



14th February 2018

2018 DAILY JOURNAL ANNUAL SHAREHOLDERS' MEETING

*"Why would you risk what you have and need to potentially gain what you don't have and don't need?
It's really stupid."*

- Charlie Munger

We were fortunate to attend the 2018 Daily Journal Annual Shareholders' Meeting with its Chairman, Mr. Charles Munger. The Q&A session with Mr. Munger (age 94) lasted two hours and covered a wide range of topics.

An estimated 400 people attended the meeting this year at the DoubleTree Hilton in Downtown 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: I'm looking at a bunch of shareholders who didn't really buy any shares in Daily Journal stock because of its prospects. Most of you are here because you're groupies!

[Laughter]

I know nerds when I see them. This room is full of them, all ages. All I can say is it takes one to know one.

[Laughter]

Before we get into the Q&A, one of our directors (Peter Kaufman) came up with a list of qualities that any investment advisor should have and he gave it to a person who then immediately fired half his advisors. Peter will now share with you his five aces system for picking an investment manager. Peter, go ahead.

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Kaufman: Thank you Charlie. So I came up with this list in giving reference to a very exceptional money manager, and I wanted to not only come up with a correct reference but I wanted this reference to create a compelling narrative. I came up with what I call the five aces, the highest hand you can have in wild card poker.

Ace number one is total integrity. Ace number two is actual deep, deep fluency in whatever you say you are going to do on behalf of the client. Ace number three is a fee structure that is actually fair in both directions with significant investment in their own strategy. Ace number four is an uncrowded investment space. And ace number five is a long runway, meaning that the manager is reasonably young in age.

[VGI Partners endorses Mr Kaufman's criteria and we encourage our investors to continue to measure us against them.]

I further add, if you ever find a money manager that possesses all five of these characteristics, there are two things you should do. One, put money with them immediately. And number two, put as much money as you are able to put.

I know we have a bunch of money managers in the room.

Munger: Do we ever!

[Laughter]

Kaufman: And we have people who employ money managers. If you employ money managers this is an excellent formula to evaluate your money managers.

Munger: Yeah, it may cause you to fire half of those you have hired.

[Laughter]

Kaufman: But perhaps more importantly if you are a money manager this should be your list of five aspirations. What characteristics should I seek to be a successful money manager? I should be completely trustworthy. I should have actual deep fluency in what I claim I am going to do. I should adopt a fair fee structure that is genuinely fair in both directions. I should seek an uncrowded space because as we all know in business where there is mystery there is margin. What kind of margin are you going to have in a crowded space?

And number five, many of you are very fortunate for checking that box for having a long runway. Some of the best money managers in history only get four out of these five aces because they don't qualify for number five.

Munger: This includes us – we do not have a long runway. That doesn't mean we can't do well. In terms of investment management runway, it's rather interesting Berkshire Hathaway's managers are so old. The only institution with a governing body that exceeds the age of Berkshire Hathaway and the Daily Journal is the Mormon Church.

[Laughter]



The Mormon Church is run by a group of people with two wonderful qualities. There is no paid clergy and the group that runs it is a group of males aged between 85 and 100. This system is more successful than any other church. No paid clergy and very old. Obviously we are copying that system.

We are so much older than the Berkshire directors, Warren likes to say we check on them to see how the young fellas are doing. Who would have guessed the Mormon Church had no paid clergy and was run by males who were about 85 and up? Now that is a very odd result. I guess I should like odd results because I am living a life of odd results. I am very surprised to be here. An old woman whom I like said at her 94th birthday "I am very pleased to be here, in fact I am very pleased to be anywhere."

[Laughter]

Well that's what it is, the incentive structure in investment management is very interesting. If you look at people who have money from the past, say the Massachusetts Investor Trust or something like that which pioneered mutual funds in the early days. Once it gets to be \$700bn or whatever it is, the chances it's going to outperform the S&P average shrinks to about zero.

When Berkshire came up, we had an easier world than you people are facing. I don't think you are going to get the results we got by doing what we did. That is not to say that what we did and the attitudes that we had are obsolete or won't be useful. It's just that their prospects are worse.

There are rules of fishing that are very useful. The first rule of fishing is fish where the fish are. The second rule of fishing is don't forget the first rule. Some places have lots of fish, you don't have to be that good of a fisherman to do pretty well. In other places it doesn't matter how good of a fisherman you are. In the world we are living in now almost all places are in the second category.

I don't think that should discourage anyone. There are good and bad opportunities, take what comes when you can. If you live to an old age you will get plenty of opportunities. You may get one or two over a lifetime but if you seize one of the two you'll do alright.

Well with my pontification done, let's take questions.

Q: My question is how Midwestern values have impacted you and how they are embedded in Berkshire?

Munger: Well I think there are some Midwestern values embedded in Berkshire. I don't think it could be in the middle of Manhattan Island. There is just so much buzz that goes on in a place like Manhattan. I think it was actually an advantage for Warren to run the place out of Omaha. And certainly, I have deep respect for my life in Omaha and my parents and their friends. I like Midwestern culture. I don't think it's that bad in the West or East or Rocky Mountains but I have less experience with that culture.

I go to Montana to fly fish. I like it when I'm there but it's too rugged for me. I like the more intellectual environment of a big city.

Q: What are your thoughts on Bitcoin and what we can learn from this recent craze?

Munger: I never for one second considered having anything to do with it. I detested it the moment it was created and the more popular it got the more I hated it.

[Laughter]

I expect the world to do the same thing from time to time because everybody wants easy money. So these crazes just keep coming and coming but who would want their children to grow up buying things like Bitcoin? I just hope to God that doesn't happen to my family. It's just disgusting that people get taken in by something like this.

I am not saying something like a different payment system couldn't come in and be constructive, something like WeChat. But Bitcoin is noxious. Part of the reason they like it is because the computer science is quite intriguing to people with a mathematical background. It's quite a feat of computer science. China's government stepped all over it. Our government is far more lax and their approach is all wrong. The right answer is to step on it hard and it's the government's job.

Q: Can you talk about your views on teaching academic psychology to the masses?

Munger: I do think it's hard to teach the full reach of psychology the way they do it in academia. The way they do it in academia is they run new experiments and they want to learn things from experiments so they can publish them. And therefore, the experiments have to be simple and test for one trigger factor. By doing that over a vast number of factors they have accumulated a list of general principles.

But the great utility is when you know those principles as fluently as you know how to read and you use those principle in synthesis with the rest of knowledge. The interplay of psychology with the rest of knowledge is a vastly productive area for correct thinking but the psychology professors can't do it because they don't know the rest of knowledge. The rewards in psychology are for doing another experiment.

It is mistaught, it's a subject that works best when you use it in combination with another discipline but academia is not set up for people to get good at using a blend of two systems. The whole damn system is wrong.

On the other hand, that gave me an opportunity because I always reached for more when I was young. If a professor didn't know it, it didn't matter because I could teach it to myself. I could tell from the first instant that the big territory was synthesizing psychology with the rest of knowledge. So I learned psychology myself. There is no reward in psychology for synthesizing. But you people should follow my example and not the psychology professors, I guarantee you that you won't make any money doing it their way.

Occasionally you will find a group like Thaler's group. Thaler just won the Nobel Prize by the way. And he is trying to synthesize, more power to Thaler. May his tribe increase. It's a good sign the world is giving him a Nobel Prize, he is doing exactly what I am recommending. [Richard Thaler has worked in the field of behavioural economics to help explain why humans can act in way that defies traditional

economics. He is well known for his book *Nudge: Improving Decisions about Health, Wealth, and Happiness* which covers how to improve decision making given inherent human biases.]

Time for another question. Who else can I offend?

[Laughter]

Q: If you had to teach mental models to children would you show it to them or let them figure it out themselves?

Munger: Well I would do both. Of course if you get the right number of models it helps. And of course you want to get fluency in using these mental models. There isn't any real road to getting it done fast, at least if there is I've never found it. You just keep at it, that's my system. My whole system in life is just keeping at it and never giving up, improving a little bit each day.

I am a big admirer of Carlyle's approach. Thomas Carlyle said "our main business is not to see what lies dimly at a distance, but to do what lies clearly at hand." And I think that is right, I think that most of the time you should get the work that is before you done and just let the future fall as it will.

Q: Can you talk about your investments in banks given their importance and size for Berkshire?

Munger: Well, banking is a peculiar business. The temptations to do something stupid are way greater in banking than they are in most businesses and therefore it's a dangerous place to invest. There are a lot of ways in banking to make your near-term future look good by taking risks you really shouldn't take with respect to your long-term future.

And so banking is a dangerous place to invest. And there are few exceptions and Berkshire tried to be in the few exceptions as best we could. I don't have any more to say on that subject other than I'm sure I'm right.

Q: What are your thoughts on the valuation of companies like Alibaba or Facebook?

Munger: Well my answer is I don't know. Next question.

[Laughter]

Q: Can you talk about the recent announcement that Berkshire would work with JP Morgan and Amazon to lower healthcare costs?

Munger: The existing healthcare system is out of control on the cost side. It causes a lot of behaviour which is not only regrettable but evil. There is a lot of totally unnecessary crapola that is in the medical system. Other countries like Singapore spend a fifth as much, European countries spend half as much as we do. So we are concerned about something that is out of control because the incentives are wrong.

There is a lot wrong and these people are looking to see if they can do something. They are going to find it difficult. It wouldn't be hard if you were a benign despot to do something pretty dramatic.



Take macular degeneration of the eye, old people who have it need a shot on a regular basis. I can give the damn shot, it's not that hard to shoot a little goop into an eyeball if you know how to do it. There are two substances you can use, one of them costs a fortune and the other costs practically nothing. They both work equally well and of course what's being used is the more expensive of the two. There is a lot wrong with that situation. It's just crept in, a lot of unnecessary cost. Medicine is full of this kind of stuff.

A person who is dying in America looks just like a carcass in the plains of Africa, in come all the vultures and jackals and hyenas and so on. It's not right to bleed so much money out of our old people. There isn't a hospital in America that doesn't have a host of old people under dialysis even though they are going to die.

To the extent that somebody makes an assault on the state of the present healthcare system, I'm all for it. On the other hand, I am glad I am not doing it because it would be really difficult. I'm too old for that one but I welcome somebody who is trying. It's deeply wrong what is happening. Some stuff is not getting done that is cost effective and some stuff that is totally unnecessary is getting done. If they asked me to serve on the panel I would decline.

Q: Can you talk about the challenges that consumer brands face today and how their moats have changed? How do private label brands impact consumer brands?

Munger: Well I think consumer brands are still very valuable. But they had an easier time in a former era than they have in the future. You are right about that. And of course, I don't know that much about Amazon but I know it's unbelievably aggressive. And the man who heads it is ferociously smart. On the other hand, he is trying to do things that are difficult. I know a lot about Costco because I have been a director for 20 years.

I think Costco will continue to flourish and it's a damn miracle the way the Kirkland Signature private label brand has become more and more accepted. [Kirkland Signature is Costco's store brand which has been around for over 20 years and now accounts for ~20% of the items found in a Costco warehouse. They sell various items from men's dress shirts to laundry detergent, and paper towels.]

You are right it's going to be harder for some of the big brands in the future, but they are still very valuable. The Snickers bar trademark as an example will still be a good asset sixty years from now. It may not be quite as good to the owner as it was in the last sixty years but it doesn't have to be. It makes it harder for you investors. It used to be that the groupies could buy Nestle and sit on their tail. I don't think it's quite that simple anymore.

Q: What are your thoughts on the future of oil?

Munger: Well last year I said the future of oil was very interesting. The great companies like Exxon are producing a third as much as they used to at the peak and yet they are still very prosperous because the price of oil has gone up faster than the production has gone down. It's a weird subject. Eventually it will be hard to get more oil and the price will go very high.



As a chemical feedstock, these hydrocarbons are totally essential. It's never going to go out of vogue, we are going to need it for energy for a long, long time ahead. As an investment I think it's a difficult subject. Berkshire in its full history has had very few investments in oil. Some but not many.

And of course, as I said here last year, I think the correct policy for the United States would be not to produce our oil so fast. I think oil is so precious and desirable over the long haul I would be very happy to leave more of our oil in the ground and pay up front to the Arabs to use up theirs. I think that would be the correct policy for the United States. Only 99.99% of the rest of the people in the world are against me.

Why would we want to use our oil up as fast as we can? Do we want to use up the top soil of Iowa as fast as we can? I don't think so. I think our current policies are totally nutty. A big chunk of corn production is going into motor oil. Nothing could be dumber than using our top soil to turn into motor oil. It's really dumb and yet it's there and nobody has the power to change it. It's weird.

It's weird that a company has prospered producing less of their product in physical terms. And it's weird that a nation would turn corn into motor oil by edict of the government. The current population of the earth is being fed by miracle grains, and their miracle is they turn oil into food. You've raised a weird subject. You must like weird subjects.

[Laughter]

Q: Do you see any opportunities for public private partnership today in areas like research or infrastructure?

Munger: Well I think the answer is yes. One of the obvious needs is a national grid. I think it will come, we should have it already. It's a failure of government that we don't have a wonderful electric grid. But it will come and I think Berkshire will be a big part of it when it does. It is easy to underestimate the potential. Why don't we already have a big electric grid that works already? There are a lot of things that should happen but don't happen or happen very slowly.

Calling it a public private partnership sounds wonderful. Everybody wants a robust narrative, that's what people specialize in. This sounds like a robust narrative but it sounds to me like a bunch of thieving bankers will get together with a bunch of thieving consultants, it'll take forever and cost a fortune.

Q: Can you comment on selling out of General Electric?

Munger: Well we made an investment in General Electric in the middle of a panic because it was a decent buy as a security. It worked out for us just fine. General Electric of course is a very complicated and interesting subject. It is interesting because the company is so well regarded to acumen, education, technology, etc. But it recently ended up ill regarded because of a long period of subpar performance, people didn't expect this period of underperformance.

Of course people are asking what caused the failure of performance at General Electric. My answer would be partly life is hard and there is some accident in the world, that is part of it. And part of it I would say is the system at General Electric where you rotate managers through so many



assignments, there are so many Army officers trying to promote their resumes to see if they can be generals. I don't think that works as well as keeping people in a business for a long time, the way Berkshire does.

I would say there should be a little less of this corporate management in the style of the US Army and maybe people should actually do a little more Berkshire style where by and large people spend their whole careers in one business.

Q: Can you talk about being a director and any lessons you have learned?

Munger: Each situation is different. I will say this, if you asked people with long experience in management what their biggest mistakes were, the standard response is somebody who should have been removed was in for way too long. This lesson is generally applicable everywhere. Beyond that it's too broad a question for me.

Q: Are you concerned about the US Government running deficits given where we are in the economic cycle?

Munger: Of course I am concerned about the rising level of government debt. This is new territory for us and new territory probably has some danger in it. On the other hand, it is possible that the world will function more or less pretty well even with a different pattern of government behaviour than you and I would consider responsible based on history.

Of course if you look at the inflation over the last 100 years, when the stated objective of the government was to keep prices stable. Now the announced objective is 2% inflation, well what the hell is going to happen? We don't know. But isn't the way to bet that it's going to be way higher than 2%? I think the answer is yes it will be way higher than 2%, but I think we have learned from what has happened in the past.

Macroeconomics is a very peculiar subject. It doesn't work like physics, every decade there is a new system. They don't tell you when the systems change the formulas have to change.

I don't expect the world to totally go to hell. Look at what happened in Germany after World War I. They had hyperinflation, their currency basically went to zero in value. They really screwed up. And what happened?

Well what happened is they recovered from it, and they did it by creating a new Reichsmark which were backed by mortgages. That new Reichsmark was working pretty well and Germany was recovering pretty well. Then along came the Great Depression. And the combination of the Great Depression and the Weimar Republic really brought in Hitler. Without the Great Depression I don't think he would have come into power.

By the late 1930s, what was the leading economic power in Europe? It was Germany! Because Hitler and his crazy desire for vengeance and so on bought a lot of munitions and trained a lot of soldiers and so forth. The accidental Keynesianism caused this prosperity, so Germany was the most prosperous place in Europe in 1939. All that catastrophe they recovered from. I don't think we should be too discouraged by the idea that the world might have convulsions. There is a way of recovering.



Now I'm not advocating for the German system but knowing these historical examples create what I call mental poise. And you think that a country that destroyed itself through a silly war, and who devalued its currency would end up worse than the most prosperous country by 1939. It's encouraging, I hope you feel better.

[Laughter]

Q: Can you talk about the decreasing actions by the Department of Justice in the U.S. and the increasing market share held by the top corporations?

Munger: Well I don't know if the Department of Justice will become more active and I'm not terribly disturbed by the present state of the economy or by the concentration of economic power. Wherever I see companies, by and large they have plenty of competition. I don't follow the theory that the whole world is presently wrong as it's constituted.

There are companies that people were worried about having too much power like Kodak that aren't even here anymore. I think we have enough competition, I don't think the world is going to hell from lack of activity in the Justice Department.

Q: How did Ajit Jain build Berkshire reinsurance from scratch?

Munger: Well it was very simple. He worked about 90 hours a week. He was very smart. He is very honourable. He is pleasant to deal with. And he talked every night to Warren Buffett. If you could find somebody else like that you won't do as well because the game is harder now than it was then. And that's my answer to your question.

[Laughter]

Q: Can you talk about the value in holding cash at the proper time?

Munger: Well, it's possible that there could be a time when a wise investor would be all in Treasuries. That is not an impossible event. I can imagine such a world but I haven't been in that kind of a world yet. I think generally long-term Treasuries are a losing bet and that's not new.

Q: Can you talk about how an investor today could earn higher returns on capital with a smaller amount of money?

Munger: Well I do think a very smart person who is patient and aggressive, willing to work hard and root around in places like thinly traded stocks can do well. I think someone shrewd like this could return high amounts on their capital even today. However, that is not my personal problem at the moment. And for me it's harder, and for Berkshire it's harder.

If you are shrewd enough and work with small amounts of money I think you can compound capital pretty well over time. The minute you get bigger sums it gets way more difficult. It was much easier for me when I was in your position. But I'm about to die and you have a lot of years ahead – you don't want to trade your position for mine.

Q: What is your advice as a teacher to help students make better decisions and be happier in life?

Munger: Well that's a wonderful question. The minute you decide to make better decisions and teach those around you, you have it right. You just keep trying to live a good life and a constructive life and to be rational and honourable and meet reasonable expectations of the people who depend on you. Of course, you will get ahead over time.

And the best way to teach is by example. And of course example works better when you win and if you behave right you are more likely to win. So I would say you are on the right track already, just keep at it. With this attitude you can't fail.

Q: Good morning Mr. Buffett and Mr. Munger...

Munger: Well I'm flattered to be called Mr. Buffett but I prefer to use my own name.

[Laughter]

Q: Has the large gain in book value over the last 50 years at Berkshire been generated by the leverage inherent in your reinsurance operation?

Munger: Well there is some leverage buried in the Berkshire numbers and reinsurance provided some of that. It's not overwhelming in its consequences. There were years when it was of importance, in some years Ajit made so much money it was embarrassing. And he would give the money to Warren and Warren would earn 20% on the money.

So there were some years when some remarkable synergies between reinsurance and Berkshire happened. But the insurance business is not some easy way to make money. There is a lot of danger and trouble in the insurance business and it's becoming more and more competitive as we are sitting here.

Berkshire succeeded because there were no really big errors and there were a considerable number of successes which are much harder to get under present conditions than they were at the time when we got the results. There are very few companies that compounded at 15% over 50 years, it's a very weird outcome that is most peculiar. I wouldn't count on it happening again soon and certainly not at the Daily Journal.

Q: Can you talk about the productivity of margin trading?

Munger: Well, of course it's dangerous when you have a margin account because the person that is giving you the credit can wipe you out at the bottom tick just because he feels nervous. And therefore of course, people like Berkshire totally avoid any position where somebody else can start selling our securities because they feel nervous.

And of course there are a lot of people now who are pushing margin trading very, very hard and of course there's also these weird instruments like the VIX contracts that trigger new selling because

existing selling happened. So you get a feedback effect where a little decline becomes a big one and a big one becomes a bigger one and so on and it rapidly goes down a lot in a short time.

I'm afraid that under modern conditions the risk of what happened recently with the VIX is just part of the normal conditions. And of course we will always have margin traders who want to push life hard.

Just look at Niederhoffer, he got wiped out recently. He's a very talented man. He is famous at Harvard. His name became a verb. He learned to Niederhoffer the curriculum. He was a great card player and squash player. He was on a scholarship so he had to get high grades but he didn't want to do any work so he figured out how to Niederhoffer the curriculum at Harvard. He signed up for nothing but the toughest graduate courses in economics. And students in these advanced courses were doing a lot of the work for the professors so nobody gave them less than A.

For a while he didn't go to class and they thought they had a new Keynes at Harvard and he was just signing up for courses where you couldn't get a low grade. Interesting story. Interesting man. Wiped out a second time. He is very brilliant and a talented man, but pushing life that hard is a mistake. It might make sense if you are trying to get your head to stick out of a crowd but when you are already rich it's insane. Why would you risk what you have and need to potentially gain what you don't have and don't need? It's really stupid.

Q: Have you ever thought about buying into a brand like Hershey or Tiffany?

Munger: Well I would at the right price, wouldn't you? It's just a question of price. Of course they are great companies. But that's not enough, you need great companies at a price you are willing to pay.

Q: My 92-year-old grandmother has passionately invested her money for our family her entire life. Based on your success, what advice would you give to seizing opportunities to help my family without jeopardizing her life work?

Munger: Well of course I like any 92-year-old person. Particularly if it's a good-looking woman who is also rich.

[Laughter]

And whose descendants admire her instead of being eager to have her go on. I take it you have a big winner in your family. Try and live your life to be a big winner too.

Q: Can you talk about the impact artificial intelligence might have on society?

Munger: Well the people who study artificial intelligence don't really know the answer to that question and of course I do not study artificial intelligence because I wouldn't be able to learn much about it. I can see that artificial intelligence is working in the marketing arrangements of Facebook and Google. And so I think it is working in some places very well but it's a very complicated subject.

I don't know what its exact consequences are going to be. I have done so well in life just by using organized common sense. I never wanted to get into these fields like artificial intelligence. You can walk along the shore and pick up boulders of gold. As long as the boulders keep being found and

picked up I don't want to go to a placer mine sifting vast amounts of data to get some little edge. So you are just talking to the wrong person.

And I am not sure at all that artificial intelligence will create an economic revolution. There may be places where it works, we have thought about it at GEICO for years and we are still using the old-fashioned intelligence. I don't know enough about it to say much more than that.

Q: Can you talk about how you look at culture within companies?

Munger: Well take a place like Costco, there the culture is a vast and instructive force and will continue for a very long time. Then if you get into General Electric, partly decentralized, partly not, multi business instead of one, it gets very complicated. What is the culture of General Electric? Maybe headquarters can have a certain kind of culture and maybe it'll be a little wrong. Maybe it's wrong to shift people around from business to business as much as they do.

I do think there are very few businesses like Costco that have a very extreme culture that everybody has bought into and they stay in one business along the way. I love a business like Costco because of the strong culture and how much can be achieved because the culture is right. The minute you get to more complicated places, I mean you could talk about the culture of General Motors or AT&T. It's a difficult subject. The big businesses by and large get very bureaucratic. That's the one norm in culture. They get very bureaucratic and of course it happens in government too.

I don't like bureaucracy. I don't have a better substitute but I basically don't personally like big bureaucratic cultures. And so I don't think very much about them. I don't know how to fix bureaucracy in a big place. I would regard it as a sentence to hell if they gave me some company with a million employees and they said, change the culture Charlie. You can't even change the culture at a restaurant!

Berkshire has solved the problem as best it can. You can't have bureaucracy at headquarters if there are no bodies at headquarters. That's our system. I don't think it arose because we are geniuses, I think partly it was an accident. But once we saw how well it was working we kept it. I don't have a solution for corporate culture at monstrous places.

Q: What is your view on climate change?

Munger: Well, I'm deeply sceptical of the conventional wisdom held by the people who call themselves climate scientists. I strongly suspect that they like the fact that they can discuss something alarming. I am not as afraid as the typical climate scientist is, and I think the difficulties of what they propose as a remedy are underestimated.

And besides, suppose you know a lot of physics and could accurately figure out that climate change was a huge problem. That wouldn't automatically mean you know how to fix it, fixing it would be a vastly complex issue involving geopolitics, political science, all kinds of things. Just because you understood the chemistry of the climate doesn't mean you have the expertise needed to address it. I think it's a hell of a lot of nonsense.



Now there is no doubt that carbon dioxide does cause some global warming. But just because you accept this doesn't mean the world is certainly going to hell or the seas are going to rise by 200 feet and so on. I am deeply sceptical of a lot of these people and yet I don't want to identify with the know nothings who really are vastly ignorant and won't recognize that carbon dioxide does have some influence on temperature. Now I've tried to offend everybody and I've done the best I could.

Q: If you were a young gun again with a long runway, where would you focus your attention?

Munger: I would just get up every morning and do the best I could. I would expect over time to do pretty well. It's not very hard. I'd try to marry the right person instead of the wrong person. Everything would be quite trite. I would guess that everybody your age in this room will do pretty well. You are not that mad at the world here. You are trying to figure out how to cope with it a little better. You will do alright, people like that succeed.

But if you all came in here with placards sure that you were right and wanted to shout back, you wouldn't have such a bright future. Those people are pounding their idiocy in instead of shouting it out.

[Applause]

Q: What are your thoughts on the current state of biases today given what is going on in politics?

Munger: Well it's so hard because there are so many cockroaches in the kitchen, it's hard to identify each species. I would say every bias that man is prone to is always working, that's the nature of the system. And it is amazing what people have come to believe and it's amazing how polarized our parties are becoming. And now you can turn on TV and turn to channel A and you've got your kind of idiot or you can turn to channel B and you get the other fella's kind of idiot. What they have in common is that they're both idiots.

[Laughter]

And they are playing to an audience that is mentally defective. And of course it's a little disquieting and I was used to a different world. I like Walter Cronkite. This choose your idiot form of news gathering, I don't much like. I flip back and forth between idiot types. I will not stay with just one type of idiot.

[Laughter]

And that's my system. You are right, it's weird. The world has always been weird and had weird idiots. Hitler was an idiot, a smart idiot but an idiot. We are always going to have crazy people and crazy people who follow other crazy people. Part of what I like about that situation is it gives you more incentive to think correctly yourself. And I find life works best when you are trying to stay rational all the time.

I don't want to be like any of them, don't you feel that way when you turn on the TV and there's one idiot mouthing this way and the other mouthing the other way and misrepresenting the facts? I don't



want to be like either of them. And so, I don't know whether we will have more of what's developed or if we will go back to something more pleasant but it's kind of interesting to watch, I will say that.

Q: What are your thoughts on the use of data today as it relates to short term trading in markets?

Munger: We live in an age with people using computer science to sift out correlations that might be predictive to trade in an instant. Large amounts of money have been made by say Renaissance Technologies. And there's way more of that and it's worked for those people. I don't consider it a good development. I don't see many big contributions to civilization from having people use computer algorithms to make money on a short-term basis.

Some people think it creates more liquidity in the markets and therefore is constructive but I could do without it. I would rather make money my way than short term trading based on computer algorithms. There is more of it, you are right about that. The one thing they have in common is that you can't put too much money into it. You put too much money in and it's self-defeating. And thank God it's self-defeating.

Q: When did you change your mind about airlines as an investment?

Munger: Well we didn't change our mind for a long time. For a long time Warren and I hated all railroads because there were too many and it was too competitive and the union rules were too crazy. They were lousy investments for about 75 years and then finally the world changed and they double decked all the trains and they got down to four big rail systems in the United States in terms of freight. And all of a sudden we liked railroads. Warren and I never looked at a railroad for 50 years and then we bought one.

Now airlines, Warren used to joke about it. He used to joke investors would have been better off if the Wright Brothers never invented flight. Given the conditions that were present when that stock was purchased and given the conditions that Berkshire Hathaway is in, drowning with money, we thought it was okay to buy a bunch of airline stocks. What more can I say?

It's okay to change your mind when the facts change and to some extent the facts have changed and to some extent they haven't. It's harder to come up with a competing airline than it was. And the industry is maybe learning something so I hope it works better. I think the chances of just buying airlines and holding them for 100 years will work quite well.

Q: Can you comment on the move to passive investments?

Munger: Well I think that a lot of people who are in the business hate the fact that indexes have been outperforming. And of course they can't say they hate it because it's ruining my life so they say they hate it because it's too concentrated. I don't think it's ruining the world or anything like that. It is peculiar and it will keep running forward and work pretty well for a long time.



Q: What are the qualities you look for in a life partner?

Munger: Well I have been quoted on that. I think that you need somebody with low expectations.

[Laughter]

Well it's almost noon and I know you all are groupies, but standing up for two hours? I wouldn't stand up for two hours to listen to Isaac Newton if he came.

[Laughter]

Prepared by

VGI Partners

Los Angeles, California, 14th February 2018