

OPINION

# What Charlie Munger taught Warren Buffett about investing, and life



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Berkshire Hathaway Chairman and CEO Warren Buffett, right, and his Vice Chairman Charlie Munger, left, speak during an interview in Omaha, Neb., on May 7, 2018.

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The ancient Greek temple that was home to the Oracle of Delphi had a maxim inscribed upon its entrance. In golden letters was written: “Know Thyself.”

Charlie Munger, the vice-chairman of Berkshire Hathaway

[BRK-B-N](#) -0.81%decrease

who [died this week](#), just shy of his 100th birthday, helped Warren Buffett turn that company into the greatest investment fund in human history by relentlessly following and elaborating upon the wisdom of that famous precept.

To be a successful investment manager, or a successful businessperson, you have to know accounting. And how to read an income statement and balance sheet. Yes, you have to understand finance. And the tax code.

But above all, Mr. Munger said, you have to know people. You have to accurately weigh the genius and folly, the potential and limits, of humans and their works. You have to see them – and the companies they’re running, the schemes they’re pitching, the dreams they’re dreaming – in a true light. You have to see through both marketing moonshine and sincerely held beliefs.

And the most important person you must understand is: you. Because if you don’t see the world as it really is, and yourself as you really are, then barring the happenstance of good luck, your life is likely to be marked by disappointment and failure.

Knowing your limits, including the constrained circle of your own competence, was the foundational investment practice underlying six decades of success at [Berkshire Hathaway](#). The Buffet-Munger duo had a deeper pool of knowledge than probably anyone who has ever invested money. But they also accepted, and respected, the vast geography of their own ignorance and uncertainty.

That honest appreciation of themselves had two consequences. The first is that both men read voraciously. They were absolute gluttons for learning.

“In my whole life, I have known no wise people,” Mr. Munger once said, “who didn’t read all the time – none, zero. You’d be amazed at how much Warren reads, and at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.”

The second consequence was the recognition that, even if the two men at the top of Berkshire were geniuses, their genius was limited. The list of sectors

they declined to invest in was long. The entire universe of online business, and indeed the entire information technology sector, was absent from their portfolio until relatively recently.

This was not because [Mr. Buffett](#) and Mr. Munger had decided that Amazon or Google were bad businesses. It was because they were willing to admit to their own uncertainty about how to value these companies' long-term prospects, and thus their considered opinion was that they had a low level of confidence in their own opinions. So they declined to place bets. They did not follow the crowd, and they did not let emotions such as pride or fear of losing face override that judgment.

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Declining to place a bet is what Berkshire mostly did. On most days (or weeks, or months), the company didn't buy or sell anything. It watched and waited. And then waited some more, watching for a rare winning hand.

#### [Berkshire shareholders look beyond Warren Buffett, Charlie Munger](#)

As both Mr. Munger and Mr. Buffett often said, success in life and investing comes down to only a handful of decisions over the course of many decades. Great opportunities – the right job, the right spouse, the right investment – arrive only rarely. To seize one of those infrequent great opportunities, you need the self-discipline to avoid gorging on the all-you-can-eat smorgasbord of poor opportunities.

The result was a company unlike any other. Berkshire Hathaway is today a giant conglomerate with a market capitalization of nearly US\$800-billion. That's more than double the combined value of Canada's Big Six banks. Yet Berkshire's head office only has about 25 staff. That's it.

The reasons why are twofold.

Berkshire has several huge, wholly owned subsidiaries, including Geico insurance and the BNSF railroad, and it has radically decentralized management of those companies. It put trusted chief executives in charge, gave them almost total autonomy and aimed to have them remain worthy of trust – and in the job – for life.

On the investment side, however, Berkshire did the opposite. Decisions about the investment portfolio – currently worth more than US\$500-billion in stocks, bonds and cash – were radically centralized in the Buffett-Munger duo. The only recent innovation, as part of succession planning, has been the addition of two younger portfolio managers, Todd Coombs and Ted Weschler.

Charlie Munger was a brilliant, proud, domineering character. He also knew himself, and his limits. When he met Mr. Buffett, in 1959, he immediately recognized a kindred spirit – and an investment genius superior to his own. He understood that Warren Buffett was a better Warren Buffett than he could ever be. But for Mr. Buffett to be his best self, he needed Mr. Munger: as co-pilot, adviser, pitch-perfect tuning fork, font of constructive criticism and best friend.

Mr. Buffett says that over six decades, the two never had a fight. I don't doubt him for a second.

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