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Investment Lessons from a Master: Charlie Munger

A select few gifted and very sophisticated individuals have enjoyed superior investment returns over many years. Also, a small number of hedge fund managers utilizing highly leveraged, and often very complex algorithms and computer models enjoy successful investment results. Professional day traders, on occasion, also enjoy superior investment returns. For the millions of other investors, it is difficult to consistently outperform the stock and bond markets.

One highly successful long-term investor is the brilliant and stoic 89 year old Charlie Munger, Vice Chairman of Berkshire Hathaway, a multi-billionaire and partner of Warren Buffett. Jason Zweig recently wrote a Wall Street article in his column, "The Intelligent Investor," regarding Charlie Munger's investment acumen titled "Lessons From an Investing Giant." A client provided me a copy of the article which articulates some of Munger's thinking.

During a dinner party discussion with Mr. Munger in the 1980's a guest asked: "Tell me, what one quality accounts for your enormous success?" "I'm rational. That's the answer. I'm rational," responded Mr. Munger. A classic example of being rational, during the first quarter of 2009 at the peak of the global market crisis, as Chairman of the Daily Journal, a small publishing company, Mr. Munger invested 71% of the company's cash into bank stocks



Charlie Munger (left) and Warren Buffett

while others sold in panic. After purchasing other stocks and bonds while the market was down, his returns have been in excess of 200% as of August 2013¹. When discussing this move at the annual meeting in February, Mr. Munger said: "we behaved pretty sensibly" by moving boldly out of cash when stock prices got "ridiculously low."

A long-time friend, Christopher Davis, chairman of the New York-based Davis Advisors, observed "Charlie has such a deep sense of stoicism. He seems to be able to invert emotions, becoming uninterested when other people are euphoric and then deeply engaged when others are uncertain or fearful." One of his and Buffett's greatest attributes is patience. Munger favors what he calls "sitting on your a--," regardless of what the investing crowd is doing, until a good investment finally materializes. "Charlie knows exactly what he thinks, and the fact that other people don't agree has no impact on him," states John Frank of Oaktree Capital Management. "He doesn't get confused about the difference between an

¹ Zweig, J. (2013, Aug. 30). Charlie Munger: Lessons From an Investing Giant. *The Wall Street Journal*.
<http://blogs.wsj.com/moneybeat/2013/08/30/charlie-munger-lessons-from-an-investing-giant/>



emotional feeling and an intellectual understanding." "By organizing their lives to tune out distractions and make fewer decisions, Mr. Munger and Mr. Buffett have tilted their odds toward making better decisions" notes Shane Parrish editor of Farnam Street.

Those who know him well say Mr. Munger thinks in terms of probabilities rather than certainties. Decades of voracious reading in history, science, biography and psychology have made him an acute diagnostician of human folly, notes Mr. Zweig.

Having the certainty of one's conviction provides tremendous confidence. Understanding the intrinsic value of businesses provides the knowledge of appropriately pricing assets when valuations become compelling. Mr. Munger possesses the attributes of an exceptional intellect, emotional discipline, and unique investment knowledge of businesses. These along with other very necessary personal qualities have enabled him to be a superior investor and a esteemed peer of Mr. Buffett. Having the knowledge, the courage of one's conviction, and the "guts" to act during periods of crisis separates these men from the norm. Charlie Munger is indeed a unique individual and outstanding investor! May we all learn to be more "rational" investors like Charlie Munger, and to benefit from the investment lessons of a master.

- Roger L. Johnson