

Charlie Mugner

Feb. 12, 2020

Daily Journal Corporation Annual Meeting

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Charlie Munger:

The meeting should now come to order. I'll give you some time to sit down. Welcome to the Catholic Cathedral. This is the most amazing place. Some of you who haven't ever seen it should go look at it from the inside. It looks like hell from outside but from inside it's a startlingly good architectural work and it's quite interesting. Our Director, Peter Kaufman, is on the committee that runs the Cathedral and if you want to be buried in the same column with the ashes of Gregory Peck, he'll arrange it for \$100,000. This is a very commercial crowd. You can't even die without paying. Okay, I have a script I'm going 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 brief a little 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, wave Rick. 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. Gary Wilcox and Mary Conlin our new director. Michelle Stevens, vice-president of the Daily Journal you're going to wave, Michelle. Michelle was the one that ran the foreclosure notice business when we made all the money. She is a heroine around here. [inaudible 00:08:40] is main financial accountant. Maryjoe Rodriguez, who is a pillar of the place and Danny Hemnani

vice president of the journal technologies. Ellen Ireland who's been here forever and as a mother pillar of the place. Earnest Miranda, Andy Richardson, Martin Castus and Squar Milner and these are our accountants. Having fired two previous accountants, we really love these. Accounting, by the way, it's really difficult now. It's not an easy profession particularly and in a place like this.

I imagine whoever is auditing Boeing this year is earning his money. Can you imagine how hard that would be to do. We will now proceed to the formal business of the meeting and then go on to the questions.

If anybody has a proxy he haven't delivered, ignore it because we've got enough proxies anyway. Ellen will you please report the number of shares presented at the meeting.

On December 20th, 2019 the record date fixed by the board of directors for determining the shareholders entitled to vote today. There were 1,380,746 shares of common stock of the corporation outstanding. I have a list of the shareholders who were of record as of that date certified by the corporations to transfer agent, Equiniti Trust Company. I also have an affidavit certifying the completion of the mailing of the notice of this meeting, the proxy card and the 2019 annual report along with a prepaid postage return envelope to the shareholders. The total number of shares represented in person or by proxy at this meeting is 1,198,911 which is more than a majority of voting power of all outstanding common stock of the corporation and the meeting may proceed. I will attach the affidavits to the meeting minutes and have a copy of the minutes of the last annual meeting.

Ellen Ireland:

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Charlie Munger:

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 the directors whom we've named. 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 the place is Salzman has the lowest number of votes. But I'm fighting them 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 Pricewaterhouse had fired somebody and so somebody came to the meeting and had a long diatribe against Pricewaterhouse, our auditor. It was very humorous. Annual meetings are very peculiar in America and of course we now have the chief shareholder of practically every big company in America is some index fund. And it's weird that the voting power for America goes to a bunch of index fund operators. Nobody panned it, it just happened and God knows what the consequences will be.

All right. The second proposal is the ratification of the selection, the end of both public accountants. And again we have proxies for that amount it's just past. The committee of the board of directors have a selected Squar Milner to be the accountants and we needed a ratification of that and again we have enough proxies and that passes. A 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 and that is just passed. There no use all the proxies. I don't need to go into the exact numbers of shares. The fourth proposal that proposal was approved. The one that the California asked us to pass. That's passing all over America. God knows what it does. Not much I think.

Fourth proposal concerns the advisory vote what Gerry [inaudible 00:14:51] notes and that also passes. If ever is anybody who earns his pay around here it's Gerry. The approval requires a vote ... Well that's done. And I'm coming to an adjournment. Oh yes. We now needed a motion to adjourn the meeting and go onto the questioning. Audience member "Motion to adjourn," is there a second?, all in favor?, we are adjourned. 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 court courts in California and every law firm had to buy it. And 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 ones 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 it doesn't matter they're all going to die. And there's nothing that can be done with good management to save them. And it's a sad thing because those newspapers were an accidental part of the government. They called them the fourth estate and each one had come into being sort of by accident of capitalism without any planning by the founding fathers. And the people who ran them became very powerful people. The two great American institutions, one is nepotism and the other is monopoly. Add all those nepotistic, monopolist, 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. And what we get is these opinion services on TV that everybody watches where everybody believes some ridiculous version of things that slanted as much as anybody could believe.

It's not a good thing in America that we lose Newsweek, Time Magazine and all of our daily newspapers and get back Rush Limbaugh, or Andy Zilch on the other side. And that's what's happened. And it's a sad thing. Nobody planned that we had a fourth estate that was really a branch of the government that worked very well for us and that took pride in being accurate and so on. And nobody planned that it would go away, it just happened. Now Daily Journal

Corporation strangely is not going to disappear. If all of 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 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. And 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 imperiled. 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 dealer in Chevrolets or something. That stuff is a gold mine because it's just standard and you crank it out and everybody uses it and it's efficient. What we're doing is 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 and it takes forever and they're full of lawyers and consultants, the RFP process.

So it's a branch of the software business. Is intrinsically very very difficult.

Where everything takes forever it's very hard to do and so on. And a lot of people just totally avoid it for that reason. You just want to crank out a few bits of software or just everything on the cloud or whatever they do and count the money. And of course we're in a business where you need armies of people to help all these courts all over the world automate probation, officing work or court filings and so on. And it's all going to happen.

All this automation and effective software is going to happen but it's unbelievably difficult. An RFP involving a government and a bunch of consultants is intrinsically very very difficult. And you have to keep good nature. You have to have huge patience and you have to have huge talent and you have to just keep rolling with it. And then the money comes in very slowly and as more bureaucracy, it's very very difficult. In spite of all those difficulties and the fact that everybody at the very top of this company is very old.

We've done fairly well. Don't ask me why it was kind of a miracle.

But 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. And on the other hand, we all like the customers. I've fallen in love with the government of Australia. They're just such nice people I think it's wonderful Australia wants automated courts. And I think it's wonderful they're smart enough to hire us.

Imagine hiring the little Daily Journal Company to run the courts of Australia. And my guess it's all going to work for them and for us. It's a miracle they figured out that this little company would be a pretty safe choice. I think part of the reason we've been successful is so many of our competitors are so awful. So we don't deserve as much credit as we're claiming. But 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 of which the people attack this very difficult work and just keep everlasting at it, if they have troubles where they go around and somebody goes crazy they tell them no.

There are a million opportunities to do this wrong but I think it's all going to happen. I think we may end up with a big share of it. But when it's all done your shoulders need all 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 Pricewaterhouse. 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'll keep growing. Gerry, how well do you think we're going to do in the next two or three years? Where's Gerry? I'm blind in my left eye so.....

Gerry:

We certainly devoted a lot of energy and resources to Journal Technology. We have approximately 250 employees in Journal Technology. And we 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 of our interest in providing or seeing that the court of Los Angeles, the largest in the United States at least has sufficient resources in a service provider. That's how we got involved in 1999 and we are seeing lots of changes. You take, for example, in Los Angeles.

Los Angeles now uses our system to do electronic filing. Attorneys do the filing electronically. And 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 lawyer, there's nobody there. Also, in conjunction with LA, we were able to enable lawyers to determine when they would come to court and see the judge. So, attorneys are now sending their own schedule and that it 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 Riverside, you're using our system to pay for them. So, drive fast through Riverside. [Audience laughter] And we've made some good inroads into other California courts. We have one basic system and we have three, four, 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 configurations of the main system is appropriate for other agencies. This is a big advantage when we come to the point of doing installations. Charlie mentioned the people in the projects in the government of Australia. We now have four or five, six or seven people down in Australia and we've worked for the State of South Australia and Victoria at the present time, which is Melbourne. 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. Los Angeles in California in 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. It just goes on and on and on.

In California they're much more efficient than you can imagine when it comes by 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. And so, we focus on trying to get to the point where everything is delivered then we can take it into income and reflect it in the financial statements.

Charlie Munger:

This is a very important thing that everybody in this room should understand. We have no simple way of just counting up hours and sending little invoices to the government. That's what most consultants like to do is bill hours. We don't get the right to collect money until the thing works. 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 earth moving was not done with bulldozers. It was done by teams of mules who were guided by contractors who ran these mule teams on their big plows so they ... And it was a Latino contractor who has an enormous number of mules and when the war came, the big builder called him and said, I've got a cost plus 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. Cost Plus. Cost Plus presented your cost. And this Latino said, "Oh no." He said, "I can't do that." And he said, why not? He said, "Well I get business all these years because I'm so efficient." And he said, "When I take a Cost Plus contract even my mules seem to know it and they all go to hell." [Audience laughter] That's the Daily Journal's policy. We're trying to avoid deteriorating by taking this awful contracting course. And we're trying to be good like that Latino contractor. And my guess is this is 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 and so on, they don't want our branch of the software business. I kind of like it. Peter kind of likes it because he senses that... Peter Kaufman, raise your hand.

Peter likes it difficult if he thinks he will keep it forever once he gets it. That's our system, but I certainly can't guarantee it's going to work. It's a lot of very difficult work and I would like to tell you, we're just ass deep in talent and we have four qualified people for every job. We're just the opposite. We're like a bunch of one-armed paper hangers working away at this stuff and so far it's working. And of course, what's happening 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. And if you went to venture capital, the most popular investment in some kind of software. And I do not find venture capital's backing of software companies pretty because it's just so much of it and there's some wretched excess and folly and high prices and so on. It's not a scene that attracts the normal Berkshire Hathaway type. I'm not saying it won't work for a great many, very well, but there's also going to be a lot of casualties.

And I don't like it when bad stuff comes in. I don't like it when investment bankers talk about EBITDA. Which I translate as bullshit earnings. [Audience laughter] I don't like all those talking about J curves and all these private sales of software companies on one venture capital to another and mark opposites. 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.

I don't know what, going around this room. Almost everybody has somebody in software in the family. I've got two people in private equity in my family and private equity has grown to into to the trillions. And 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 feed ribbon buying, much of it, where people are buying things to get the fees. I'm not used to that, I buy things cause I think they are going to work for me for the long pole. As the owner, I'm not thinking about scraping fees off along the way. So, they're very different. I'm very, it makes me very nervous to have all this fee driven buying and whenever they are 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 ending 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 and Sequoia had such a wonderful record because it kept itself small.

Now everybody is trying to be enormously large and to grow enormously and hire more and more people and collect more and more fees and it's weird. And it's not going to work perfectly. And 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". [Audience laughter]

By the way, the guy that told me that was doing me a favor. It's a pretty good way to proceed. I have the saying of 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 long difficult ride. And not only that, the damn leaders look like an old people's home. [Audience laughter] I'm 96, Rick is 90, our CEO is 80. [Audience laughter] I mean, if you're not the decrepit, you don't belong here. And, I think we will gradually work things out in spite of this aging group of directors, after all we have a young man like Wilcox who's past retirement age. And, of course we've got a new director, Barry Conlon who grew up here. Partly to make the rest of us look good, or bad rather.

It is all these odd results in capitalism. It is peculiar that one little loose paper is full of marketable securities and it's probably not dying and advance was seen in the business none of the people understood. None of the people I've named is a computer software engineer. It's weird and yet you people would come from all over the world to this place, you're as nutty as we are. [Audience laughter] And 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 model, 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 that way. And I hate success where you are deliberately trying to cheat people or sell them 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. [Audience laughter]

Anyway, but I do think there's something to be said. You have the option for selling stuff that's good for people instead of stuff that tricks them. At any rate, that's our approach and I would choose that approach even though I made less money. In fact, I think you make more. It reminds me of Warren Buffett's favorite saying. He says; "You should always take the high road, it's less crowded." [Audience laughter] And that's the system.

I think the politics of the country are weirdly awful because of the excesses of hatred that you see everywhere. In California with a gerrymandered House of Representatives, they have the only danger of getting tossed out of the legislature is if you're a leftist, somebody who to the left of you may come in. If you're rightest somebody to the right of you may come into the primary. And this gets to, creates an awful legislature where the individuals hate each other. And maybe there will be 10 sort of sensible Republicans and 10 kind of sensible Democrats in the California legislature. And every 10 years, these nutcases of the right and left get together and throw all the sensible people out by gerrymandering them out. Because they all agree that would be within their own party or near the middle are horrible. Oh, that is a crazy way to be governed and it is not pretty, and I have no solution.

It's just interesting. Warren said to me the other day, he said, it's so interesting now. He says, I would like to stay around for another 30 years if I couldn't participate, if I could just watch. And I said I'd sign up for that too. It is very interesting. It's weird. And think about different television is, when Cronkite is gone and we have all these clowns on the opinion service lying to us in a very shrewd way. And 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 that aren't happening and not see a lot things happening that are happening. And of course, we're all dealing with various people who, through practice evolution, have been good at misleading us. And so, it is very, very hard to be rational and stay sane.

Of course, that's part of the reason that some of the companies that I've been affiliated with have been successful. It's not that we're so smart it's we stayed sane. Because a lot of what goes on is absolutely nuts and, and we all see it in politics of course. It's even sillier than it is in business. Oh, sometimes we business-men try and get into our share of the stupidity.

And you people come from all over the world to this thing out of some deep hunger. I regard you as nerds [Audience laughter] because I was once one of you and I know a nerd when I see one.

And you come here because some fellow nerd has managed to succeed despite his defects, and you need a similar result. And you know something that's really odd is you're right. If you could learn some of our tricks you can get more success out of life than you deserve. That's what's happened to me. And how did it happen? I tell you how it happened. It's obvious that I got better life outcomes than I deserve based on energy or intellect. And of course, that's an interesting process and everybody would like more of it. 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 mean, I take the high road because it's less crowded. Of course, that's a smart thing to do. And then feel that there's a, I was raised by people who thought it was a moral duty, be as rational as you could possibly make yourself. And that notion, which was just inherited basically from my genes and my surroundings, it served me enormously well. It's like Kipling said, you can keep your head when all around 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 be willing to hand them free stacks of chips and they had strippers. That was our securities market. [Audience laughter] 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 when he didn't believe in gravity. [Audience laughter] I laugh too, but there are tears in my laughter. [Audience laughter]

But this business of being determinedly rational, does work. You should keep everlastingly at it because it's harder to saying that it's all credible. Of course, I, one of the things that's wrong with the present system is the way the heads get cabbaged up by the activity and the owners of the heads don't know what's happening. One of my favorite actors when I was young was Sir Cedric Hardwicke, was such a good British actor he was knighted by his Monarch. Sir Cedric Hardwicke

got old and of course, kept acting right on and on and on. And toward 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 no longer know what I truly think on any subject." [Audience laughter] 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 had been to cabbage. Whereas our politicians, they like cabbage. [Audience laughter] Anyway, and so, and of course the young people that want to shout out their resentment of this and that, you know. I always say what they're doing is pounding it in. Nobody's listening to them when my shout out, they're just pounding a lot of the nonsense in. It's a big mistake to, to pretend to be 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 and they did it just to mislead people. But after they'd done it for a while, they became real legitimate philanthropists and that always gave me the conclusion that hypocrisy really is better than most people think. [Audience laughter]

It does change you to constantly pretend one thing or another, and of course it changes you to say something repeatedly. I always felt that Ronald Reagan was shifted from Democrat to Republican. His acting career failed, and he was hired by General Electric to run around and give right wing speeches. Of course he became a Republican. But in a world where that's the way your own mind tricks you, of course if you have some prophylactic measures where you're more cautious about your views. Think of how we all love to have a bunch of children and we're a little more cautious about their views. I've got some children in the audience. They're by and large are pretty good bunch, but if I had my druthers, there's a thing or two I would change. [Audience laughter] But you can laugh but that's the way life works. Oh, well that's enough of ruminations of one. Imagine coming to listen to some 96 year-old man. Amazing. I'll take questions now from anybody. Go ahead. We'll probably have to wait for a microphone. Do you have microphones here?

Bill Brewster:

Hello? Oh yeah. Good morning everyone. Mr. Munger, Bill Brewster here. Thanks for doing this. In the past you've referred to value investors as a group of cod fishermen and suggested that they maybe fish in a different pond. Conversely, you've also discussed how over a long enough timeframe and investors realized return would mirror the businesses return. So, given that many of the highest quality businesses are in the U.S., wouldn't some of our time be best focused analyzing the quality of the businesses here in the U.S. And 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. And so, but you can't look everywhere at once, just any more than you can run a marathon in 12 different states at once. And so, you have to have some system of picking someplace to look, which is your hunting ground. But you're looking for value in every case. And, and what is interesting to me is you talk about the U.S., 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 are growing faster. And I have investments in them, and you don't [Audience laughter] and I'm right and your wrong. [Audience laughter] You can laugh, but I just spoke a simple truth. Li Lu is here. I 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. And is he good at it? Oh, it really helps if you know which hunting ground to look in. In fact, we all do better hunting when we are 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. That's, you want to fish where the bargains are. That simple. If the fishing is really lousy where you are you should probably look for another place to fish. Anybody else?

Vishal Patel:

Dear Mr. Munger, my name is Vishal Patel. I'm a portfolio manager from Toronto, Canada working for Dynamic Funds. It's my third year here and I love coming back each year. I want to thank you for your time. 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 your friendly neighbors to the North. Whether it's our Canadian political system, banking system, housing sector, resources and industry, healthcare system. Any and all insights and wisdom on Canada would be much appreciated.

Charlie Munger:

Well, I'm glad you'll give me this opportunity. I'm very partial to Canada. And I think their socialized medicine system where it's, I think they're wise to have it. And 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 and I think you should be quite pleased with Canada. I don't think it helped you to have two different languages spoken. It was an unfortunate accident. [Audience laughter] But, I basically like Canada and I think in some ways you do better than we do. Jerry points out that we have customers in Canada. He is encouraging me. Yes, go ahead.

R.J. Manuelian:

Good morning Mr. Munger, R.J, Manuelian. I'm an attorney just like yourself following in your footsteps. I'm currently investing-

Charlie Munger:

I'm an ex-attorney.

R.J. Manuelian:

I had a question regarding investing. With computers and artificial intelligence rapidly getting better at investing than humans what should analysts and portfolio managers in 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 that there are wretched excesses in a lot of the well-paid hedge funds and private equity businesses that will in due time result in a lot of the 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 what if you go with this crowd, I think there's pain ahead.

Johnathan Bird:

My name's Jonathan Bird and I'm from Phoenix. In the past you've recommended index funds for most people seeking wealth accumulation. And in the past Warren Buffet has recommended using this sell off strategy for income as opposed to chasing dividends. If we synthesize 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 the reason it's growing is that for most people it does work better and, on the other hand, there is a huge proclivity to gamble. It's very interesting to play in a game where the returns are variable and 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 will hold stocks. And they're so good at everything else.

It shows how hard it is to be rational. I don't think investment management is going to...I think there are lots of troubles coming. It's too much wretched excess.

Mr. Chaudhry:

Charlie, my name is Par Chaudhry. I'm an investor from India. Once again, want to thank you so much for the time that you spend with us and give us so much of your time. I had a question regarding the Stoics. It's something I've read after you started, you actually mentioned it. Anybody who's read your life, you're a testament to the idea that 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 is perhaps one of the greatest ways to live your life out regardless of what happens to you?

Charlie Munger:

Well of course feeling like it's really interesting take to make change. Some people are victimized 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 has mixed with another. It's very counterproductive for an individual to feel like a victim even if he is. The best attitude is just to be cheerful about everything and keep plugging along. Therefore, I don't like politicians that get ahead by trying to make everybody else feel like a victim.

They make my flesh crawl and I just don't believe in it. Of course, who wants to be a victim instead of a survivor? Of course we won't. But feeling like a victim, 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 and 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. You know, it's crazy. It's absolutely crazy.

Paul Smith:

Hi, Mr. Munger, it's a privilege to be here with you.

My name is Paul Smith from Boulder, Colorado. Daily Journal and Berkshire, own a lot of the very large banks. I suspect many people in this room do, I know I do. 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 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. And by the way, I have a lot of things I call the too hard pile. And if you're in my too hard pile, I throw you into my too hard pile and I don't think about them. 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 is basically a ridiculous enterprise. It's really difficult and I'm enormously rich and I'm 96 years old, you know, I care terribly out of works out. A little insane. I don't wonder, why would you come here and talk to a nutcase like me?

But no, I hate things like Bitcoin. I mean, I hate things that are intrinsically anti-social. Of course, we need real currencies. And one of the interesting things about the current condition is that the Americans have created the reserve by accident, have created the reserve currency of the world. And the world needs a reserve currency. And I don't sense any great sense of trusteeship among my fellow Americans for behaving very well in our responsibility. So, the rest of the world with our own currency. Our attitude is we will do what pleases us. That's not my view. I think once you get a big responsibility to other people, depending on you, you ought to think about them too.

Unidentified Speaker:

Mr. Munger, we have record budget deficits, record unemployment and a 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 economist of the world thought they knew a lot more than they did. What has happened is weird. But in response to the great recession, all the nations of the world are printing money like crazy and have bought all kinds of investment assets and 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 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. He says, if it feels hot to you, but it doesn't influence anybody else very much. [Audience laughter]

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

Unidentified speaker:

Books, any books you recommend?

Charlie Munger:

Oh, books. People send me books, more than I can read. And I've gotten so that I skim a lot of them very rapidly. And I'm not sure I'm the right one anymore to do... My books are so important to me all my life, that I find that my... 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.

(Check out [The Great Mental Models V1, General Thinking Concepts](#)).

Yung Lee:

Hi Charlie. My name is Yung Lee. I'm an investor from New York. Thank you so much for this great platform to learn from you and sharing your wisdom. My question is about your outlook for global market and the economy, especially given the slow-down in global economy driven by Chinese economy. And also, the rise in geopolitical risk. So, what's your take on market and economy going forward? Thank you.

Charlie Munger:

Well, I am 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, it ran 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. And 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's happening in China, and I think the United States ought to get along with China, and China ought to get along in the United States.

And regarding the global situation, it's so peculiar to have negative interest rates. Another thing I greatly admire is, and this will strike you as fairly 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, when they aren't bitching and wailing, and they don't act like victims. And 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. I think the adversity to Japan, they were an export powerhouse, and up came China and Korea. Of course, they had some troubles. We'd all have troubles if we had way tougher competition.

And so, I think that's my... I don't think Japan's stasis was Japan's fault, I think it just happened. And I think they bear up magnificently well and are to be greatly admired. And of course, they got into this defect-free 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 of how everything's clean in Japan. You don't see any homeless sleeping in the... Defecating on the street, either. I think there's a lot to be said for Japan.

Unidentified speaker:

Charlie, thank you very much for having us here today, and sharing your wisdom and your beliefs. I was hoping that you might share with us some examples of how you've used 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. If you take... 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. And I actually work at trying to discard beliefs. And most people try and cherish whatever idiotic notion they already have, because they think if it's their notion, it must be good. And I think, of course you want to be re-examining what you previously thought, particularly when disconfirming evidence comes through. And there's hardly anything more important than being rational and objective. Just think of all the dumb things you can do in life. Think of the brilliant people who are just utterly brilliant, who's doing some of the dumbest things. You won't have any trouble thinking of examples. Most of us can think of what we... Our own accident in the last year or two, and we can all pull up an example or two. It's hard to be rational.

Unidentified speaker:

Good morning, Mr. Munger. Thank you so much for teaching us. I also want to thank Mr. Kaufman. Here comes my question. I recently watched a documentary that introduced the economic masters Keynes and Hayek. I would like to know your comments on both of 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, and he probably had more influence on the economics profession than anybody, maybe excepting Adam Smith. And of course, I lived in the Great Depression, and his ideas were exactly right for fixing the Great Depression.

And what happened was, we got a lot of it finally because accidental Keynesianism came in, courtesy of Adolf Hitler and World War II. And 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 [sic] of Hayek. I've read him, and I tend to rather admire him, but I'm not sure I totally agree with him. It's too tough for me. Therefore, I quit claim it to you.

Glenn Tongue:

Hi, Mr. Munger. Over this side. My name is Glen Tung. Thank you for this wonderful meeting, and especially for serving food this year. [Audience laughter] I want to ask you about Tesla. The company has a market capitalization of about \$140 billion. It traded last week about \$200 billion in stock and traded about \$500 billion in options. And the stock moved about 20% a day. Meanwhile, Mr. Musk seems thrilled to stoke this volatility. I wanted 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. [Audience laughter and applause] I have a third comment. [Audience laughter] There was a man down in Los Angeles for years named Howard Ahmanson. He once said something that I've taken to my heart. He said "Never underestimate the man who overestimates himself." I think Elon Musk is peculiar in he may overestimate himself, but he may not be wrong all the time.

Unidentified speaker:

Hi, Mr. Munger. My name is Joe. I'm an investor from China. I do venture capital, and three things. First, I really thank you for encouraging so many investors around the world, and I hope you keeping up and do this a little longer. And I did have two questions. First is, what do you think the value investments in the next 50 or 100 years? And a second question is, do you have any advice on the industrial research or the industrial investments? Thank you.

Charlie Munger:

Well, I don't think I've got any wonderful comments to make about industrial investment. I do have the feeling that the world may change, and two changes that I think are possible are I think they may extend average life duration by fancy tricks, and I think they may reduce cancer deaths by fancy amounts. I think weird things may happen. I do not intend to make money on any of this if it happens to me. Think of what's already happened in technology. Imagine the whole internet developing, whole different things, and all those old companies, all the daily newspapers dying, and total change in manufacturing processes. It's been a lot of change, and of course it has caused a lot of loss to people that own stocks.

And I do have the feeling that what was really important has probably already happened, and it's going to happen from this point forward. How much better can it be once you have enough to eat and make you like and a few other things. 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 went way up. Air conditioning came. There were million good things that happened. Medicine greatly improved. They can 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 garnered so much already.

Unidentified speaker:

Mr. Munger, on your right. Earlier in the meeting you mentioned the benefits of taking the high road, treating the customers the right way, et cetera. There's a sense which may or may not be true, but there is a sense 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 with my own country with its traditions than I have in what's evolved out of Chinese communism. And of course, I admire... Considering where they were, mired in this Malthusian poverty, and also mired in some ignorance.

And 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. And I think that that smart leader yesteryear has other leaders now who are smart. And I think they're going to keep improving. I even think the Chinese may get over their crazy love of gambling.

I once talked to a bunch of Chinese leaders. I say, I got the Feng shui, and I said get over it, your superstition.

Unidentified speaker:

Good morning, Charlie. Hi, how are you? On your right-hand side.

Charlie Munger:

All right.

Unidentified speaker:

And a quick question, any secret of longevity, and how many hours do you work a day, how do you stay so current with all the information? Are you a lifelong learner?

Charlie Munger:

Well, I don't think I deserve any credit for longevity. It just happened. [Audience laughter] I don't have any... There's no male in my family that ever lived to any such age, and it's weird. I can't help you. [Audience laughter]

Jason Leader:

Okay. Hey Charlie. Good morning. It's Jason Leader, Bellaire, Texas. Thanks for your time, and also thanks for your perspective. You mentioned earlier that some mental tricks have been helpful to you. One was taking the high road, the other is being perfectly rational. What other mental tricks have been helpful to you during your life? And also, you mentioned, you touched on excesses, and you're worried about some excesses, whether it's in venture capital, private equity, political sphere, and also, I guess in government debt. What other excesses do you see in the system right now?

Charlie Munger:

I think the opioid epidemic. I don't think the wide use of opioids has helped us, either. There's always some miserable excess and it's a very complicated subject. Do you remember how the Chinese emperor got rid of opioid addiction when it was something like 1 male in 8, or something like that, in China was an opium addict. 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. And it may not be the worst way to handle it. On that cherry note, I'll go to the next question.

Unidentified speaker:

I'm a father of three young children under the age of 14, and my question to you is, what would you recommend to teach children on how to prepare them to be 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.

Unidentified speaker:

There are over \$10 trillion of securities around the world with a negative yield. And by the president's Twitter feed, it seems that 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 have 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. And I think it was probably the right thing to be done. Of course, it makes me nervous. And I think having worked once, people will overdo it.

And that's the nature of governments and people. And, of course, that makes me nervous. I don't know what to do about this.

Cameron Hamidi:

Hi Charlie, I'm in the back of the room on your right. I'm Cameron Hamidi. My question is about the effects of low interest rates on insurance. Lower returns on float may be causing 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. Otherwise, I don't have any good solution for you. I think you're right to be worried about it.

Steve Hausman:

Charlie, it's okay to talk. I'm Steve Hausman. I've been in the broker business since 1966. I came to your meeting back in the 80's, I think we had 25 or 30 people at your annual meeting. The question I have, with the deficit so high, with interest rates, is interest rates in more of a bubble situation, and I remember back in the 70's we had the Nifty 50. Is [sic] our technology stocks in the same criteria as it is now? It looks like there's 10, 15 stocks everybody's investing. 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, Kraft Foods with your 26% in the company. How come... Is it makes sense to you for your company, for Berkshire Hathaway, to buy out Kraft Foods completely and take advantage of the low price?

Charlie Munger:

Well, I don't think I can comment about what Berkshire Hathaway might do next at what price. But Nifty 50 is an interesting question. At the height of the Nifty 50 craziness, which was credited by the Morgan Bank, of all places, and a home sewing company was selling her 50 times earnings. Home sewing. Great God, we are not that crazy yet.

But I don't think that... I think that a lot of what's happened is not crazy, I think these companies are very valuable. While they may be some 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. Well, I think it's not nearly... The current situation is not nearly as crazy as what... Nifty 50 was absolute dementia.

Nicholas Gangif:

Hi, Mr. Munger. My name is Nicholas Gangif. I'm currently pursuing my MBA at USC Marshall. Many of my classmates are considering careers in private equity and venture capital. You yourself mentioned that some of your family are having careers in private equity. You also mentioned that you see a lot of excess in that sphere. What advice do you give to your family that is starting careers in private equity, and what advice 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. And, I respect their disinterest. But I do think we've got way too much wretched excess. Anytime you're inventing new names to sort of mislead people, like adjusted the EBITDA. Think of the basic intellectual dishonesty that comes when you start talking about adjusted EBITDA. 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 the 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 for owning the same intellectual mix. There's a lot that's... Finance by its nature, the temptations are too great, and 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 and stupidity and greed and so forth. I'm all for staying in control. In other words, I'm all for behaving a lot more like Confucius.

Alan Chung:

Good morning, Mr. Munger. Thank you for having us. It's a privilege to be here. My name is Alan Chung. I'm from San Francisco. My friend Tony Wong wanted to be here and ask this question himself, but he's currently stuck in China, so he's asked me to ask this on his behalf. Mr. Munger, it's well known that you are an avid and voracious reader. Tony wanted to ask, do you ever reread books that you've already read before, and if so, which books do you reread?

Charlie Munger:

Yeah, I do. Let me give you an example of something I want to reread that I haven't re-read yet. The other day, I was musing over the current situation, and it popped into my head that I had read a poem about 80 years ago, by George Sand. And George Sand was a female writer, but you know writers to get ahead in those days 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 if I remember right, toward the end of the goddess if poverty said, "You try and banish me, you'll live to want me back."

I kind of agreed with this poem, and I'd like to see it again. But I don't know how to punch notes on the internet and get George Sand's poem to me. So, if somebody will send me her poem I would very much like it. But I'm telling you this because it's an antidote to our politicians who want to tell us about abolish all poverty. It's a stupid idea. It's like saying we'll all be rich in a modern civilization are a relative thing. It's status what we want, it isn't that we need more means. And the trouble with reaching for status is that the bottom 90 percent are always going to contain exactly 99% 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 everybody else, and I think that 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.

Unidentified speaker:

Mr. Munger, I'm here in the back. Thank you once again for taking our questions today. Really appreciate it. 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 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 fuel cells. Getting the sun's energy transferred into electricity and electricity into the vehicles is basically a good idea for the long pole. And I think all the technology is going to work, and some of it's actually improving. We may get a lithium battery that's actually quite safe and more energetic than those we have now. And I think that's all really good. In fact, here in California... When I came to California, we had a petroleum club. We had wildcatters. We had a big oil industry. It's 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 of it directly from the sun. I think that Texas will eventually get to be like California.

Unidentified speaker:

Mr. Munger, good morning. I'm Sergio from Dominican Republic, and my question is, 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. [Audience laughter]

Liang Hong:

Dear Charlie, my name is . I visit this church today from Tokyo, Japan, where I worked for one of your investees. To borrow words from another blind philosopher, John Melton, Berkshire, Costco and Daily Journal. Please be long choosing and beginning late. This question is for my five children, who may be watching later. How do you nudge your kids and grandkids to hold onto their shares for as long as possible?

Charlie Munger:

I don't think I'm a good model for you. My children seem to do pretty much what they please. And, I find 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 whether your children hold the stock or not.

Unidentified speaker:

Good morning, Mr. Munger. Right here. I'm [inaudible 00:30:49], I'm a student at USC, and just had a quick question. I'm 18 right now, I'm in college and sometimes I lose interest in what I do. And you're 96, and you're so passionate about what you do. So, what keeps you going? Like what is your... 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. 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. [Audience laughter] I don't think I deserve any great credit for having stumbled into a reasonable amount of publicity. I do think that trying to be rational

helped. That's the only thing you've got if you're a fellow nerd. There's no point in you're ... You're not going to be a sex object. You

may have to rely on your rationality.

Brian Lax:

Hey, Charlie. My name is . I'm from Los Angeles. 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 Bill Gates has been a pretty vocal supporter of it. And I read that Warren used to invest in uranium back in the 50s and he more recently helped fund a uranium bank in Central Asia. So, if you had any comments on that as well. Thank you.

Charlie Munger:

Well, I admire Bill Gates, who feels a duty to throw money at stuff that's unpopular elsewhere and that might possibly work. Oh, I think it's an admirable charitable effort by Bill Gates and one for which he's very well suited.

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

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

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

By the way, I would be in favor ... If there were no global warming problem, I'd be at favor of substituting getting power directly from the Sun for fossil fuels starting today even if we didn't have a global warming problem. I think it's a good idea to conserve the hydrocarbons and use more solar energy. That is, by the way, not the normal attitude of other people, but I'm right and they're all wrong. [Audience laughter]

Unidentified speaker:

Hi, Mr. Munger, on your left. My name is Ray and I'm currently a student at UCLA. So, my question is on universal basic income. So, it is a governmental public program for a periodic payment delivered to everyone, without any work requirement. So, I'm just curious about your opinion on a plan like this. Thank you.

Charlie Munger:

Well, if you did enough of it, you'd totally ruin everything. [Audience laughter] A little of it, we can afford. What the exact mix is, we'll be determining through the political process forever.

Chris Antonio:

Hello, Mr. Munger. My name is Chris Antonio. I'm from Marin County. And my question is, you talk frequently about having the moral imperative to be rational, and yet as humans we're constantly carrying this evolutionary baggage which gets 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. And one of my favorite tricks is the inversion process.

And I'll give you an example. When I was a meteorologist in World War II, they told me how to draw weather maps and predict the weather. But what I was actually doing is clearing pilots to take flights.

And I just reversed the problem. I inverted. I said, "Suppose I wanted to kill a lot of pilots. What would be the easy way to do it?" And I soon concluded that the only easy way to do it, would be to get the planes into icing the planes couldn't handle or to get the pilot to a place where he'd run out of fuel before he could safely land.

So, I made up my mind I was going to stay miles away from killing pilots, by either icing or getting them into socked-in conditions when they couldn't land. I think that helped me be a better meteorologist in World War II. I just reversed the problem.

And if somebody hired me to fix India, I would immediately say, “What could I do if I really wanted to hurt India?” And I’d figure out all the things that could most easily hurt India, and then I’d figure out how to avoid them.

Now you’d say, “It’s the same thing. It’s just in reverse.” But it works better, frequently, to invert the problem.

If you’re a meteorologist, it really helps if you really know how to avoid something, which is the only thing that’s going to kill your pilots. And you can help India best if you understand what will really hurt India the easiest and worse.

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

Peter Kaufman, who’s here today, he 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. And you don’t have both points of view, and your reality recognition is lousy.

Peter’s right, and inversion is the same thing. It’s such a simple trick to think, “How does this look from the people above me? How does it look 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 they’re such simple tricks. Like the lever, they really help. And yet our great educational systems give advanced degrees. They don’t teach people these simple tricks. They’re wrong. They’re just plain wrong.

Unidentified speaker:

I have a question about, if you were researching a new company that you’ve never heard of, how would you approach the research process? How much time would you spend? If you performed the intrinsic value estimate and the company was expensive, would you still continue following the company closely and researching it? Or do you kind of try to get to a valuation 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, of course if it's complicated technologically, I tend to leave it to others. I may make an occasional variation on 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 in that than I am.

I don't play in a game where the other people are wise and I am 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.

Yeah, that's my philosophy, and I think you have to know the edge of your own competency. You have to kind of know what ... "This is too tough for me. I'll never figure this out." I'm very good at knowing when I can't handle something.

Ignis Gujarati:

Ignis Gujarati, San Francisco Bay area. My question is about electric vehicles and BYD. Why are electric vehicles sales at BYD down 50 to 70% while Tesla is growing 50%? And what's the future holds for BYD?

Charlie Munger:

Well, I'm not sure I'm the world's greatest expert on the future of electric vehicles, except I think they're coming, generally, and somebody is going to make them. BYD's sales went down because the Chinese reduced the incentives they were giving the buyers of electric cars. And Tesla's sales went up because Elon has convinced people that he can cure cancer.

Hi, Charlie. On your left side.

Charlie Munger:

Yeah.

Unidentified speaker:

It's always a joy being in this room and thank you for creating this community for us to do so.

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 nine decades of observation under your belt, does that ring true? Or does the recent business model shift from subscriptions towards-

Charlie Munger:

No, I think those old proprietors, the people that owned the network news and Time magazine and Newsweek and the monopoly newspapers, I think those people were pretty good. And this current bunch are deliberately lying because it sells better.

No, I liked the old products of nepotism and monopoly. They were 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.

Now, some hatred may have some constructive use, but they're overdoing it. The hatred is too intense. It's cabbaging up the minds. Already cabbaged up the minds of the broadcasters and now it's cabbaging up the people who watch.

Unidentified speaker:

First of all, thank you so much, Charlie, for your time. I'm a big fan. My name is Ramone and I'm a nerd from San Francisco. My nerd friend Arif and I have a question for you related to technology.

There's this common sentiment that technology is both accelerating the pace of change and its impact is broadening across most industries, usurping traditional moats. So given your long career, I'm wondering, do you think the traditionally moaty [sic] 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 after time. Imagine the Eastman Chemical Company going broke. Imagine all these great department store [sic] being on the edge of extinction. Imagine all those monopoly newspapers going down.

Look at the strength of the American auto industry now compared to what it was, say, in 1950. Well, I think the moats are disappearing rapidly. I mean the old classical moats.

I think that's probably a natural part of a modern economic system is that old moats stop working.

Yeah, and let me know what your problem is, and I'll try and make it more difficult for you.

Anika Taun:

Mr. Munger, my name is Anika Taun. I'm a current undergraduate student at UCLA. Similar to the question before on what advice you would give to young individuals with a passion for business and finance, what would you say is the best possible way for someone to expose themselves and expand their understanding of working in the business world, without actually currently being involved in it? And how can I maximize my potential value to a corporation in the future by what I do right now?

Charlie Munger:

Well, that's a good question. There's so many of you now who want to be rich by going into finance. And of course a multitude is not going to all get rich. And, of course, 99% will be in the bottom 99%. That's just the way it's going to work.

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

And the people who get ahead because they're star salesman 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.

And I think that the odds are that most people who try to do finance are not going to succeed. And 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 a carcass in Africa. By the way, that's an image I chose on purpose.

So, I don't think it's so pretty, and I don't think that modern finance is so wonderful. And in my day, a lot of the finance people 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 that just tried ... The people weren't trying to get rich. They were trying to be safe.

This modern world is radically different. And I'm not sure if I were 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 the way it was when I came up. If I were you, my best advance ... I think you'll be happier if you reduce your expectations than if you try and satisfy them.

And by the way, I think that's generally a very good idea. It sounds silly, but it's so obvious. 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.

Jordan Calonego:

Hi, Charlie. My name's Jordan Calonego and I come from Canada. I'd just like to know your thoughts on the errors in engineering 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 and great safety records of the world. They lost their way. They made some dumb mistakes, and I think that's almost the nature of things too, when you try and do something very complicated with hundreds of thousands of people, occasionally there'll be a slip up.

In most places, you have ... 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 six months or something to figure it out, and they must have put an army on it.

Well, they survived that one, and they'll survive this one. But it's really expensive to make a big safety mistake, and of course they should be avoided.

Unidentified speaker:

Hi, Mr. Munger. My name is Alex. Thank you for all the wisdom that you shared with us since you've started. I have twofold of a question. The first is, it's been a while since you've had the Psychology of Human Misjudgment as a talk, and I was wondering if there are any additions you would have that you've seen more recently. And the second part is, you've mentioned how important being rational is throughout your life. Can you walk us through, aside from the tips and tricks 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 latches into it. It's not like somebody who tells you, like, "All you got to do is 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.

No, I just think that you can just see how awful it is when people get into these furies of resentment and anger and, sure, they're right about everything. And 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. And what I concluded was that the social safety net has just come up enormously as the world has gotten more prosperous, that was a really desirable thing, and that the Republicans, who always opposed it, were wrong. The Democrats had always wanted to push the safety net too far ahead, as they did for a while with the welfare program. That was also wrong. And that by and large, what we have is about right. And we wouldn't have got it from either party alone. If either party had been totally in control in a one-party government, we wouldn't have had the result that we have, which is close to right.

And I think power does corrupt. I think too much power ... 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 has, with its ebb and flow. And 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.

Unidentified speaker:

Charlie, thank you for the answer. That can echo with a line, one of my favorite line from your book, "It's better to be roughly right than precisely wrong." With that being said-

Charlie Munger:

It comes from Keynes.

Unidentified speaker:

... could you elaborate a little bit on the project Haven? How are you exactly or specifically doing to improve healthcare, lower the cost, improve quality and the access?

Charlie Munger:

Well, that's a very interesting subject. If you take American healthcare, in many ways 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 has per capita. In fact, we may have as much brains as all the rest of the world together.

On the other hand, if you actually went into American medicine, hospitals, doctors' offices, and so forth, you would find a huge amount of totally counterproductive, unnecessary activity that costs a lot and does no good or actually does harm.

And you'd find that some people are not doing that. Where 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 or prolong 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. You have some basic diabetes drug is trying to charge someone 10,000 a month or something, it's ridiculous.

And I even go further. I think it's evil. And I think the system should be changed, and I think it will be changed. I think there's too much wretched excess in the medical system.

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

And of course, if you do an unnecessary back operation on somebody, it's a major evil. But the guy that's doing it really thinks is good for the patient. In other words, he's turned his brain into cabbage, and 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 do a lot of unnecessary stuff, and other places that do. And I think we're going to have to change the system.

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

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

Unidentified speaker:

Hi, Mr. Munger.

Charlie Munger:

Yeah.

Jeffrey Malloy:

Jeffrey Malloy from McLean, Virginia, on your far right. I've been working in the financial services industry for the past five years. And one of the things that has surprised me is how many of my peers in the industry have sat out the market over the last five years, holding cash in anticipation of a market downturn. And I would think given that we're in our late twenties and we've accumulated savings and have what's hopefully a multi-decade runway ahead of us, the right thing to do would be to start investing now. And my question is, first, do you agree with this assessment? And if so, how would you convince your friends to start investing? Thank you.

Charlie Munger:

Well, I don't ... 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 other folly. And not that I'm picking Rolex is any worse than Patek Philippe or something. [Audience laughter]

But I think everybody should, who's adult, should save and not be stupid at spending money and defer gratification, they get more later, and all those good things that we were taught by Benjamin Franklin. Thrift and so forth.

And 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. And lots of luck if you're an impulsive person that has to be gratified immediately. You're probably not going to have a very good life, and we can't fix you. [Audience laughter]

But if you have a slight tendency to deferred gratification and you can feed that tendency, you're on the way to prosperity and happiness. It's that demand for immediate gratification. It's the way to ruin. It may also give you syphilis. [Audience laughter]

I have just one more question.

Unidentified speaker:

This is the last question.

Charlie Munger:

Evidently, I've ... I'm getting ... They had a saying in Vaudeville, "Give him the hook." Myra Darren has just given me the hook.

I'm an accidental guru. I 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 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.

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

Unidentified speaker:

One last question.

Charlie Munger:

All right go ahead.

Lazaro Herzi:

Hi Mr. Munger. My name is Lazaro Herzi, a graduating senior at Haas School of Business, Berkeley. I wanted to go back to Singapore and ask you a question involving Lee Kun Yew, particularly his housing policies. I'm curious how you think California should address the insane cost of construction and new development right now, and how you would try to create housing in California that would be affordable across all socioeconomic areas to avoid kind of the social evils that Lee Kun Yew has managed to avoid back in Singapore. Thank you.

Charlie Munger:

Well, that's like asking some ordinary klutz, who's drunk, if he can't come up with something like Albert Einstein. It's just too much. Lee Kun Yew was the best nation-builder that probably ever existed, and what he accomplished in Singapore, considering what he started with, was a miracle.

And of course, I don't know how to create that everywhere. I'm not sure Lee Kun Yew could have done it if he didn't have a bunch of his fellow Chinese there. I'm not sure that any other ethnic group would have done it.

I think he had a very ... It looked like a terrible hand. And by the way, there's an interesting story there. He needed an army when he first took over, and nobody would help him. And only one nation in the whole world would help him, and that was Israel. And he said, "How can I accept? I'm surrounded by Muslims who hate me. How can I accept military advice from Israel?" And he finally figured it out. He accepted the help, and he told everybody they were Mexicans. [Audience laughter]

Well, with that little joke we'll end the meeting. Thank you. [Audience laughter and applause]

END OF MEETING

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