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2017 DAILY JOURNAL ANNUAL SHAREHOLDERS' MEETING

“Obviously if you’re glued together and honourable, and get up every morning and keep doing it, and keep learning every day and are willing to go in for a lot of deferred gratification all your life, you’re going to succeed.”

- Charlie Munger

We were delighted to attend the 2017 Daily Journal Annual Shareholders' Meeting with its Chairman, Mr. Charles Munger. The Q&A session with Mr. Munger (age 93) lasted two hours and covered a range of topics.

An estimated 200 people attended the meeting this year at the Daily Journal Offices in Los Angeles.

We believe that the following notes are an accurate depiction of the meeting, however we have omitted discussions on topics unrelated to investing and business success.

We hope that you enjoy reading these notes as much as we enjoyed attending the meeting and putting them together!

Munger: Many of you come from great distances and you’re not very interested in the Daily Journal Company, you’re cult members!

[Laughter]

We’ll take a few questions on the Daily Journal before moving to general Q&A.



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Q: Daily Journal owns a lot of Wells Fargo, could you comment?

Munger: Well, Wells Fargo had a glitch. The truth of the matter is they made a business decision that went wrong. They got so caught up in cross selling and having tough incentive systems so aggressive that some people reacted badly and did things they shouldn't have. Then they used some misjudgement in reacting to the trouble they got in.

I don't think anything is fundamentally wrong with the loan pool at Wells Fargo. They made a mistake. And it was an easy mistake to make under the circumstances.

The smartest man I ever knew made the same mistake. Henry Singleton, of Teledyne, was the smartest single human being I ever knew in my whole life. He also had very aggressive incentives like Wells Fargo. Teledyne's biggest customer for many of its subsidiaries was the U.S government and of course it's not that hard to cheat the government.

Two or three out of the 20 subsidiaries cheated the government all at once, it wasn't that he was trying to cheat the government it was just that he got a little aggressive in applying the incentives and he got blindsided. That can happen to anybody.

I don't regard setting incentives a little aggressive as wrong for Wells Fargo, the mistake there was that when the bad news came they didn't recognize it right away.

But you know what happens in a tough system like capitalism when you make a mistake like that? Pretty soon you're gone.

One nice thing about doing something dumb, if you're smart, is that you won't do it again.

[Laughter]

Q: Do you think helping society and focusing on what you're good at are the right things to help you decide on a career?

Munger: Well in terms of picking what to do, I will report to all of you that in my whole life I haven't succeeded much at something I wasn't interested in. So I don't think you will succeed if what you're doing all day doesn't interest you. You have to find something you're interested in because it's just too much to expect of human nature that you'll be good at something you dislike doing.

Of course you also have to play in a game where you have some unusual talents. If you're 5' 1" you don't want to play basketball against a guy that's 8' 3", it's just too hard. You have to figure out a game where you have an advantage and it's something you're deeply interested in.



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Of course you want to be ethical, on the other hand you can't be just dreaming about how you think the world should be run and think it's too dirty for you to get near it. You can get too consumed by some ideological notion, particularity at a left wing university. You think you're handling ethics and it's not working as you watch the world go by and maybe smoking a little pot to boot!

[Laughter]

This is not the Munger system! My hero is Maimonides and all that philosophy he did after working all day as a practicing physician all his life. He believed in the engaged life, I recommend the engaged life. Don't spend all your time on where a politician is right or wrong, if you're thinking about that you're on the wrong track.

You want to do something every day where you're coping with reality. You want to be more like Maimonides and less like Bernie Sanders.

Q: What is American Express' competitive advantage given the amount of change going on in the payments industry?

Munger: I want to tell you that I am confused too. If you think you know exactly what's going to happen in the payments system ten years out then you're probably under some state of delusion. It's very hard to know. So if you are confused, all I can say is welcome to the club. They are doing the best they can, they have some huge advantages. It's a reasonable bet, nobody knows.

I don't know if IBM is going to sell much of Watson. I always say I am agnostic on the subject. If you're talking about payments ten years out, I am agnostic on that too. They try and do the right thing and play the game hard, their chances are better but those things aren't knowable - just think about how fast they change.

Q: What are your thoughts on domestic oil and gas production given its high capital intensity?

Munger: I have a different opinion on this than practically anybody else in America. I wish we weren't producing all of this natural gas. I would be delighted to have our deposits lie there untapped for decades and pay a bunch of Arabs to use up their oil. But nobody else in America seems to feel this way. I am into deferred gratification.

Oil and gas is not going away, it's important. I don't think it's a good idea to use it all up but I am the only one who feels this way. I regard our reserves just as chemical feedstocks, I would be delighted to use them up more slowly.

By the way I am sure I'm right and the other 99% of people are wrong.

[Laughter]

Q: How can you survive as a polymath in a world that celebrates specialization?

Munger: Well that's a good question. I don't think operating over many disciplines as I do is a good idea for most people. I am better at it than most people would be and it's fun for me. I don't think I'm the best at handling differential equations so it's been an incredible path for me, but for everybody else it makes sense to specialize and get good at something society rewards. Even when you do specialize you should still spend 10-20% of your time trying to know all of the big ideas from the major disciplines.

I use this phrase again and again - otherwise you're like a one legged man in an ass kicking contest! This is not going to work very well. You have to know the big ideas in all the big disciplines if you want to live a safe life outside a cave. However, you shouldn't neglect your job as a dentist to think about Proust.

[Laughter]

Q: Can you talk about lollapalooza effects?

Munger: I realized I didn't know anything about psychology and that was really a mistake on my part. I bought the three main textbooks for introductory psychology and of course being Charlie Munger I decided that the psychologists were doing it all wrong and I could do it better. One of the ideas I came up with that wasn't in any of the books was the lollapalooza effect when three or four of these tendencies were operating at once in the same situation.

I could see that it wasn't linear when you got lollapalooza effects. But the psychology people couldn't do experiments with four or five things, it got too complicated to publish so they were ignoring the most important thing in their own profession. And of course the most important thing was to synthesize psychology with everything else, but the trouble is they don't know anything about everything else. You can't synthesize if you don't know the other thing, that's where I came up with lollapalooza stuff.

By the way, I've been lonely ever since.

[Laughter]

And, by the way, I'm totally right.

Q: Can you talk about Warren and the comments you made about his improvement as an investor since he turned 65?

Munger: Well, if you're in a game and you're passionate about learning and honing your old skills then of course you do better over time. And some people are better at it than others. It's amazing what Warren has done, Berkshire would be a very modest company now if Warren never learned anything. We bought into things like ISCAR that Warren never would have bought. Ben Graham would have never bought ISCAR. We paid five times book for it. It wasn't in the Graham playbook and Warren, who learned under Graham learned better over time. And I've learned better.

The nice thing about the game we're in is that you can keep learning. We're still doing it. Imagine, we're in the press for all of a sudden buying airline stocks. What have we said about airlines? We thought it was a joke it was such a terrible business. Now if you put all our stocks together we own one minor airline!

It's a cataclysm but we did the same thing on railroads. We said railroads are no damn good. Too many of them and there's truck competition. We were right, it was a terrible business for 80 years but they finally got down to four big railroads and it was a better business. Something similar is happening in the airlines business.

On the other hand, this morning I sat down in my library with my daughter in law. She got a round trip ticket to Europe, including taxes, for \$450. And we're buying into the airlines business?

Now they might turn out to be a good idea for the same reason the railroads turned out to be a good idea. Now in the old days, for years and years what we did was shoot fish in a barrel. But it was so easy that we didn't want to shoot at the fish while they were moving. So we waited until they slowed down and then we shot at them with a shotgun.

[Laughter]

It was just that easy. And it's gotten harder and harder and harder. And now we get little edges, where before we had total cinches. And it isn't any less interesting. We do not make the same returns we made when we could pick low hanging fruit off trees. So now we go into things, like we bought the Exxon position. You want to know why Warren bought Exxon? As a cash substitute.

He would have never done that in the old days. We had a lot of cash and we thought Exxon was better than cash in the short term. That's a different kind of thinking than when Warren came up, he's changed. And I think he's changed when he bought Apple. Think of the hooting we've done over the years about high tech, we don't understand it, it's not in our circle of competence, the worst business in the world is airlines, and what do we appear in the press with? Apple and a bunch of airlines!

I don't think we've gone crazy. I think we've adapted when business got much more difficult. I don't think we have a cinch in either of those positions, we have the odds a little bit in our favour and that's the best advantage we can get. I used to say you have to marry the best person that will have you, that's a rule of life. You have to get by with the best advantage you can get. Things have gotten so difficult in the investment world that we have to be satisfied with the type of advantage that we didn't used to get.

On the other hand, the thing that caused it to be so difficult is we got enormously rich and that's not a bad trade off.

Q: You said last year Trump wasn't morally qualified to be President, how have your views changed?

Munger: Well I've gotten more mellow.

I always try and think about the good along with what's not good. And I think some of his stuff where they are re-examining options about the whole tax system, I think that's a very constructive thing. When Donald Trump says he wouldn't touch social security, I'm with Donald Trump.

If I were running the world I'd have his exact attitude about social security, I wouldn't touch it. He's not wrong on everything just because he isn't like us. Roll with it.

What the hell you're not going to live forever anyway!

[Laughter]

Q: What was the most meaningful thing you did with your life?

Munger: Well, I think the family and children is the most memorable thing that most people do with their lives. I have been reasonably fortunate. I don't think I was a perfect husband. I am lucky to have had as much happiness as I got. I always needed a certain amount of toleration from the fairer sex, I started wrong and I never completely fixed myself.



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You come here as a cult to talk to a cult leader. I will take you back in history, you'll see what an inferior person you are now trusting. When I was a freshman at Omaha Central High, there was a girl my age and she had been off to summer camp the year before. She was a blonde goddess, a voluptuous thirteen year old. I was a skinny, underdeveloped so on and so forth.

I got to take my blonde goddess to this dance, so I wanted to impress this blonde goddess so I pretended to smoke which I didn't. And she was wearing a net dress and I set her on fire!

[Laughter]

I was quick with it, I threw Coca-Cola all over her! And in due time the fire was out and that's the last I saw of the blonde goddess.

And then, well, I said I have to make more time with the girls. I wanted to get a letter at Omaha Central High and of course I was no good at any sport. So I went down to the rifle range and learned they gave letters in rifle shooting. And I was so skinny that I could shoot 100 every time in the sitting position by sitting cross legged and putting one elbow on each foot. Try it, you'll break your neck.

I could shoot 100 every time so I was a good rifle shooter, they gave me a letter. But I was so short and skinny and underdeveloped that it went from one armpit to the other. I walked down the hallway trying to impress the girls and they would turn their head but what they said was, "how did a skinny unattractive runt like that get a letter?"

[Laughter]

And then I had another experience, with a girl whose name I still remember. Zibby Brewington. She was a senior, a very popular senior, and I was a nerd. Somehow she agreed to go with me to a party at the Omaha Country Club, perhaps because she liked one of my friends who was a big strapping young fellow.

So I took Zibby to this party in my 1934 Ford and it sleeted and got rainy and so forth. I managed to stick the Ford in the mud and I couldn't get out of it. Zibby and I had to walk for several miles through sleet and mud, it was the last I ever saw of Zibby Brewington. And then my car stayed in the mud and I neglected to put in the anti-freeze and the temperature went way down and the block broke.

And of course it was too expensive, I said I lost my car and my father wouldn't buy me a new one. My father thought why should I buy a new car for a guy who's dumb enough not to put anti-freeze in? This is the guy you're coming from miles away to see!

[Laughter]

So I didn't get a new car. My life was just one long litany of mistakes and failure. It went on and on and on, even in politics! I ran to be the president in grade school. I had the most popular boy in the school as my campaign manager, I came in second by miles. I was a total failure in politics, there's hardly anything I succeeded in.

Now I tell you all of this because I know a nerd when I see one and there are a lot of nerds here today!

[Laughter]

I want you to feel it's not hopeless, just keep trying.

Q: Given the proliferation of index funds do you think there will be an issue with liquidity in the next crisis?

Munger: Well, the index funds of the S&P are 75% of the market, I don't think the exact problem you are talking about will be an issue. But, is there a point when index funds theoretically can't work? Of course. If everybody bought nothing but index funds, the whole world wouldn't work as people expect.

There is also the problem, the reason you buy a big index like the S&P 500 is because if you buy a small index and it becomes popular you have a self-defeating situation. When the Nifty Fifty was the rage, J.P. Morgan talked everybody into buying just 50 stocks. And they didn't care what the price was, they just bought those 50 stocks.

And of course, in due time their buying forced those stocks up to sixty times earnings whereabouts it broke and everything fell by about two thirds quite fast. In other words, if you get too much faddishness in one sector or in one narrow index then of course you can get catastrophic changes like they had with the Nifty Fifty in that former era. I don't see that happening when the index is 75% of the whole market.

The problem is the whole thing can't work perfectly forever but it will work for a long time. The indexes have caused absolute agony amongst intelligent investment professionals because basically 95% of the people have almost no chance of beating it over time and yet a lot of the people expect that if they have some money they can hire somebody who will let them beat the indices.

In fact, if you look at Berkshire, take our best 100 decisions, which is two a year, the success of Berkshire came from two decisions a year over 50 years. We may have beaten the indices but we didn't do it by having big portfolios of big securities.

Q: Where do you tell your grandchildren to look for business opportunities?

Munger: Well I don't spend much time telling my grandchildren what businesses opportunities to look for. You know, I don't have that much hope. I'm going to have trouble getting my grandchildren to work at all.

[Laughter]

I don't think there is an easy way to handle the problem of doing better and better with finances. Obviously if you're glued together and honourable, and get up every morning and keep doing it, and keep learning every day and are willing to go in for a lot of deferred gratification all your life you're going to succeed. It may not be as much as you want, but you are going to succeed.

And so the main thing is to just keep in there and be glued together and get rid of your stupidities as fast as you can and avoid the bad people as much as you can and you'll do reasonably well. The only way you have a chance is sort of by example. If you want to improve your grandchildren the best way is to improve yourself.

Q: What books do you recommend we read to gain knowledge?

Munger: You cult members have sent me so many books that I can scarcely walk into my own library. So I am reading so many now because I never throw one away, I at least skim. I just read this new book by Thorp [*A Man for All Markets*], the guy who beat the dealer in Las Vegas and then he did computer algorithm trading.

And I really liked the book. For one thing the guy had a very good marriage and he seemed grateful for it, it was touching. The other thing is that he was a mathematician using a high IQ to beat the dealer and then use his computer algorithms to do this massive trading. I found it very interesting.

Since some of you people are nerds and may like a buried love story, I recommend Thorp's new book.

Q: Can you talk about your tendency to try and destroy your most cherished ideas?

Munger: Well I've done so many dumb things. I am very busy destroying bad ideas because I keep having them.

[Laughter]

It's hard for me to single out one from such a multitude. I actually like it when I destroy a bad idea because I think it's my duty to destroy bad ideas. I know so many people whose main problem in life is that the old ideas displace the entry of new ideas that are better. That is the absolute standard outcome in life.

There is an old German folk saying that describes this, "we're too soon old and too late smart". That is everybody's problem and the reason we are too late smart is the stupidest ideas we can't get rid of.

In most fields you want to get rid of your old ideas, it's a good habit. It gives you a competitive advantage in the game of life since other people are so very bad at it. What happens is that as you spout ideas out you are pounding them in. You get these ideas and begin aggregating them and so forth and of course the person you are really convincing is you who already has the ideas, you're just pounding them in harder and harder.

One of the reasons I don't spend much time telling the world what I think about how the Federal Reserve should behave and so forth is I'm just pounding the ideas into my own head when I'm telling the other people how to run things. I think you have to have the right mental habits.

I don't like it when young people get violently convinced on every damn cause and think they know everything, like some 17 year old who thinks they know what should be done on abortion or foreign policy. All he is doing when he or she spouts about what they believe is pounding these ideas in, this is a dumb idea when you're just starting and have a lot to learn. It's very important, the habit of getting rid of these dumb ideas.

One of the things I do is pat myself on the back every time I get rid of a dumb idea. You might say, "can you really reinforce your good behaviour?" Yeah you can.

If other people won't praise you, you can praise yourself. I have a big system of patting myself on the back every time I get rid of a much beloved idea, I pat myself on the back when I get rid of a beloved idea, sometimes several times. I recommend this same mental habit to all of you.

The price we pay for not accepting a new idea is just awesomely large. Indeed a lot of people die because they didn't get a new idea through their head.

Q: How will capital allocators be impacted by the increase in the amount of technology used across industries (in places like oil and petroleum engineering)?

Munger: Of course petroleum people get more specialized, the oil gets harder to get so you have to learn new tricks. Generally, specialization is the way to go for most people, it's just I'm an example of something different. It's awkward for me. I don't want to encourage people to do it the way I did because I don't think it'll work for most people. I think the basic ideas of being rational and disciplined and delaying gratification, those will work. But if you want to get rich the way I did by learning a little bit about a hell of a lot, I don't recommend it to others.

Now there's a story I tell. A young man comes to see Mozart and says, "I want to compose symphonies" and Mozart says, "you are too young to compose symphonies". He's 20 years old, and says "but you were composing since you were ten!" and Mozart says "yeah but I wasn't running around asking people how to do it!"

I don't think I'm a good example to the young. I don't encourage people to follow my particular path. I like all the general precepts but if you're a proctologist, I don't want a proctologist who knows astrophysics. I want a man who specializes!

On the other hand I don't think it's much of a life if all you did was proctology.

[Laughter]

Q: Can you provide some examples of how you would compound capital today at high rates?

Munger: We don't try and advise how to get rich at a rapid rate with specifics. We want to leave some mystery so you can amuse yourself finding your own way.

You know, the good ideas I've had in my life are quite few. And when you find the few you have to act aggressively, that's the Munger system. I learned that indirectly from a man I never met, my mother's maternal grandfather.

He was a pioneer and came out to Iowa and fought in the Blackhawk wars. Eventually after enormous hardship he was the richest man in town and he owned the bank.

This is a guy who took over the land in Iowa when the land was cheap. He didn't get many opportunities, it was just a few that enabled him to become prosperous. He bought a few farms every time there was a panic and then leased them to thrifty Germans. You can't lose money leasing a farm to thrifty Germans in Iowa.

He only did a few things and I'm afraid that's the case, you won't find a million wonderful ideas. The people with computer algorithms do it but they have a computer sifting through the whole world. And of course every niche they're in, if somebody else comes in then the niche starts leaching away.

I don't think it's an honourable way to make living, by the way. I would rather make my money another way instead of outsmarting the trading system that leeches a little out of each trade. I always say those people have the social utility of a bunch of rats in a granary. It's not that great a way to make money. If you make your money that way you should be very charitable with it because you have a lot to atone for.

[Laughter]

Q: What is your favourite industry and why?

Munger: Well my favourite industry is taking care of my own affairs.

[Laughter]

It's fun and creative and the job that life has given me, you should do the job well that life gives to you.

Q: A few years ago you spoke about the monkey business at Valeant, can you talk about any other monkey business that is currently worrying you?

Munger: Well the answer is yes, but not as extreme as Valeant. That was really something. I probably shouldn't have done that.

But you people come so far and because you're cult members you like being here and I feel an obligation to tell you something interesting and I just strayed into Valeant that year.

It was really pretty disgusting. The interesting thing is how many high grade people that took in. It was too good to be true. There was a lot wrong with Valeant, it was so aggressive! It was drugs people needed.

Take the difference between Valeant and Daily Journal. When the foreclosure boom came we had 80% of the foreclosure market in our area. It's a big area, Southern California. It would have been very easy for us to raise prices and make \$50m more or something while all of these people were losing their houses. A lot of them perfectly decent people.

The idea that right in the middle of that we would make all the money that we could, which some of our competitors did by the way, we just didn't do it. I don't think capitalism requires you to make all of the money that you can. I think there are times you should be satisfied with less based on just the ideas of decency.

At Valeant they looked at it like a game of chess. They didn't think about any human consequences, they didn't think about anything but what they wanted, which was money and glory. And they just stepped way over the line and of course in the end they were cheating.

But I don't have a new one, I got a lot of publicity over that Valeant thing. I don't want this room to have twice as many people next year.

And I don't want me to not be here either!

[Laughter]

Q: You have talked about foundations before and said that they should invest in three fine domestic corporations to be sufficiently wealthy over time, do you still stand by this?

Munger: I'll change your question around so I want to answer it.

[Laughter]

Am I comfortable with a non-diversified portfolio? Of course I am. If you take the Mungers, I care about the Mungers. The Mungers have three stocks. We have a block of Berkshire, a block of Costco, a block of Li Lu's fund and the rest is dribs and drabs. So am I comfortable? Am I securely rich? You're damn right I am. And could other people be as comfortable as I am who doesn't have a vast portfolio in companies I don't understand? Of course they would be better off with what I did.

Is three stocks enough? What are the odds that Costco is going to fail? What are the odds that Berkshire Hathaway is going to fail? What are the chances that Li Lu's portfolio in China is going to fail? The chances of any one of those things happening are close to zero.

That was one of the good ideas I had when I was young, when I started investing my piddly savings as a lawyer I tried to figure out how much diversification I would need if I had a 10% advantage over stocks generally. I just worked it out with my high school algebra. I realized if I was going to be there 30 or 40 years I would be just fine if I never owned more than three stocks and my average holding period was three to four years.

Once I had done that with my little pencil I never ever in a moment believed this balderdash about wide diversification. Diversification is for people who don't know anything. Warren calls them know nothing investors. If you're a know nothing investor, of course you should earn the average.

But if you're capable of figuring out something better, you're just hurting yourself looking for 50 when three will suffice, Hell, one will suffice if it's done right - one! If you have one cinch, what else do you need in life?

To think, we're paying professors to teach this crap to our young, that know something investors need diversification! And to think people think they should be paid to tell people to diversify. What has gone on in corporate finance teaching is that people are getting paid to dispense balderdash. And in a sense I never believed it, it was a great help to me.

When you're out in the market and other people are believing balderdash and you know what the hell is going on, it's a big help. I was lucky, imagine learning that from your dead great grandfather at a very young age. But you know I spent my whole life with dead people, I really like them. They're so much better than many of the people I am with here on earth.

[Laughter]

You can meet all the dead people in the world and learn a lot from them and they're very convenient to reach. You can just reach out to a book, there's none of the problems with transportation and so I really recommend making friends with the eminent dead which I of course did very early and that's been enormously helpful. Some of you wouldn't have helped me. Adam Smith really did.

Q: Can you talk about your investment in Irish banks and how the banks will be impacted by Brexit?

Munger: Our investment in the Irish banks was a mistake. And of course it was a mistake we shouldn't have made because both Warren and I know you can't really trust the numbers put out by the banking industry.

The people who run banks are subject to enormous temptations because it's easy to make a bank report more earnings by doing a thing that any idiot could do. And of course, that's dangerous. We shouldn't have made that mistake but we did. And that's a good lesson too, that even if you're really good at something you will drift into a dumb mistake.

And in Ireland the bankers went crazy. We went crazy when we trusted their damn statements, it was a mistake.

Q: Can you talk about Singapore and Lee Kuan Yew as it relates to India and its current state of development?

Munger: Lee Kuan Yew may have been the best nation builder that ever lived. He took over a swamp with no assets and no natural resource surrounded by a bunch of Muslims who hated him. He was spat out by the Muslims who didn't want a bunch of Chinese in their country, that's how Singapore was formed. The Muslims spat him out!

Here he is, no assets, no money and people are dying of malaria. Lots of corruption and he creates, in a very short time by modern standards, Singapore. It was a huge, huge, huge success. Such a success that there is not another precedent that is any stronger.

China is more important because there are more Chinese but you can give Lee Kuan Yew a lot of the credit for creating modern China because those pragmatic communist leaders saw a bunch of Chinese that were rich when they were poor. They said, "to hell with this!"

An old communist once said, "I don't care whether the cat is black or white. I care whether it catches mice." And he wanted some of the success of Singapore and so he copied the playbook. I think the communist leadership that copied Lee Kuan Yew was right, I think Lee Kuan Yew was right.

I have two busts of somebody in my house. One, of course, is Benjamin Franklin and the other is Lee Kuan Yew. That's what I think of him.

Now you turn to India, I would say I'd rather work with a bunch of Chinese than I would with Indian civilization which is assimilating the worst stupidities of the democratic system which, by the way, Lee Kuan Yew avoided. It's hard to get anything done in India and the bribes are just awful.

All I can say is it won't be easy for India to follow the example of Lee Kuan Yew. I think India will move ahead but it's so ineffective as a get ahead place. The Indians I know are fabulous people, they're just as talented as the Chinese but the system and the poverty, corruption, and crazy democratic thing where you let anybody who screams stop all progress, it mires India with problems Lee Kuan Yew didn't have.

And I don't think those Indian problems are easy to fix. For example, the Korean steel company, POSCO, invented a new way of creating steel out of lousy iron ore and lousy coal. Now there is some province in India that has lots of lousy iron ore and lots of lousy coal which there is not much use for. And this one process would take their lousy iron ore and lousy coal and make a lot of steel and employ cheap labour.

POSCO and India were made for each other and they made a deal with this province to get together to use this process to combine the POSCO know how and the Indian resources. Then eight or nine years later with everybody screaming and objecting, farmers lying down on the road, they cancelled the whole thing. In China they just would have done it. Lee Kuan Yew would have done it.

India is grossly ineffective because they have taken the worst aspects of our culture, allowing a bunch of idiots to scream and stop everything. And so they have taken the worst aspects of democracy and forged their own chains and put them on themselves. So, no I do not like the prospects of India compared to China, I don't think India will do as well as Lee Kuan Yew.

Q: What happened in 1973-1974 when your partnership lost around half of its value?

Munger: Oh, well that is very simple. That's easy, that's a good lesson and a good question. What happened is the value of my partnership went down by 50% in one year. And now the market went down 40% or something, it was a once in 30 year recession and monopoly newspapers were selling at four times earnings. At the bottom tick, I was down from the peak 50%, you're right about that.

That has happened to me three times in my Berkshire stock so I regard it as a part of manhood. If you're going to be in this game for the long haul, which is the way to do it, you better be able to handle a 50% decline without fussing too much on it. And so, my lesson to all of you is conduct your life so you can handle a 50% decline with aplomb and grace, don't try to avoid it.

[Applause]

It will come. In fact if it doesn't come I would say you're not being aggressive enough.

Q: Thank you to your employees for letting us in here today...

Munger: Well they think it's their last chance!

[Laughter]

Q: How would you recommend Chinese invest their money in the U.S. as capital controls are eased?

Munger: Well you've made an assumption I don't follow. If I were a Chinese person of vast intellect and talent, discipline, all the good qualities. I would invest in China, not the United States. I think the fruit is hanging lower there and some of the companies are more entrenched. I don't agree with your proposition. At current prices I think an intelligent person would do better investing in China.

Q: What big ideas would you recommend we spend 10-20% of your time on as you mentioned earlier?

Munger: Well I think you should be intelligent in improving yourself. You're way better to take on a big idea that comes up all the time than a tiny idea you may not face. So, I always tried to grab the big ideas from every discipline.

Why piddle around with the little ones and ignore the big ones? All the big ideas in every discipline are very useful and frequently the problem in front of you is solvable if you reach outside the discipline you're in and the idea is just over the fence. But if you're trained to stay within the fence you won't find it. I've done that so much in my life it's almost embarrassing.

And it makes me seem arrogant because I will frequently reach into the other fella's discipline and come up with an idea that he missed. When I was young that caused me terrible problems. People hated me. I probably shouldn't have been as brash as I was and probably shouldn't be as brash as I am now.

I haven't completed my self-improvement process, but it's so much fun to get the right idea a little outside your own profession. If you are capable of doing it, by all means do it. Even if you just want to learn it defensively.

My doctor constantly writes, PSA test, prostate specific. And I just cross it out!

[Laughter]

And he says, "what the hell are you doing? Why are you doing this?" And I say, "well I don't want to give you an opportunity to do something dumb." If I have unfixable cancer in my prostate that is growing fast I'd like to find out three months in the future, not now. And if I have one growing slowly, I don't want to encourage some doctor to do something dumb and intervene.

Now most people aren't crossing out their doctor's prescriptions. But I think I know better!

I don't know better about complex treatments and so forth, but I know it's unwise for me to have a PSA test. So I cross it out. I'm always doing that kind of thing and I recommend it to you when you get my age, just cross out the PSA test.

Q: Can you talk about your views on China and if they have changed recently?

Munger: What I like about China is they have some companies that are very strong and still selling at low prices. The Chinese are formidable workers and they make wonderful employees and there is a lot of strength in that system. And the Chinese government really tries to help its businesses.

Of course I have to admire taking a billion and a half people and improving the state of poverty that fast. If you go to China they have bullet trains all over that go to the hearts of cities and all that. What they have done is just an incredible achievement. And they've done it not by borrowing from Europe or the way we did when we came up.

They have taken a poor nation with a lot of poverty and what they did was saved half their income when they were poor and drove their nation up with a lot of deferred gratification. It was unbelievably admirable and effective, I admire that part of the Chinese picture.

Now, China happens to have one problem. They like to gamble. And they actually believe in luck, now that is stupid. You want to believe in odds, not luck. For some reason, in China too many people believe in luck and gambling. That's a national defect.

Q: What do you think will not change over time as younger analysts today look at companies and the world around them?

Munger: What will not change is it won't be that damn easy. People will die that you love, you'll have close breaks where it goes against you. There's a lot of trouble yet to come.

This adversity that seems so awful when you're scrambling through it actually is the sinew of your success and affection. If you didn't have adversity you wouldn't have the bonds which come from handling the adversity so well. The idea that life is a series of adversities and each one is an opportunity to behave well instead of badly is a very good idea. I certainly recommend it to everybody in this room. It works so well in old age when there's many adversities you can't fix. So you better have some technique for welcoming those adversities.

Q: Can you talk about spirituality and how it helps you deal with struggles and adversity?

Munger: Well you know, just because you don't have a specific theology, and I don't, doesn't mean you are not spiritual. When I was a little kid and my grandfather sent me to bible school and they told me there was a talking snake in the Garden of Eden, I didn't believe him. And I haven't changed, but that doesn't mean I'm not spiritual. I don't need a talking snake to make me behave well.

[Laughter]

I would say that the idea that came down to me, partly through my family, was that rationality was a moral duty. It's a moral failure to be unreasonable when you have a capacity to be reasonable. I think that's something we should all take on even if we're stupid because it's good to be less stupid. I think rationality is a moral duty and we all have a duty to get better.



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And, of course, we also have to adjust to the other people we're going through our journey with. It would be crazy not to have a social safety net when you're as rich and successful as we are. Now I don't think it has to be as dumb as the one we have but of course we need a solid social safety net. And that's a moral idea, I'm all for morality without the talking snakes.

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