [board of] governors and the CEO of the NYSE fail to realize they have a duty to the rest of us to act as exemplars. You do not want your first-grade school teacher to be fornicating on the floor or drinking alcohol in the closet and, similarly, you do not want your stock exchange to be setting the wrong moral example."

http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

Stock Markets:

"The model I like—to sort of simplify the notion of what goes on in a market for common stocks—is the pari-mutuel system at the racetrack. If you stop to think about it, a pari-mutuel system is a market. Everybody goes there and bets and the odds change based on what's bet. That's what happens in the stock market. "

Stock Picking:

"It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it—who look and sift the world for a mispriced bet—that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple."

<http://ycombinator.com/munger.html>

"Stock-picking is like gambling: those who win well, seldom bet, but when they do, they bet heavily."

Stock Options:

"Quoting Demosthenes, 'For what each man wishes, that he also believes to be true.' I would rather make money playing a piano in a whorehouse than arguing that no cost is incurred when employees are paid in stock options instead of cash. I am not kidding." http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

Stocks

"You must value the business in order to value the stock." <http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155>

"[In picking stocks] You really have to know a lot about business. You have to know a lot about competitive advantage. You have to know a lot about the maintainability of competitive advantage. You have to have a mind that quantifies things in terms of value. And you have to be able to compare those values with other values available in the stock market."

<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html>

"The number one idea, is to view a stock as an ownership of the business [and] to judge the staying quality of the business in terms of its competitive advantage. Look for more value in terms of discounted future cash flow than you're paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor."

http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

"It would be nice if this [finding really cheap stocks] happened all the time. Unfortunately, it doesn't." <http://www.tilsonfunds.com/brkmtg05notes.pdf>

"To some extent, stocks are like Rembrandts. They sell based on what they've sold in the past. Bonds are much more rational. No-one thinks a bond's value will soar to the moon." "Imagine if every pension fund in America bought

Rembrandts. Their value would go up and they would create their own constituency.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Sunk costs:

“Failure to handle psychological denial is a common way for people to go broke. You’ve made an enormous commitment to something. You’ve poured effort and money in. And the more you put in, the more that the whole consistency principle makes you think,” Now it has to work. If I put in just a little more, then it ’all work.... People go broke that way —because they can ’t stop, rethink, and say, “I can afford to write this one off and live to fight again. I don’t have to pursue this thing as an obsession —in a way that will break me.” <http://www.poorcharliesalmanack.com/pdf/page228.pdf>

Synergies:

“The reason we avoid the word ‘synergy’ is because people generally claim more synergistic benefits than will come. Yes, it exists, but there are so many false promises. Berkshire is full of synergies — we don’t avoid synergies, just claims of synergies.” <http://www.fool.com/news/foth/2001/foth010508.htm>

Talent:

“I think we have some special talents. That being said, I think it’s dangerous to rely on special talents — it’s better to own lots of monopolistic businesses with unregulated prices. But that’s not the world today. We have made money exercising our talents and will continue to do so.”
<http://www.fool.com/news/foth/2002/foth020515.htm>

Taxes:

“The tax code gives you an enormous advantage if you can find some things you can just sit with.”

<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html>

“We don’t have any miraculous way of avoiding taxes at Wesco and Berkshire.”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“My attitude toward taxes is that if I were running the world, we’d have a very substantial consumption tax, and the tax on earned income would be 40% at the top and taxes on long-term capital gains would be 20%. And by the accident of history, we’re not that far away from where we ought to be. I love consumption taxes – they’re so effective. That that’s why conservatives hate them – they work and the government gets a lot of money to spend. In New Zealand, there’s a national 10% consumption tax. Is it so bad to have to pay 10% extra if you go out for a nice meal or charter a plane? I don’t worry about the miser who accumulates money and dies with it. What harm is he doing? A 50% corporate tax rate would be too high. ...I’m not in favor of doing away with the 50% estate tax on people like me, but there should be a big exemption. Someone who builds a small business shouldn’t be whacked, but there’s nothing wrong with saying give 50% to society when you die if you’ve done really well.”

<http://www.tilsonfunds.com/wscmtg04notes.doc>

“Even if you assume that the whole economy would work better had we never had double taxation, having the envy and resentment of the richest paying low or no taxes screams of injustice. You have to have a fair system.”

http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“If you’re going to buy something which compounds for 30 years at 15% per annum and you pay one 35% tax at the very end, the way that works out is that after taxes, you keep 13.3% per annum. In contrast, if you bought the same investment, but had to pay taxes every year of 35% out of the 15% that you earned, then your return would be 15% minus 35% of 15%—or only 9.75% per year compounded. So the difference there is over 3.5%. And what 3.5% does to the numbers over long holding periods like 30 years is truly eye-opening....”

<http://ycombinator.com/munger.html>

“...in terms of business mistakes that I’ve seen over a long lifetime, I would say that trying to minimize taxes too much is one of the great standard causes of really dumb mistakes. I see terrible mistakes from people being overly motivated by tax considerations. Warren and I personally don’t drill oil wells. We pay our taxes. And we’ve done pretty well, so far. Anytime somebody offers you a tax shelter from here on in life, my advice would be don’t buy it.” <http://ycombinator.com/munger.html>

Teaching:

“To atone, I teach and try to set an example...I love spreading this stuff around. Just because it’s trite doesn’t mean it isn’t right. In fact, I like to say, ‘If it’s trite, it’s right.’”

http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“I don’t have too much interest in teaching other people how to get rich. And that isn’t because I fear the competition or anything like that — Warren has always been very open about what he’s learned, and I share that ethos. My personal behavior model is Lord Keynes: I wanted to get rich so I could be independent, and so I could do other things like give talks on the intersection of psychology and economics. I didn’t want to turn it into a total obsession.”

<http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm>

“We only want what success we can get despite encouraging others to share our general views about reality.”

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Technology

“For society, the Internet is wonderful, but for capitalists, it will be a net negative. It will increase efficiency, but lots of things increase efficiency without increasing profits. It is way more likely to make American businesses less profitable than more profitable. This is perfectly obvious, but very little understood.”

<http://www.fool.com/boringport/2000/boringport000501.htm>

“Soros couldn’t bear to see others make money in the technology sector without him, and he got killed. It doesn’t bother us at all.” <http://www.fool.com/boringport/2000/boringport000501a.htm>

“In Gillette’s case, they keep surfing along new technology which is fairly simple by the standards of microchips. But it’s hard for competitors to do. So they’ve been able to stay constantly near the edge of improvements in shaving.” <http://ycombinator.com/munger.html>

“If the technology hadn’t changed, [newspapers would] still be great businesses. Network TV [in its heyday,] anyone could run and do well. If Tom Murphy as running it, you’d do very well, but even your idiot nephew could do well. Fortunately, carbide cutting tools [such as those made by Iscar] don’t have these types of substitutes.”

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

The great lesson in microeconomics is to discriminate between when technology is going to help you and when it’s going to kill you. And most people do not get this straight in their heads. But a fellow like Buffett does. For example, when we were in the textile business, which is a terrible commodity business, we were making low-end textiles—which are a real commodity product. And one day, the people came to Warren and said, “They’ve invented a new loom that we think will do twice as much work as our old ones.” And

Warren said, “Gee, I hope this doesn’t work because if it does, I’m going to close the mill.”

And he meant it. What was he thinking? He was thinking, “It’s a lousy business. We’re earning substandard returns and keeping it open just to be nice to the elderly workers. But we’re not going to put huge amounts of new capital into a lousy business.”

And he knew that the huge productivity increases that would come from a better machine introduced into the production of a commodity product would all go to the benefit of the buyers of the textiles. Nothing was going to stick to our ribs as owners. That’s such an obvious concept—that there are all kinds of wonderful new inventions that give you nothing as owners except the opportunity to spend a lot more money in a business that’s still going to be lousy. The money still won’t come to you. All of the advantages from great improvements are going to flow through to the customers. Conversely, if you own the only newspaper in Oshkosh and they were to invent more efficient ways of composing the whole newspaper, then when you got rid of the old technology and got new fancy computers and so forth, all of the savings would come right through to the bottom line. In all cases, the people who sell the machinery—and, by and large, even the internal bureaucrats urging you to buy the equipment—show you projections with the amount you’ll save at current prices with the new technology. However, they don’t do the second step of the analysis which is to determine how much is going stay home and how much is just going to flow through to the customer. I’ve never seen a single projection incorporating that second step in my life. And I

see them all the time. Rather, they always read: “This capital outlay will save you so much money that it will pay for itself in three years.” So you keep buying things that will pay for themselves in three years. And after 20 years of doing it, somehow you’ve earned a return of only about 4% per annum. That’s the textile business. And it isn’t that the machines weren’t better. It’s just that the savings didn’t go to you. The cost reductions came through all right. But the benefit of the cost reductions didn’t go to the guy who bought the equipment. It’s such a simple idea. It’s so basic. And yet it’s so often forgotten. Then there’s another model from microeconomics which I find very interesting. When technology moves as fast as it does in a civilization like ours, you get a phenomenon which I call competitive destruction. You know, you have the finest buggy whip factory and all of a sudden in comes this little horseless carriage. And before too many years go by, your buggy whip business is dead. You either get into a different business or you’re dead—you’re destroyed. It happens again and again and again. And when these new businesses come in, there are huge advantages for the early birds. And when you’re an early bird, there’s a model that I call “surfing”—when a surfer gets up and catches the wave and just stays there, he can go a long, long time. But if he gets off the wave, he becomes mired in shallows.... <http://ycombinator.com/munger.html>

“there are all kinds of wonderful new inventions that give you nothing as owners except the opportunity to spend a lot more money in a business that’s still going to be lousy. The money still won’t come to you. All of the advantages from great improvements are going to flow through to the customers.”

Thinking

“Any year that passes in which you don’t destroy one of your best loved ideas is a wasted year.”
<http://www.tilsonfunds.com/wscmtg04notes.doc>

“The ethos of not fooling yourself is one of the best you could possibly have. It’s powerful because it’s so rare.”
<http://www.fool.com/news/foth/2002/foth020515.htm>

“We both insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think. So Warren and I do more reading and thinking and less doing than most people in business. We do that because we like that kind of a life. But we’ve turned that quirk into a positive outcome for ourselves.”
<http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html>

“It is, of course, irritating that extra care in thinking is not all good but actually introduces extra error. But most good things have undesired “side effects,” and thinking is no exception. The best defense is that of the best physicists, who systematically criticize themselves to an extreme degree, using a mindset described by Nobel laureate Richard Feynman as follows: “The first principle is that you must not fool yourself and you’re the easiest person to fool.”
<http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1>

“Warren spends 70 hours a week thinking about investing
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“Invert, always invert.” <http://www.poorcharliesalmanack.com/intro3.html>

“People calculate too much and think too little.”
http://money.cnn.com/magazines/moneymag/moneymag_archive/2002/07/01/324974/index.htm

“The ethical rule is from Samuel Johnson who believed that maintenance of easily removable ignorance by a responsible office holder was treacherous malfeasance in meeting moral obligation. The prudential rule is that underlying the old Warner & Swasey advertisement for machine tools: “The man who needs a new machine tool, and hasn’t bought it, is already paying for it”. The Warner & Swasey rule also applies, I believe, to thinking tools. If you don’t have the right thinking tools, you, and the people you seek to help, are already suffering from your easily removable ignorance.”

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Thrift:

“This room contains many people pretty well stricken by expired years — in my generation or the one following. We tend to believe in thrift and avoiding waste as good things, a process that has worked well for us. It is paradoxical and disturbing to us that economists have long praised foolish spending as a necessary ingredient of a successful economy.

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Trust

“...Everybody likes being appreciated and treated fairly, and dominant personalities who are capable of running a business like being trusted. A kid trusted with the key to the computer room said, “It’s wonderful to be trusted.” That’s how we operate Berkshire – a seamless web of deserved trust. We get rid of the craziness, of people checking to make sure it’s done right. When you get a seamless web of deserved trust, you get enormous efficiencies. ... Every once in a while, it doesn’t work, not because someone’s evil but because somebody drifts to inappropriate behavior and then rationalizes it....” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

United States:

“...Over the long term, the eclipse rate of great civilizations being overtaken is 100%. So you know how it’s going to end. (Laughter) I’m more optimistic about the staying power of what’s good in this country. But just because you have a wonderful spouse doesn’t mean you should treat her badly. You have the feeling that some of the old virtues [that made this country great] are lessening. But there’s so much good and so much strength left that I would not expect this country to suddenly founder...” <http://www.tilsonfunds.com/wscmtg05notes.pdf>

“I still prefer this country, and so does Warren. But we’re both troubled deeply by the twin deficits [trade and budget]. [Bad] Things can go on for a long time, starting from our [wealthy] base and especially if other countries have things wrong with them, so it’s a very complex subject.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“I believe that we are at or near the apex of a great civilization...In 50-100 years, if we’re a poor third to some countries in

Asia, I wouldn’t be surprised. If I had to bet, the part of the world that will do best will be Asia.” <http://www.tilsonfunds.com/brkmtg05notes.pdf>

“It’s crazy to assume that what’s happening in Argentina and Japan is inconceivable here. It’s not.” http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Values:

“While no real money came down, my family gave me a good education and a marvelous example of how people should behave, and in the end that was more valuable than money. Being surrounded by the right values from the beginning is an immense treasure.

Warren had that. It even has a financial advantage.” *Damn Right at 5*
<http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html>

Value Investing:

“The whole concept of dividing it up into ‘value’ and ‘growth’ strikes me as twaddle. It’s convenient for a bunch of pension fund consultants to get fees prattling about and a way for one advisor to distinguish himself from another. But, to me, all intelligent investing is value investing.” http://www.ticonline.com/archives_quotes.html

“All intelligent investing is value investing.” <http://www.fool.com/news/foth/2000/foth001107.htm>

Venture Capital:

“Harvard and Yale concentrated with venture capitalists that got the best calls and brainpower. Very few firms made most of the money, and they made it in just a few periods. Everyone else returned between mediocre and lousy. When returns happened, envy rippled through institutional money management. The amount invested in venture capital went up 10 times post-1999. That later money was lost very quickly. It will happen again. I don’t know anyone who successfully resists this stuff. It becomes a new orthodoxy.” <http://news.morningstar.com/article/article.asp?id=169398>

Victimization:

“Whenever you think something or some person is ruining your life, it’s you. A victimization mentality is so debilitating.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Warren Buffett:

“It is true that Warren had a touch of brain block from working under Ben Graham and making a ton of money – it’s hard to switch from something that’s worked so well. But if Charlie Munger had never lived, the Buffett record would still be pretty much what it is.” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“I think the top guy won’t be as smart as Warren. But it’s silly to complain: “What kind of world is this that gives me Warren Buffett for 40 years and then some bastard comes along who’s worse?” [Laughter]” <http://www.tilsonfunds.com/wscmtg04notes.doc>

“Speaking for the Munger heirs, I hope they continue to ring the last drop of good out of Warren.” http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

“I’ve been associated with Warren (Buffett) so long, I thought I’d be just a footnote.” http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

“I think there’s some mythology in this idea that I’ve been this great enlightener of Warren. He hasn’t needed much enlightenment. But we know more now than five years ago.” http://72.14.203.104/search?q=cache:U59Ns6D8WZcJ:www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3+%22charlie+munger%22+%22this+is+a+good+lesson+for+anyone%22&hl=en&gl=us&ct=clnk&cd=1

“It’s hard to believe that he’s getting better with each passing year. It won’t go on forever, but Warren is actually improving. It’s remarkable: Most almost-72-year-old men are not improving, but Warren is.” <http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

“The most common concern investors seem to have about Berkshire is, “What happens when Buffett dies?” Munger acknowledged that “if he were gone, we couldn’t invest the money as well as Warren,” but noted that “the place is drowning in money — we have great business pounding out money. If the stock went down, Berkshire could buy it back. There’s no reason to think it will go to hell in a bucket, and I think there’s reason to believe it could go on quite well. I’d be horrified if it isn’t bigger and better over time, even after

Warren dies.”

<http://www.fool.com/news/commentary/2003/commentary030509wt.htm>

Wealth

“We’ve had the most massive creation of wealth for people a lot younger than those who formerly got wealth in the history of the world. The world is full of young people who really want to get rich, and {when I left school} nobody thought it was a reasonable possibility.” http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

“I have concluded that most PhD economists under appraise the power of the common-stock-based “wealth effect”, under current extreme conditions.. “wealth effects” involve mathematical puzzles that are not nearly so well worked out as physics theories and never can be. ... what has happened in Japan ... has shaken up academic economics, as it obviously should, creating strong worries about recession from “wealth effects” in reverse.”

<http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22>

Wesco:

“Wesco had a market capitalization of \$40 million when we bought it [in the early 1970s]. It’s \$2 billion now. It’s been a long slog to a perfectly respectable outcome — not as good as Berkshire Hathaway or Microsoft, but there’s always someone in life who’s done better.” http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

“Our approach has worked for us. Look at the fun we, our managers, and our shareholders are having. More people *should* copy us. It’s not difficult, but it looks difficult because it’s unconventional — it isn’t the way things are normally done. We have low overhead, don’t have quarterly goals and budgets or a standard personnel system, and our investing is much more concentrated than average. It’s simple and common sense.” <http://www.fool.com/boringport/2000/boringport00051500.htm>

“You shouldn’t buy Wesco stock instead of Berkshire’s.” <http://www.fool.com/news/foth/2001/foth010508.htm>

Wisdom:

“You don’t have to have perfect wisdom to get very rich – just a bit better than average over a long period of time.” <http://www.tilsonfunds.com/brkmtg05notes.pdf>

“If you get into the mental habit of relating what you’re reading to the basic structure of the underlying ideas being demonstrated, you gradually accumulate some wisdom.” http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%22life%20is%20just%20one%20damn%22%22

World Book Encyclopedias

“It’s simplicity itself that its future will be way worse than its past.” http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Worldly Wisdom

“What is elementary, worldly wisdom? Well, the first rule is that you can’t really know anything if you just remember isolated facts and try and bang ‘em back. If the facts don’t hang together on a latticework of theory, you don’t have them in a usable form. You’ve got to have *models* in your head. And you’ve got to array your experience - both vicarious and direct - on this latticework of models. You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and in life. You’ve got to hang experience on a latticework of models in your head. What are the models? Well, the first rule is that you’ve got to have *multiple* models - because if you just have one or two that you’re using, the nature of human psychology is such that you’ll *torture* reality so that it fits your models, or at least you’ll think it does. You become the equivalent of a chiropractor who, of course, is the great boob in medicine. It’s like the old saying, “To the man with only a hammer, every problem looks like a nail.” And of course, that’s the way the chiropractor goes about practicing medicine. But that’s a perfectly disastrous way to think and a perfectly disastrous way to operate in the world. So you’ve got to have multiple models. And the models have to come from multiple disciplines - because all the wisdom of the world is not to be found in one little academic department. That’s why poetry professors, by and large, are so unwise in a worldly sense. They don’t have enough models in their heads. So you’ve got to have models across a fair array of disciplines. You may say, “My God, this is already getting way too tough.” But, fortunately, it *isn’t* that tough - because 80 or 90 important models will carry about 90% of the freight in making you a worldly - wise person. And, of those, only a mere handful really carry very heavy freight.” <http://www.thinkfn.com/en/content/view/52/?id=124>

“Acquire worldly wisdom and adjust your behavior accordingly. If your new behavior gives you a little temporary unpopularity with your peer group ... then to hell with them.” <http://www.amazon.com/exec/obidos/ASIN/1578643031/consciousinve-20/104-7644521-2497538>

Work

“The way to win is to work, work, work, work and hope to have a few insights.... And you’re probably not going to be smart enough to find thousands in a lifetime. And when you get a few, you really load up. It’s just that simple.” <http://ycombinator.com/munger.html>

“Why should it be easy to do something that, if done well, two or three times, will make your family rich for life?”
<http://www.steadygains.com/makingof.cfm> Buffett: The Making of an American Capitalist Roger Lowenstein citing the Economist, “December 5, 1992, Beating the Market; Yes it can be done.”

Worry

“I think there’s something to be said for developing the disposition to own stocks without fretting.”
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

“We fret way earlier than other people. We left a lot of money on the table through early fretting. It’s the way we are — you’ll just have to live with it.” <http://www.fool.com/news/foth/2001/foth010508.htm>

P.s.,

<http://www.businessday.co.za/articles/markets.aspx?ID=BD4A251640>

Munger: You say there is some vaguely established view in economics as to what is an optimal dividend policy or an optimal investment? Professor William Bratton of the Rutgers-Newark School of Law: I think we all know what an optimal investment is. Munger: No, I do not. At least not as these people use the term. Bratton: I don’t know it when I see it but in theory, if I knew it when I saw it this conference would be about me and not about Warren Buffett. Munger: What is the break point where a business becomes sub-optimal or when an investment becomes sub-optimal? Bratton: When the return on the investment is lower than the cost of capital. Munger: And what is the cost of capital? Bratton: Well, that’s a nice one and I would... Munger: Well, it’s only fair, if you’re going to use the cost of capital, to say what it is. Bratton: I would be interested in knowing, we’re talking theoretically. Munger: No, I want to know what the cost of capital is in the model. Bratton: In the model? It will just be stated. Munger: Where? Out of the forehead of Job or something? Bratton: That is correct. Munger: Well, some of us don’t find this too satisfactory. Bratton: I said, you’d be a fool to use it as a template for real world investment decision making. We’re only trying to use a particular perspective on human behavior to try to explain things. Munger: But if you explain things in terms of unexplainable sub-concepts, what kind of an explanation is that? Bratton: It’s a social science explanation. You take for what it’s worth. Munger: Do you consider it understandable for some people to regard this as gibberish? Bratton: Perfectly understandable, although I do my best to teach it. Munger: Why? Why do you do this? Bratton: It’s in my job description. Munger: Because other people are teaching it, is what you’re telling me.