2016 Daily Journal Annual Meeting Transcript

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On February 11, 2016, Charlie Munger hosted the 2016 annual meeting of the Daily Journal Corporation (NASDAQ:DJCO) at the company's headquarters in Los Angeles, California.

[Beginning of recorded material]

Charlie Munger (opening remarks): What's interesting about this company, of course, is that it's a newspaper, historically. Now it's a newspaper that relies on a combination of public service advertising and circulation revenues, and for a long time it was the only efficient means of delivering decisions of appellate courts promptly, which gave us a monopoly. Every year we raised the price of subscriptions, and every year people had to pay it. A wonderful business.

Of course, like other newspapers, technology changed, and the business went to hell as lawyers no longer needed it for information about the appellate decisions. The result was that our newspaper business shrunk.

So we have this newspaper that formerly had monopolistic qualities and like many newspapers it was a fine business. It required some management even so, but it was foolproof. And, of course, the world changed, for us as for other newspapers, and a million dollars a year pre-tax is what we have left.

Whether it will keep going down a little or hold there I don't know, but if any of you are holding this stock because you want that newspaper to come back to its former glory, I suspect you've developed some different rationale.

What we did as we were shrinking toward oblivion was that we made a lot of money during the foreclosure boom. We had more than 80% of the foreclosure notice business and it was like being an undertaker during a plague year. It was huge prosperity for us coming at a time when everybody else was in total agony. That gave us a lot of money and we used that money to buy securities at low prices during a panic, and aided by that peculiar response to the deterioration of our newspaper business, we have entered this software business, and that has been a slow, expensive, troublesome thing.

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We have written off practically everything we spent on it, and we had plenty of taxable income to do that with, and what's happened is that we now have more software revenues than print revenues, and the software business is doing way better. It isn't doing better in terms of reported earnings, but on the sales field we're just doing better and better because our product we honestly believe is way better than the competitors and there's an endless market for software in these public agencies...district attorneys, adoption agencies, courts...you can hardly imagine anything more sure to keep flourishing and to keep needing more and better software services.

Now it's agony to do business with a whole bunch of public bodies and their consultants and their bureaucracies and so on. It's such agony that a lot of companies that are in software don't come near it. If you're Microsoft, you're used to easy money. This just looks like agony. Microsoft did buy one little business that's about half as difficult as ours, and I think it's worth more than they paid for it, but it's not a great success. The really big boys find our niche in the software market such agony that they tend to stay out of it.

I think our products are probably better than those of our main opposition but of course our opposition has way more of the market. As nearly as I can tell we are gaining every month. So what you people have now is sort of a venture capital operation in the software business and the tag-end remnants of a newspaper attached. The stock may be reasonable if you like highly valued venture capital investments. But for you old-time Ben Graham groupies, you're in a new territory. I'm not saying it won't work, but if it works you don't really deserve it. [Laughter]

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All right, now I'll take questions.

Questioner: One question is about Journal Technologies. The other is about your philanthropic efforts. So, with Journal Technologies: in the next year could you tell us about one or two opportunities that you feel real excited about for Journal Technologies. And also in the next year, what are one or two hurdles or threats that you're concerned about?

Charlie Munger: The one I was most excited about was getting the contract from the Los Angeles courts. That's one of the biggest court systems on earth, and that was a crucial milestone as far as I was concerned....

The new business is interesting because it's a big market, and if we get entrenched in it, it will be very sticky. Which has occurred to us as we suffered all this agony. At least we were suffering agonies in the attempt to get in a position from which we'd be hard to dislodge.

The main threat or hurdle is that we want to be the most important player in this new niche. I don't regard that battle as won. I regard that as going well but not won. I'd go further: going very well but not won.

Questioner: You've said that the only thing you want to know is where you're going to die so you never go there. It is a very powerful philosophy. And when you talk about investing, you want to stay in that circle of competence. And a few years ago, Warren Buffett decided to buy IBM, and then I think he's still very optimistic. And some people would say he maybe stepped out of his circle of competence?

Charlie Munger: IBM is a lot like us. They have a traditional business that is very large and very steady. And of course the world changed, and in a lot of what was the new world they were not the leader of. Oracle and Microsoft and all kinds of other people that were formerly not so large. And they didn't do well in personal computers, even though they pretty well started it.

And so IBM is in a position a lot like us in that they have an old business from which cash continues to flow, but they want a new product that's a hit. Now, the product they have chosen to back is this automated checklist. Well, automated checklists are a very good idea and it may be particularly useful in things like medicine.

I would say the jury is out on that. I don't really have an opinion. I'm neither a believer nor a disbeliever . . . It could happen, it could not happen, as far as I'm concerned. I do think the old business of IBM is very sticky and will die slowly. . . . the matter is . . . we make great big bets and hold them for long periods. That's a tough game. We have to make bets that are not the kind of shooting fish in a barrel [bets] . . . and that's one of them. So on that one, the answer my friend is blowin' in the wind. It may work in a mediocre way, it may work big. I just don't know.

Questioner: What advice do you give your grandchildren? And the second question is do you have a favorite investment story?

Charlie Munger: Concerning the grandchildren: I was not able to change my children very much . . . Clarence Darrow quoted, "I am the master of my fate, I am the captain of my soul." Clarence Darrow said, "Master of my fate? Hell, I don't even pull an oar." That's the way I feel about changing the children. As for my grandchildren, I think, thank God they're somebody else's problem. I served my time.

Investment stories from my younger days: This is one I've never told. Years ago, 1962, my friend Al Marshall came to me and said he wanted my help in bidding for some oil royalties being put up for auction. I soon realized that under the peculiar rules of an idiot civilization, the only people who were going to bid for these oil royalties were oil royalty brokers, who were a scroungy, dishonorable, cheap bunch of bastards who realized that nobody would ever bid at their price. [Unintelligible]. [The auction] excluded everybody but these kind of shady difficult cheap bastards.

So we bid for the oil royalties and financed [the purchase]. I think we each put up a thousand dollars? And fifty years later we were getting $100,000 a year on that investment. The trouble with that story is that it only happened once. That's true of most investment stories. You don't get very many. It isn't like that kind of opportunity comes along every day. The trick in life is when you get the one, or two or three that is your fair allotment for a lifetime, you've got to do something about it. So that's my story from my youthful days.

Questioner: How does the current energy environment compare to the early '80s when you were in Wesco?

Charlie Munger: Of course, we owned Wesco for a long time. What was interesting about [the acquisitions of] Wesco is that they were eventually among the most successful investments in the history of mankind. What's interesting about those outcomes is that it was only five or six transactions that carried all the freight. We focused on doing a few things over a long period of time and having them work out well.

Those little nothing companies? They were all doomed savings and loan associations, and savings and loans [were] pretty well gone, and yet they worked out fairly well. There again, just a few decisions over a long period of time. Someone with great investment success once said you make your money by the waiting. That doesn't mean you sit around waiting for the next depression. You can't do that. But a fair amount of patience is required . . . Patience followed by pretty aggressive conduct.

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Imagine sitting there having all this money rolling in from the foreclosure boom and in like one day [being fully invested]. Now that was luck [but] it wasn't luck that we had the money on hand when other people didn't and were willing to deploy it when other people [didn't].

Questioner: Historically, Berkshire was built around its insurance operations to provide a low-cost source of capital. What other business models did you try/consider but ultimately did not pursue?

Charlie Munger: Well, we were always opportunistic. We wanted to buy the best thing that was conveniently available that we could understand. In the early days we thought we had a special advantage as investors in marketable securities. So we tended to look carefully at float businesses.

Nowadays, of course, we have enormous float but not [of] much usefulness. Such is the nature of life. We made so much money out of those float businesses it was obscene in the early days. It is not a tragedy that now our float businesses don't get much advantage above the . . . . Berkshire's cash, which is large, is not getting much of a return. In Europe the rates are negative. In Japan the rates are negative.

Questioner: What do you think about the attractiveness of the average software business?

Charlie Munger: The software-based businesses: some of 'em have become some of the most profitable businesses on earth. Other software companies are shrinking and failing. So it's like the rest of capitalism. It has its good spots and its bad spots. As I said, the ones we're pursuing I think will be sticky if we succeed in it.

Questioner: Journal Technologies is growing slower than some of the competitors are paying high multiples for acquisitions, would you ever consider selling Journal Technologies?

Charlie Munger: Well nobody's offered us a high multiple, and so we haven't had the problem and/or the opportunity. It's a peculiar part of the software business involving a lot of agony now for a payoff way later. You can't judge it as a normal business, or as a normal rollup of profitable companies. It's venture capital; it just happens to be located in a [newspaper] company.

It's venture capital that if it works can gradually evolve into a pretty huge business. But of course, everybody's trying to evolve into a pretty huge business, and only a few will succeed. We're not like a normal software business. And those little companies – you shouldn't call -- those are not acquisitions like Berkshire Hathaway makes acquisitions. Those are not established companies that we're sure to succeed and [are] relatively foolproof.

If we were gonna make our venture capital-type assault on this peculiar part of the software market, we needed momentum from other sales forces and service operations and so forth, so we just bought 'em. But don't judge those things by the standards of normal corporate acquisitions. Those are part of venture capital, and if you don't like it you can lump it.

Questioner: If you were to design CEO compensation for either an insurance company or a bank, how would you do that, and what would you do?

Charlie Munger: At the Daily Journal, there are our own ways of doing things. We don't follow everybody else's established patterns. We just try to do whatever makes sense under the circumstances. Around here, we just ask Gary to do everything. So that's our system here.

Questioner: What are your expectations regarding BYD for the next ten years?

Charlie Munger: Well, we get a lot of questions on a lot of subjects, and I suppose that's a legitimate question. BYD has 220,000 employees. That is a big company. That too was venture capital. That company has done amazing things.

The man who created that company was the eighth son of a peasant. He went to night school and got a Ph.D. and started off by borrowing $300,000 from a bank in China or somebody like that, and went into small batteries for cell phones, and so forth, which was totally dominated by high-tech Japanese . . . And he succeeded in grabbing up a part of the market and starting BYD. And he won the intellectual property aspects of a litigation that followed, which happened in Japan.

So he was a very remarkable man who did an almost insanely ambitious thing. And out of that he now has 200,000-some employees and a huge lithium battery business. It's going to be one of the biggest lithium battery makers in the whole world very shortly. And last month he sold 10,000 electric cars in China, which is more than Tesla sold. Of course, nobody's hardly ever heard of BYD.

It's an interesting company. Berkshire doesn't do this venture capital stuff. [I] hope the Daily Journal works out half as well as BYD worked out. BYD is in a position, on purpose, to benefit from this electrification trend in the world. It's very helpful to them that the people are dying on the streets of Beijing because they can't breathe the air.

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They have to go to electric cars. Grab all these subsidies, and so forth, and be way ahead in terms of [the] efficient manufacturing of electric cars sold.

And electric fork lifts in this country: do you really want a forklift spewing out carbon monoxide in the middle of your warehouse? So electric forklifts are a very big idea. They're very well-located. That's a very interesting venture capital investment. That was an accident, sort of, that Berkshire departed from its standard methods and did that one. And it was an accident that Daily Journal is doing its version of venture capital. I only wish our prospects were as good as BYD's. And by the way, they might be…

Questioner: My question: as an investor, what do you use to value a business or a company…How do you use the discount rate to calculate intrinsic value?

Charlie Munger: Obviously, it's relevant what the return you get on your bonds is, that affects the value of other assets in the general climate. Obviously, your opportunity costs should cover your own investment decision making. If you happen to have a rich uncle who will sell you his business for 10 percent of what it's worth, you don't want to think about some other investment.

If the opportunity cost is so great, considering everything else, you should forget about it. And most people don't pay enough attention to opportunity cost. Bridge players know about opportunity cost. Poker players know about opportunity cost. But in an MBA faculty members and other important people, they hardly know their ass from a plate of hot squash.

Questioner: When you try to arrive at a valuation number using the discount rate, does it mean that between the two rates—

Charlie Munger We don't use numeric formulas that way. We take into account a whole lot of factors. It's a multi-factor thing. And there are tradeoffs between factors. It's just like a bridge hand. You have to think of a lot of different things at once. There's never going to be a formula that will make you rich just by going through some horrible process. If that were true, every mathematical nerd who gets A's in algebra would be rich. . . .

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So you have to be comfortable thinking about a lot of things at once, and correctly thinking about a lot of things at once. And we don't have a formula that will help you. And all that stuff is relevant. Opportunity cost of course is crucial. And of course the risk-free rate is a . . . factor . . .

Questioner: Do you use the same rate for different types of businesses?

Charlie Munger: No, of course not. Different businesses get different treatments. They all are viewed in terms of value, and they're weighed one against another. But a person will pay more for a good business than for a lousy one. We really don't want any lousy businesses anymore. We used to make money betting on reinventing lousy businesses and kind of wringing money out of them, but that is a really painful, difficult way to make money, especially if you're already rich. We don't do much of it anymore. Sometimes we do it by accident, because one of our businesses turns lousy, and in that case it's like dealing with your relatives you can't get rid of. We deal with those as best we can, but we're out looking for new ones.

Questioner: Mental models [which are your favorites]?

Charlie Munger: If you're talking about multiple models, that means you think about many different models, and that's the nature of reality, particularly if you're an investor. There's no way to make that easy. You all are in the business: Do you find it easy? Anybody who finds it easy is wrong. You're living in an illusion. It's not easy. Occasionally you get an easy one, but not very many. Mostly it's hard. How many people find it hard to make good investments right now? [Audience raises hands] An intelligent group of people. We collect them.

Questioner: You've talk about making an effort to eliminate standard error risk in terms of not participating in auctions. In terms of daily habits or life habits, what do you do in terms of things that most people don't to reduce these errors?

Charlie Munger: Two things Warren and I do: One is that we spend a lot of time thinking. Our schedules are not that crowded, and we're constantly—we look more like academics than we look like businessmen.

Our system has been to sift life for a few opportunities and seize a few of them, and we don't mind if nothing happens. And Warren is exactly the same way. Warren's sitting on top of an empire now, but you look at his schedule sometimes and it says, "a haircut. Tuesday, haircut." That's what created one of the most successful business records in history: he has a lot of time to think.

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And that brings me to the subject of multi-tasking. All you people have gotten very good at multi-tasking. And that would be fine if you were the chief nurse in a hospital, but as an investor I think you're on the wrong road. Multi-tasking will not lead you to the highest quality of thought a man capable of doing. Juggling two or three balls at once, where people come at you on their schedule not yours is not an ideal thinking environment. Luckily, a lot of you are so obscure that you have plenty of time to think. [Laughter]

I was in that position for a long time, and it helped me. And I hope it works well you. If it doesn't, I think you're going to have to be satisfied with life in the shallows, because if it didn't work for me, I didn't have a [backup plan]. I wasn't going to dance the lead in the Bolshoi ballet or stand on the mound at Yankee Stadium.

But I do think that the constant search for wisdom and the constant search for the right temperamental reaction to opportunity, I think that'll never be obsolete. And you can apply that to your personal life too. Of course, most of you are not going to get five opportunities to marry some wonderful person. Most of you aren't going to get one. You're just going to have to make to with an ordinary result. The nature of ordinary results is that they're ordinary.

Questioner: You mentioned earlier about Wells Fargo. Other banks were failing, even Washington Mutual. Why was Wells Fargo [a good investment] at that time when other banks were failing?

Charlie Munger: That's a good question. I'll take you back one time before. When Berkshire bought into Wells Fargo, the world was coming unglued in a banking panic. Again, real estate funding had been a sore subject. And Wells Fargo had been huge in the real estate market. This is back when Berkshire first bought into Wells Fargo.

The answer was that we knew that the lending officers at Wells Fargo were not normal bank lending officers. They had come up a lot of them from the Garment District, they had a cynical view of human life, they were appropriately careful, and when they needed to intervene strongly they did so, because they'd learned that was the right way to run a garment . . . business. And they were just better.

So we knew they weren't going to lose as much money as everybody thought they would with a big real estate portfolio, because they'd chosen it better, they'd managed it better, etc., etc. So we had an informational advantage, just based on general thinking and collecting data. We were aware they had that special capacity, and that gave us an advantage, so we bought heavily. That was [the first time].

Number two, the Daily Journal Corporation: When the world was coming unglued, when Daily Journal bought its Wells Fargo stock, again we knew that the bankers at Wells Fargo were more rational than ordinary bankers. It was a different kind of superiority and rationality. It wasn't this big real estate portfolio …but it was still a shrewder way of being in banking.

I don't think anybody should buy a bank who doesn't have a feeling about how really shrewd the management is. Banking is a field where it's real easy to delude yourself and report big numbers and it's a very dangerous place for an investor. So without deep insight into banking, you shouldn't [invest]

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Questioner: Two powerful mental models are the concept of specialization and the interdisciplinary approach. Do you have any advice on synthesizing the two models?

Charlie Munger: Saying you're in favor of synthesis is like saying you're in favor of reality. *Synthesis is reality*, because we live in a world of multiple models, and of course we've got to have synthesis to understand the situation.

And so of course you want to be good at synthesis, and it's easy to say you want to be good at synthesis, but it's not what the reward system of the world pays for. They want extreme specialization. And by the way, for most people, extreme specialization is a disease.

Most people are way better off being a podiatrist than trying to understand a little bit of all the disciplines. You know. I don't want a podiatrist who's trying to be a poet. I want somebody who really knows a lot about feet. And the rest of the world is that way.

So this model of being good at synthesis across a lot of disciplines is very helpful to some people, but it's not the correct career advice for most people. For most people, the correct career advice is to figure out some clever specialty that you get very, very good at and get what the world rewards. The trouble with that is if that's all you do, you make terrible mistakes everywhere else. So the synthesis is your second attack on the world, and it's really defensive. Without synthesis you'll be blindsided in all the other parts of your life.

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Questioner: Last year you said that rationality is one of the things that is most important to you. What advice would you give somebody to improve his own rationality?

Charlie Munger: Well I'd say if you start working at it young and keep doing it 'til you're as old as I am, it's a very good idea. And it's a lot of fun. I can hardly think of anything that's more fun if you're good at it. And I think I have a lot of cousins in this room. And all I can say is you're on the right track. You don't have to be the Emperor of Japan to get rational you can avoid a lot of hopeless messes.

You can help a lot of people avoid hopeless messes. You can be a very constructive citizen if you're always rational. Being rational means avoiding certain things that are awful. Try anger, try resentment, try jealousy, and try envy. All those are one-way tickets to hell, and a lot of people just wallow in it. And of course it's a total disaster for them and everybody around them. Another one is that is just awful is self-pity. If you're dying of cancer, don't feel sorry for yourself. Just chin up, and suck it up and play through. Self-pity is my number-one . . . just forget about it. Take it out of your repertoire.

Questioner: Increasingly, men and some women don't find ROI in a long-term relationship worth. What is your evaluation of this?

Charlie Munger: Well I think different folks can live in different ways, but I think all the evidence is that marriage is the best practical alternative for most people, and the statistics show it. They live longer. They measure happiness physiologically, smiling and all that…. It isn't that a lot of marriages don't fail and a lot aren't made in Hell and all that, but considering how difficult the world is, it's your best chance for most people. And of course it should be valued. That's one of the things I like about the Asian cultures. The Confucian idea that the family is really important . . . too, for that matter, is a very sound idea. If we ever lost family values we would have a hell of a lot of [trouble].

Questioner: My question relates to the decision to purchase some real estate at Logan, Utah, vs [deploying] capital elsewhere . . .

Charlie Munger: We think we're going to be in Logan, Utah, for a long time. We have a very happy bunch of employees there. They like their work, they like their community, they like everything about it. It's part of a business operation.

We've got customers who come there; it's a very presentable building. I've never seen it, but there's a river that flows by. Of course we're glad to own this real estate. We bought it cheaply, we built it cheaply, it's a nice piece of property, the neighborhood around it is steadily upgrading. Our way of getting ahead was not to be real estate operators, but we don't mind owning some real estate as part of the business.

Questioner: Do you think a person who can't make money running a New Jersey casino is qualified to be President of the United States?

Charlie Munger: Well he did make money for quite a while. My attitude is that anybody who makes his money running a casino is not morally qualified to be president. I regard it as a very dirty way to make money.

Questioner: What has given you personally the greatest personal sense of accomplishment? And if you had advice to give a younger version of yourself, what would it be?

Charlie Munger: Well, my family life has been important. On the other hand, I hated poverty and obscurity. I tried to get out. It has given me some satisfaction, because I've come a long way from where I started. I think most people who come a long way from where they started feel pretty good about it.

I think that most of the people that finally sit on top of their [fields] even if they're only stay there for 15 seconds, are kind of proud of the fact that they got up there. And so I think that's good. Cicero used to say that one way to be happy in old age is to remember a lot of achievements in your past. Now some people say well that's too damn self-centered and you should be thinking about God or something, but I agree with Cicero. It's okay to live the kind of a life that you're kind of pleased with when you're old and look back.

My advice is always so trite. The good behavior, the being dependable, the morality – it makes your life easier, it makes it work better. You don't have to remember your lies, which gets complicated if you're lying all the time. In fact, it gets so complicated you're sure to fall off and be recognized as a liar. And so, sure, I like all the old-fashioned morality words, all the old- fashioned discipline words, and the old-fashioned good behavior, and a little generosity.

We all know people who come to the funeral to make sure they're [sic] dead. You don't want to be in that trap. You want to live your life so some people will actually miss you when you're gone.

I think Kipling's "If" is great poetry. Kipling doesn't exist in the modern college anymore; he wasn't politically correct. Well I Kipling's "If" is great poetry and it's great advice. "Keep your head when all about you are losing theirs." What's wrong with that? "Be a man, my son." Why don't you want to be a man? You want to be some idiot child all your life? Some angry twit? There's so much to gain by never being an angry twit.

You want be philosophical. This political situation we all face now. Of course, it's a disgrace. I mean, it's bad that the leading civilization has these candidates for high office. And they're not all in one party. But you don't want to get angry. After all, politicians have been politicians for a long, long time. You want to operate constructively, vote constructively. But anger. There's just so much anger in politics now, so much automatic hatred.

How can any of us really know if United States be better fifty years from now because we vote Republican or we vote Democratic in the next election? Who can tell what the exact mix is between compassion and something else? And so. And by the way the Muslim behavior rules were created a lot like the Old Testament. Of course they copied. They claim they came directly from God, but really they stole them from the Jews.

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Questioner: How do you understand a new industry or new business you're trying to get into where the dynamics are different? How do you get insights into the specific domains? What is the relationship between oil prices and economic growth?

Charlie Munger: I don't really know the correlation between oil prices and economic growth. I think it's obvious that if oil had been a little cheaper and easier, the growth would have been greater than it had, and in that sense if oil gets to be expensive, and we still need it desperately and there is that correlation between oil prices and economic growth.

On the other hand, you take Exxon and Chevron and so forth. What's happened to make those things good investments over the long term is that the damn price of oil went up faster than their production went down. Now maybe in other business you get richer and richer as your production in real units keeps going down, down, down. Not everybody would have predicted that in advance, including most of the economists. But it's a complicated subject.

And there's another trick to it. People who really have a lot of free energy, like the people in the Middle East, have very dysfunctional economies. They're like a bunch of rich people spending their capital and not knowing how to do anything anybody else wants to buy. So, maybe in that sense I think a tougher hand has been good for us. My answer to that question reminds me of my old Harvard law professor who used to say, "Charlie, let me know what your problem is and I'll try to make it harder for you." I'm afraid that's what I've done to you.

As for how do I understand a new industry: the answer is barely. I just barely have enough cognitive ability to do what I do. And that's because the world promoted me to the place where I'm stressed. And you're lucky if it happens to you, because that's what you want to end up: stressed. You want to have your full powers called for. Believe you me, I've had that happen all my life. I've just barely been able to think through to the right answer, time after time. And sometimes I've failed.

Questioner: Last year you had some very pointed comments about Valeant. Do you have any updated thoughts or any thoughts on other companies?

Charlie Munger: It's caused me nothing but trouble. It probably wasn't wise for me to inject myself into this. I have no dog in that hunt. I have no interest in the pharmaceutical business. I have no interest in Valeant. It's just that you people have come so far… I feel obligated to tell you a few good stories and make comments about current affairs. [Laughter]

Valeant was such an extreme example of misbehavior and crazy greed and what have you that I couldn't resist calling attention to it. And it ended up with one of Valeant's shareholders saying that Warren Buffett was a sinner because he owned Coca-Cola. [Laughter]

I drew retaliation to Warren. By the way, that's a good place. If anybody's mad at me today, get mad at Warren. He can handle it. He's a very philosophical man.

It is true that these crazy false values and this crazy excess is bad morals and it's bad policy. It's bad for the nation. It's just bad, bad, bad. And there's a lot of it. Now of course a lot of it is in American finance.

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The truth of the matter is that . . . Elizabeth Warren doesn't agree with me on many subjects, and I wouldn't agree with her on many subjects, but she is basically right when she says that American finance is out of control and that it isn't good for the rest of us. Both Elizabeth Warren and Bernie Sanders are not two of my favorite people on Earth, but they are absolutely right [about finance].

You all see what goes on in finance: the craziness, the promotions, the fuzzy accounting, the crazy trading cultures…. It's very bad for all of us that we have this huge overdevelopment of finance. And yet it's very hard to do anything about it.

What happened: if you look back to, say, Edwardian England or the First World War, maybe 300 people, males, owned half the land in England. They had nothing to do. I mean, their under-butlers had under-butlers. What did they do, they went down to the clubs in London and sat around the card tables and gambled with one another for high stakes. That's what human nature does when people have a lot of leisure. Fade, in fade out, and multiply the wealth per capita of the world by 30 or so and now we got all kinds of people who are like the lords of England who had all that time to play cards against one another and enjoy the thrills and things of gambling.

So we have a vast gambling culture, and people have made it respectable. Instead of betting on horses or prizefights, we can bet on the price of securities or the price of derivatives relating to securities, and we can bet on athletic contests. We have a huge amount of legalized gambling. And of course the public market, which operates every day with transactions, is an ideal casino. And there are a whole bunch of people who want to own a casino and make a lot of money without losing money on inventories or credit . . . and many other irritating parts of business. Just to sit there every night and go higher and higher. Who doesn't want to be croupier in a casino? And very respectable people get drawn into it. They see other people getting rich.

There's way, way too much of that in America. And too much of the new wealth has gone to people who either own a casino or are playing in a casino. And I don't think the exaltation of that group has been good for life generally, and I am to some extent a member of that group.

I'm always afraid I'll be a terrible example for the youth who want to make a lot of money with and not do much for anybody else and who just want to be shrewd about buying little pieces of paper. Even if you do that very honestly, I don't consider it much of a life. Just being shrewd about buying little pieces of paper, shrewder than other people, is not an adequate life. It's not a good example for other people.

It's the reason that people like Warren and me are a) charitable, and b) we're running businesses. We're not just buying little pieces of paper. So I think that we have something going in our nation that is really very serious and very bad. And I hate to agree with Elizabeth Warren on this subject, but she's right. And I don't see any way of stopping it except with some big legislative change. And you'd say, what difference does it make? Well, what happens is – as the cyclicality of gambling in securities and other goes on – what happens is the big busts hurt us more than the big booms help us.

We saw that when the Great Depression ended in the rise of Adolf Hitler. A lot of people think that Hitler rose because of the great Weimar inflation. Well you know Germany recovered pretty well from that Weimar inflation. What they did is they destroyed the currency, and they just issued a new currency. It's very interesting. They got rid the mortgages and inflation, and they put the mortgages back and they [issued] a new Reichsmark. And that worked pretty well, just like it works fairly well in Argentina.

What really enabled Hitler to rise was the Great Depression. You put on top of the Weimar inflation the Great Depression, and people were just so demoralized that they were subject to being snookered by a guttersnipe like Adolf Hitler. So I think this stuff is deadly serious in that these crazy fools should never let people like Alan Greenspan – he's an amiable man, but he's an idiot – should not make the head of the Federal Reserve and governor of all banking; somebody whose hero is Ayn Rand, who believed in no government at all.

It was a very unlikely place to look for correct decision-making, and we probably got the kind of decision-making we deserve. I think he's an honest and amiable man, but he just didn't see reality the way it was. A lot of people think that if an ax murder happens in a free market, well it has to

> *"A lot of people think that if an ax murder happens in a free market, well it has to be all right because free markets are all right."*

be all right because free markets are all right. A lot of those people are in my party, by the way.

Questioner: The automobile industry right now is appreciably different today than it was ten years ago. Does it make sense to have General Motors in a Berkshire portfolio?

Charlie Munger: General Motors is in the Berkshire portfolio because one of our young men likes it, and Warren lets the young men do as they please. Warren when he was a young man didn't want any old men telling him what to do. He gives them that kind of freedom. I haven't got the faintest idea why this young man likes General Motors. It is true that it's statistically cheap. But of course – and it may be impacted by the Federal Government in the end, so it may be a very good investment.

But the auto industry is about as brutally competitive an industry now as I have ever seen. Everybody knows how to make good cars. Everybody. They rely on the same suppliers, and the cars last a long time with very little service. This has all the earmarks of a very commoditized, difficult, super-competitive market. So I don't think the auto industry is going to be a terribly easy place to [invest]. And it may actually shrink one of these days. In other words, the culture everybody has . . . cars could actually shrink. So I think the auto industry is not [the place to be]. If I were investing in the auto industry, I'd want some place that's really a hell of a lot better competitor than the others. And that's hard to find.

Questioner: For most of the oil market's history, there's been some entity imposing production controls. But today Saudi Arabia has acted more as a . . . oil producer than controlling OPEC production. Would you suspect that this will result in negatives affecting the economics for all those involved in oil production?

Charlie Munger: You know I would not have predicted that oil would be distressed in price. In fact, if you'd forced me to bet, I would have bet that what has happened wouldn't have happened. I think it is generally true that with these commodities you can get periods of extreme high prices like we had and extreme low prices, like we have now . . .

So I think that commodities can do strange things, both up and down in terms of price. And of course they have macroeconomic consequences, huge consequences. If you're in Australia, having these commodities go way down is terrible. If you're the tar sands area of Canada, having oil prices go down the way they have now, I don't know even know how economic it is to produce tar sands oil at $30 a barrel. My guess is that it's not very attractive. And it may not work at all for many people. So you're in a weird period.

But I think it's the nature of the human condition that with free markets and stuff like iron ore and oil you're going to have weird periods of high prices and weird periods of low prices. I've never been able to predict accurately, or make money predicting accurately, those swings. We tend to just get into good businesses and take the bumps as they fall.

Questioner: Would you please recommend some books that you've enjoyed lately.

Charlie Munger: Well, you know, you people send me books. I have to skim them so rapidly that I no longer develop the joy of reading I used to when I picked a few books of my own books to read. So you're ruining my judgment of books. I can't resist reading the damn things if you send them to me, though I skim a lot of them, and I like each one in its way because it's different from anything else I normally do. But I'm no longer a good book source.

Questioner: Would you mind sharing with us some highlights of your philanthropic work and what inspires you about it, and what sort of results you'd like your work to produce in the future?

Charlie Munger: Well, I've never wanted to tackle problems like world peace. You know, I've read enough biographies. Carnegie thought he was so smart, so he thought he'd use his money and bring on world peace. And he created the court of The Hague and all kinds of very expensive things. And the ink was barely dry on his creations when the crazy monarchs of Europe stumbled into World War I with the carnage and the poison gas and the agony and stupidity. And so that was quite demoralizing at the time. So I'm not trying to bring on world peace. I watched Carnegie try it, and I decided if he couldn't do it I'm going to leave it alone.

I don't take on those big subjects. I like to create dormitories and science teaching facilities and stuff like that. It's a pretty modest activity, but it's interesting to me, and it's easy to do them better than most people do them. I have no feeling I have any advantage in bringing on world peace, but I am pretty good at dormitories. So I do what I'm good at, and I suggest that all of you do the same thing.

Questioner: Mr. Trump is saying that he believes income inequality is an issue that needs to be addressed, with Senator Sanders campaigning on this issue. And some of the people of my generation are starting to "feel the Bern". How would you address this?

Charlie Munger: Well that's a very good question, because it's so au courant. Sadly, I happen [to believe] Sander is a little nuts. People who really were passionate about egality and wanted to bring it about by government action gave us things like the Soviet Union, with all the deaths and agony and the deep poverty they have now. And Communist China and North Korea. I mean, I'm suspicious of all this passion for egality that has such bad examples.

On the other hand, if you want to look at what non-egality brings us, let's just take Communist China. Communist China had egality, meaning that three-fourths of the people were dirt-poor, subsistence-level poor, but they had the advantage to be equal: they were all struggling to get enough to eat.

And of course when they adopted some private property and more property rights and so on, what they got was that living standards were advanced by a factor of ten or so more quickly than anybody ever had [seen]. And of course there are now all these rich Chinese. I think it was a very good bargain for the Chinese.

In other words, I don't think Sanders understands this at all. He doesn't want to understand it. He has a religion. He's had it for thirty years. He's a Johnny-one-note. As an intellectual he's a disgrace. I'd think I'd be awfully glad to have him marry into the family just based on his personal characteristics, but as a thinker he's pretty bad. Now, I don't think he's any worse than some of our Republicans, but at least they're crazy in a different way.

> *"People will cheerfully tolerate considerable differences of outcome if they seem deserved. Nobody minds the fact that Tiger Woods has a big income…"*

But egality has one effect in a democracy that Aristotle commented on. People will cheerfully tolerate considerable differences of outcome if they seem deserved. Nobody minds the fact that Tiger Woods has a big income . . . and somebody who invents some new wonder of the world, etc., etc. But differences in outcome that are seen as undeserved tend to disrupt democracy. That's why Aristotle commented on it in one of his most well-known observations.

And, of course, who is getting the undeserved money in America now? Good question. It is not Bill Gates, it is not the people who create the new companies and have an idea. But a lot of the financiers who [were talking about] have a lot of undeserved wealth that provokes a lot of envy. And to some extent – well I think envy is always a bad idea. I don't think we want a lot of undeserved wealth in the financial class, in many cases for doing nothing, or acting counter-productively. So I think that fixing the obviously undeserved wealth for a lot of people would be a constructive thing.

You take the ordinary investment partnership. Not only do they get capital gains on what for anybody else would be ordinary income, they don't pay any income tax at all on enormous accretions of wealth, because this unrealized appreciation has gradually shifted to the general partner, who takes securities out and leaves the business without recognizing the gain. We have enormous liquid fortunes being made with no taxes at all. And it's not very complicated to understand.

And, so, I think by and large you're going be unhappy with inequality, but I think inequality is a natural outcome of a successful civilization that is improving for everybody, and all this stuff about the wealth of the top one percent or one-tenth of one percent: what the hell can the guy do at the top one thousandth of one percent? He has to eat the same food, watch the same television, leave the money to something . . . Is he the main problem we have? He's not really using the wealth very much. And most of these guys are not that interested in politics. People who like to talk about the [wealthy's] terrible influence on politics. If you're rich you realize how little influence the rich really have. You see a lot of people lay out a lot of money, who are rich, and get practically nowhere.

So I think these people who are raging about inequality, like Warren and Sanders, are wrong; but I think the people who say the undeserved wealth deserves some attention, I think they're right. And I think a huge source of the undeserved wealth is coming from finance.

Questioner: You mentioned Wells Fargo and its culture, [as] the reason why you [got involved] back in the 80s. [You also own] Bank of America, and its culture is a little different. And I'm curious [about] the decision of buying Bank of America.

Charlie Munger: The Bank of America was bought the way we used to buy securities . . . It was selling for less than a quarter, way less [than it was worth].

Questioner: I'm pretty excited about the prospects on self-driving cars in the next ten to twenty years. It seems like the technology is moving very quickly. But as a Berkshire shareholder I'm worried about the implications for the entire auto insurance industry if accidents, hopefully, become a thing of the past. That's good for civilization, bad for the auto insurance business. I would love to hear your thoughts on that.

Charlie Munger: Well you're right. If all cars run around without drivers, it will be bad for casualty [insurance]. But I don't think it's going to happen very quickly. In fact, I think it's going to be quite slow. I think that even if we don't get self-driving cars, that culture may be waning. Not so much in the Third World, but in places like America.

Questioner: If you could maybe publish a book list of the books in your personal library, we could continue learning….

Charlie Munger: I don't want to be a book recommender. It would be quite time-consuming. So I'm afraid you'll have to find another [source].

Questioner: My focus this year is on opportunities. A lot of people here have the ability to do well, but they don't have the opportunity to meet the right people. And Ronald Burkle credits you with giving him credibility when he was attempting to acquire grocery stores at age 30. Who was your mutual acquaintance, and how was Ronnie, Ron Burkle, able to meet you in the early 1980s?

Charlie Munger: Well, the last big…. In those days we had a lot of declining businesses, and one of them was trading stamps. And our last big trading stamp was the company that Ron Burkle's father ran. And that is how I met Ron Burkle. It was an attempt to preserve that customer, the last customer we had. In due course, I failed in all activities and Ron Burkle, on the other hand, did nothing but succeed. So maybe you should ask him.

Questioner: What's your view on unicorn companies like Airbnb, Uber, and Palantir?

Charlie Munger: My attitude is that I have a circle of competence that does not include correctly predicting which new companies in Silicon Valley, or that are dependent on Silicon Valley, are going to succeed. So I tend to avoid the subject entirely. I make my way in other fashions.

However, I will comment on one thing: manipulated finance. As these venture capitalists – part of the finance industry, the constructive part – these are the people who make their living more honorably than the rest of the people in finance because they're actually allocating capital into business – so venture capitalists are useful members of finance. But they don't escape their share of sin.

What they've gotten in the habit of doing is creating these rounds of financing, and each new one is at a higher value. But if you sneak a little clause in saying that nobody who previously bought into the venture gets anything until new guys are reimbursed . . . Well that is sort of like a Ponzi scheme. It's a disgusting, tricky, dishonorable thing to do, particularly since it's obscured, and of course it's being deliberately obscured. So even our most reputable part of finance has dirty, sleazy activities creeping in, and it will ever be thus. Large amounts of money make people behave badly. That's Munger's rule.

> *"Large amounts of money make people behave badly. That's Munger's rule."*

Questioner: Apparently the environment that we invest in now is very different from when you started. With high-frequency trading, momentum trading, and all that, do you think fundamental value investing is losing relevance?

Charlie Munger: I don't think fundamental value investing will ever be irrelevant because of course if you're going to succeed in investment you have to buy things for less than they're worth instead of more than they're worth. You have to be smarter than the market. That will never go out of style. That is like arithmetic. It's going to always be with us. Now, as for high frequency trading, that is a complicated subject. I think that the high-frequency traders of the world – many of them are personally admirable as people – I think they have zero contribution to the American economy. They are a bunch of rats in a granary. Just sucking some of the [wealth] for themselves and leaving nothing to the civilization.

Questioner: You mentioned that you haven't changed your children much. Do you have an approach for quality time with family?

Charlie Munger: Well, I don't think I want to give myself as some kind of wonderful example of family life.

Questioner: Do you think that Coach Bryant at Alabama is . . .

Charlie Munger: I'm better about the ballet.

Questioner: Could you name a few people you especially admire?

Charlie Munger: Well of course there's a lot of historical people I admire. That's one of the advantages of being a reader. You can consort with some of the best people who ever lived. And that's what I do with a lot of my time.

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I admire a lot of people: surgeons or some actor who gets to be the best in the world who moves and entertains a lot of people. There are a lot of people who are constructive, intelligent and generous and who improve the world for the rest of us. And there are a lot of people who are good examples on the Costco Board.

I spent some time on the Costco board with Dan Evans, who was both a senator and governor in the state of Washington. He was a really admirable, sensible, politician. And there are so few politicians like Dan Evans. You get all these gerrymandered districts and all these crazies on the right, crazies on the left who like only people who are like themselves. But you find a Dan Evans . . . I think there will always be admirable people, and that is what we all ought to be: we ought to be admirable. What we want to be is the kind of people other people name in their wills to raise their children if they die unexpectedly. [If people are] doing that, you'll know you were doing something right. You were doing something very shrewd if [people ask you to] raise their children.

Questioner: I was once given the advice that it's really important to conquer fear. I'm wondering if you would speak to your relationship to fear and whether you've conquered it.

Charlie Munger: Well generally I've avoided certain chances, which automatically cause reasonable fear. My son is in the audience. When my son was young he used to say, "Well if at first you don't succeed, so much for hang gliding." [Laughter] And so I don't seek out fear to get thrills. I don't even seek out the appearance of fear when. Generally I'm not a great lover of danger, or even the appearance of danger. That's not my thing. I don't think I've felt much fear for a long time.

Questioner: How did you get there?

Charlie Munger: I just lived a long time. I had fears when I was younger, but they gradually melted away.

Questioner: Would you address the future of the beverage business [and Berkshire's investment in Coca-Cola]?

Charlie Munger: Well that's an easy one. For many decades, the basic product, full-sugared Coke, grew every year. It was like an inevitable march of time. In recent years, full-sugared Coke is declining. Fortunately, the Coca-Cola Company has a vast distribution business infrastructure and a lot of other products, so while Coca-Cola as an individual product is declining some, instead of going up the way it always did before, the rest of the businesses are on average rising. So I think Coke is a pretty strong company and will be a respectable investment, but it's not like it used to be when it was like shooting fish in a barrel.

[End of recorded material]