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In fact, if you stick around to the end of this episode, the last six minutes is actually a masterclass on product differentiation from Warren Buffett.

I compare the ideas that Warren writes about in his shareholder letters to Tiny's approach to building their business.

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If you have a business that you want to sell now or in the future, make sure you go to tiny.com.

And one more quick thing before we jump into the episode, I want to tell you about this excellent podcast that I listened to this week.

It is from one of my favorite podcasts, Invest Like the Best.

If you are not already following Invest Like the Best in your favorite podcast player, make sure you search for Invest Like the Best and go ahead and press follow.

Look for the episode, it was published September 6th of 2022.

It's episode 293.

It is Mitch Lasky, the business of gaming.

Mitch has decades of experience in the video game industry.

There's a lot of ideas that I think founders can learn from studying the early days of the gaming industry.

As a matter of fact, Mitch Lasky just started a new podcast with my friend Blake Robbins.

They're doing an eight-part limited series called GameCraft.

I will also leave that link below.

I listened to the first two episodes of GameCraft.

It is excellent.

They go deep into the history of the video game industry.

And I'll jump into the minds of Warren Buffett and Charlie Munger.

For the last five years, I've been writing a memo to myself.

I have found this to be an excellent way to learn.

The memo is in the form of a discussion between four characters.

It's a story about a fictitious seeker and his visit to the library of wisdom where he meets another fictitious character, the librarian, along with Warren Buffett and Charlie Munger.

What has been reinforced in writing this memo is the efficiency, simplicity, clarity, and

common sense of judgment that are the hallmarks of Buffett and Munger. Both have a remarkable ability to eliminate folly, simplify things, boil down issues to their essence, get right to the point, and focus on simple and timeless truths. They are the Einstein's of business and wisdom. If there's one goal of this book, it is to better understand how they think. That is from the very brief introduction of the book that I'm going to talk to you about today, which is all I want to know is where I'm going to die, so I'll never go there. Buffett and Munger, a study in simplicity and uncommon common sense, and it was written by Peter Bevelan. So I wasn't expecting to read this book right away. It was actually recommended by my friend Eric Jorgensen. Eric Jorgensen is also the author of the book that I covered on episode 199, which is the Almanac of Neval Ravikant, but anytime Eric recommends a book, I immediately order it. This book came a few days later. I pick it up, crack it open, try to take a peek, see what the book was all about. I start reading it and I never stopped. And I think the reason it resonated with me immediately is because when you read the book, I feel it as if Warren Buffett and Charlie Munger are speaking directly to you. And I told you this before, but the reason I've read every single book I can find on Warren Buffett or Charlie Munger is because I really feel like they're the very wise grandfather figure that I never had. One of my grandfathers died when I was too young to remember him and the other one was a psychopath and a monster and dumber than a bucket full of rocks. And so when I listen to Munger and Buffett speak or I read their writing, I really do view it as, hey, this is the wise grandfather figure that I never had. They have six decades more life experience than I do. They've seen all kinds of different things and they've learned from that experience and then they pushed that knowledge and the information that they've acquired over their very long lives down to future generations. And so almost all my highlights are Munger and Buffett talking directly to you and I. It is very surprising that they start the book on the subject of mistakes. And so it starts off with Munger saying, mistakes are a fact of life. I'm not gnashing my teeth over them or suffering or enduring them. I regard it as perfectly normal to fail and to make bad decisions. Buffett comes in, remember this is going to be like a dialogue between them. I guess just to tell you, so what's interesting about this book compared to the rest of the books that I've read on both Munger and Buffett is they quote heavily, so he uses obviously any of like the books written about Munger and Buffett, but also a lot of it is from the annual meetings that Buffett and Munger both put on. And so the author organized all this so we can read it in like a conversational format. So you have Munger that says that Buffett says, everyone makes mistakes. I've made a lot and I'm going to make more. That's the nature of making a lot of decisions. Try to live your life totally free of mistakes is a life of inaction.

Stupidity is inevitable.

It happens to everyone.

Wrong decisions are part of life.

Being able to make them work out anyway is one of the abilities of those who are successful.

And so that's one main theme that they repeat over and over again is the fact that since mistakes are inevitable, you have to structure your life and your business to be able to survive the inevitable bad decisions that you're going to make.

And Buffett has a funny little memorable way to describe their approach to being able to survive mistakes.

He says, the sign above the player's entrance to the field at Notre Dame reads, play like a champion today.

I sometimes joke that the sign at the field in Nebraska reads, remember your helmet.

Charlie and I are remember your helmet kind of guys.

We like to keep it simple.

And then they go into the fact that avoiding problems is better than being forced to solve them.

This is a really amazing way that Charlie Munger describes this idea.

He says, wisdom is prevention.

Then Buffett says, it wasn't raining when Noah built the Ark and he didn't even look that smart for 39 days.

But there are some things you have to think ahead on and prevention is enormously important.

And so if wisdom lies in prevention, how do you gain wisdom?

And Munger says, if wisdom is what you want, you're going to get it by sitting on your ass.

If you really want to be an outlier in terms of achievement, sit on your ass and read and do it all the time.

And then Munger goes into the fact that because they spend so much time gaining wisdom and preparing that allows them to actually make decisions really quickly when you have the few great opportunities in your life they're presented to you.

He says, we actually make decisions very rapidly, but that's because we've spent so much time preparing ourselves by quietly sitting and reading and thinking.

Buffett chimes in.

He says, unfortunately, Bertrand Russell's observation about life in general applies with unusual force in the financial world.

Most men would rather die than think and many do.

And then Munger says, if you get into the mental habit of relating what you're reading to the basic underlying ideas being demonstrated, you gradually accumulate some wisdom.

Other than the rest of the question, but how do you guys have so much time to read?

I always believe that you were very busy and all the time that you had meetings all the time.

Buffett says, at Berkshire, we don't have any meetings or committees and I can think of no better way to become more intelligent than sit down and read.

I hate meetings, frankly.

I have created something that I enjoy, he's obviously talking about his company.

I have created something that I enjoy.

I happen to enjoy reading a lot and I happen to enjoy thinking about things.

Munger says, we both hate, this is something that I've really adopted.

I think it's one of the best ideas that they have and it's this idea that you have to schedule time to think and you cannot, Munger is going to say something funny where it's like most people, most business people schedule themselves like a dentist and he's like, well, if you do that, every single minute of your day from the time you wake up to your bed is accounted for, when the hell are you thinking?

And I'll get into why Jeff Bezos picked up on, this is such an important thing in one second.

Munger says, we both hate to have too many forward commitments in our schedules.

We both insist on a lot of time being available almost every day to just sit and think.

I've heard various stories over the years about this, but for example, like let's say you wanted to meet with Warren Buffett, you wanted to schedule something and say, you know, hey, can you meet, you know, the third week of next month, he's just gonna say, no, if you want to meet me Friday, call me Thursday and I'll tell you if I'm available.

I interact with a lot of founders.

It's completely different than how most founders scheduled their time.

Maybe we should be learning from their experience.

Munger says, we schedule time to think.

Most people schedule themselves like a dentist.

It's so easy to get so busy that you no longer have time to think and you pay a huge price for that.

And so when I got to this part, I thought of something that I read that Jeff Bezos said one time.

This is in the book, Invent and Wander, the collected writings of Jeff Bezos.

I covered it all the way back on episode 155.

But Bezos said, I need eight hours of sleep.

I think better.

I have more energy.

My mood is better and think about it as a senior executive.

What do you really get paid to do?

You get paid to make a small number of high quality decisions.

If I make like three good decisions a day, that is enough and they should just be as high quality as I can make them.

And Buffett says, he's good if he makes three decisions a year.

And I really believe that.

And I think what Bezos would tell you, what Buffett would tell you, what Munger would tell you is like, how the hell do you expect to make high quality decisions if you're not spending any time deep in thought and you're focused?

This leads directly into one of my favorite parts, something that they repeat over and over again, the dangers of multitasking.

They say over and over again, what worries me and Charlie most is a lack of focus.

Munger says this modern generation, which has gotten so good at doing two or three things

at once, multitasking.

People confidently predict will end up worse than people more like Warren Buffett with solitary reading time and less trying to do three things at once.

I think people that are multitasking pay a huge price.

I think Edwin Land, founder of Polaroid, somebody talked about over and over again on the podcast that Steve Jobs, hero, he would agree with exactly what they're saying.

He talks about the powers of intense concentration hour after hour, will actually release things inside of people that they didn't even know existed.

I send this video of Johnny Ive to a bunch of my founder friends and in like three minutes he talks about, Hey, Steve Jobs was the most remarkably focused person I knew.

And so this idea of the importance of focus appears over and over and over again.

If you just pick up any of these biographies, you're going to see it just jump out, jump out at you.

It's so obvious.

I think people that multitask pay a huge price.

I think when you multitask so much, you don't have time to think about anything deeply.

You're giving the world an advantage.

You shouldn't practically everybody is drifting into this mistake.

This is amazing that what Munger says, I did not succeed in life by intelligence.

I succeeded because I have a long attention span.

And then Munger goes in, this is not rocket science.

This is very obvious that yet people don't do it.

Johnny Ive in that video, the reason I sent it around so much is he talks about, listen, this seems really simple, but I'm shocked at how so few people do it.

So I was whenever I hear something like that where it's like, this is really important, high priority, repeated over and over again.

And yet it goes completely against human nature and you know, it goes against human nature because most people don't do it.

And I'm like, okay, that like, like alarms go off in my mind.

Like, okay, that is extremely important.

That's something you need to master, right?

And so Munger goes into this.

He goes, it's just this simple.

We've have enough good sense.

When something was working well, we keep doing it.

The fundamental algorithm of life.

Repeat what works.

Moving ahead, there's going to be three main ideas spread across a couple of pages.

They're going to repeat these ideas a lot, which is very surprising.

One is something that I think you know of well, but it's worth repeating.

You should aim to be consistently not stupid.

When they talk a lot about do not let the thoughts of others interfere with your own.

And then something that I talk about that comes up a lot in conversations with other founders is it's so difficult to build a successful business.

And then what happens and what Munger and Buffett are always talking about is like, first of all, it's very difficult to build a very successful business. And most likely the down your downfall, once you're able to achieve something that's extremely rare is not that you're going to be taken over by a competitor or something like that. It's that you're going to mess it up. And they talk about that people there's something in human nature where people are driven crazy by extreme success. And of course they're able to describe all of these ideas in, you know, just a few sentences. The first thing here is Munger saying, hey, the one thing that surprised me all my life is how many people with high IQs do massively stupid things. Someone once said what most distinguishes the foolish and the intelligent is the foolish consistently commits the same stupidities while the intelligent always find new ones. So that's really funny. Obviously, Munger then continues, while an excess of self-regard is often counterproductive in its effects on cognition, it can cause some weird successes from overconfidence that happens to cause success. So what does that mean? That's kind of a weird language there. This is he breaks it down to a maximum that I've heard Munger repeat several times. And he says, never underestimate the man who overestimates himself. Buffett chimes in, he says, I would say if Charlie and I have any advantage, it is because we're rational and we very seldom let extraneous factors interfere with our own thoughts. You're going to hear Buffett and Munger say variations of this idea over and over again. Let me go back to what Buffett's saying. He is like, hey, we try to be rational. We don't let the we try to mute the outside world, right? We're not going to let the outside world interfere with our own thoughts. We do not let other people's opinion interfere with our own. And then Munger goes back into this thing. Don't mess it up. You need patience and discipline and an ability to take losses in adversity without going crazy. You need an ability to not be driven crazy by extreme success. And then they go on for multiple, multiple pages about one of their favorite ideas. This is this idea of inversion. I've covered this idea a lot in the other Munger and Buffett episodes. I will list all of them in the show notes down below in case you want to check out, you know, I don't even know how many there are. There might be like eight or 10 or something like that. You can also go to founderspodcast.com and see like all the show notes in case it doesn't show up on your podcast player. So I'm going to try to avoid covering things I've covered in past podcasts, because I just assume when I make the podcast that you're just like me, that you're a maniac. And then when you find something that you're interested in, like I was interested, you know, in Charlie Munger, Warren Buffett, I'll read every single book and get my hands on.

I would listen to every single podcast, so I will list them all.

And obviously, if you're interested in learning more from Warren Buffett and Charlie Munger, just listen to them and, you know, listen to them again.

And so they're going to talk about inversion throughout the entire book.

Munger starts off.

That is very much my approach to wisdom.

I go around figuring out what doesn't work.

And then I avoid it.

Always invert.

I sought good judgment, mostly by collecting instances of bad judgment, then pondering ways to avoid such outcomes.

So that is in his personal, like his personal life, right?

But he also talks about it's extremely useful in studying why other people fail in business.

To examine how businesses become big and strong, Charlie first studies how businesses decline and die.

Buffett says, we have been a student of other people's folly, and it has served us well.

And then Buffett has a great line on how do you actually practice this?

This is this is fantastic.

It is an inversion process.

You start out with failure and then engineer its removal.

And this is one of my favorite ideas in the book and another way to think about an idea

I've already been previously exposed to it's like, oh, you should figure out what you don't like to get to what you do like.

And so it says, Munger says, the mental process that has really worked for me my whole life and I use it all the time is turning everything into reverse.

I figure out what I don't like instead of figuring out what I like in order to get what I like.

And so they go on giving examples of inversion over and over again and interspersed through all these examples of inversion, they say stuff like this, hey, I think a lot of this is Buffett.

I think a lot of people make things more complicated than they need to really think you should keep things simple in both business and investments that's usually far more profitable to simply stick with the easy and obvious than it is to resolve the difficult.

And then they end this section of the book with why they're saying this, this is something you and I have talked about for years.

Repetition is persuasive.

It's that some things may seem a little repetitious, but repetition is the mother of learning.

And so if you pick up this book and read it, and I hope I can encourage you to do so, you're going to be maybe surprised, but a large part of this book is actually on the human psychology and then observable human nature throughout history.

And if you think about this, like, okay, why would some of the greatest founders and investors of all time and Munger and Buffett, why would they be so obsessed with that?

Because business is people, right?

Your business partners are people, your customers are people.

And so they just have a lot of it is like avoiding, they talk about, you know, there's a lot of low quality traits and human beings and low quality people on this earth. You need to avoid them.

Again, I think they give you a simple way to do this.

And so Buffett talks about like, well, when you're picking people to do business with, he just has these things like, you know, if you need like a 50 page contract to protect yourself from the person you're dealing with, you need to walk away from that deal immediately.

He says, I like to deal with people where I feel a one page contract would do the job.

And one apparent almost contradiction, when you read, they talk about, hey, you know, we spent so much time studying history, reading biographies, learning from the experiences of others.

And then they keep repeating that most people do not learn from other people.

And Munger's got a great illustration at this point.

He goes, you can tell that most people don't learn from the experience of other people because there's little originality in the disasters of mankind will get there in one second.

Buffett said, the trick is to learn most lessons from the experience of others.

Munger says the more hard lessons you can learn vicariously, rather than through your own hard experience, the better you can see the results of not learning from other people's mistakes by simply looking around you.

How little originality there is in the common disasters of mankind.

He goes on to list some drunk driving deaths, incurable venereal diseases, conversion of bright college students into brainwashed zombies as members of destructive cults, business failures through, this is such a great line, business failures through repetition of obvious mistakes made by predecessors and so on.

I just love that idea.

It's like you can tell people are not, or most people are incapable of learning from the experience of other people because there's no originality in the common disasters of mankind.

They just repeat over and over again.

I think you'll learn a lot from other people.

In fact, I think you learn basically, if you can learn basically everything from other people, you don't have to get too many new ideas on your own.

You can just apply the best of what you see.

Then a few pages later, they essentially give an enthusiastic endorsement of listening to founders podcast because they say, study effective individuals.

Buffett says, look at effective individuals and try to figure out why they're effective.

Munger says, I think history is very helpful.

It enables you to keep things in perspective.

The history of civilization and the history of finance and investing, it is very useful.

Buffett says, I like history.

I like financial history.

It is useful to realize how extraordinary things can happen occasionally.

This is a great, great line.

Everything that needs to be said has already been said.
But since no one was listening, everything must be said again.
Now, we got a couple of different ideas all centered around this one main idea.
Focus on the essence, the most important thing, the core.
Always try to simplify things to their essence, the fundamental or most important aspect of something.
The core is the way to think about it.
We've got the best 30 second mind in the world, Buffett said.
If I call him and describe a problem to him, any kind of situation, he gets to the essence of it immediately.
When we make decisions, we focus on the most important thing.
Something to preach over and over again is get into a good business and allow the miracle of compound interest to do most of the work for you.
I talk about this over and over again with you that time carries most of the weight.
Buffett says, compound interest is a little like rolling a snowball down a hill.
You start with a small snowball and if it rolls long enough, you'll have a real snowball at the end.
It's better if you're not in too much of a hurry and keep doing sound things.
The reason I wanted to read you that paragraph is really for this next two sentences.
Berkshire was a small business at one time.
It just takes time.
It is the nature of compound interest.
You cannot build it in one day or one week.
Going back to this idea that once you're in a good business, stay in a good business, let time do the work.
Charlie Munger talks about this as staying on the wave.
He says, when new businesses come in, there are huge advantages for the early birds.
When you're an early bird, there's a model that I call surfing.
When a surfer gets up and catches the wave and just stays there, he can go for a long, long time.
But if he gets off the wave, he becomes mired in the shallows.
People get long runs when they're right on the edge of the wave, and so he uses an example like Microsoft or Intel.
Stay on the wave.
Then they give some ideas on both that are effective for sales and effective for managing other people within your organization.
Mary Kay once said, it's so simple, yet make such a difference.
Pretend that every single person you meet has a sign around his or her neck that says, make me feel important.
All human beings work better if they get reinforcement.
If there are constant rewards for doing well, you will be driven to do more of the same.
And then they have a theme that they repeat over and over again with different little stories and a lot of it actually is related to like Buffett loves baseball stories.
But it's just this idea that most of the world, by definition, has to be mediocre.

In that if you can actually do the work necessary to turn yourself into a formidable individual and then work with just the best, first of all, work with the best possible people and work in the best possible industries and businesses, that will do most of the work for you.

And to be able to do that is you have to be kind of ruthless with cutting people that aren't up to your standards out of like, you don't want to do work.

You can't work with, you know, C players or even B players.

So Buffett says, the real issue is mediocrity.

There are too many 240 hitters.

So he loves this baseball analogy.

If you were a fantastic hitter, you'd be a 400 hitter, that's something he's going to repeat over and over again.

But in this case, you have somebody that may even think they're a 400 hitter, but are actually a 240 hitter.

So what he's talking about, the real issue here is mediocrity.

There are too many 240 hitters in business.

Businesses often settle for a notch or two above mediocrity.

There are strong human instincts at work.

And then they also give advice where it's like, listen, you think you might be able to turn around a business or turn around a person, you're just better off getting into a better opportunity.

This is something where I always say it's like actions express priority.

It's one of my favorite maxims.

People do what they actually want to do.

And you can tell what people want to do is just like, how do you spend your time?

What are your, it doesn't matter what you tell me, Hey, this is important to me.

It's like, just, I can look at what you do.

And this is great advice from Buffett.

People just do what they want to do.

And you're just better off just not trying to change their behavior because only they can do that.

So he says, in almost 60 years of investing, we found it practically useless to give advice to anyone.

And this is even in situations where you figure, hey, they should have a lot of influence and control here.

And he says, listen, Charlie and I have been on boards of companies in which we were among the largest shareholders.

And even then we had very little luck changing their behavior.

So we think that if you buy stock in a company, you better not count on being able to change the course of action.

And then they go back into the importance of understanding human behavior.

And then they touch a little bit on why so many founders and investors have it like they love history.

They like studying history.

They find it very useful for their careers.

Buffett says, you really should understand human behavior if you're going to run a business.

Munger says, once you have the ideas, of course, you must continuously practice, amen, something you and I talk about over and over again.

Once you have the ideas, of course, you must continuously practice their use.

If you don't practice, you can't perform well.

A wise man engaged in learning some important skill will not stop until he is really fluent in it.

So more on this idea of it's really important if you're going to run a business to understand human nature.

Again, this is all these ideas, these are not on the same page.

So this is how you know it's important to them because what's important to people they will repeat.

And so this is really, it's a story about imitation is the note that I left myself when I read this.

But no, what Charlie's about to tell us, he's telling us a story about human nature.

That's very fascinating.

So think about like their bird's eye view that they've had in the like the finance industry, which you know, it's been full of panics and bubbles and booms and busts, right?

This is just absolutely fantastic.

So Charlie Munger says, one of my favorite stories is about the little boy in Texas.

The teacher asked the class, if there are nine sheep in the pen and one jumps out, how many are left?

And everybody got the answer right, except this little boy who said, none of them are left.

And the teacher said, you don't understand arithmetic.

And he said, no teacher, you don't understand sheep.

And Buffett adds onto the story by saying, it always amazes me how high IQ people mindlessly imitate.

And then Buffett describes this phenomenon by this idea he calls the three eyes.

And so he says, you get what I call the natural progression, the three eyes, the innovators, the imitators, and the idiots.

So skipping ahead, let's go back to this idea that they repeat over and over again, spent a lot of time thinking, reading, formulating your own thoughts and mute the world.

And so Buffett says, we do not read other people's opinions.

We want to think, we want to get the facts and then think.

This was such a mind blowing realization, because you never know when you're reading something, when it just is going to something click or interact with maybe an idea that was previous in your mind or weren't necessarily completely understood how important it was.

And I was reading Buffett shareholder letters, and then obviously, this is like years ago.

So this is probably like in 2019, maybe.

And listening to Charlie Munger speak, they kept bringing up this guy named Henry Singleton.

And I was like, what the heck is going on here?

You know, in my opinion, Buffett and Munger have studied the people living and maybe people have ever lived.

They've probably studied more different businesses and more company founders and managers and CEOs and almost anybody else, right?

They've been at it since in Buffett's case, since he's a little kid, and he's been doing almost for a hundred years, right?

And yet they kept bringing up Henry Singleton, Henry Singleton, they're like, hey, I'm this guy was a Charlie Munger says Henry Singleton was the smartest person you ever met.

Munger said that his returns in business were utterly ridiculous.

Buffett said it's literally a crime that business schools don't study this guy.

And the reason it's hard to study him is you actually have to like, there's not a lot written about him.

I've done two episodes on him, but episode 110, there's this book called Distant Force, which is written by Singleton's like Ray Hand Guy, and it's really the history of the company Teledyne that they built together.

But what was so remarkable and just made, I don't know why I just clicked when I started reading about Singleton is like how he spent his time.

But the point of all this is like, there's a description in that book, they're really resonating me that you have to do the work necessary to be able to trust your own judgment or none of this is going to work.

And so I'm going to read a quote from Distant Force, this episode 110.

I'm about to reread this and collect all the other information.

And in fact, a bunch of listeners actually sent me really valuable information about Singleton, like old press articles and stuff they found in like public libraries and stuff.

But I want to read this because I really think this is exactly what Buffett is saying here.

Let me reread Buffett before I get there, right?

He's like, listen, we don't read other people's opinions, we want to think, we want to get the facts and then think.

In many ways, Singleton was Buffett before Buffett, right?

So it says quite often, Henry simply talked about his philosophy of running a corporation and the various financial strategies that came that he came up with as he sat in his office each day often working in his Apple II computer.

He was a brilliant strategist, and he came up with many creative ideas, ideas that were sometimes contrary to the currently accepted methods of managing a large corporation that prevailed in those days.

One of the things that blew my mind was the fact that Henry Singleton was friends with Claude Shannon, the inventor of information theory, a universal genius, one of the rare universal geniuses that the world has seen, right?

And Claude Shannon and Claude Shannon was actually on the board of Teledyne and an advisor.

So when, when Henry would go out and when he was building his conglomerate trying to buy through acquisitions, you'd actually have to be able to tap, imagine being able to like call up Claude Shannon like, hey, what do you think about this new technology?

It's just crazy to me.

Anyways, this is what Shannon said.

Check this out.

He all he Shannon is talking about Singleton observing Singleton how he works.

He says he always tries to work out the best moves.

And maybe he doesn't like to talk too much because when you're playing a game, you don't tell anyone else what your strategy is.

Where did the strategy come from?

The same place that Buffett now in this book that I'm holding in my hand is saying came from him sitting there in his room thinking Singleton was obviously very extremely well read just like Buffett as well.

Let me go back to Buffett.

I'm going to repeat this for the third time.

We do not read other people's opinions.

We want to think we want to get the facts and then think.

Now we're many pages deep in the book and they go back to this theme default to know keep an open calendar so you can actually think the difference between successful people and very successful people is that very successful people say no to almost everything.

Munger that was Buffett Munger says both Warren and I have amazingly open calendar and we're very reluctant to put new commitments in there.

I like flexibility and has worked for me.

And so Buffett takes this so seriously that you know at this at the point they're talking about this I think he owned like 80 different businesses and so he would actually every few like years he would write the managers of his business a letter and it's all about the fact that Buffett ruthlessly guards his time.

This is what the letter says.

Please turn down.

This is Buffett writing right.

This is to all of the CEOs and the managers of all the subsidiaries in Berkshire.

Please turn down all the proposals for me to speak make contributions etc.

Sometimes these requests for you for you to act as an intermediary will be accompanied by oh it can't hurt to ask.

It will be easier for both of us if you just say no and he means no right away as an added favor don't suggest that they instead write or call me.

Multiply 80 or so businesses by the periodic oh I think he'll be interested in this one and you can understand why it's better to just say no firmly and immediately.

And then they touch on a main theme in the history of entrepreneurship the importance of frugality guarding the resources that you have not spending foolishly no matter how much money you have Charlie and I have always been big fans of living within your income and if you do that you'll hope you'll have a whole lot more income later on.

If you monger says if you want to get rich you've got to understand your understand your income you've got to intelligent invest the money that you haven't spent spent the money will work for you for a longer period of time you have to save and so I actually found I'm going to reread his biography and if I got another book on him to actually found this guy because Buffett it's another entrepreneur that Buffett and monger talk about from history it's this guy named James J. Hill and I covered him all the back in episode number 96 and he's one of the maybe the greatest railroad builder in history and there's something

that he talks about and he would repeat in his work you know this is 1800s probably let's see mid to late 1800s when he says this and he said if you want to know whether you are destined to be a success or failure in life you can easily find out the test is simple and it's invaluable are you able to save money if not drop out you will lose you may think not but you will lose as sure as you live the seed of success is not in you so then they spent some time talking about the dangers of debt that debt is an easy way a common way for really rich people to go broke Munger says smart man go broke in three ways liquor ladies and leverage Buffett says whenever a bright and rich person goes broke it's usually because of leverage any series of positive numbers however impressive the numbers may be evaporate evaporates when multiplied by a single zero history tells us that leverage all too often produces zeros even when it's employed by very smart people one of the things you will find this is still Buffett talking one of the things you will find which is interesting and people don't think of enough with most businesses and with most individuals life tends to snap you at your weakest link you can have somebody whose aggregate performance is terrific but if they have a weakness maybe it's with alcohol maybe it's a susceptibility to taking a little easy money it's the weak link that snaps you and frequently in the financial markets the weak link is borrowed money and so the other side of the coin of this idea is like hey they tell you over and over again we gotta be real careful with debt be real careful leverage they will preach the fact that you should try your business should have mountains and mountains of cash cash is a lot like oxygen you don't notice it 99% of the time but when it's absent it's the only thing that you notice we have maximum financial flexibility to face both hazards and opportunities Buffett says we keep our cash largely in US Treasury bills and avoid other short term securities yielding a few more basis points somebody sent me and this is not my world so I don't know but somebody said that they right now they have 100 billion in cash earning 4% risk free we agree with investment writer Ray Dalio's observation more money has been lost reaching for yield than at the point of a gun and why do they say that because cash ensures your first survival something you and I talk about over and over again you have to stay in the game long enough to get lucky Buffett says it pays to conduct your affairs so that no matter how foolish other people get you're still around to play the game the next day Munger says I am not a victim I am a survivor and then they start giving advice on just interpersonal relationships you're going to like people you're gonna deal with bad people throughout your life that's inevitable but how you can't control what they do other than you can avoid them obviously but you can control your reactions and so then Buffett in the middle of this he talks about hey this is some of the best advice I ever got in my life and so he says 40 years ago Tom Murphy who is the former CEO of Cap Cities and ABC gave me one of the best pieces of advice I've ever received he said Warren you can always tell someone to go to hell tomorrow you haven't missed the opportunity just forget about it for a day if you feel the same way tomorrow then you can tell them but don't spout off in a moment of anger and then this is one of the most important fundamental insights into human nature that I've learned personally from Charlie Munger and he's like listen everybody thinks that the world is driven by greed but it's the world is not driven by greed it's driven by envy and your life will be a lot better if you just eliminate envy from your life and so Charlie says I've heard Warren say half of it and I guess he learned this

from Warren I've learned I've heard Warren say half a dozen times it's not greed that drives the world but envy Buffett says our experience is that envy is what really drives people you can give someone a two million dollar bonus and they're happy until they see the next guy got 2.1 million and then they're miserable and Munger illustrates why this is so ridiculous if you're comfortably rich and someone else is getting richer faster than you so what someone will always be getting richer faster than you this is not a tragedy someone else is always going to be doing better at any human activity you can name then we go back to this idea something that I believe with my whole heart the time is the best filter Buffett says Gianni Anginelli maybe is the former chairman of the car company Fiat so says Gianni once told me one time told me when you get older you'll have the reputation that you deserve you can fool some people some of the time but not forever I believe the same is true for companies and now when I read that that's probably like what the third or fourth time I think the fourth time I've read that particular highlight something else just jumped at me where he says hey you know with time you can't fool people you can fool people some of the time and not forever over time you're going to have the personal reputation that you deserve and your company will have the reputation you deserve Buffett says something that's booked us that's fantastic where he describes what an actual brand is and he says brand is a promise so I'm not sure why but when I reread that section just now that's the the idea that jumped it that popped in my mind and so then Charlie adds to this the best way to get a reputation for yourself and your business is to actually work backwards he is going to quote sole price so sole price Buffett and Munger are both fans of sole price I did an episode on him it's episode 107 my I would make the argument that sole price is the most influential retailer to ever live Sam Walton Trader Joe Jim Senegal Bernie Marcus from Home Depot Jeff Bezos they all use ideas in their business variations of sole prices ideas in their business and so we have Munger talking about like okay well you should decide what kind of business that you do not want right so it says sole price used to say success in business came from deciding which business you could intelligently do without he had a list of businesses that he did not want he didn't want business from people who wrote bad checks he didn't want business of people who clogged up his parking lot without buying very much he carefully invented a system he's the one that came up with the the idea like what everybody knows Costco that Costco idea is sole prices idea it was just actually brought to life by Jim Senegal which is sole prices meant mentee Jim when he was really young actually worked for sole price he greatly admired him in fact the autobiography I should be the biography of sole price that I read for one episode 107 Jim Senegal wrote the forward or the introduction of that book and he says like when people would interview him I was like oh you knew sole for 50 years before he died you must have learned a lot from him he's like no no I didn't learn a lot I learned everything everything from him so that's what Charlie's talking about he's like well he just designed a business you know how many businesses do you have to pay a membership fee to shop at like that's extremely rare but why is he or unusual why is he doing that because he's designing a bit he's getting to the business he he wants by avoiding things he does not want and that membership fee that barrier to entry eliminates a lot of things that Charlie's talking about here he didn't want business business of people who clogged up his parking lot without buying very much he carefully invented a system where he kept those people out and succeeded by deciding

what he would be better off without and avoiding it this is a very good way to think and it is not common and so then Buffett goes into something that he repeats over and over again in fact one of the best gifts I've ever gotten is for Father's Day my wife got me this mug and it says like the wisdom of Warren Buffett and all it is is Warren's face with a bunch of quotes that he said and all I do is like fill up this cup multiple times a day with with espresso and then read right and one of my favorite things is because it's like these ideas are in the book and they're in the podcast and yet this like physical item brings that out and it's like serves as like a reminder every day and on one of the things that he says on this this coffee mug is the best thing I did was to choose the right heroes this is something that him and Munger repeat over and over again I'm going to read this section real quick and then tell you something Munger also says I think it's very important to have the right heroes choose your heroes carefully and then figure out what it is about them that you admire then you figure out how to do the same thing it is not impossible and then I've actually seen clips from Warren saying this at the shareholder meeting and then Charlie adds you also should not relegate your selection of heroes to the living that the eminent dead obviously a main theme of this podcast right the eminent bet dead provide some of the best models around and then they have some more advice for our career for our work that you really should try to maneuver yourself get yourself in a position where you can do work that you have an intense interest in if you listen to my three part series of the about Paul Graham's essays 275 episode 275 76 and 277 this is a main theme of his writing as well the big thing you want to do is you want to enjoy every day so you want to have a job that you love and you want to work with people that you like admire and trust monger says in my whole life I have never been good at something I wasn't very interested in it just doesn't work there is no substitute for strong interest they also talk about a very common mistake that smart people make that successful people make is because they were successful in one domain that they can act that knowledge actually transfers to other domains the best example of this is like I always say you know Henry Ford's one of the his Henry Ford's one of the entrepreneurs I most admire professionally not personally and I really like his philosophy of company building but you see this illustration if you read about Henry Ford like he was a master at building the Ford Motor Company but then he thought like he could control like the morals of his like his employees he thought he could like he he could figure out a way to stop World War one from happening he had all these things where he failed spectacularly at where he thought okay well I I have some kind of knowledge I derive from my business and it's applicable to this domain and it definitely wasn't Buffett says for us to think that because we made a lot of money we're going to be better at giving advice on every subject well that just doesn't make sense that's crazy I'm very suspect suspect of the person who is very good at one business who starts thinking they should tell the world how to behave on everything they start repeating this idea you really should try to be seeking out and working with and associating only with first class people Munger says our basic role has always been that we do not deal with assholes I have turned down business deals that were otherwise decent deals because I didn't like the people that I'd have to work with you have to you want to avoid other people who are total rat poison and there are a lot of them you want to associate with first class people and they go back into the more most important asset one of the most

important assets and running a business is passion as very interesting let's say that you want they're asked a hypothetical question by a fictitious character in this book so that question says let's say I want to hire somebody what is important to think about Buffett says you look for the logical things passion an interest in running the business honestly our honesty excuse me do they love the business or do they love the money this is the first filter do they love the business or do they love the money this is the first filter I mean real passion if temperament is the most important personal asset in managing money in business it's passion is also why Jeff Bezos says that missionaries make the best products missionaries not mercenaries he says mercenaries are in just for the money missionaries actually care about what the business is doing what service is that business giving to the world you want to try to hire people that are complete alignment with you and look at it like you do like it's a mission they also spent a lot of time talking about company culture the fact that you have to be very intentional how you build the culture at your business that once the culture is in place it is nearly impossible you're better off just starting a different company than trying to change the culture so says we try to provide an environment for them meaning the managers and CEOs of their businesses which is exactly like we'd want if we were running a business we would like to run our own business in our own way so they're like hey we try not to mess with them right we only working with a players a players don't like to be micromanaged and if I had to micromanage and why did I buy the business to begin with that doesn't make any sense we will never allow Berkshire to become some monolith that is overrun with committees budget presentations and multiple layers of management instead we plan to operate as a collection of separately managed medium sized and large businesses most of whose decision making occurs at the operating level all of the businesses that we own are run autonomously to an extraordinary degree in most cases the managers of important businesses we have owned for many years have not been to Omaha or even met each other we adapt to their methods rather than vice versa so then Buffett talks about like his own strategy like what is Buffett's think like what is his competitive advantage right he is trying to be a like not trying to be he does this he's a buyer of businesses I would argue that Buffett shareholder letters is the greatest single example of content marketing that the world has ever seen I talk about this more on episode 227 which is the essays of Warren Buffett where it talks about like he publishes a letter that he shows like he was interested in buying this person's business he actually publishes the letter that he sent the buyer the person he the owner of the business I feel it's like a masterclass and product differentiation and so he touches on how he thinks about this and how he positions himself and so he says our long avowed goal is to be the buyer of choice for businesses particularly those built and owned by families the way to achieve this goal is to deserve it that means we must keep our promises avoid leveraging up acquired businesses grant unusual autonomy to our managers and hold the purchase companies through thick and thin our record matches our rhetoric most buyers competing against us follow a different path for them acquisitions are merchandise we have a decided advantage when we encounter sellers who truly care about the future of their businesses if you truly care about your business and the future of it it's not a merchandise to you it's not just a big you know a big exit it's like you actually care like if you are going to sell your business like you care what happens what happens after you leave the business and so Buffett's like well if you're one of

those people of course but Berkshire would be if you look at our tracker Berkshire would be your first choice so it says the reverse is apt to be true also when an owner auctions off his business exhibiting a total lack of interest in what follows you will frequently find that it has been dressed up for sale and therefore what Buffett's saying it's not a high quality like if somebody truly cares most likely they truly they built a like a wonderful business somebody's just in it to start scale and sell they probably don't give a shit and so therefore the long-term prospects of a business like that are very suspect and Buffett's not interested in buying those kind of businesses there is a great line in the Anthony Bourdain biography that I read for episode 219 that jumps out at this next when I read this next sentence it says life isn't a green room for something else go for it Buffett says we're here on the earth only one time so you ought to be doing something that you enjoy as you go along and you can be enthusiastic about then we have two great quotes the first one is from Buffett when a problem exists whether it's in personnel or in business operations the time to act is now Munger says wise people step on big and growing troubles early there's several times in the book that Munger talks about his ability to make decisions very rapidly we heard Buffett say earlier that Munger has the best 30 second mind that he's ever encountered and so into his points like they have an idea of the businesses that are interested in they're in their mind the characteristics of the stuff they're interested in so even like he'll get a phone call and within like 15 seconds like nope and it'll just like hang up the phone he's like there's no point I know I don't want this business there's no point us like we have limited time on this earth like I'm not going to waste sit here and just be polite for 15 minutes just to give you a know that I can give you a know in 30 seconds and so Munger says spend no time arguing with people whose idea you know to be stupid I think a main theme that comes up again and again these like stories that you and I go over is the fact that future opportunities are unpredictable to you like you just have to trust in something obviously do as good job as you can with whatever is in front of you but like there's going to if you keep going along and you keep getting better that's going to unlock opportunities you can't possibly predict and there's a thing that I feel like there's a current running through the thinking of Buffett and Munger that that talks about this is like listen we're not really big into master plans we know we want to own wonderful businesses we know we want to you know own pieces of wonderful business and public markets but essentially like instead of going deep in this inflexible master plan like we're just going to keep reacting to the game that's on the field and so it says Munger says I have a deep distrust in master planning there has never been a master plan anyone who wanted to do a master plan we fired because it takes on a life of its own and doesn't cover the new reality Buffett says we do have a few advantages perhaps the greatest being that we don't have a strategic plan thus we feel no need to proceed in an ordained direction but can instead simply decide what makes sense for our owners Charlie and I don't sit around and talk about the future of industries we have no reports or staff we just review what comes in and look for companies with a durable competitive advantage at an attractive price and so think about that that is a rather simple plan we're just going to review what comes in we constantly get people offering to sell or like we have inbound requests to buy their businesses we just review it is this a company with a durable competitive advantage and attractive price if it is okay we'll buy it and if it isn't we'll just sit on

our ass and we'll read and we'll think and we'll pile up money it's really hard to lose if that's the two different modes that you have in your business all right this goes back into the futility that people just the futility of trying to change other people's minds better just select different people to work with that you know people just do what they want to do and Buffett says I'd say that the history that that Charlie and I have of persuading decent intelligent intelligent people who we thought were doing unintelligent things to change their course of action has been poor when people want to do something they want to do something we don't try to change people it doesn't work well we accept people the way they are and then Charlie passes on a bit of wisdom that he thought was very valuable in running a business it's from this guy named Carl Braun who was an engineer and an entrepreneur and it says few practices are wiser than not only thinking through reasons before giving orders so orders to people in your company but also communicating these reasons to the recipient of that order no one knew this better than Carl Braun who designed oil refineries with spectacular skill and integrity he had a very simple rule you had to tell who was to do what where when and why if you wrote a communication leaving off your explanation of why the address he was to do what you what was ordered brawn was likely to fire you because brawn knew well brawn well knew that ideas got through best when reasons for the ideas were meticulously laid out people have to know why is what Charlie's telling us or even simpler way to think about that is always tell the other person why Charlie just told us that there's no that you spend no time arguing with people whose idea you know to be stupid there's another great line in this regard you do not have to attend every argument that you're invited to so then they talk about Charlie's orangutan theory which I absolutely love the first time I was introduced to this theory is actually um I read the autobiography of Catherine Graham it was obviously episode 152 and she talked about that um in her case her the way like Warren Buffett was helping her learn how to run her business and that um she she thought that Warren was her version of the orangutan and so Munger's orangutan theory is this if a smart person goes into a room with an orangutan and explains whatever his or her idea is the orangutan just sits there eating his his banana and at the end of the conversation the person explaining comes out smarter there's something about smart people explaining ideas to an orangutan that makes their decision making better

and it's this idea that you're just speaking this is actually forces you to organize your thought it clarifies your thinking it's very helpful remember at the beginning of the book they said uh repetition is the mother of learning Charlie Munger goes back to this idea that it's so hard to get rich and yet most likely when you get rich you're going to mess it up just don't mess it up the problem is not getting rich Munger says it is staying sane for whatever reason extreme success war is tends to warp people's minds they cannot handle it and then I actually love this section because it talks about like you know we talk about this like history doesn't repeat human nature does

that there's ideas in history books that are worth you know billions of dollars i'm about to read you something right that sounds like Warren Buffett said it today we just went from this zero-inch straight environment rates are going up valuations are being in flux and yet when i'm about to read you he said in 1994 i just had a weird experience where you know i share a lot of like highlights and stuff from books i read on twitter and on linkedin i tweeted this out and elon musk responded back to it basically agreeing with what buffett said again in 1994 from this book but it is just as accurate as today buffett says the value of every business

the value of a farm an apartment or any other economic asset is 100 percent sensitive to interest rates that's because all you're doing when you're investing is transferring money to someone now in exchange for a stream of money which you expect to come back in the future and the higher the interest rates are the less that present value will be interest rates are to asset prices sort of like gravity is to an apple when interest rates are low there is little gravitational pull on asset prices interest this is a crazy sentence right and i wish i didn't understand this you know maybe i wasn't like something that was relatively important to like my business right but it's just amazing where i just wish i understood i wish i understood this before now because if you understood this in 1994 and you knew that this entire time you could have profited heavily off of this transition back and forth between high interest rates to low interest rates and now from low interest rates to highest high interest rates so that's like there's like ideas really will put money in your wallet it's just a way to think about it so i'm going to repeat this second paragraph because i interrupted it but this is very fascinating and i'll tell you the punchline at the very end interest rates are to asset prices sort of like gravity is to apple when interest rates are low there is little gravitational pull on asset prices this is the punchline interest rates power everything in the economic universe another thing they repeat is the importance always go for quality wonderful businesses are so rare so if you get into a wonderful business do not leave it it is just a rare thing to happen uh if you are in a wonderful business for a long time even if you pay a little bit too much going in getting into the business you will get a wonderful result if you stay in that business for a long time well if it talks about early in his career he did not really understand the power of brands it's like this weird abstraction right it came from his purchase of seas candy many many years ago he's oh brands are extremely valuable they're they're value they're they're extremely powerful and valuable and so this leads to other investments profitable investments in the future and so he says additionally through watching seas candy in action i gained a business education about the value of powerful brands that open my eyes to many other profitable investments and this is an example of why i think buffett's one of the world's greatest communicators that has ever lived because he can communicate things that are you know relatively complex make them simple uses humor talk tells talks to us in stories but this was really interesting i don't think i've heard this before anywhere in any other book too and he talks about like there is sometimes uh they're they're like you can be inexact and there's just times when further analysis is actually a waste of time and it sounds crazy because of the giant numbers that he is throwing out here in this investment but he'll tell the story and i think it'll make sense to you at the end uh with something like petro china my reaction is similar to seeing somebody who weighs somewhere between 300 and 350 pounds i might not know how much they weigh but i know that they're fat and that's all i'm looking for knowing if an opportunity is financially fat and whether petro china weighed 95 billion dollars or 105 billion dollars he's talking about the true valuation of it if it's 95 or 105 right it did not make much difference why didn't it make much difference because at the time it was selling for 35 billion dollars any further refining of analysis would have been a waste of time in that case he's saying just jump on it you know it's a good opportunity it doesn't matter you're paying 35 billion was worth 95 or 105 it doesn't matter it is a financially fat

opportunity we are so we were very inexact you'd be amazed at how inexact we are using precise numbers is in fact foolish working with a range of possibilities is the better approach now this this is one of my favorite this is where it just clicked for me right um we're in the middle why you can't see this because you can't see the book i'm holding we're in the middle of the book where at this part they're all talking about like the uh like the irrational behavior that occurs in bull markets and that just happens over and over again right and i'll i'll pull out a couple quotes because i think that's very interesting i think you and i can learn from that and yet what sticks out to most to me clicked is i'm going to read this first and i have no idea why i finally like had a deeper understanding of this so Bubba says charlie and i do not expect to win you over to our way of thinking we've observed enough human behavior to know the futility of that but we do want you to be aware of our personal calculus and i was like oh my god sometimes i read uh and you probably do this too we're like you know that's two sentences you know three three lines in a book and yet you just sit there and you stare at it and like you read it again and you like really think about what the hell he's talking about and i was like okay that is actually really interesting charlie and i don't expect to win you over to our way of thinking we've observed enough human behavior to know the futility of that but we do want you to be aware of our personal calculus what i wrote to myself and this clicked to me learning is not memorizing information learning is changing your behavior there is no point for you and i to spend all this time reading listening to educational podcasts if it doesn't change what we do and if it doesn't change what we do we didn't actually learn it he's telling you we've seen enough human behavior you're not going to actually do anything with this information that we're giving very few people he's obviously some some people were and so that's what they talk about like most people they don't say all people but they're saying most people cannot learn from the experiences of other people they're saying the exact same thing here that we've seen enough human behavior we could tell you not to do this a lot of people are going to do it the smart ones the ones that are able to learn from other people's behavior are going to have a massive advantage because they know that learning is not memorizing information learning is changing your behavior that's like i love that whatever clicked right there is super important for me and hopefully for you as well it's not memorizing information did the book that i read the podcast of this dude did it change my behavior did it actually have an effect in the real world oh okay so then they go into like this irrational behavior that you see in bull markets the sheep story that he told earlier is like a good indication of that and he's got funny ways buffett's got a funny way of reminding you about this like when you should feel that you're in danger because it says like the the problem is it looks so easy so that's what attracts you to it and so he says but remember the late barton briggs observation a bull market is like sex it feels best just before it ends and so monger says how do you take advantage of that if you stay rational yourself the stupidity of the world helps you wall street never changes the pockets change the suckers change the stock change but wall street never changes because human nature never changes then it goes back to this idea of they don't have a master plan they are opportunity driven that's a great way that's like a great use of language by them really gets this idea into our brains we don't have a master theory of capital allocation we are assuming of asset allocation we simply we're simply opportunity driven individual opportunity driven our acquisition technique at berkshire is simplicity itself we answer the phone something i love about uh doing the podcast is getting to read these stories this idea where multiple people

that we cover have figured out the the the idea of having the value of having a personal motto right so stan lee the founder of um of marvel had like i can't even pronounce it but it means like ever upward uh shackleton says by endurance we conquer one of my favorites is actually teddy rosevelt and he says get action it was actually a personal motto of his father that he adapted for his own life very similar to what monger's saying here do not be too timid go at life with a little courage so in the past few episodes and really i mean this is a main theme throughout founders but it has been especially pronounced in actually uh it's episode 283 of andrew carneghi and 284 of andrew carneghi and henry clay frick and now that i'm looking at all the episodes actually 282 of jeff fazal's talks about this quite a bit um in his showholder letters too and there's two twin themes that run throughout the history of entrepreneurship that i think are most pronounced in the books and i see observe less frequently in like modern day uh meaning they're obviously very valuable because they're very hard for people to do and that's this idea of extreme focus and extreme frugality i love what buffett does here and so he's talking about the fact that if you really think about it like two different founders two different business managers one is unbelievably gifted at cost-conscious frugal culture uh they're watching their cost over and over again and one is not like they're not even if they're in the same industry they're completely different businesses this is really interesting use of language here so he says one of the best moats in many respects is to be a low-cost producer being a low-cost producer something that's essential to people is going to be a very good business it is like comparing a copper producer whose costs are two dollars and fifty cents a pound with a copper producer whose costs are a dollar a pound this next sentence is crazy to would be crazy to most people i don't think it's going to be crazy to you and i those are two different kinds of businesses but we're like no wait they're both producing copper and his like and buffett's point is like no this advantage means it's just completely the other business why one is going to go broke at a dollar fifty a pound and the other one is going to still be doing fine this idea that they're they're completely different businesses regardless same product same same industry doesn't matter they're completely different just the way they're managed so let's go back to something that's above this why does the business have an edge against its competitors you're asking yourself questions right ask why can't company a do what company b does what stops some competitor from entering the market and so

buffett's answer to these this hypothetical question is the best way to understand this meaning why does that company have an edge whether it's a company you're running yourself or a company you want to invest in is why do they have an edge the best way to understand this is to study businesses

that have achieved it the question then is how does a company get its edge and the great company talks about building up the moat and it's this idea of focus and frugality leads into his copper story the moat is not the prod in this case the moat is not the product the moat is not the industry the moat is the management of the business in regards to its costs this is a very old idea this is something buffett is saying in 2009 and yet it's something that andrew carney knew in 1865 and then this is what i mentioned earlier my favorite definition of a brand i think i've ever read a brand is a promise that is a quote from warren buffett then he goes into the important part buffett's going to talk a lot about here is this like you know business can be fundamentally simple it's you should be really obsessing over your customers this is uh you know one of my favorite maxims in the history of entrepreneurship comes from jeff bezos he says

obsess over customers i don't have any tattoos but if i did i almost feel like it'd be beneficial if i like tattooed this on my forearm just obsess over customers there's just so much hard her knowledge in those three words buffett is going to agree with bezos here and he says in the end nobody that's ever taking good care of the customer has ever lost like sam walton once said there's only one boss the customer and he or she can fire everybody in the company from the chairman down

on down simply by spending his or her money elsewhere and a few pages later look how this actually ties together right this these two quotes i'm reading the ones i just read in this one are you know separated by maybe 20 pages or something this is crazy warren buffett said this about amazon

in 2012 and he says amazon could affect a lot of businesses who don't think they will be affected for amazon it is very hard to find unhappy customers a business that has millions and millions of happy customers can introduce them to new items it will be a powerhouse and could affect a lot of businesses and this is where you really get excited right when you think about this okay warren identified that season this is very unusual says that in 2012 that is after because jeff is writing you know in the late 90s i think 97 is his first um this is his first shareholder letter it's 15 years separating from the first shareholder letter uh you know he'd been practicing that in the the few years that he'd been running amazon before that but this idea is like that is the end result of what what bezos set out from day one he's like no we're gonna obsess over customers we're gonna build the world's most customer-centric company 15 20 years later and you're seeing buffett's like oh this is this dude's gonna be a problem and he's gonna be a problem

for other businesses because he's got millions of happy and satisfied customers and how do you get millions of happy and satisfied customers you build the world's most customer-centric company and you obsess over customers this is how could that not excite you i love when i see these ideas they just stick together and what makes me or they fit together rather and what makes me even more excited is like you have a another genius you got two geniuses there you go another genius realizing oh what this other genius is doing is genius all we have to do i'm not a genius all i have to do all you have to do is just copy them like hey that's a good idea thank you very much i'm gonna apply it to my business this is now rocket science and it gets even better because on the next page monger gives us a tactic so oh you like that idea here's how you actually implement it uh one of the directors of the daily journal said very simply we should make a list of everything that irritates our customers and then we should eliminate those defects one by one then i love this idea by buffett like this is how you find the best operator in your industry when i interview managers i asked uh what their business nightmare is if you had a silver bullet and you could put it through the head of one competitor which competitor and why you will find out who the bet asking this question you will find out who the best guy in the industry is he continues asked the management of each company which competitor they would be willing to this is the other side of that right it's like okay if you could knock out of the game uh only one of your competitors who that is the other side is what if you had to bet all of your net worth and you could like you invested all your net worth in one of your competitors who is who is that asked the management of each company which competitor they would be willing to put their net worth in for the next 10 years then ask which of their competitors they were short this will provide important insights into the industry into your industry that even those who work their whole

life in the industry would not realize two pieces of advice one from monger one from buffett this is something you and i talk about all the time if you go to sleep on a win you wake up with a loss charlie monger says successful places tend to get bloated he's talking about successful companies successful companies tend to get bloated fat complacent it's the nature of human life most companies when they get rich get sloppy warren buffett this is one way to avoid that widen your moat build an enduring competitive advantage delight your customers and relentlessly fight costs and monger and buffett both know this because they have this this crazy uh like historical base of knowledge in the history of business monger says it is the nature of things that most big businesses eventually fall into mediocrity or worse look at the history of big companies in the world and the record is not good almost all great records eventually dwindle i think that's the natural consequence of competitive life and then monger talks about one of the fiercest competitors that the business landscape has ever seen something somebody you and i talked about over and over again

the latest episode i did on him which will not be the last is episode 234 sam walton i've never heard this before it's absolutely fantastic it is charlie monger's northern pike model and his point is if you're running up against somebody like this you should just get out of the business he says one of the models in my head is the northern pike model you have a lake full of trout but if you throw in a few northern pike pretty soon there aren't many trout left but there are a lot of northern pike walmart in its early days was the northern pike it figured out how the customer could be better served and just gallop through the world like gangas con so there's a few ideas here this is on passion intense interest and working only with winners this is another this is one of my favorite of his this is probably my favorite of buffett's business uh baseball stories when it regards to business first monger says i cannot put passion into someone either they either have it or they don't there's nothing you can do about it and buffett goes in the importance of working with winners my managerial model is eddie bennett so he's talking about this is i'm just going to copy eddie bennett who was a bat boy his idea for how i run berkshire this metaphor is fantastic my managerial model is eddie bennett who was a bat boy in 1919 eddie began his work with the chicago white socks who that year went to the world series the next year he switched to the brooklyn dodgers and they won their league title however our heroes meaning eddie changed uh smelled trouble he changed boroughs and joined the new york yankees in 1921 and they promptly won their first title in history now eddie settled in shrewdly seeing what was coming in the next seven years the yankees won five american league titles what does this have to do with management it is simple to be a winner work with winners in 1927 eddie received seven hundred dollars for his share of the world series uh winnings this sum which eddie earned by working

only four days because new york swept the series was roughly equal to the full year pay then earned by bat boys who worked with ordinary associates so just what he made from working four days in the

world series is what the person with his same job would make all year because they were working with

ordinary players right eddie understood that how he lugged bats was unimportant what counted instead was hooking up with the cream of those on the playing field i've learned this from eddie at berkshire i regularly hand bats to many of the heaviest hitters in american business and then just one more thing from buffett on passion he says passion adds to your productivity

munger says the secret to being successful in any field is getting very interested in it i could never excel in anything which which i didn't have an intense interest now these next two pages are so good it's essentially saying unusual records are a result of high levels of talent in low competition environments buffett says i don't want to play a game where the other guy has an advantage somebody asked how do you beat bobby fisher the answer was you play him in any game except chess he continues one of the best moves in many respects is sometimes just having more talent and then once you have the talent he says you want to work where there is little competition one of the secrets of life is weak competition the unusual records have been achieved by those who have worked relatively neglected fields in which the competition was light munger now jumps in competence is a relative concept i realized what i needed to get ahead was to compete against idiots and luckily for me there was a large supply of idiots and then i love how much charlie munger talks about the importance of practice in uh in this book this is something obviously that really stuck in my mind from reading the biography of michael jordan on episode 212 so munger says obviously if you want to get good at something which is competitive you have to think about it and you have to practice a lot you have to keep learning because the world keeps changing and your competitors keep learning you

have to go to bed wiser than when you got up as you try to master what you're trying to do people who do that almost never fail utterly very few have ever failed with that approach meaning just trying to be a little wiser every day right very few have ever failed with that approach you may rise slowly but you're sure to rise and so then they go back to this and they go on this for quite a while the idea is like we're not listening to the opinions and the predictions of other people that is just absolutely useless forming macro opinions are listening to the macro or market predictions of others is a waste of time it is dangerous because it may blur your vision to the facts that are truly important i pay no attention to economic forecasting i worry about being in a good business with good people that is all i focus on this is buffett that's speaking about this entire time in the 54 years that we have worked together we have never forgotten an attractive purchase because of the macro or political environment or the views of other people then munger says people have often he's talking about like the futility of trying to predict the future and forecasting uh people have always had this craving to have someone tell them the future long ago kings would hire people to read sheep guts there's always been a market for people who pretend to know the future listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts it just happens over and over and over again and this is an absolutely fantastic line uh still about forecasters and it says this is buffett market forecasters will fill your ear but they will never fill your wallet and then munger goes into the important role that continuous education seeking of knowledge that him and buffett have dedicated their lives to why that was so influential with the record that berkshire was able to achieve what people mean when they say a man has common sense is uncommon sense we don't have any new

tricks we just know the old tricks better berkshire loves education and it loves people who like to learn i think the one thing that we did that worked best of all we were always dissatisfied with what we already knew we wanted to know more if warren and i had stayed frozen in time berkshire would have been a terrible place it's only that we kept learning that made it work and i don't think that'll ever stop had warren not been learning all this time our record would

be a mere shadow of what it is and he's actually improved since he passed the age at which most other people retire most people don't even try this it takes practice and that is where i'll leave it for the full story highly highly recommend buying the book the great thing about this book is it's you don't have to read it all at once you don't really have to read it in order that's the way i did but i think it's just a great thing to keep out you pick up maybe read five ten minutes maybe read you know a few pages to me it's really a tool a way to download the thinking of buffet and monger into your brain consistently so if you buy this book using the link that's in the show notes on your podcast player you'll be supporting the podcast at the same time another great way to support the podcast is to sign up to the founder's premium feed the founder's premium feed contains am a ask me anything episode subscribers to that feed get to ask me questions directly which i then answer those questions on am a episodes on the founder's premium feed if that sounds interesting to you that link is down below in the show notes and of course available at founders podcast.com that is 286 books down 1000 ago and i'll talk to you again soon okay so all the way back on episode 227 i read this fantastic book called the essays of warren buffett so all the way back on episode 88 i read every single one of warren's shareholder letters but what this book that was put together by laurence cunningham called the essays of warren buffett did that was so smart is that he took the shareholder letters and instead of organizing them by year which is standard he organized them by topic and so in the original podcast i did on this book which again is episode 227 one hour and 28 minutes into the podcast of their abouts i go over this letter that i'm about to read to you now it's under the heading titled on selling one's business and the reason i'm bringing this up is because one of the sponsors of this episode is tiny and one way that tiny has been described is that they're building the birkshire of the internet and you can go to tiny.com and read the testimonials

and see all the founders that have sold their business to tiny and how their main differentiation just like warren buffett and charlie monger is there's no bs we're going to make this transaction as simple and easy as possible where a lot of people that buy businesses make you jump through hoops and it's just a headache and so if you think about what warren is doing here in this letter is his business is buying businesses and so his customer or founders or managers of businesses and so he is essentially writing a letter to a guy so he wrote this letter in 1991 to a guy who indicated he might want to sell his family business and so i'm just going to pull out a few highlights here and really think about what warren's doing is he is differentiating his services from other people that also buy businesses he says if you should decide to sell i think birkshire hathaway offers some advantages that most other buyers do not practically all of these buyers will fall into one or two categories and so now warren is going to describe his competition if you go to tiny.com you'll see they described their company in some ways their competition which is typically vcs are private equity companies okay so warren says number one a company located elsewhere but operating in your business or in a business someone akin somewhat akin to yours such a buyer no matter what promises are made will usually have managers who feel they know how to run your business operations and sooner or later will want to apply some hands on and he puts the word help in quotation marks obviously warren does not think that the managers they're going to install in that business are actually going to be helpful at all the second other option a financial maneuverer invariably operating with large amounts of borrowed money who plan to resell either to the public or to another corporation as soon as the time is favorable frequently this buyer's major contribution will be to change accounting methods so that earnings earnings can be presented in the

most favorable light just prior to his bailing out and then listen to this persuasion technique that he uses because he's writing to somebody that he knows it's a family business which means they put a lot of their time and life energy into so he says if the sole motive of the present owner it's to cash their chips and put their business behind them and plenty of sellers do fall into this category either type of the buyer that I just described to you is satisfactory but if the seller's business represents the creative work of a lifetime and forms an integral part of their personality and sense of being buyers of either type have serious flaws so he's just described his competitive landscape he says listen there's option one there's option two but then there's a new option something that's completely different and better and he's describing the services that he provides to founders right so he says Berkshire is another kind of buyer a rather unusual one we buy to keep tiny does too by the way all of the businesses we own are run autonomously to an extraordinary degree when we buy a business the sellers go on running it just as they did before the sale we adapt to their methods rather than vice versa and in tiny's case it's up to the founder if they want to stay or if they want to go tiny's fine with either solution and then Warren does something fantastic he's like listen you know who the past businesses that we bought in fact I'm including in this letter a list of every single person we've ever bought a business from tiny does something very similar on their website which you can go see you know some of our past purchases I'm enclosing a list of everyone from whom we have ever bought

a business and I invite you to check with them as to our performance versus our promises and then Warren says hey I'm going to keep it simple with you if you should decide to do a business do business with Berkshire we would pay in cash tiny says the exact same thing on their website your business would not be used as collateral for any loan by Berkshire there would be no brokers involved Warren also says you deal with me and finally you would know exactly with whom you are dealing you would not have one executive negotiate the deal only to have someone else in charge a few years later or have the president regretfully tell you that his board of directors required this change or that change and because Warren has hacked away at the unessential all that is left is simplicity and his pitch is simple do you want a great home for your business then call me and I will do a cash transaction really fast same thing that tiny does I will not pester you if you have any possible interest in selling I would appreciate your call I would be extraordinarily proud to have Berkshire along with the key members of your family own blank so you took out any identifying information of who he's writing to okay I believe we would do very well financially and I believe you would have just as much fun running your business over the next 20 years as you have during the past 20 sincerely Warren Buffett I think reading the entire letter is worth your time if you buy the book it's on pages 230 through 233 and make sure you go back and listen to episode 227 the essays of Warren Buffett if you have not done so already and if you have a business that you're interested in selling now or in the future make sure you go to tiny.com