

# Charlie Munger: Full Transcript of the Daily Journal Meeting 2020

By Oliver Sung / February 16, 2020



Very few things bring the highest payoff for time spent than listening to and learning from Charlie Munger.

At the Daily Journal Corporation's annual meeting in Los Angeles on Feb 12, 2020, Charlie spoke at great length. And in this Note, you find the full 13,400 word transcript of the entire meeting.

Once again, Charlie didn't disappoint with his thoughtful wisdom, insights, and now precious time with us all.

Enjoy!

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**Charlie Munger:** Welcome to the Catholic cathedral.

This is the most amazing place. If some of you haven't seen it you should go see it from the inside. It looks like hell from the outside but from the inside it's a startlingly architectural work and it's quite interesting. Our director Peter Kaufman is on the committee who runs the cathedral and if you want to be buried in the same column of the ashes of Gregory Peck, he'll arrange it for a \$100,000. This is a very commercial crowd. You can't even die without paying.

Okay, I have a script to go through and after we're through this script, which take care of the formal business of the meeting, we'll answer questions in the usual way - after one little brief explanation from the chairman.

I want to first introduce the people who are here. I'm Charlie Munger, Chairman, and the other officers are Rick Guerin, Vice Chairman, Gerry Salzman, who really runs the place, Peter Kaufman, who many of you know. [...] I can't read very well but that's a problem of age. [Continues] Gary Wilcox, Mary Conlan, our new director, and Michelle Stevens, Vice President of the Daily Journal. Michelle was the one that ran the foreclosure notice business who made all the money. She is a hero around here.

This is our main financial accountants: Maryjoe Rodriguez, who is a pillar of the place and Vice President of the Daily Journal Technologies, Ellen Ireland, who has been here forever and is a mother pillar of the place, Ernest Miranda, Andy Richardson, Martin Cassis, and Guat Milner.

Having fired two previous accountants, we really love these.

Accounting, by the way, is really difficult now. It's not an easy profession, particularly at a place like this. Imagine whoever is auditing Boeing this year is earning his money. Can you imagine how hard that would be to do?

## Formal Business

I will now proceed to the formal business of the meeting and then go on to the questions.

If anybody has a proxy delivered, ignore it, because we got enough proxies anyway.

Ellen will you please report the number of shares presented at the meeting.

[Recitation of shareholder attendance]

Thank you. We will now proceed to the individual items.

The first order of business is the election of the Board of Directors. We have enough proxies to elect all Directors that we've named and I hereby declare them all elected.

The number of shares voting in favor of the Directors is rather interesting. I do not lead the list and the single most useful person in place, Salzman, has the lowest number of votes. But I'm fighting to do as well as he does. Anyway, we all got practically the same number of votes.

It's rather interesting: With some previous occasion, Price Waterhouse had fired somebody and so somebody came to the meeting and did a long diatribe against Price Waterhouse, our auditor. It was very humorous.

Annual meetings are very peculiar in America. And of course, we now have the chief shareholder frankly of every big company in America as some index fund and it's weird that the voting power of America goes so much to index fund operators. Nobody planned it. It just happened. And God knows what the consequences will be.

Alright, the second proposal is the ratification of the selection of the independent public accountants. Again we have proxies for that and that is just passed.

The Auditing Committee of the Board of directors have selected Scott Milner be the accountants. We need a ratification of that and again we have enough proxies and that passes.

The third proposal is to approve the amendment to the company's Articles of Incorporation to adopt a majority vote standard for election of the Directors. The state of California asked us to pass this and so we're passing it.

The fourth proposal concerns the advisory vote on what Gerry's salary is at and that also passes. If there ever was anybody who earns his pay around here it's Gerry.

We need a motion to adjourn the meeting and go on to the questioning.. Is there a second?.. On favour?.. We are adjourned.

## Charlie Munger Monologue Before Questions

I will discuss briefly the state of affairs that's reflected in our reports and then I will take questions.

This company, of course, started as a public notice rag which made money by doing public notices and morphed into a very successful legal daily newspaper which had a monopoly on publishing the opinions of all the appellate courts in California and every law firm had to buy it. It did a lot of other useful things and was a small but very profitable paper occupying an ideal niche.

Many of the newspapers in America had similar niches where they just made regular, substantial profits - a very easy, simple business to run.

Of course what's happened is that technological change is destroying the daily newspapers in America including the little one's like ours. The revenue goes away and the expenses remain and they're all dying.

Berkshire Hathaway owns - what - about a hundred of them, and truth of the matter is they're all going to die and there's nothing that can be done with good management to save them. It's a sad thing because those newspapers was an accidental part of the government. They called them the fort of the state and each one had come into being sort of by accident of capitalism without any planning by the founding fathers. The people who ran them became very powerful people due to two great American institutions; one is nepotism and the other is monopoly.

And all those nepotistic monopolists, many of whom drank too much, actually morphed into a function where they were more useful than our legislators. And of course we're losing them all.

What we get is these opinion services on TV that everybody watches where everybody believes some ridiculous version of things that's led as much as anybody good. It's not a good thing in America that we lose Newsweek-type magazines and all our daily newspapers and get back Rush Limbaugh and his ilk on the other side. That's what's happened and it's a sad thing.

Nobody planned that we would have a Fourth Estate that really is a branch of the government that worked really well for us and that took pride in being accurate and so on. And nobody planned it would go away. It just happened.

Now, Daily Journal Corporation strangely is not going to disappear. If all our business fails, we still have a lot of marketable securities, so we're going to do better than these other newspapers. I'm not counting the ones like the Wall Street Journal and the New York Times. There are a few that will survive no matter what, but basically they're all going away. The Daily Journal is not going to go away and leave the shareholders with nothing because of our big marketable securities.

We also have a second business which we're trying to use to replace the economic strength of the newspaper that is imperilled and that's Journal Technologies. That is a computer software business that helps courts and government agencies replace human error-prone inefficient procedures with simpler and better procedures run by software. That is a very difficult business.

Ordinary software, like the software a teacher uses to help teach a class or the software that's used in accounting if you're a dealer in Chevrolets or something, is a gold mine because it's just standard and you crank it out and everybody uses it; it's efficient.

What we're doing is we're servicing all these government departments of a lot of different kinds and they all have special requirements and they're almost all quite bureaucratic, and they're also political. It takes forever. They're full of lawyers and consultants - the RFP process. So it's a branch of the software that is intrinsically very, very difficult where everything takes forever, is very hard to do, and so on. A lot of people just totally avoid it for that reason. They just want to crank out a few bits of software and where just everything is on the cloud - whatever they do - and count the money.

Of course, we're in a business where we need armies of people to help these courts all over the world automate probation officing work or court filings and so on.

All this automation and effective software is all going to happen but it's unbelievably difficult.

An RFP involving a government and a bunch of consultants is intrinsically very, very difficult. You have to keep good nature, have huge patience, have huge talent, and you have to just keep rolling with it and then the money comes in slowly and has more bureaucracy. It's very, very difficult.

In spite of all these difficulties and the fact that everybody at the very top of this company is very old, we've done fairly well and don't ask me why. It was kind of a miracle. A lot was done right just to make it to our present state. And it's a big market, but it's not going to be easy and it's not going to be fast.

On the other hand, we all like the customers.

I've fallen in love with the government of Australia. It's just such nice people and I think it's wonderful that Australia wants automated courts and it's wonderful that they're smart enough to hire us. Imagine hiring the little Daily Journal company for the courts of Australia. My guess is it's all going to work for them and for us. It's a miracle that they figured out this little company would be a pretty safe choice.

I think that part of the reason we've been successful is because so many of our competitors are so awful. So we don't deserve as much credit as we're climbing.

It's going to take a long, long time and it's an everlasting struggle. It's kind of fun to watch because we have the most unlikely cast of characters and a lot of them are quite successful.

Gerry just made a big report to the Board of Directors. It's just amazing the goodwill with which the people attack this very difficult work and just keep everlastingly at it. They have problems where they go around or somebody goes crazy and they tell them no.

You know, there are many opportunities to do this wrong but I think it's all going to happen and we may end up with a big share of it. But it's all done where you shareholders will need a lot of patience. It's really hard. This is not the easy part of the software business. This is more like trying to create another Price Waterhouse. That would be difficult and this is difficult. And, of course, we can't guarantee that we will succeed but I consider it likely. I just think it will be slow and awful. I don't anticipate any easy times for a long time but I suspect it will keep growing.

Gerry, how well do you think we're going to do in the next two or three years?

**Gerry Salzman:** We certainly devoted a lot of energy and resources to Journal Technology. We have approximately 250 employees in Journal Technology and have offices here in Los Angeles, obviously, in Corona, because we acquired a company in 2013 with an office in Corona, California. We have an office in Logan, Utah, where we acquired a company there in 2013, and we have an office in Denver because our original interest in this system of serving courts started because we've seen that the court of Los Angeles, the largest in the United States at least, had sufficient resources in a service provider. That's how we got started in 1999.

We're seeing lots of changes. Take for example in Los Angeles. Los Angeles now uses our system to do electronic filing. Attorneys do the filing electronically. If you go down to the courts in Los Angeles where people used to have to stand in line or have a service provider stand in line on behalf of the lawyers, there's nobody there. Also in conjunction with LA, we're able to enable lawyers to determine when they would come to court and see the judge. So, attorneys are now setting their own schedule and that reduces some of the personnel requirements at the court. These are some of the innovations that are taking place.

If, for example, you get a traffic ticket in the Riverside, you're using our system to pay for that. So drive fast through riverside.

And we make some good inroads into other California courts. We have one basic system and we have three, four, or five different configurations of the system; one for courts, one for public defenders, one for district attorneys, and one for probation officers.

So, we have to only modify one system and make sure the configuration of the main system is appropriate for other agencies. This is big advantage when we come to the point of doing installations.

And Charlie mentioned the people in the projects at the government of Australia. We now have four, five, six, or seven people down in Australia and we work for the state of South Australia and Victoria at the present

time, which is Melbourne. So we have all the courts in those two states and they range from mineral courts to other types of courts that we sometimes don't see here.

In Los Angeles, California, each county only has one court. If you went to other states you'd find that there was a probate court, a civil court, a family law court, and on and on.

In California, they're much more efficient than you can imagine when it comes to comparison where they have all the administrators - four or five administrators - and separate systems and separate IT departments. Very inefficient. That's what we are confronted with all the time.

As we move forward, the financial results will depend upon the number of users in these various justice agencies.

Yes, we do get implementation fees but we can only take that into income when everything is delivered. So, we focus on trying to get to the point where everything is delivered and then we can take it into income and reflected in the financial statements.

**Charlie Munger:** This is a very important thing that everyone in this room should understand.

We have no simple way of just counting up ours and sending little invoices to the government. That's what most consultants like to do; bill hours. We don't get the right to collect money until the thing works and we do that on purpose.

It reminds me of one of my favorite tales which really happened.

When I was young, a lot of the earthmoving was not done with bulldozers. It was done by teams of mules who were guided by contractors who ran these mule teams and their big plows that they use. And there was a Latino contractor who had an enormous number of mules, and when the war came the big builder came in and said: "I've got a plus-cost contract with the government and I'm going to make you cost-plus. I want your mules to start tomorrow morning on this big project." The owner of the mules said, "I can't do that." The big builder asked: "Why not?" and the contractor said: "I get business all these years because I'm so efficient. But when I take a cost-plus contract even my mules seem to know it and they all go to hell."

And that's the Daily Journal's policy. We're trying to avoid deteriorating by taking this awful contracting course. We're trying to be good like that Latino contractor. My guess is it's going to work but you have to be very cheerful to take it because it's agony.

I can't tell you how the people like Microsoft and Google don't want our branch of the software business. I kind of like it. Peter kind of likes it. Peter likes it difficult if he thinks he will keep it forever once he gets it. That's our system. But I sure can't guarantee it's going to work. It's a lot of very difficult work.

I would like to tell you that we're just ass-deep in talent and we have four qualified people for every job, but we're just the opposite. We're like a bunch of one-armed paper hangers and so far it's working.

What's happened in America, of course, is that software has grown enormously. If you take every big college in the engineering department, the most popular course is computer science. If you went to venture capital, the most popular investment is software.

I do not find venture capital's backing of software companies pretty because there's just so much of it and there's some wretched excess in following high prices and so on. It's not a scene that attracts a normal Berkshire Hathaway type.

I'm not saying it won't work for a great many of the very well but there's also going to be a lot of casualties.

And I don't like when investment bankers talk about EBITDA which I would translate as bullshit earnings.

And I don't like all those talks about J-curves and these private sales of software companies. It looks like a daisy-chain to me. So I think there's a lot of wretched excess in it but it reflects an underlying sound development which is this huge growth of software changing the technology of the world. But it's going to have some unpleasant consequences because there's so much wretched excess in it.



Practically everybody in this room has someone in software in the family. I got two people in private equity in my family and private equity has grown into the trillions. Of course it's a very peculiar development because there's a lot of promotion a lot of crazy buying.

It's what I call fee-driven buying, much of it, where people are buying things to get the fees.

As the owner, I'm not thinking about scraping fees off along the way so it makes me very nervous to have all this fee-driven buying.

And whenever they're successful, they just raise a fund that's twice as big as the last one and throw more money at more deals. And of course with more money and more overhead, it's an end in demand for fees.

But will the world provide wonderful results for all these people?

The answer is no, it won't. It's going to be a lot of tragedy.

In the past, the people who did well in venture capital were the clients of Sequoia which is one of the best venture firms that ever existed in the history of the earth. But there aren't that many Sequoias.

Sequoia had such a wonderful record because it kept itself small and now everybody is trying to be enormously large and to grow enormously and hire more and more people, and collect more and more fees. It's weird and it's not going to work perfectly.

I'm trying to give you the same service my old Harvard Law professor gave me when he said: "Tell me what your problem is and I'll try and make it more difficult for you."

By the way, the guy who told me that was doing me a favour. It's a pretty good way to proceed.



I have this saying that “a problem thoroughly understood is half solved.” It’s hard to understand it well.

Well, I guess that’s enough for the Daily Journal - you’re in for a long, difficult ride. And not only that: The damn leaders look like an old people’s home.

I’m 96, Rick is 90, our CEO is 80. I mean, if you’re not the crapper, you don’t belong here.

I think we will gradually work things out in spite of this agent group of Directors. After all, we got a young man like Wilcox who’s past retirement age. And we got a new Director, Mary Conlan, who’s up here partly to make the rest of us look good, or bad rather.

It is always odd results in capitalism. It is peculiar that one little newspaper full of marketable securities and is probably not dying and may actually succeed in the business none of the people understood. None of the people I named is a computer software engineer. It’s weird. And yet you people have come from all over the world to this place - you’re as nutty as we are.

If you ask me, I think it’s slightly more likely to work than not work. And it’s a very good thing to be doing. The world needs what we’re trying to do. We’re trying to reward the right people and really trying to serve the customers.

When it comes to customers, my ambition is to be as close to Costco as I can possibly be.

I’ve never been associated with a company that works harder than Costco to make sure the customers are served well. I mean I just love success that occurs this way and I hate success where you’re deliberately trying to cheat people or something that’s not good for them, like gambling service in Las Vegas.

By the way, I’m not trying to irritate our customers in Las Vegas. I’m doing it by accident.

Anyway, I do think there’s something to be said that you have the option for selling stuff that’s good for people instead of stuff that tricks them. That’s our approach and I would choose that approach even if I made less money. In fact, I think you make more.

It reminds me of Warren Buffett’s favorite saying: “You should always take the high road because it’s less crowded.” That’s the system.

I think the politics of the country is weirdly awful because of the excesses of hatred that you see everywhere. In California, with a gerrymandered House of Representatives, the only danger of getting tossed out of legislature is if you’re a leftist and someone to the left of you may come in and if you’re a rightist and someone to the right of you may come into the primary.

This creates an awful Legislature where the individuals hate each other. And there may would be ten sort of sensible Republicans and ten kind of sensible Democrats in the California Legislature. And every ten years, these nutcases of the right and left get together and throw all the sensible people out, or gerrymandering them out, because they all agree that within their own party the middlers are horrible. That is a crazy way to be governed. It is not pretty and I have no solution. It’s just interesting.



Warren said to me the other day: “It’s so interesting now. I would like to stick around for another 30 years if I couldn’t participate. If I could just watch.” And I said, “I would like to sign up for that too. It is very interesting.”

It’s weird. Think about how different television is when Cronkite is gone and we have all these clowns and the opinion servers lying to us in a very shrewd way. They’re really good at it.

You know, the ability to mislead people is greatly underestimated.

Any good magician can make anybody see a lot of things happening without happening and not see a lot of things happening that are happening.

And, of course, we’re all dealing with various people who through practice of evolution have been good at misleading us. So it’s very, very hard to be rational and stay sane.

Of course, that’s some of the reasons why some of the companies that I’ve been affiliated with have been so successful. It’s not that we’re so smart. It’s that we stayed sane. Because a lot of what goes on is absolutely nuts.

We all see it in politics, of course. It’s even sillier than it is in business, although sometimes we businessmen try and get into our share of stupidity.

You people come from all over the world to this thing out of some hunger. I regard you as nerds because I was once one of you, and I know a nerd when I see one.

You come here because some fellow nerd managed to succeed in spite of defects and you need a similar result.

And you know something that’s really odd? It’s that you’re right. If you can learn some of our tricks, you can get more success out of life than you deserve. That’s what has happened to me.

How did it happen? I tell you how it happened.

It’s obvious that I got better life outcomes than I deserved based on energy or intellect. Of course, it’s an interesting process that everybody would like more of. Who doesn’t like to get a lot more than one deserves?

I stumbled into a few mental tricks early in life and I just used them over and over again. I take the high road because it’s less crowded. Of course, that’s a smart thing to do.

Then I was raised by people who thought it was a moral duty to be as rational as you could possibly make yourself. That notion which was just inherited, basically, from my upbringings and my surroundings has served me enormously well.

It’s like Kipling’s: If you can keep your head when all round you are losing theirs, it’s a big advantage. Just think of all the dumb things that are done by our politicians and our business leaders, and the wretched excess you see in the system.

I can remember one of the earlier crazy booms that caused one of our earlier recessions. All these traders would go to Las Vegas and people would hand them free stacks of they would have strippers - that was our securities market. I mean, it was grossly awful and a lot goes on now that is grossly awful.

Imagine politicians who never understood Adam Smith. It would be like hiring an engineer to design your airplane and he didn't believe in gravity.

I laughed too, but there are tears in my laughter.

This business of being determinedly rational does work. You should keep everlastingly at it.

One of the things that's wrong with the present system is the way their heads get cabbaged up by the activity and the owners of the head don't know what's happening.

One of my favourite actors when I was young, Mr. Cedric Hardwicke, was such a good British actor he was knighted by his monarch. Sir Cedric Hardwicke got old and he kept acting right - on and on. Until towards the end of his life he made one of the great statements in the history of acting. He said: "I have been a great actor for so long that I longer know what I truly think on any subject."

If you stop to think about it, that's exactly what's happened to most of our politicians except they don't know it. Sir Cedric Hardwicke at least knew his brain has been turned to cabbage, whereas our politicians like cabbage.

For all the young people that want to shout out their resentment of this and that - I always say that what they're doing is pounding it in. Nobody's listening to them when they shout out. They're just pounding a lot of nonsense in.

It's a big mistake to pretend to practically anything because you become what you pretend to be.

Now, sometimes that works. I knew a couple of no good Nicks in my youth who became leading philanthropists. They did it just to mislead people but after they had done it for a while, they became legitimate philanthropists. It always gave me the conclusion that hypocrisy really is better than most people think.

It does change you to constantly pretend one thing and another. It changes you to say something repeatedly. I always felt that Ronald Reagan who Shifted from Democrat to Republican - his acting career failed. And he was hired by General Electric to tour around and give right-wing speeches.

In a world where that's the way your mind tricks you - of course, if you have some prophylactic measures where you're more cautious about your views - think about how we'd all love to have a bunch of children where we're a little more cautious about their views.

I've got some children in the audience. They're by and large a pretty good bunch but if I had my druthers, there's a thing or two I would change. You laugh but that's the way life works.

Imagine coming to listen to some 96 year-old man. Amazing.

I'll take questions now from anybody.

## Questions

**Question:** *In the past, you've referred to value investors as a group of cod fishermen and suggested that they'd maybe fish in a different pond. Conversely, you've also discussed how over a long enough time frame an investor's realised return would mirror the business's return. So given that many of the highest quality businesses are in the U.S., wouldn't some of our time be best focused on analyzing the quality of the businesses here in the U.S.? I understand that the odds offered on the bet matters a lot so I'd be curious to hear in your mind how you weigh the quality of the horse versus the odds offered on the horse. Thank you.*

**Charlie Munger:** Well, both are important. But basically, all investment is value investment in the sense that you're always trying to get better prospects than you're paying for.

But you can't look everywhere at once any more than you can run a marathon in twelve different states at once.

So you have to have some system of picking some place to look which is your hunting ground - but you're looking for value in every case.

What is interesting to me is I don't agree with you. I think the strongest companies are not in America. I think the Chinese companies are stronger than ours and they're growing faster.

I have investments in them and you don't. And I'm right and you're wrong.

Well, you can laugh but I just spoke a simple truth.

Li Lu is here. I just saw his face in the audience. He's the most successful investor in the whole damn room. Where does he invest? China. And boy was he smart to do that.

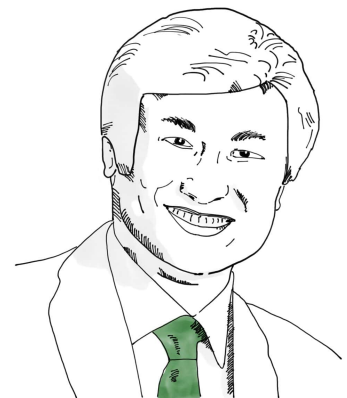
Is he good at it? It really helps if you know which hunting ground to look in. In fact, we all do better when we go hunting where the hunting is easy.

I have a friend who's a fisherman. He says: "I have a simple rule for success in fishing. Fish where the fish are."

You want to fish where the bargains are. It's that simple.

If the fishing is really lousy where you are, you should probably look for another place to fish.

**Question:** *Over the years, you've shared lots of comments about India and China. I would love to hear any and all insights you have about you're friendly neighbors to the north. Whether it's the Canadian political system, banking system, housing sector, resources industry, health care system - any and all insights and wisdom on Canada would be much appreciated.*



**Charlie Munger:** Well I'm glad you give me this opportunity. I'm very partial to Canada.

I think their socialized medicine system works. I think they're wise to have it. I think they're wise to pay their pharmaceutical prices instead of ours.

And I think it's wonderful that we've gotten along with Canada so well all these years.

I think you should be quite pleased with Canada.

I don't think it helped you to have two different languages spoken. That was an unfortunate accident. But I basically like Canada and I think, in some ways, you do better than we do.

Gerry points out that we have customers in Canada. He's encouraging me.

**Question:** *I have a question regarding investing. With computers and artificial intelligence rapidly getting better at investing than humans, what should analysts, portfolio managers, and the investment management industry do to remain competitive? Thank you.*

**Charlie Munger:** Well, that's a very good question.

I think what people in the investment management industry ought to do is prepare for tougher times ahead.

I think this indexing thing is going to run and run and run, and I think there are wretched excesses in a lot of well-paid hedge funds and private equity businesses that will in due time result in a lot of troubles that give pain.

Everywhere I see, the endowment managers have the same mantra. They want fewer and better investment managers. That's not going to be good for investment managers. And the rest of the people are indexing.

Now do you want any other cheery news?

The cheery news is that if you think the way we nerds think and keep at it long enough, you'll do all right. But if you go with this crowd, I think there's pain ahead.

**Question:** *In the past, you've recommended index funds for people seeking wealth accumulation, and in the past, Warren Buffett has recommended using this sell-off strategy for income as opposed to chasing dividends. If we synthesise those ideas, it seems like the best course of action for investing over a lifetime is to use index funds for accumulation and the sell-off strategy for income in retirement. Would you agree with that? And if so, what benefits do you see in using that strategy? Thank you.*

**Charlie Munger:** Well, I think that the reason it's growing is that for most people it does work better.

On the other hand, there's a huge proclivity to gamble. It's very interesting to play in a game where the returns are variable. So there's a huge lure that comes to gambling.

In China, the ordinary holding period for the individual investor is short. They love to gamble in stocks. This is really stupid. It's hard to imagine anything dumber than the way the Chinese hold stocks.

They're so good at everything else. It shows how hard it is to be rational.

I think there's lots of troubles coming. It's too much wretched excess.

**Question:** *I have a question regarding the Stoics. It's something I've studied after you've mentioned it. Anybody who has read your life, your testament, knows to not be a victim but to be a survivor and it's an attitude that has helped me in my short life so far. Could you perhaps expand on that idea, how it's helped you, and how that it's perhaps one of the greatest ways to live your life - regardless of what happens to you.*

**Charlie Munger:** Well, of course.

Some people are victimised by other people and if it weren't for the indignation that that causes we wouldn't have reforms that we need.

But that truth is mixed with another. It's very counterintuitive for an individual to feel like a victim even if he is. The best attitude is to be cheerful about everything and keep plugging along.

And therefore, I don't like politicians who get ahead by trying to make everybody else feel like a victim. They make my flesh crawl. I just don't believe in it.

Who wants to be a victim instead of a survivor?

You can recognize your position as bad and try and improve it - that's okay. But to have a deep feeling of it's all somebody else's fault is a very counterproductive way to think. People don't even like being around it. It's really stupid.

And yet our politicians build on it and try to make their careers work by doing something that's very bad for all the people they're talking to. And they think they're doing the world's work.

It's crazy. It's absolutely crazy.

**Question:** *Daily Journal and Berkshire own a lot of the very large banks. I suspect many people in this room do - I know I do. It's kind of tailgating you and Mr. Buffett. My question is concerning some of the Fintech technologies coming up. Your position on crypto is very clear, but regarding some of the other Fintech technologies, my question is: Do you see them as being a threat to the long-term profitability of those large banks.*

**Charlie Munger:** Well, I don't know much about crypto technologies except to avoid them.

By the way, I have a lot of things in what I call the "too hard" pile. And if you fit into my too hard pile, I throw you into my too hard pile and think about it.

Now, every once in a while, I take something on or drift into something really difficult and then I continue doing it just because I'm perverse.

The Daily Journal was basically a ridiculous enterprise. It's really difficult. I'm enormously rich and I'm 96 years old, yet I care terribly how it works out.

It's a little insane. I wonder why you would come here and talk to a nutcase like me.

I hate things like bitcoin. I hate things that are intrinsically anti-social. Of course we need real currencies.

One of the interesting things about the current conditions is that we Americans have created, by accident, the reserve currency of the world. And the world needs a reserve currency.

I don't sense any sense of trusteeship among my fellow Americans for behaving very well in our responsibilities to the rest of the world with our own currency. Our attitude is we'll do what pleases us. That's not my view.

I think once you get a big responsibility to other people that are depending on you, you ought to think about them too.

**Question:** *We have record budget deficits, record unemployment, and record expansion of the balance sheet. Why do you think we don't have inflation? And secondly, could you recommend some good books you've read the last year?*

**Charlie Munger:** Well, regarding inflation: You know, the economists of the world thought they knew a lot more than they did.

What has happened is weird. In response to the Great Recession, all the nations in the world have printed money like crazy and have bought all kinds of investment assets. They've done things that nobody in the economics profession would have recommended on this scale, even five or so years ago.

And yet, the inflation has been very low.

I think we all have a lot of things to be modest about when we talk about economics.

Lyndon Johnson said that giving a talk on economics was a lot like pissing down your leg. It feels hot to you but it doesn't influence anybody else very much.

And I'm afraid I can't do much better than Lyndon Johnson could.

On books: People send me books more than I can read, so I skim a lot of them very rapidly. And so I'm not sure I'm the right one anymore to ask.

Books have been so important to me all my life. I used to read fewer books and read them better than I do now. And of course, I don't see very well. So maybe you should talk to some younger man about your books.

**Question:** *My question is about your outlook for global markets and economies especially given the slowdown in the global economy driven by the Chinese economy, and also the rising political risk. So what's your take on the market and economy going forward? Thank you.*

**Charlie Munger:** Well, I'm mildly optimistic about China for a variety of reasons.

Nobody has ever taken a big nation ahead as fast as China has come ahead. And I think they've done a lot right. So I'm a big admirer of what's happened there.

If you stop to think about it, they were in a Malthusian trap, and they prevented 500,000 babies from being born. They did it by methods that we wouldn't like in the United States. But I think they were doing the world a favor and I think that what they did was admirable.

So basically, I don't have this hostility toward China. I really admire what the Chinese people have achieved and I think, considering that they started as communists, their leaders are pretty good.

It's amazing. Imagine a communist country creating this enormous period of growth and prosperity - and lifting 800 million people out of poverty.

I like what is happening in China and I think the United States ought to get along with China and China ought to get along with the United States.

Regarding the global situation, it's so peculiar to have negative interest rates.

There's another thing I admire, and this will strike you as very peculiar: There's one modern nation which has had like 25 years of stasis. How can anybody admire 25 years of stasis? I think the Japanese have handled 25 years of stasis with magnificent skill and philosophy. Japan is not going to hell. They don't like 25 years of stasis but they take it like men and they aren't bitching and wailing and they don't act like victims.

So I really admire the way the Japanese have handled their adversity and I don't think the adversity came from a lot of mistakes. They were an export powerhouse and up came China and Korea. Of course, they had some troubles. We'd all have trouble if we had way tougher competition.

So I don't think that Japan's stasis was Japan's fault. I think it just happened. I think they bear up magnificently well in order to be greatly admired. And of course, they got into this defect three manufacturing ethos in a big way and led the world in it.

So, I think the United States has a lot to learn from Asians.

Think about how everything's clean in Japan. You don't see any homeless sleeping and defecating in the street either. There's a lot to be said for Japan.

**Question:** *I was hoping that you might share with us some examples of how you use disconfirming evidence to change some of your important, determinedly held beliefs.*

**Charlie Munger:** Well, of course being able to recognize when you're wrong is a godsend.

A good bit of the Munger fortune came from liquidating things we originally purchased because we were wrong. Of course you have to learn to change your mind when you're wrong.

I actually work at trying to discard beliefs. Most people just try and cherish whatever idiotic notion they already have because they think it's their notion that must be good. Of course you must be reexamining what you previously thought particularly when disconfirming evidence comes through.

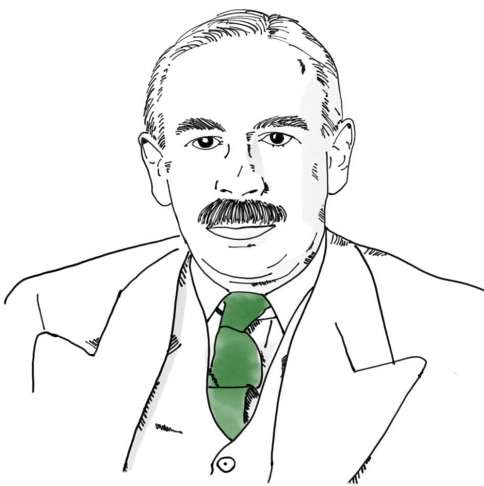
There's hardly anything more important than being rational or objective. Just think of all the dumb things you can do in life.



Think of the brilliant people who are just utterly brilliant who do some of the dumbest things. You won't have any trouble thinking of examples.

In fact, most of us can think of our own accident the last year or two and we can all pull up an example or two. It's hard to be rational.

**Question:** *I recently watched a documentary that introduced the economic masters, Keynes and Hayek. I would like to know your comments on both on them and which economic theory you would prefer. And to take a step further, if applied to personal goal-setting, which model would you advise us to follow between planning and flexibility? Thank you very much.*



**Charlie Munger:** Well, Keynes, of course, was a very interesting man.

He probably had more influence on the economics profession than anybody - maybe excepting Adam Smith.

I lived in the Great Depression and his ideas were exactly right for fixing the Great Depression. What happened was we got out of it finally because accidental Keynesianism came in courtesy of Adolf Hitler in World War II. So I don't see how you could study economics without Keynes.

Hayek is more complicated and I don't think I'm the world's best understander of Hayek. I've read him and I rather admire

him but I'm not sure I totally agree with him.

**Question:** *I want to ask you about Tesla. The company has a market capitalization of about a \$140 billion. It traded last week about \$200 billion in stock and traded about \$500 billion in options. The stock moved about 20% a day, meanwhile Mr. Musk seems thrilled to stoke this volatility. I want to know what your thoughts are on this situation and particularly what your thoughts are on Mr. Musk's behavior.*

**Charlie Munger:** My thoughts are two: I would never buy it, and I would never sell it short.

I have a third comment. Howard Ahmanson once said something that I've taken to heart: "Never underestimate the man who overestimates himself."

I think Elon Musk is peculiar and he may overestimate himself but he may not be wrong all the time.



**Question:** *I have two questions. 1) What do you think of value investing in the next 50 or 100 years, and 2) do you have any advise on industrial research and industrial investments. Thank you.*

**Charlie Munger:** Well, I don't think I've got any wonderful comments to make about industrial investments.

I do have the feeling that the world may change and there are two changes that I think are possible. I think they may extend average life duration by fancy tricks and I think they may reduce cancer deaths by fancy mounts.

Think about what's already happened in technology. Imagine the whole internet developing, whole different things, all those old companies, such as daily newspapers dying, and the total change in manufacturing processes. There's been a lot of change and, of course, this has caused a lot of loss to people that own stocks.

I do have the feeling that all that was really important has probably already happened, it's going to happen from this point forward. How much better can it be once you have enough to eat? What is extra money going to do for you?

So I do think that my generation had the best of all this technical change. Our children stopped dying, living standards are way up, air-conditioning came, medicine greatly improved, they could replace your achy joint when it caused agony. I don't think we're going to get as much improvement in the future because we've gotten so much already.

**Question:** *Early in the meeting you mentioned the benefits of taking the high road, treating the customers the right way, etc. There's a sense, which may or may not be true, that in China there's more moral flexibility in business, less respect for the rule of law, and less transparency than there is in the west. Do you share that concern?*

**Charlie Munger:** Well, I'm naturally more comfortable in my own country with its traditions than I am in what's evolved out of Chinese communism.

Considering where they were, mired in this Malthusian poverty and also mired in some ignorance. That leader who said: "I don't care if the cat is black or white. I want to know if it catches mice." That was one smart leader. I think that leader of yesteryear has other leaders now who are smart. I think they are going to keep improving.

I even think that the Chinese may get over their crazy love of gambling.

**Question:** *Any secret of longevity and how many hours do you work per day? How do you stay so current with all the information?*

**Charlie Munger:** I don't think I deserve any credit for longevity. It just happened. There's no male in my family that ever lived any such age. It's weird but I can't help you.

**Question:** *You mentioned earlier that some mental tricks have been helpful to you. One was taking the high road, the other being perfectly rational. What other mental tricks have been helpful to you during*

*your life? And also, you touched on excesses, whether it's in venture capital, private equity, political sphere, I guess also government debt. What other excesses do you see in the system right now?*

**Charlie Munger:** I don't think the wide use of opioids have helped us either.

There's always some miserable excess. It's a very complicated subject.

You remember how the Chinese emperor got rid of opioid addiction by one male or eight or something. You didn't have to kill very many people. He just said death penalty for users, no exceptions. And away went his addiction problem.

I think somebody may try some of that stuff sooner or later if things get awful enough. It may not be the worst way to handle it.

On that cheery note, I'll go to the next question.

**Question:** *What would you recommend to teach children on how to be successful in life.*

**Charlie Munger:** I think the best thing any parent can do is be a good example. Preaching doesn't work worth a damn.

**Question:** *There are over \$10 trillion around the world with negative yield and by the president's Twitter feed it seems he wants to bring negative interest rates to the United States. Are you for negative interest rates or against them?*

**Charlie Munger:** Negative interest rates make me very nervous. However, I don't think the authorities had much choice. It's politically impossible to do big stimulus rapidly and the only weapon they had in a crisis was to print money and change interest rates. I think it was probably the right thing we've done.

Of course, it makes me nervous. I think having worked once, people will overdo it. That's the nature of government people and of course that makes me nervous.

I don't know what to do about this.

**Question:** *My question is about the effects of low interest rates on insurance. Lower returns on float maybe cause a tighter supply of insurance. For example, there used to be three main underwriters insuring all the taxicabs in Southern California. Now, it is heading towards just one underwriter who will have a monopoly on all commercial taxi insurance in Southern California. You have access to CEOs of Geico and Wesco and a rolodex that we can only dream of. So do you see 10 years of low interest rates posing a systemic risk to the supply of insurance?*

**Charlie Munger:** I am made uncomfortable with the idea of extremely low interest rates, or negative interest rates even more extreme, lasting a long time. I don't think anybody knows how those will work.

If you are a little uneasy, welcome to the club. I think it's dangerous and peculiar. But I think we had to do what we did.

In other words, I don't have any good solution for you. I think you're right to be worried about it.

**Question:** *With the deficits so high, are interest rates more in a bubble situation? And I remember back in the '70s we had the Nifty Fifties. Are technology stocks in the same criteria as it is now? It feels like there's 10-15 stocks that everybody's investing in, the value situation has been down for the last four or five years. I was also looking at a couple of stocks that you own, like Kraft Heinz. With your 26% in the company, would it make sense for Berkshire Hathaway to buy out Kraft Heinz completely and take advantage of a low price?*

**Charlie Munger:** Well, I don't think I can comment of what Berkshire Hathaway might do next at what price.

Nifty Fifty is an interesting question. At the heights of the Nifty Fifty craziness, which was created by the Morgan bank of all places, it had a home-sewing company that was trading at 50 times earnings. Home-sewing, great god.

We are not that crazy yet. So a lot of what's happened is not that crazy. I think a lot of these companies are very valuable, though they may be selling at too high prices.

But home-sewing was sure to fail. I don't think our leading tech companies are at all sure to fail. The current situation is not nearly as crazy. Nifty Fifty was absolute dementia.

**Question:** *Many of my classmates are considering careers in private equity and venture capital. You yourself mentioned that some of your family members are in private equity. You also mentioned that you see a lot excess in that sphere. What advise do you give to your family starting careers in private equity and what advise would you give to young people as a whole starting careers in those sectors? Thank you.*

**Charlie Munger:** My family is not very interested in what I think about their career choices. I respect their disinterest.

But I do think we have way too much wretched excess. Any time you have any new names to sort of mislead people, like adjusted EBITDA, think of the basic intellectual dishonesty that comes with it. You're almost announcing you're a flake.

And yet our respectable people talk that way and charge fees for talking that way. It's ridiculous. So I don't like this wretched excess.

I don't like all these transactions where one private equity group sells to another and the guys who really own it are just sort of raising the fees higher and higher over owning the same in the intellectual mix. It's a lot that's financed by its nature. The temptations are too great. It goes to wretched excess.

Of course, I don't like it. I don't think it's good for the country. I would argue that the wretched excess that led to the Great Depression, which led to the rise of Hitler - I think we pay a big price eventually for wretched excess, stupidity, greed, and so forth.

I'm all for staying in control. In other words, I'm all for behaving a lot more like Confucius.

**Question:** *Mr. Munger, it is well known that you are an avid and voracious reader. Do you ever reread books that you've already read before, and if so, what books do you reread?*

**Charlie Munger:** Yeah, I do. Let me give you an example of something that I want to reread that I haven't reread yet.

The other day I was musing over the current situation. It popped into my head that I had read a poem about 80 years ago by George Sand. George Sand was a female writer but to get ahead in those days you sometimes use men's names. George Sand wrote a poem and it was an ode to the goddess of poverty.



She said: "Hail to the goddess of poverty, a wonderful goddess of poverty. She tills the fields, she mines the mines", and so on. And I remember toward the end of the goddess of poverty she said: "You try and banish me, you'll live to want me back."

I kind of agreed to this poem and I'd like to see it again.

I don't know how to punch nodes on the internet and get George Sand's poem to me so if somebody would send me the poem I would very much like it.

I'm telling you this because it's an antidote to our politicians who want to tell us they're going to abolish all poverty. It's a stupid idea. It's like saying we'll all be riches in a modern civilization. It's status what we want but we need more means.

The tow of reaching for status is that the bottom 90% are always going to contain exactly 90% of the people no matter how hard we work or how much we succeed.

We actually need some tough incentives in a civilization to make it work. In other words, George Sand was right. The goddess of poverty is not all bad. She's partly good. And of course I like thoughts that I have that are different from anybody else.

I think a billionaire who talks about the glories of the goddess of poverty is making a contribution. But only a bunch of nerds like you will appreciate it.

**Question:** *Just wanted to ask you a quick question about the fact that you were an early proponent of electric vehicles, specifically your investment in BYD. I wonder if from your perspective from today other technologies, like hydrogen, fuel cells, or others that may come to mind, are equally important in terms of their emerging capabilities and what sort of impact they may have.*

**Charlie Munger:** Well, I think electric vehicles will be more popular than hydrogen and fuel cells.

Getting the sun's energy transferred into electricity and into the vehicles is basically a good idea for the long pull. And I think all the technology is going to work. Some of it's actually improving.

We may get a lithium battery that's actually quite safe and more energetic than most we have now. I think that's all to the good.

When I came to California, we had Petroleum Club, and we had wildcatters. A little like Texas. I don't think we found any new oil to speak of in California in decades. I think it's dangerous to rely on hydrocarbons for energy. Of course, we've got to take more directly from the sun.

I think that Texas will eventually get to be like California.

**Question:** *Do you think it's necessary for America to recover a positive trade balance to keep its prosperity in the next century?*

**Charlie Munger:** The answer is no.

**Question:** *How do you nudge your kids and grandkids to hold on to their shares for as long as possible?*

**Charlie Munger:** I don't think I have a good model for you. My children seem to do pretty much what they please.

I find that I'm happier if I just do the best I can by my children and take the results as they fall.

I wouldn't sweat too much about how your children hold the stock you know.

**Question:** *What keeps you going and how do you still have the motivation? Thank you.*

**Charlie Munger:** Well, maybe I've been lucky. I like what I do. I have wonderful partners and friends. I have a nice family. My problems are interesting to me.

I have been a very fortunate man and I don't know how to make everybody else lucky.

I could have had a different hand and been some miserable alcoholic throwing up in the gutter. I don't think I deserve any great credit for having stumbled into a reasonable amount of felicity.

I do think that trying to be rational helped. That's the only thing you've got if you're a fellow nerd.

If you're not going to be sex object, you have to rely on your rationality.

**Question:** *There's a lot of talk these days about the climate and the environment and funds divesting fossil fuels, and countries trying to figure out how to generate electricity without polluting the environment. Could you give us your thoughts on nuclear power? I know that Bill Gates has been a very vocal supporter of it. And I know that Warren Buffett used to invest in Uranium back in the '50s and, you know, he more recently helped fund a uranium bank in Central Asia.*

**Charlie Munger:** Well, I admire Bill Gates who feels a duty to throw money at stuff that's unpopular elsewhere and it might possibly work.

I think it's an admirable charitable effort by Bill Gates for which he's very well suited.

I don't know whether we're going to get safe little atom plants or something but I think it's certainly worth thinking about.

The problem with it, of course, is how much material do you want a bunch of crazy humans to have? I don't know the answer to that question.

Regarding energy, of course we're going to have to get more from the sun directly and so forth. It's all to the good that everybody's going into that in a big way.

By the way, if there was no global warming problem, I'd be in favor of substituting getting power directly from the sun for fossil fuels starting today. I think it's a good idea to conserve hydrocarbons and use more solar energy. That is not the normal attitude of a lot of people. But I'm right and they're all wrong.

**Question:** *My question is about universal basic income. What is your opinion on a plan like this? Thank you.*

**Charlie Munger:** Well, if you did enough of it, you'd totally ruin everything. Little of it we can afford. What the exact mix is will be determining for the political process forever.

**Question:** *You talked frequently about having the moral imperative to be rational and yet as humans we're constantly bearing this evolutionary baggage which just get in the way of us thinking rationally. Are there any tools or behaviors you embrace to facilitate your rational thinking?*

**Charlie Munger:** The answer is: Of course. I hardly do anything else.

One of my favorite tricks is the inversion process. Let me give an example.

When I was a meteorologist in World War II, they told me how draw weather maps and predict the weather. What I was actually doing was clearing pilots to take flights. I said: "Suppose I want to kill a lot of pilots. What would be the easy way to do it?" I concluded that the only way to do it was to get the planes into icing the planes couldn't handle or to get the pilot into a place where he'd run off fuel before he could safely land.

So I decided I was going to stay miles away from killing pilots by either icing or getting them sucked into conditions where they couldn't land.

I think that helped me be a better meteorologist in World War II. I just reversed the problem.

If somebody hired me to fix India, I would immediately say: "What could I do if I really wanted to hurt India?" I would figure out all the things that would most easily hurt India and then I'd figure out how to avoid them. It works better to invert the problem.

If you're a meteorologist, it really helps if you really know how to avoid something which is the only think that's going to kill your pilots.

You can help India the best if you really know what will hurt India the easiest and worst.

Algebra works the same way. Every great algebraist inverts all the time because the problems are solved easier. Human beings should do the same thing in the ordinary walks of life. Just constantly invert. You don't



think about what you want. You think about what you want to avoid. When you think about what you want to avoid, you also think about what you want. You just go back and forth all the time.

Peter Kaufman, who's here today, really likes the idea that you want to know how the world looks from the top looking down and you want to know what it looks like from the bottom looking up.

If you don't have both points, your reality recognition is lousy. Peter is right and inversion is the same thing.

It's just a simple trick to think about how it looks from the people above me and how it looks from the people beneath me. How can I hurt these people I'm trying to help? All these things help you think it through. And it's just such simple tricks.

Like the lever, they really help. And yet, our educational system giving advanced degrees don't give these simple tricks. They're wrong. They're just plain wrong.

**Question:** *If you were researching a new company that you've never heard of, how would you approach the research process and how much time would you spend? If you perform the intrinsic value estimate and the company was expensive, would you still continue following the company closely and continue researching it or do kind of try to get to evaluation pretty quickly and, if it's not cheap, kind of move on? How do you balance the time you spend on companies?*

**Charlie Munger:** Well, if it's complicated technology I tend to leave it to others. I may get occasional variation in that but basically I just don't do it.

I want to think about things where I have an advantage over other people. I don't want to play a game where the other people have an advantage over me.

So if you have a pharmaceutical company and you're trying to guess what new drug is going to be invented, I've got no advantage. Other people are better at that than I am.

I don't play in a game where the other people are wise and I'm stupid. I look for a place where I'm wise and they're stupid. And believe me, it works better.

God bless our stupid competitors. They make us rich.

That's my philosophy. You have to know the edge of your own competency. You have to kind of know if it's too tough for you. I'm very good at knowing when I can't handle something.

**Question:** *My question is about electric vehicles and BYD. Why are electric vehicle sales at BYD down 50% to 70% while Tesla is growing 50% and what does the future hold for BYD?*

**Charlie Munger:** Well, I'm not very sure I'm the world's expert on the future of electric vehicles, except I think they're coming generally and somebody's going to make them.

BYD's sales went down because the Chinese reduced the incentives they were giving to buyers of electric cars.

Tesla's sales went up because Elon has convinced people that he can cure cancer.

**Question:** *One of the more surprising opinions I've heard this year is that we never really had journalistic ethics - that the news has always been colored yellow with the voice of their proprietors. With 9 decades of observation under your belt, does that ring true?*

**Charlie Munger:** No I think that the sole proprietors, the people that owned the network news and Time magazine, and Newsweek, and the monopoly newspapers, were pretty good. And this current bunch is deliberately lying because it sells better.

I like the old products of nepotism and monopoly. It was better for us than these new guys. These guys are so good at marshaling hatreds.

You know, politics was once called by some famous English politician the art of marshaling hatreds. We now have news outlets that we all follow and they're good at marshaling hatreds.

Well, some hatred might have some constructive use, but they're overdoing it. Hatred is too intense. It's cabbaging up the minds of the broadcasters and now cabbaging up the minds of the people who watch.

**Question:** *There is this common sentiment that technology is both accelerating the pace of change and its impact broadening across most industries usurping traditional moats. So given your long career, I'm wondering if you think the traditionally moaty industries are being undermined at a pace that's different from what's been happening in the past.*

**Charlie Munger:** Yeah, I think the moats have been breached time after time.

Imagine the Eastman Chemical Company going broke. Imagine all these great department stores being on the edge of extinction. Imagine all those monopoly newspapers going down. Look at the strength of the American auto industry compared to what it was, say in 1950.

I think the moats are disappearing rapidly. I mean the old classical moats. I think it's probably a natural part of the modern economic system, as in old moats stop working.

Let me know what your problem is and I'll try to make it more difficult for you.

**Question:** *What would you say is the best possible way for someone to expose themselves and expand their understanding of workings in the business world which without actually currently being involved in? And how can I maximize my potential value to a corporation in the future by what I do right now?*

**Charlie Munger:** That's a good question. There are so many of you now who want to be rich by going into finance. At multitude, not all is going to get rich.

Of course, 99% will be in the bottom 99%. That's just the way it's going to work.

If I look at people in my generation, the nerds who were patient and rational eventually did well. Those who lived within their income, worked at being sensible, and when they saw an opportunity grabbed it very fiercely, and so forth. I think that will work for the new nerds of the world.

For the people who get ahead because they're star salesmen or charismatic personalities, I'm not one of those, so I don't know how to do that. So if you're not a nerd, I can't help you.

I think that the odds are that the people who try to do finance are not going to succeed. There's a lot of wretched excess in it because easy money will always attract wretched excess. It's just the nature. It's like a bunch of animals feeding on like carcass in Africa. By the way, that's an image I chose on purpose.

I don't think it's so pretty and I don't think that modern finance is so wonderful.

In my day, a lot in the finance field were more like engineers. They were so chastened by the Great Depression and all the wretched failure, that they really tried to make everything super safe. And it was a very different plotting place. The people weren't trying to be be rich, they were trying to be safe.

This modern world is radically different. I'm not sure if I was starting out in your world how well I would do. It would be a lot harder than it was to get ahead in the world than what it was when I came up.

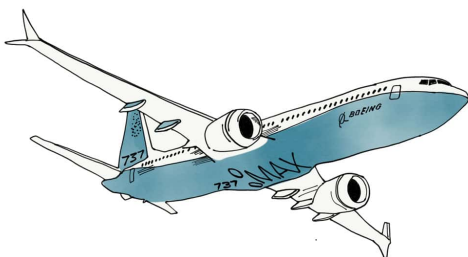
I think you'll be happier if you reduce your expectations and if you try and satisfy them, By the way, I think that's generally a good idea. It sounds silly but it's so obvious.

You know how many of us are fairly content with pretty moderate success? That is worth knowing because that's what most of us are going to get.

**Question:** *I would like to know your thoughts on the engineering and business generally at Boeing and how you've been thinking about that as it's unfolded recently.*

**Charlie Munger:** Well, I don't like to jump on Boeing.

Boeing is a great company that had one of the great success rates in safety records of the world. They lost their way, they made some dumb mistakes. I think that's generally the way of things too if you're trying to do something very complicated with hundreds of thousands of people. Occasionally, there will be slip-up.



In most places, if you actually look at them, they have some near-misses. Boeing had a near-miss a few years ago when the rudder stuff failed and they had a few crashes. I was on the Safety Committee at US Air when that happened and nobody could figure it out for months. Something in the rudder was not working, and it caused three crashes. It took them something like six months to figure it out and they must've put an army on it.

Well they survived that one and they'll no doubt survive this one but it's really expensive to make a big safety mistake. Of course, they should be avoided.

**Question:** *It's been a while since you've had "The Psychology of Human Misjudgment" as a talk and I was wondering if there was any additions you would have that you've seen more recently. And the second part is, you've talked about how important being rational is throughout your life. Can you walk us through, aside from the tricks and tips that you have, what steps we can take to become more rational?*

**Charlie Munger:** Well, it's a long process. I don't think anybody just flashes into it. It's not like somebody's going to tell you to run down to the front of the revival meeting and shout out and you get a wonderful hereafter.

Rationality is something you get slowly and it has a variable result. But it's better than not having it.

You can just see how awful it is when people get into these furies of resentment and anger and being sure they're right about everything. It's hard to know exactly how human civilization ought to be organized.

In my own life, I've often reflected about how well the system has worked. What I concluded was the social safety network has just come up enormously as the world has gotten more prosperous. That was a very desirable thing, and the Republicans who always opposed it were wrong.

The Democrats have always tried to push the social welfare too far ahead as they did for a while with the welfare program. That was also wrong.

By and large, what we have is about right. We wouldn't have gotten it from either party alone. If either party had been in total control of a one-party government, we wouldn't have had the result that we have. It's just close to right.

I think power does corrupt. Part of the genius of the American system is no one person gets too much power. If either party had all the power, I don't think American civilization would have worked as well as it had with this ebb and flow.

I don't know what the exact right safety net is. I don't think it matters that much. I think the United States would be about as happy if it had 5% more or 5% less safety net.

**Question:** *Could you elaborate a little bit on project Haven. What are you specifically doing to improve health care, lower the costs, and improve quality and access?*

**Charlie Munger:** That's a very interesting subject. If you take American healthcare, in many cases it's the best in the whole world. We have more brains in our medical schools and our pharmaceutical companies than the rest of the world per capita. We may have as much brains as the rest of the world together.

On the other hand, if you actually went into American hospital's doctor's offices, you would find a huge amount of totally counterproductive, unnecessary activity that costs a lot, does no good, and actually does harm.

And you'd find that some people are not doing that. Well, if they don't have the incentives to make money by doing it, you don't get a lot of counterproductive medical care.

Kaiser, here in California, does not do a lot of unnecessary, stupid medical care for a long death to make more money and do all the evil things that other people do.

Other people, as the hospitals and doctors get under pressure, introduce a lot of waste and folly, and some of the pharmaceutical companies' behavior is totally outrageous.

Have some basic diabetes drug and try and charge someone ten thousand a month or something is ridiculous. And I even go further, I think it's evil. I think that the system should be changed and I think it will be changed. I think there's too much wretched excess in the medical system.

The really sad part of it is that the people who are doing it have no conscious malevolence. They're not people who decided to do murders and maimings to make money. They think it's good for the patients what they're doing.

If you do an unnecessary back operation on somebody, it's a major evil but the guy that's doing it really think it's good for the patient. In other words, he's turned his brain into cabbage. That's not a good thing. I think you have to change the incentives.

I think there are places in America that are very admirable that don't a lot of unnecessary stuff, and other places that do. I think we're going to have to change the system.

If you take the medical system of Singapore, it costs 20% what ours cost, and it has better statistics. It's not opaque, it's open.

We have a whole industry that try to make things payment things opaque so they can try and take advantage of people. And they think it's free enterprise. I think it's stealing.

**Question:** *One of the things that has surprised me is how many of my peers in the financial industry have sat out the market over the last five years holding cash in anticipation of a market downturn. I would think, given that we're in our late 20s, we've accumulated savings, and have what's hopefully a multi-decade runway ahead of us, the right thing to do was be to start investing now. So my question is whether you would agree with this assessment, and if so, how would you convince your friends to start investing? Thank you.*

**Charlie Munger:** Well, it's obvious that deferred gratifiers do better over the long pull than these impulsive children that have to spend money on Rolex watches and some other folly. Not that I'm picking Rolex any worse than a Phillippe or something.

But I think everybody who is adult should save and not be stupidly spending money and defer gratification to get more later and all those good things that we were taught by Benjamin Franklin - three of them so forth.

The odd thing about it is that people are kind of born deferred gratifiers or not. They've done recent psychological work on that subject. Lots of luck if you're an impulsive person who has to be gratified immediately. You're probably not going to have a very good life and we can't fix you.

But if you have a slight tendency to deferred gratification and you can feed that tendency, then you're on your way to prosperity and happiness.

That demand for immediate gratification is the way to ruin. It may also give you syphilis.

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Evidently, they have a saying: "Give him the hook". My friend Guerin has just given me the hook.

I am an accidental guru. We didn't set out to have an audience of people coming in and asking me questions about every damn subject in the world. It just kind of happened by accident and I just went along with it because I think it did more good than harm and I kind of enjoy it as long as I don't have to do it too often.

I feel sorry for people who have edge elating multitudes. I also wouldn't like a normal multitude. I love these nerds.

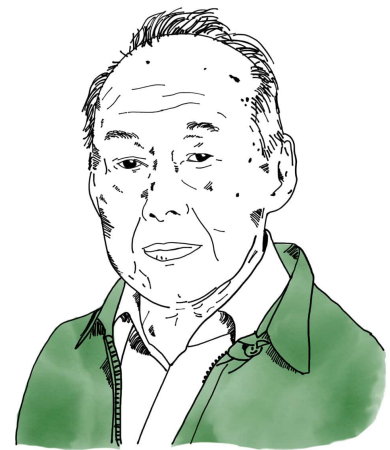
**Question:** *I want to ask you a question about Lee Kuan Yew, particularly his housing policies. I'm curious how you think California should address the insane cost of constructing new development right now and how you would try to create housing in California that would be affordable across all socio-economic areas to avoid the kind of social evils that Lee Kuan Yew has managed to avoid back in Singapore.*

**Charlie Munger:** That's like asking some ordinary klutz, who's drunk, if he can't come up with something like Albert Einstein. You know, it's just too much.

Lee Kuan Yew is the best nation-builder that probably ever existed and what he accomplished in Singapore, considering where he started, was a miracle.

Of course, I don't know how to create that everywhere.

I'm not sure Lee Kuan Yew could have done it if he didn't have a bunch of expelled Chinese there. I'm not sure that any other ethnic group would have done it.



It looked like a terrible hand. By the way, there is an interesting story there. He needed an army when he first took over and nobody would help him. Only one nation in the whole world would help him and that was Israel.

He said: "I'm surrounded by muslims who hate me. How can I accept military advise from Israel?"

He finally figured it out.

He accepted the help and he told everybody they were Mexicans.

We'll on that little joke we'll end the meeting.

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I hope you all thoroughly enjoyed the transcript. I surely enjoyed creating it.

Thank you for reading!

Cordially,  
Oliver Sung  
Research Analyst



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