

KUNHARDT **FILM** FOUNDATION

CHARLIE MUNGER INTERVIEW
BECOMING WARREN BUFFETT
KUNHARDT FILM FOUNDATION

CHARLIE MUNGER

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Interviewed by: Doug Blush

Total Running Time: 35 Minutes

TITLE

Meeting Warren Buffett

18:42:09:20

CHARLIE MUNGER

When I went back in 1959, to wind up my father's law practice, mu-mutual friends introduced us. My father was a sole practitioner, and um someone had to go sit in his chair and wind up his practice, and it was during that period that I met Warren. When I first met Warren, I recognized immediately that he was a very intelligent person. And of course he was interested in the subject that I was also interested in, which was the process of being a successful investor. And so- and we, have similar senses of humor, and we had a high old time, probably ma-making ourselves obnoxious to the other people in the room. We both came from Omaha. We both worked in his—his grandfather's grocery store, so we had a lot of common experience.

TITLE

What makes Warren's mind unique

18:44:06:01

CHARLIE MUNGER

Well there's a big correlation between success in life and an early start, and Warren had a passion for doing well competitively, and getting money as a little tiny child, and he just kept it. And now you add a very high IQ, and a lot of energy and he got a flying start.

TITLE

Warren's investing philosophy

18:45:01:04

CHARLIE MUNGER

Well he was an old Graham-Newman follower, and he made a lot of money buying thinly traded securities, who were incredibly cheap statistically. And with small amounts of money, which is what he's working with, he can find enough of those to earn pretty high returns on capitol year, after year, after year. Now occasionally, the market would give him a big security to buy instead of an obscure –and the first one I remember of that kind was American Express, when the salad oil swindle pretty well clobbered that stock for a while. Warren went around, did a lot of research, and decided that it was a minor blip. The market was wrong and he was right. So he bought a big – A rated security and made a lot of money. But mostly, he was buying more obscure securities that were incredibly cheap.

TITLE

Working in Omaha

18:46:36:22

CHARLIE MUNGER

Well he always said it was less distracting to be there among all the rumors and action on, in Manhattan. And (pause) I would say he was making most of his money in a very solitary fashion, just by sifting a lot of data and thinking a lot. And he could do that as well in Omaha, as he could in Wall Street, in fact better.

TITLE

Warren's ability to take criticism

18:47:54:23

CHARLIE MUNGER

I've never known anybody in my long life who liked criticism. Zero. So, I'm sure Warren didn't like criticism. He taught a course on investments at the University of Omaha. And in that course, he criticized certain common practice in the over the counter securities

market, where securities firm often met no lady in church and then sold her stock in a utility with a 5% mark up that was sort of hidden. And Warren thought, well that was dirty and cheating and inelegant, and of course, when he talked that way in his university course, some of the people who were doing it hated him, and so he got private criticism. People tried to keep him out of clubs and stuff like that

TITLE

Buying Berkshire Hathaway

18:49:57:15

CHARLIE MUNGER

If he bought it in his partnership, which he owned more of, he would have made a lot more money. And as it worked out, he made billions and billions of dollars for a bunch of people he didn't even know. And, but I don't think he-he can call it a mistake in that sense, but I don't think he regrets it. It's given him a public platform, it's enabled him to in effect teach what he wants to teach. No, I, I think if you a-ordered him to live his life over, and say you can go back and buy National Indemnity in your partnership instead of Berkshire, I don't think he'd do it. One of the reasons Warren's successful is he's brutal and appraising his own past. He wants to identify mis-thinkings and avoid them in the future. And in a narrow financial sense, that was mis-thinking. But I would say, in a big sense, that was fortunate mis-thinking because his life worked out better.

18:51:46:15

We're social animals, we're supposed to help one another, and we can do it in various ways, and there's nothing that helps people more than helping them get rid of a wrong idea and replacing it with a right one. You know it's like God's gift, and so-and, and since we're trying to avoid sin and error, um, helping other people avoid it is-it's a useful thing to do.

18:52:30:22

I think the sort of solid, middle-Western, unpretentious – background helped. I don't think it would have helped if the Munger's and Buffett's had been at the exact pinnacle of Omaha society, and been going to the fancy balls and owning the local newspaper, the local bank, I think

then we might have worked out differently. But w- what I call a solid upper class, upper/middle class background in Omaha I think helped us both.

TITLE

Warren's father's death

18:55:10:16

CHARLIE MUNGER

Well Warren was very close to his father, and (pause) of course he didn't like it, and-but (pause) Warren soldiers on. I think it just sobered him and hurt him. But both Warren and I could look at our fathers and see what they did right and what they did wrong. Warren's father was of strong ideologue, real old fashion right wing ideologue, as was his grandfather. And his father was so intense about it that Warren just decided that it was a mistake that cabbaged up your head to be that much of an ideologue, so he loved his father but he didn't want to become that much of a true believer in- in anything. And so he avoided it.

TITLE

Picking Berkshire Hathaway

18:57:18:14

CHARLIE MUNGER

Well it happened by accident. He, he had that "contretemps" where the CEO of Berkshire Hathaway tried to cheat him out of an eighth, and he got angry and said "well hell with you all I'll just buy more." And that was a pretty silly way to behave as Warren has recounted in retrospect. But, it's what he did and the rest is history. It happened to make his life better, not worse. But it was an accident that he chose Berkshire Hathaway. If- if the chairman hadn't tried to cheat him out of an eighth on eleven-dollar price, um there wouldn't have been any Buffett dash Berkshire Hathaway history.

TITLE

The blueprint of Berkshire Hathaway

18:59:20:21

CHARLIE MUNGER

Well, he'd made so much money for so long doing what he'd been taught by Ben Graham, which was to buy these very cheap stocks, and if they were cheap enough he didn't care if it was a lousy company and a lousy management. He knew he was gonna make money anyway just because of the cheapness. And – I always knew that would be self-limiting, that-that would only be available for a while and then would go away, and that it would be easier to make money by getting into the great businesses that either had a great manager or businesses where a fool could run it and still prosper. And-and so, I don't think I did anything but maybe cause Warren to go where he was gonna go anyway a little faster. I-I don't think I changed him, I think he would have been there anyway.

19:00:24:15

There was more potential for the long pole than getting in the good companies. We both wanted them cheap, but cheap good companies was the field that we shifted to. And of course that was really important when we started to buy whole companies.

TITLE

Getting along with Warren

19:00:55:19

CHARLIE MUNGER

We never had an argument. We just (pause) we just kind of roll with it easily. We never had a fight. But, suppose Warren doesn't want to do something that I would have done, and suppose that happens four times over forty years or something, what the hell difference does it make to me? Why should I fuss over that? And also suppose one of us makes a mistake that the other wouldn't have made, and that happens four or five times, why should anybody care? Net, the record is working out fine. Yeah, we – we believe you-you should go at life with a certain amount of equanimity and-and rationality.

TITLE

Value investing

19:02:30:22

CHARLIE MUNGER

He made millions and millions of dollars value investing in lousy companies that he bought very cheaply. Besides, it's unpleasant to watch lousy companies you don't like. It's much more fun to watch somebody you like and admire succeeding than watching some jerk kind of half mis-manage some company that's very cheap. It's a- it's a better life. It's the reason we don't short stocks. Even if we made a lot of money doing it, I don't think either one of us would bother. We found it unpleasant. You're crazy you're rich that if you deliberately go out and do a lot of unpleasant things you don't have to. That was the most useful idea that Ben Graham ever had. Have the mindset of someone that was buying into a business wanting to hold for the long pole. And use that mindset when thinking of stocks. And we- neither one of us have ever departed from that one.

TITLE

See's Candy

19:04:16:07

CHARLIE MUNGER

Well remember we- Warren had a long history of buying stocks before working capitol per share or hugely cheap se-securities. And my definition they were all pretty lousy companies. And in See's, we bought a really good company. In it's field, it was the best, and it's part of California which is pretty much all of California, and that a wonderful product and a wonderful reputation and so on, and had a powerful trademark, and a good culture, and we bought that and it made so much money. It just was eye-opening how important these brands were. I don't think that Warren would have made all the money that Berkshire made in Coca Cola - If he hadn't bought See's, it just, he learned. The record of Berkshire Hathaway and the record of Warren Buffett is a record based on continuous learning. If he hadn't kept learning from every experience, the record would not be as good. He learned from See's that he should buy Coca Cola.

19:05:38:06

It—you really come to understand the power of a brand. More when you buy something very cheaply and you're still getting 300% per annum on your investment in cash. That draws your attention that a brand can be very important.

TITLE

What make a great company

19:06:36:22

CHARLIE MUNGER

Well, what really makes it work is- the-the business school term is durable competitive advantage, which is a pretty good term. You really want an advantage that—nourished without overwhelming skill will keep working for you for a long, long time. You want to avoid a business that is just so brutally competitive that nobody does well over the long pull. We've bought some businesses that looked pretty good to us that turned out to be pretty bad. We have a few of them still around but luckily they're small. We sell them if they present problems we just can't solve. But if they just turn out to be a little mediocre, we hold. We're not gonna play gin rummy with the people that are part of our lives.

TITLE

On Warren playing bridge

19:08:29:13

CHARLIE MUNGER

He was just like me, he didn't improve much at all for quite a- for decades. We were pretty good but not really good. And then he really started working at it and working with somebody who is a world champion, and he is really quite good now, whereas I have stayed the same.

TITLE

Salomon Brothers

19:09:28:07

CHARLIE MUNGER

Well we found out what had happened because we were on the board, and it- that's another example of a mistake that finally worked out pretty well. We never should have bought into Salomon. It was too much trouble, it was too much danger, it was too much involvement. And, Warren would have probably made more- even though the investment finally worked out well, it caused a lot of agony and Warren would have made more money some other way, better, so it was- it was another mistake that worked out well. But the crisis, once we were on the board, uh, the company could have gone under. It was a very serious, exciting crisis with crucial meetings and if Nick Brady, the secretary of the treasury hadn't relented on a key point, Salomon might have gone under.

19:10:27:21

And he-he- he went with Warren because he trusted him—and it saved Salomon. It shows how heavy and good reputation is really helpful in life. The interesting thing about that is Nick Brady's family had owned stock in Berkshire when it was a textile company. And he, when he was at the Harvard business school, determined it was a lousy business and he had his branch of the family sell out. The other branch of the family stayed and the guy got to like Warren when he came on the board and he was kind of a stubborn New-Englander, and he held all his shares in this lousy, failing business, and of course, he became enormously rich. Whereas Nick Brady who made the correct decision to get out of a lousy business watched his relative who knew less and hadn't gone to business school and so on, made this great fortune. Life is full of little ironies like that one. I don't think it bothers Nick Brady, he's a pretty mature fellow. But, it was one of those crazy quirks of life.

TITLE

On Berkshire Hathaway's record

19:23:42:00

CHARLIE MUNGER

Well if you, if you start with a bunch of lousy businesses, which is what we started with, we-we're gonna ring a fair amount of cash out of those businesses. So basically we started out with cash, and ended up buying a bunch of businesses, including insurance companies, and drove Berkshire without really issuing much stock to anybody from virtually nothing into hundreds of billions of dollars a market cap. Nobody else has a record like that. There are some great conglomerates: General Electric, United Technologies, Honey Well, but nobody has a record like ours. That's what's unusual, it-it's done better.

19:25:26:16

If you're in a big bureaucracy, it can't change. It's just too hard. So you might say well I'd like to operate that way with no overhead and just a few people at headquarters and quick decisions that are good and, but they're locked into a procedure like the army or navy with lots of meetings and people and they- they just can't get to where we are from where they are. And they know that, and so they- they just shrug their shoulders. If it's some way to do way better than I do by that method well I, God bless them, I-I don't envy them because I can't follow them.

TITLE

Berkshire Hathaway is a reflection on Warren

19:27:12:01

CHARLIE MUNGER

Well I think the modern Berkshire is pretty much all a reflection of Warren. The businesses that he started with are gone, most of them died under him, and—and so he's created Berkshire with nothing but a small bit of starting money.

TITLE

Berkshire Hathaway's annual conference

19:27:47:07

CHARLIE MUNGER

Well we used to have just—30 people in a cafeteria, and now we have this huge public spectacle. But, I think it's helped the company, I mean the big spectacle meetings, it's helped the teaching part of Warren's personality. I think it's been very good for us. I remember Warren used to volunteer as a teacher at the University of Omaha. He likes a certain amount of this. He would hate doing it all the time. No, I think Warren has his life just the way he wants it. Including the annual meeting. Celebration is part of making a group of people work well together. It's a celebration.

TITLE

Extended Confucianism

19:29:47:19

CHARLIE MUNGER

Well he came out of a private partnership where people he knew were trusting him a lot when he was obscure. And he- and he had his fr-relatives in the partnership and they were not rich. So he was, always had a good stewardship idea and he just, as it got bigger, started treating everybody else the way he treated his relatives. That is a very good idea. I have a name for it, they call it "Extended Confucianism," it's a very good idea to extend your Confucianism. Certainly to suppliers and customers and so on.

19:30:52:22

It's so powerful. I constantly talk about Berkshire: a seamless web of deserved trust. It's such a simple idea. And then bureaucracy has so much dysfunction and evil buried in it, even when the people in the bureaucracy are not awful people. That, running a system that has practically no bureaucracy at headquarters is hugely advantageous to Berkshire.

TITLE

On growing Berkshire Hathaway

19:31:49:20

CHARLIE MUNGER

I'll tell you how you do it. Have you ever seen a juggler juggle 25 milk bottles? How did he ever get to do that? The answer is he started with

1 bottle, then 2, then 3 then just kept doing it and pretty sure he was at 25. And that's the way we did it. Now there's a limit. Ma-maybe the guy has to stop at 25. And I don't think that is happening to us yet. Our return is slowing down, but Berkshire is still a collection of businesses that are above the average quality of the indexes, so it's a very respectable investment even though it can't work the kind of miracles it did (inhales) when we were young. And that's a source of enormous satisfaction to both of us.

TITLE

On getting ahead

19:32:58:01

CHARLIE MUNGER

Well I think our philosophy is basically pretty universal, and I don't mean it's the only way to get ahead, because there are a lot-a lot of different ways to get ahead in a competitive scrambling world. There are even some rogues that get ahead. I have always loved the statement of one of the popes about Cardinal Richelieu, and what the pope said was if there is a God, Cardinal Richelieu has much to answer for, but if not, he's done very well. Well there are a lot of people who succeed like cardinal Richelieu. I don't want that kind of success but a lot of people get it.

TITLE

The investment game

19:34:06:00

CHARLIE MUNGER

Well we both love the investment game, it enables you to think about a whole lot of intertwined things, and you get to watch a lot of people who are fabulously good at doing something who are your partners. That is very pleasant. It's a lot like being on a winning football team or something. And of course the looking for new things is a bit like hunting and fishing, so we have a way of living that has both more pleasure and more achievement in it, so why wouldn't we like it?

Nobody wins the game, we're all dead in the end. You just win for-you-you just serve along for a little while and then you lose.

TITLE

Warren's competitive nature

19:36:05:14

CHARLIE MUNGER

He likes to win at Bridge. He likes to win at business. Now he doesn't like to win at all costs, he wants to win by playing by the rules and all that. But yes, Warren likes to win. Warren is so competitive that if you watch his life, you will find that he doesn't play what he's not good at. When he got old enough so he couldn't play good golf, he quit, and he would do the same thing if he - if his Bridge skills went way down. Warren does not like to play games he's not good at.

TITLE

On Warren and social injustice

19:37:24:10

CHARLIE MUNGER

Well Warren has a streak of sympathy for people who are unfairly treated and get bad outcomes. It's not like he spends a lot of time with such people and I wonder what basis, but he has-he feels a sort of obligation to vote and help in a way that will be good for a lot of people that are way less fortunate than he is. He's more so than I am. I'm more philosophical about the inequalities of the world and I wouldn't waste a lot of time trying to fix something that the world has had for so long. But-but Warren likes to vote to try and fix it.

19:38:41:21

He has more of it than other members of his family. I worked for his grandfather: it was not what drove his grandfather. And, no I would say that Warren has- I would give Susie some credit for that. Susie was a wonderful mate for Warren in all those early years and did him a world of good. Unconditional love, and good company, and loyal, just all the nice things. And Susie had all these sympathies. I give her credit for some of that in Warren.

TITLE

Ethics

19:40:25:14

CHARLIE MUNGER

Well you've got to remember one key fact. We both of us know that we've done better by having ethics. Well do you deserve credit for doing something you know is gonna work better for you. I don't want to take too much credit since I know clearly that it helps me instead of hurts me. So, I think the people who are ethical, when they know it's gonna hurt them, deserve credit than people like me and Warren who-who know all along that the ethics is gonna help us in the end. I think partly both of us like it intrinsically, so I don't think it's- we're doing it just cause it works better. But we know it works better, and so how-what's our real motivation? I don't think people know their own motivations. I don't think I know mine. All I know is I end up there and I know I don't deserve as much credit for it as somebody who does it when it hurts him, because I'm doing it when I know it's gonna help me net or the long pull.

TITLE

Investment in Burlington Northern

19:44:47:02

CHARLIE MUNGER

Well he thought it was a good business a-run by good people. It's exactly what we like. And I think there was a little tinge of nostalgia, it's a sort of a Middle Western company, the Burlington railroad was very important in Omaha, always, and the Union Pacific is headquartered in Omaha. And Warren had always been an electric train fanatic when he was young and I had electric trains, no I think there was a little bit of nostalgia in it too.

19:45:43:11

He's always looking for foreign investments. What he's found mostly is United States investments, and yeah he-he it has to be a pleasure for somebody raised in Omaha to buy the Burlington Northern Railroad. It

built a whole country, it changed the whole world, the railroads it, we all remember them. It was a time we used them instead of airplanes. I can remember that time. And um, I can remember the trips on the old Pullman cars, no it—we both liked it. But we wouldn't have bought it if the numbers hadn't been good.

TITLE

On his relationship with Warren

19:46:57:02

CHARLIE MUNGER

By and large it's all been pretty pleasant, and we've had ups and downs. I have never heard Warren complain about a downdraft. I've never heard him indicate that he regards the world as been-being unfair to him, even when Susie died which really shook him up, uh, for quite a while even, but he never complained. He never thought the world was being unfair when they took her away.

TITLE

Warren's character

19:47:47:16

CHARLIE MUNGER

Some people just naturally complain, and other people are just naturally put their head down and sail through it- soldier through it. Warren and I believe in just soldiering through it without too much fuss. I have the theory that the dumbest thing you can ever do in life is to ever feel like a victim. And any politician that makes people feel like victims I automatically dislike. I never saw any good to come off feeling like a victim. Even if you are a victim, I think it's a mistake.

19:50:45:22

The Chinese were living in poverty, subsistence agriculture in caves and so on, real poverty, hundreds of millions of them and (pause) they worked their way out of poverty, and look at them now. How would it have worked if they said no-no we'll vote ourselves rich, we'll just raise the minimum wage. It just- it's so much better to use the Chinese

way. And there wasn't that much complaint about all that Chinese poverty. They just soldiered through, and worked their way out.

TITLE

Knowing the big ideas

19:52:08:11

CHARLIE MUNGER

Well I've always had the idea that if you, pretty much, knew all the obvious things you should know in pretty much all the disciplines, and use that knowledge routinely, and didn't go crazy or irrational or go into anger or resentment or a lot- then it would work very well. And so, naturally I- I've operated that way all my life. It was my way of getting ahead. I didn't get ahead by specializing I got ahead by knowing the big ideas in all the disciplines. And that-that works if you're a wide-ranging investor, like me or Warren. It's not the way for most people to get ahead. And so we were very lucky to have the outcomes we did, I don't think either of us deserves huge credit for what happened. We were in the right place with the right family values, the right temperaments, and I'm sure we had some favorable breaks. But, yes I (stutters briefly) I was lucky in that my grandfather Munger really believed down to the soles of his feet that rationality was a moral duty. It's just the way he was put together. And so I-it was very easy for me to pick up that idea. But-but even for people with prepared minds, (stutters) we got more- we have better results than are at all common, so there was some luck in it.

TITLE

The Lollapalooza effect

19:55:19:19

CHARLIE MUNGER

Amazing how you can go through a modern textbook in psychology, whole damn thousand pages, and in a subject that's been worked over by generations of academicians, you will no feeble—you will not find people talking about a way that where you can buy in 4 or 5

psychological ten-tendencies at once, you get a Lollapalooza effect. That's a hugely important idea, and I don't know why a whole academic subject uh- I think the reason they ignore it is it's hard to do their little experiments to prove it. Listen, Berkshire is a Lollapalooza effect. There are several factors that intertwine, all moving in the same direction.

TITLE

Berkshire Hathaway's portfolio

19:57:20:16

CHARLIE MUNGER

I think that both of us prefer to make our money in association of people with merit. But if a marketable security was available in gobs, on a horrible, mispriced basis in some lousy business, I think we might still buy it. If things are cheap enough, it gets the juices flowing. I'm not sure we're right to do that, but I think we might do it- it hasn't happened in a while. So we-we've tended to drift out of it but would we ever go back in? Well, Warren did those derivatives where he sold puts on the indexes, I think we'll make lots of billions of dollars out of that very easily. I think both of us believe the world would be better off without those derivative markets, but if they're there and it's mispriced, we act. They're for sale, it's a public market, there's no dishonor. If you ask me as a voter, if I would vote the derivative markets, like that one, out of existence, I'd do it tomorrow. And Warren wrote the best and only letter when the option exchanges were allowed, he wrote a letter of objection, it was like the only letter. You really ought to dig that out and print it because it's-it's-it's- he was so right, and it was so early and nobody else was saying it. So anything about Buffet, ought to go back and get his letter about the derivatives in the option mark- he said we don't need these and even when 2007 came, nobody dug it up and played it up big, but you can do it, probably should.

END OF TRANSCRIPT