

## Words and Wisdom from Charlie Munger

In November 2023, Charlie Munger, Vice Chairman of Berkshire Hathaway, Inc. (BRK.A, BRK.B), passed away at age 99. I attended my first Berkshire Hathaway annual meeting in May 2017. The annual meeting is a wonderful weekend spent with old and new friends in Omaha. I love it and will return this May, but it won't be the same without Charlie on stage.

The wit and wisdom of Charlie Munger were captured in his answers at the Berkshire Hathaway and Daily Journal Corporation (DJCO) annual meetings. While he is featured in all that has been written about Warren Buffett and Berkshire Hathaway, there are only a few books written about Charlie himself. The most important is Poor Charlie's Almanack – The Wit and Wisdom of Charles T. Munger, edited by his good friend, Peter D. Kaufman. Poor Charlie's Almanack is based on Ben Franklin's Poor Richard's Almanack. Munger so admired Ben Franklin that he kept a bust of Franklin in his office. My other favorites are The Tao of Charlie Munger; Charlie Munger: The Complete Investor; and Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger.

Growing up far from Wall Street in Omaha, Charlie brought a Midwestern sensibility to business and investing. Much of his wisdom is common sense. I'd like to highlight fourteen of Charlie's words of wisdom. As you read, you will notice a strong influence on my Hidden to Quality Compounder investment process featured in "[Growth Factor 36](#)".

### Charlie's Words of Wisdom

- 1) Patience – The big money is not in the buying and the selling but in the waiting.<sup>1</sup>
- 2) Preparation – “More important than the will to win is the will to prepare.”<sup>2</sup>
- 3) Business Analysis – “Be a business analyst, not a market, macroeconomic or security analyst... Beta and modern portfolio theory and the like – none of it makes any sense to me. We're trying to buy businesses with sustainable competitive advantages at a low, or even a fair price.”<sup>3</sup>
- 4) Fair Price – “Warren Buffett said, 'Charlie shoved me in the direction of not just buying bargains, as Ben Graham had taught me... A great business at a fair price is superior to a fair business at a great price.’”<sup>4</sup>
- 5) Long-Term Investing – “Understanding both the power of compounding interest and the difficulty of getting it is the heart and soul of understanding a lot of things.”<sup>5</sup>

6) Investing Circle of Competence – “If you have competence, you pretty much know its boundaries already. To ask the question (of whether you are past the boundary) is to answer it.”<sup>6</sup>

7) Multi-Disciplinary Thinking – “You must know the big ideas in the big disciplines and use them routinely... Most people are trained in one model – economics, for example – and try to solve all problems in one way. You know the old saying: ‘To the man with a hammer, the world looks like a nail.’”<sup>7</sup>

8) Importance of Incentives – “Never a year passes but I get some surprise that pushes a little further my appreciation of incentive super power.”<sup>8</sup>

9) The Lollapalooza Effect – “When several models combine... It’s often like critical mass in physics where you get a nuclear explosion.”<sup>9</sup>

10) Avoid Big Mistakes – “It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”<sup>10</sup>

11) Think Backward when Making Decisions– “‘Invert, always invert,’ [Carl Jacobi, a 19th century German mathematician] said. He knew that it is in the nature of things that many hard problems are best solved when they are addressed backward.”<sup>11</sup>

12) EBITDA – “... every time you see the word EBITDA (earnings before interest, taxes, depreciation, and amortization), you should substitute the words, ‘\*%& earnings.’”<sup>12</sup>

13) Reading and Life-Long Learning – “In my whole life, I have known no wise people who didn't read all the time – none. Zero... if you go through life making friends with the eminent dead who had the right ideas, I think it will work better for you in life and work better in education. It’s way better than just giving the basic concepts.”<sup>13</sup>

14) In Summary – “It is occasionally possible for a tortoise, content to assimilate proven insights of his best predecessors, to outrun hares that seek originality or don’t wish to be left out of some crowd folly that ignores the best work of the past. This happens as the tortoise stumbles on some particularly effective way to apply the best previous work, or simply avoids standard calamities. We try more to profit from always remembering the obvious than from grasping the esoteric. It is remarkable how much long-term advantage people like us have gotten by trying to be consistently as not stupid, instead of trying to be very intelligent.”<sup>14</sup>

These are just a few of my favorite quotes from the great Charlie Munger. I encourage everyone to heed Charlie’s advice from quote #14 and read these books about Charlie Munger. Charlie’s absence will be profoundly felt.

- [1] Widely attributed to Charlie Munger.
- [2] Munger, Charles T. Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger. Edited by Peter D. Kaufman, Walsworth Publishing Co., 2005, p. 74.
- [3] Munger. Poor Charlie's Almanack. 2005, p. 75.
- [4] Munger. Poor Charlie's Almanack. 2005, p. 69.
- [5] Munger. Poor Charlie's Almanack. 2005, p. 74.
- [6] Munger. Poor Charlie's Almanack. 2005, p. 65.
- [7] Munger. Poor Charlie's Almanack. 2005, p. 55.
- [8] Munger. Poor Charlie's Almanack. 2005, p. 450.
- [9] Munger. Poor Charlie's Almanack. 2005, p. 57.
- [10] Lowe, Janet. Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger. Wiley, 2003, p. 159.
- [11] Munger. Poor Charlie's Almanack. 2005, p.157.
- [12] Munger. Poor Charlie's Almanack. 2005, p. 120.
- [13] Munger. Poor Charlie's Almanack. 2005, p. 6.
- [14] Munger. Poor Charlie's Almanack. 2005, p. 87.

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