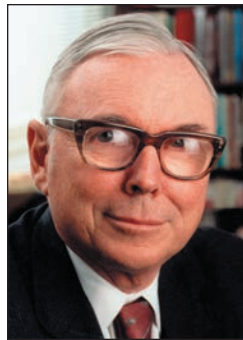


# A Conversation With Charlie Munger

*Charlie Munger was Vice Chairman of Berkshire Hathaway and Warren Buffett's closest business partner and right-hand man. Munger passed away on November 28, 2023 at the age of 99. This conversation reflects on thoughts from his book, Poor Charlie's Almanack, published by Stripe Press*

**EDITORS' NOTE** Charlie Munger was an American investor, businessman, and philanthropist. Munger served as Chairman of Wesco Financial Corporation from 1984 through 2011. He was also Chairman of the Daily Journal Corporation, based in Los Angeles, and a director of Costco Wholesale Corporation. Munger was born in Omaha, Nebraska. As a teenager he worked at Buffett & Son, a grocery store owned by Warren Buffett's grandfather. After enrolling in the University of Michigan, where he studied mathematics, he never returned to Omaha except to visit. In early 1943, a few days after his 19th birthday, he dropped out of college to serve in the U.S. Army Air Corps, where he became Second Lieutenant. He continued his studies in meteorology at Caltech in Pasadena, California, the town he was to make his home. Through the GI Bill, he took a number of advanced courses through several universities, and without an undergraduate degree, he entered Harvard Law School and graduated magna cum laude with a JD in 1948. At Harvard, he was a member of the Harvard Legal Aid Bureau. Munger's book, Poor Charlie's Almanack: The Essential Wit and Wisdom of Charles T. Munger, was published in December 2023.



Charlie Munger

## How do you incorporate psychology in your investment decisions?

What makes investment hard is that it's easy to see that some companies have better businesses than others, but the price of the stock goes up so high that all of a sudden, the question of which stock is the best to buy gets quite difficult. We've never eliminated the difficulty of that problem and 98 percent of the time our attitude toward the market is that we're agnostics. We don't know. Is GM valued properly vis-à-vis Ford? We don't know. We're always looking for something where we think we have an insight that gives us a big statistical advantage – sometimes it comes from psychology, but often it comes from something else. We only find a few, maybe one or two a year. We have no system for having automatic good judgment on all investment decisions that can be made. Ours is a totally different system. We just look for no-brainer decisions. As Buffett and I say over and over again, we don't leap seven-foot fences. Instead, we look for one-foot

fences with big rewards on the other side. So, we've succeeded by making the world easy for ourselves, not by solving hard problems.

## Will you talk a little bit about your seeming predilection away from investing in high-technology stocks – on your own part and on the part of Berkshire Hathaway?

One of the things I've found eye-opening and a little surprising is how the difficulties of running a low-tech business and those of running a high-tech business aren't all

that different. They're all hard. But why should it be easy to get rich? In a competitive world, shouldn't it be impossible for there to be an easy way for everybody to get rich? Of course, they're all hard. The reason we're not in high-tech businesses is that we have a special lack of aptitude in that area. And yes – a low-tech business can be plenty hard. Just try to open a restaurant and make it succeed.

## You seem to be suggesting that there's special aptitude required in high-tech businesses – that they're harder. But aren't they equally difficult?

The advantage of low-tech stuff for us is that we think we understand it fairly well. The other stuff we don't, and we'd rather deal with what we understand. Why should we want to play a competitive game in a field where we have no advantage – maybe even a disadvantage – instead of in a field where we have a clear advantage? Each of you will have to figure out where your talents lie, and you'll have to use your advantages. But if you try to succeed in what you're worst at, you're going to have a very lousy career. I can almost guarantee it. To do otherwise, you'd have to buy a winning lottery ticket or get very lucky somewhere else.

## Why do you have a similar approach to the pharmaceutical industry?

The American pharmaceutical industry is better than any other pharmaceutical industry in the whole world, but we haven't invested in pharmaceuticals because we've got no edge. I don't know enough about biology, medicine, and chemistry to have any edge in guessing which new pharmaceutical attempt is likely to succeed. There are other people who have a better understanding of the industry than mine, so why in the hell would I play against other people in a game where they're much better at it?

I would argue that in investing and in practical life, in order to succeed, you must do two things. You must have a certain amount of competence. And you have to know what you know and what you don't know. Warren and I know what we know and what we don't know – what we're good at and what we're not good at. One of the things we're not good at is guessing which new pharmaceuticals will succeed. If we have to leave a certain kind of investment behind because we lack the capacity to deal with it, that's fine. We don't need an infinite number of opportunities.

## Warren Buffett has said that the investment Berkshire made in an airline was a good example of what not to do. What role do mistakes like this play in investing and in life?

While there is no way of learning or behaving so you won't make a lot of mistakes, you can learn to make fewer mistakes than other people – and how to fix your mistakes faster when you do make them. But there's no way that you can live an adequate life without making many mistakes. Part of what you must learn is how to handle mistakes and understand new facts that change the odds. Life, in



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part, is like a poker game, wherein you have to learn to quit sometimes when holding a much-loved hand.

**You talk about the dangers of an extreme ideology. What responsibility, if any, do you think the business and legal communities have for helping inner-city areas through spreading the wealth and so on?**

I’m all for fixing social problems. I’m all for being generous to the less fortunate. I’m all for doing things where, based on a slight preponderance of the evidence, you guess that it’s likely to do more good than harm. What I’m against is being very confident and feeling that you know, for sure, that your particular intervention will do more good than harm, given that you’re dealing with highly complex systems wherein everything is interacting with everything else.

**In *Poor Charlie’s Almanack*, you advocate for a multidisciplinary approach to business. You even draw on biology and the stability of ecosystems, looking at ways entities can prosper within ecosystems and how they can perish. How has that informed your approach to business, and how can it help a business endure?**

My idea is simple: If you make your living selling things to other people that are good for them, that is safer and more profitable than selling them stuff that’s bad for them – like gambling, drugs, crazy religions, all kinds of things that are terrible for people. It’s amazing the people who don’t pay any attention to that rule. I think of the sleazy products that investment banking is probably willing to sell and the sleazy stuff that compensation consultants are perfectly willing to sell, and I decided I wasn’t going to do any of that. I was going to sell the kind of stuff that I would buy on the other side.

I also wanted to work with the kind of people I admired. When I was in law practice, I sometimes worked for people who in some ways I did not admire. I’ve mostly been able to avoid that, but I couldn’t get it 100 percent out of my life, though I came pretty close.

That’s a very important thing to learn. You need to search out reliable people you can trust and be the kind of person everybody else feels they can trust. It’s a huge advantage. If you start doing that young, keep doing it consistently through life. It isn’t very hard. Stay awake in high school, deal with the good people instead of the bad people, and sell

what you would buy and not just what you can sell by misleading people. These are very simple ideas, but it’s absolutely amazing how well they work for people who relentlessly follow these simple ideas.

**We talk a lot about trade-offs between the quality of our life and our professional commitments. Is there time for a professional life, learning about these models, and doing whatever else interests you?**

I’ve always taken a fair amount of time to do what I really wanted to do, some of which was merely to fish or play bridge or play golf.

Each of us must figure out his or her own lifestyle. You may want to work 70 hours a week for 10 years to make partner at Cravath and thereby obtain the obligation to do more of the same. Or you may say, “I’m not willing to pay that price.” Either way, it’s a totally personal decision that you have to make by your own lights. But whatever you decide, I think it’s a huge mistake not to absorb elementary worldly wisdom if you’re capable of doing it because it makes you better able to serve others, it makes you better able to serve yourself, and it makes life more fun. So, if you have an aptitude for doing it, I think you’d be crazy not to. Your life will be enriched – not only financially, but in a host of other ways – if you do.

There’s a lot of simple stuff that many of you are quite capable of learning. Your lives will work way better, too, if you do. Plus, learning it is a lot of fun. So, I urge you to learn.

**What is something that you’re passionate about?**

I’m passionate about wisdom. I’m passionate about accuracy and some kinds of curiosity. Perhaps I have some streak of generosity in my nature and a desire to serve values that transcend my brief life. But maybe I’m just here to show off. Who knows?

I believe in the discipline of mastering the best that other people have ever figured out. I don’t believe in just sitting down and trying to dream it all up yourself. Nobody’s that smart.

**Compared to the beginning of your career, has investing gotten harder?**

Of course, it’s gotten harder. In a way, much harder. It’s gotten so hard that most of the people who are in wealth management have almost zero chance of outperforming an unmanaged index like the S&P.

There’s so much more of this wealth now invested in securities. So, you’ll get a whole lot

of big sums to manage, and of course it takes a long time to buy and costs are higher. And it’s way harder to manage a large sum of money than it is to manage a small sum of money.

On top of that, way more brains came into the business. So, it’s gotten brutally competitive. Now, we have these manias where things are hot and start running, and the behavior gets crazy. It’s almost like a delusion. So, of course, it’s harder.

In my lifetime, a guy who just bought the best common stocks and sat on his ass would have made about 10 percent per round before inflation, maybe 8 percent after inflation. That is not the standard return that someone can expect from an investment. That was a very unusual period of time in a very unusual place. I do not anticipate that the average result is going to be nearly that good over the next hundred years.

**How do you feel about American society over the coming decades?**

Old men have always tended to think that the new generation is going to hell. That goes back to the earliest civilizations. But I do not like the way politics has morphed in my lifetime in the United States. I don’t like the way democracy has morphed into existence with these primaries and the dominance of two parties, where only the most extreme members of each party have a lot of pulling power.

I think today’s young people are going to find it a lot harder to get what more or less automatically came to my generation at modest cost. We obtained houses, got into good school districts, and had a growing, pleasant civilization. It was pretty widely available. Now, in the big cities, it’s going to be very hard to get a new house, which is sad. But it’s sad to get old and die, too.

It’s not automatic that everything in your life will be better than it was for your parents or your grandparents. It’s perfectly possible for a world to become a little worse, in some ways.

**We’re staring into a recession and potential stagflation. What advice do you have for people thinking about how to work their way through it?**

I have one standard set of advice for all difficulties: Suck it in and cope. That’s all any human being can do, is suck it in and cope. And partly you have to be shrewd. That’s one way of coping, to be as shrewd as you can possibly be. But that’s my recipe. I must say, it’s worked pretty well for me, and it’ll work pretty well for any other person who uses my methods. ●