

[Transcript] Founders / #295 I had dinner with Charlie Munger

One of my favorite things about making this podcast is that I get to talk to so many founders. Now, a lot of those founders are dead.

So I get to have one-sided conversations in the form of reading their biographies or reading their autobiographies.

And this is what Charlie Munger refers to as becoming friends with the eminent debt.

But in addition to that, because so many founders listen to this podcast, I get to actually meet and talk to people still building companies today.

And a recurring theme that pops up again and again in these conversations is that a large part of your life is actually searching for your life's work.

And so almost all of us are looking for something that is unique to us that we can do forever.

And in almost every single case that requires starting more than one company.

As you're about to hear, that was certainly the case in Charlie Munger's life.

He was in his 40s before he was finally doing full time what he was put on this earth to do.

And so this reoccurring theme that you're likely going to have to start more than one company before you find in life's work is so common that the presenting sponsor of this episode, Tiny, has built an entire business around buying other businesses.

And the founders of Tiny, Andrew and Chris, are doing something really smart.

They know that there's a ton of entrepreneurs that listen to this podcast that are building businesses, some of which will have a business that they want to sell today, and some of which will have a business that they want to sell in the future.

And what I like about Tiny is the way they differentiate their offering compared to other people that buy businesses.

There's just no BS when you deal with Tiny.

And so when a founder goes to tiny.com and says, hey, I want to sell my business, they get a response within 48 hours, there's an offer made within seven days, and they close within a month, and you get a bag full of cash.

If you're a founder that wants to sell your business now or in the future, make sure you go to tiny.com.

And one more thing before we jump into the episode, one of the things I got to ask Charlie was you're known for not really liking VCs, and that's putting it really politely, yet you publicly praise Sequoia, like what's the deal with that?

And his response was very simple, and he's like, it's because of their record.

And one of the former partners of Sequoia that's responsible for that record was just on one of my favorite podcasts.

It's to invest like the best.

If you're listening to this, you probably already follow that show.

In case you don't, please follow it and whatever podcast you're listening to it in, and listen to episode 318, Doug Leone, Lessons from a Titan, he tells a story of how him and Mike Moritz takes Sequoia from a \$150 million partnership into an \$85 billion global investment company. Doug Leone has founder mentality, and it'll be obvious if you listen to that episode.

I can't believe this happened.

I still, I still cannot believe this happened.

As it was happening, I couldn't believe it was happening.

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It reminded me of a scene in one of my favorite documentaries.
This is a documentary you can watch on HBO, it's called The Defiant Ones.
It's about the partnership between Jimmy Ivey and Dr. Dre.
That is the description that it will say the documentary is about.
What is really about, it's a documentary about entrepreneurship.
It's documentary about chasing and running down a dream.
And one of my favorite scenes in that documentary is when Eminem is describing the very first time he met Dr. Dre.
Eminem is completely unknown at this time.
He's not assigned.
He's not assigned to any record label.
Dr. Dre is already a legend.
And he says, I'm looking at Dre, like dude, I see you on TV all the time.
You're one of my biggest influences ever in life.
This is the greatest producer, and I'm at his house.
And I just rewatched that clip from the documentary because that's exactly how I felt.
I got to spend over three hours with Charlie.
I got to see his library.
I got to have dinner with him.
It was probably an hour into it where it stopped feeling like an out of body experience.
If you would have asked me before this, out of everybody living, like who would you want most want to have dinner with, Charlie was at the top of that list.
I've said this before and I really mean it.
To me, Charlie is the wise grandfather I never had.
One of my grandfathers died when I was too young to remember him.
The other one is a psychopath and a monster and dumber than a bucket full of rocks.
And so that grandfather-like mentorship happened from a farce, from me reading his books, from watching his speeches, from listening to him talk.
Never in a million years would I think, because I sit in a room by myself for half a decade reading biography after biography after biography every day for hours and then record what I learned and put it out into the world, would I possibly, there's no possible way I could think that leads me to being able to meet him.
And not only meet him, but I got to, I wrote him a letter in advance of meeting him and then being able to tell him in person, it's like, this is not hyperbolic, man.
You changed my life.
Your words and your ideas shaped my thinking.
And this idea where people say, don't meet your heroes, you know, you're going to want it being disappointed.
I had the opposite experience with him.
Not only was he unbelievably smart, but he was unfailingly polite.
He was a gentleman with brains.
And so I thank them privately, but it's important for me to thank them publicly as well.
Andrew Wilkinson and Chris Barling are the founders of Tiny.
They're the ones that set up this dinner with Charlie Munger.

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And so this episode that you're about to hear is going to be a little different.

What I did was the week leading up to the dinner with Charlie, I reread the towel of Charlie Munger.

Then I had dinner with Charlie, then I came back and recorded a podcast on the book.

But as I was recording, I added in commentary and other lessons and interesting stories that I learned at the dinner.

I hope you enjoy it and thank you for listening.

In the Chronicles of American Financial History, Charlie Munger will be seen as an enigma wrapped in a paradox.

He is both a mystery and a contradiction at the same time.

Warren Buffett said, Charlie's most important architectural feat was the design of today's bookshare.

The blueprint he gave me was simple.

Forget what you know about buying fair businesses at wonderful prices and instead buy wonderful businesses at fair prices.

Consequently, Berkshire has been built to Charlie's blueprint.

My role has been that of general contractor with the CEOs of Berkshire subsidiaries doing the real work as subcontractors.

How is it that Charlie, who trained as a meteorologist and a lawyer and never took a single college course in economics, marketing, finance, or accounting, became one of the greatest business and investing geniuses of the 20th and 21st centuries?

There and lies the mystery.

Charlie spent much of his youth reading and that is where he discovered a larger world than the neighborhood of Dundee where Warren Buffett's family also lived.

The two boys attended the same grade school and high school, though they were seven years apart in age.

In fact, one of Charlie's first jobs was working for Warren's grandfather at the Buffett neighborhood grocery store.

He learned about taking inventory, stocking shelves, pleasing customers, the importance of showing up on time for work, how to get along with others while accomplishing a joint task, and running the cash register where money, the lifeblood of the business, flowed.

Omaha in the 1930s had distinct ethnic immigrant neighborhoods.

Many immigrants worked for the railroad and meatpacking plants whose operations were centered in Omaha.

Charlie went to public school with the children of those immigrants and as a result developed an appreciation not only of their cultures, but also of the commercial aptitude and the willingness to work unbelievably hard to give their children a better life.

That's actually something that Charlie's going to talk about later in the book as well, where he talks about the difference between the work ethic of up-and-coming countries, people with immigrant mentality, compared to people born in rich countries.

When comparing the two different approaches to their work ethic, he says something funny.

The only people that are surprised when they lose to people like that are idiots.

Back to this overview of Charlie's early life.

After high school, 17-year-old Charlie enrolled in the University of Michigan to study mathematics.

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He turned 19 a year after Pearl Harbor, dropped out of college and joined the U.S. Army. The Army sent him to Caltech in Pasadena, California to study meteorology. There he fell in love with the sunny Southern California weather. While the teenage Warren Buffett was busy learning about odds and probability at the horse-facing track in Omaha, Charlie was learning this important investment skill while playing poker with his army buddies. And there's actually two maxims that I've heard from Pete that I've never forgotten that tie into this. He says if you don't learn elementary probability that you go through life like a one-legged man in an ass-kicking contest. And another thing that he repeats is that you should remember that good ideas are rare and when you find one you have to bet heavily. So back to this, that's where he learned to fold his hand when the odds were against him and bet heavy when the odds were with him. A strategy he later adapted to investing. After the war, Charlie, who did not have an undergrad degree, applied to Harvard Law School. He was rejected. After a phone call from Harvard Law's retired dean, who was a Nebraska and family friend, he was admitted. He has never forgotten the importance of having friends in high places. After Law School, Charlie moved back to Los Angeles where he joined a prestigious corporate law firm. One of my favorite quotes that I've ever heard Peter Thiel say is he says most people systematically undervalue their time. As we're about to see, Charlie did not. I just wrote so smart next to this paragraph I'm about to read to you. Charlie thought a lot about business during that time. He made a habit of asking people what was the best business they knew of. He longed to join the rich elite clientele his law firm served. He decided this is the part about not undervaluing your time. He decided that each day he would devote one hour of his time at the office to work on his own real estate projects and by doing so he completed five. He has said that the first million dollars he put together was the hardest money he ever earned. It was also during that period that he realized he would never become really rich practicing law. He would have to find something else. And we're going to see that he has perfect timing because he is about to find something else. This is actually something that Charlie and I, a question I got to ask him and Charlie and I talked about Ben Franklin, what Ben Franklin, Andrew Carnegie and what we're going to see Warren Buffett and Charlie Munger had in common I'll get there in one second in the summer of 1959 while in Omaha to settle his father's estate he met two old friends

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for lunch.

The two men had decided to bring along a friend of theirs who was running a partnership they had invested in and whom they thought Charlie would enjoy meeting.

A young man by the name of Warren Buffett.

The two began to talk about business and stocks.

The conversation became so intense that Charlie and Warren barely noticed when their two friends got up to leave.

That was the beginning of a long and very profitable relationship.

Charlie asked if Warren thought it would be possible for Charlie to open an investment partnership like Warren's in California.

This is way before Berkshire.

There's two actually questions I asked Charlie about this or around this rather.

Warren said he couldn't see any reason why not.

And in 1962 Charlie finally started an investment partnership with an old poker buddy.

He also started a new law firm.

Within three years he stopped practicing law to focus on investing full time.

Okay.

And so I have so many notes and thoughts about this part of Charlie's life and I'm so glad I got to talk to him about this.

So one of the things that we were able to talk about all the way back on episode 251 I read this incredible biography of Ben Franklin and George Washington.

It's called Franklin Washington the founding partnership.

And so Charlie hadn't read that book but he knew the story.

He knew the relationship between Ben Franklin and Washington and of course he did.

I guess I should pause here to just point out something that was just incredible.

It was the power of even at 99 years old how powerful Charlie's mind and his recall.

It was incredible.

All I could think about was imagine, imagine trying to compete with this guy with that mind when he was 50 or 60.

And it's not like he was working off any notes.

Everything just came directly from his mind.

So when we were talking about the fact that he was talking about one of the best things that Ben Franklin did and you see it in that entire book was Ben Franklin was like 48 years old when he sought out and tried to build a relationship with George Washington.

George Washington I think was like 20 or 21 years old at the time.

And so Charlie said one of the best things that Ben Franklin ever did and this is advice to you and I right.

One of the best things that Ben Franklin ever did was that he sought out other impressive people like Washington but a ton of others like a players only.

He intentionally built relationships with these people.

And while we're having this discussion Charlie mentioned the fact that Andrew Carnegie did this as well.

And I just went into great detail of how Andrew did that on episode 284 because one of the people one of these eight players that he that he sought out was Henry Clay Frick.

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And so after Charlie explained this to us I asked him a follow up question I was like well is this something that that you did in your life immediately.

His answer was immediate.

He goes absolutely and still do.

So let's go back to where we are in the book right now.

He starts this investment partnership starts a new law firm three years in he's like okay I'm going to stop practicing law and I'm going to focus on investing full time.

Charlie is 41 years old 41 years old when he makes that decision.

And so when I got to this part of the book and I'm going to follow up with another question I got to ask Charlie about this part of his life was this is the thought that came to my mind when I was reading this right.

We are in this stage of our lives right now.

The book about your life the book about my life is being written right now.

It's so important to think about the younger version of Charlie Munger the younger version of Warren Buffett because the decisions that that Charlie and that that Warren made at this point in their lives the the page literally the pages I'm looking at the decisions they're doing on these pages will affect everything that happens after the same applies to you and I.

And I think reading biographies and thinking about the younger versions of not only Charlie and Warren just everybody that you and I talked about in spec is like that is going to motivate you and I to make the most of what we're doing right now because we know the effect that it's going to have on the multiple decades in the future.

And so let's go into what 41 year old Charlie was doing Charlie's investment partnership was different from Warren's in that he was willing to take on a lot of debt to do some of his trades.

He was particularly fond of stock arbitrage.

One arbitrage deal involved British Columbia Power a company that was being taken over by the Canadian government.

The takeover price was \$22 a share BCP was selling for \$19 a share Charlie brought all the shares of BCP he could get his hands on and ended up putting all of his partnerships money all of his own money and all that he could borrow into BCP.

The trade worked out BCP was taken over at \$22 a share and Charlie made out like a bandit.

And so that was obviously a risk that Charlie would take early in his career when he didn't have a lot of money that he wouldn't take now right in the mid 1960s Charlie and Warren were busy scouring over the pink sheets.

So that's like a pre-internet daily publication of the prices of stocks that were printed on pink paper.

They're looking for deals right.

They're looking for a bargain price on a good company.

One of the companies they found was blue chip stamps.

So this is really important.

The reason I'm pulling this out is because this is an important idea that they're going to use forever.

Charlie at this point is in his mid 40s.

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Warren is in his late 30s.

So says blue chip was a trading stamp company.

Other businesses would buy trading stamps from blue chip to give them to their customers who would then redeem them for prices that blue chip was offering.

This is going to be confusing to our modern day David Clark the author does a great job he's like listen just think of this as an early form of a rewards program.

What made the company interesting to Charlie was that blue chip had a pool of money called float.

Again this is an important idea that they're going to use forever.

They had a pool of money called float that was created by the lag time between the selling of the stamps and the customers redeeming them.

What made blue chips stock attractively priced was the fact that the US government have filed an antitrust action against the company.

That's why they're getting a deal.

Similarly as a lawyer thought the lawsuit would be resolved in favor of blue chip which it was Charlie through his partnership and Warren through Berkshire eventually took control of the company and Charlie became its chairman by the late 1970s.

The float at blue chip had grown to approximately a hundred million dollars money that Charlie and Warren could invest blue chips business model eventually became obsolete.

Under Charlie's direction blue chip used its surplus capital to purchase a hundred percent of C's candies and 80 percent of a finance company called Wesco.

Just as Warren had taken capital out of Berkshire's failing textile operation to buy a thriving insurance company Charlie took the excess capital out of blue chip stamp and invested it in profitable businesses.

So that is one good idea that's going to lead to the discovery of another good idea and they're going to combine these two ideas for decades and decades.

In 1968 Charlie teamed up with Warren and Sandy Goatsman to form a diversified retail company DRC acquired a department store called Hosh Child Cone for twelve million dollars Hosh Child Cone was bought at a bargain price but it had no competitive advantage and was constantly having to spend precious capital keeping up with the competition.

This mistake is going to lead to the discovery of this great idea I just mentioned earlier during that time Charlie started seeing the advantages of investing in better businesses that didn't have big capital requirements and did have lots of free cash that could be reinvested in expanding operations or buying new businesses.

So let's stop right there go back to the beginning of this introduction which I'm still reading from and I'm almost done with go back to the beginning introduction and what did Warren Buffett said Charlie's most important architectural feat was the design of today's Berkshire.

It's this idea he says the blueprint he gave me was simple forget what you know about buying fair businesses at wonderful prices that's cigar but Ben Graham strategy right.

So forget about buying fair business businesses at wonderful prices instead buy wonderful businesses at fair prices.

In other words go for great aim for quality those great businesses throw off a lot of cash we can then take that cash and reinvest it.

And so I read this part before I had dinner with Charlie then I reread this entire section

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after and I realized the biggest takeaway what there was I mean Charlie's genius like I just cannot believe that I got a chance to talk to him like I remember there's like I got to sit next to him at dinner and he like he looks at you in the eye like he'll turn his head and then look at you and I just I could not believe I had the thought multiple times and I'm not trying to embarrass myself but you know I truly love Charlie Munger like he is a hero of mine he is the wise grandfather I never had and so I had this idea is like I cannot believe that I'm looking at like Charlie Munger is looking at me and talking to me that's how much I love and respect like the role that Charlie Munger has played in my life and so there's a ton of great ideas that I got and a ton of notes I took after I got back to my hotel after the dinner but I think the thing that that resonated with me the most is that Charlie has an almost complete indifference to problems the way I would say is like troubles from time to time should be expected this is an inescapable part of life so why are you letting it bother you and if you're listening to the lessons that he's trying to impart on others you realize what he's saying is like you can problems are inescapable you're gonna have some level problems but you can reduce the amount of problems that you have in your life by aiming for quality high quality business and high quality people produce less problems so one of the notes I left myself after this is like I don't ever want to forget this it makes your life easier if you go for great great businesses are rare great people are rare but you will have way less problems in your life if you're in a great business and you surround yourself by great people and at this point in the book you're seeing Warren and Charlie work themselves through this and realize oh this is the we need to course correct here we need to we have a good strategy let's alter it a little bit and it's gonna become a great strategy so it says when Charlie closed his fund in 1975 it had ten million dollars in assets and showed an average annual rate of return of almost 25 percent for the 14 years it was in operation what is interesting is that in the final years of Charlie's fund in the year in the final years of the fund Charlie was running a highly concentrated portfolio the holding in blue chip stamp alone accounted for 61% of the funds investments and this is something that Charlie and Warren repeat over and over again he has never been a fan of diversification as an investment strategy there's a great quote that I have in my read wise from something I read either a biography or maybe Warren shareholder large in the past what Warren said diversification is for people who don't know what they are doing look at how the great fortunes were built and Warren's point there is obviously even if Sam Walton Estee Lauder Steve Jobs Andrew Garni even if they never made an investment outside their company they own if they had 100% of their net worth in their companies they'd still be fantastically rich back to this in 1979 Charlie became Berkshire Hathaway's first vice chairman in 1983 blue chip stamp merged with Berkshire Hathaway and Charlie took over as chairman of Westco it was from those two positions that Charlie would help Warren make the investment and management decisions that would take Berkshire Hathaway from a net income of 148 million in 1984 to approximately 24 billion in 2016 that is when this book was published and Warren wraps up the introduction for us in a perfect way Warren and summing up Charlie's impact on his investment style over the last 57 years said Charlie shoved me in the direction of not just buying bargains as Ben Graham had taught me this was the real impact that he had on me it took a powerful force to move

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me on from Graham's limiting view it was the power of Charlie's mind when I read that the first time made me think of one of my favorite quotes from Steve Jobs Steve realized the exact same thing that Charlie and Warren realized in everything I've done this is what Steve said in everything I've done it really pays to go after the best people in the world let me read that part again Warren and summing up Charlie's impact on his investment style over the last 57 years said Charlie shoved me in the direction of not just buying bargains as Ben Graham had taught me this was the real impact that he had on me it took a powerful force to move me on from Graham's limiting view it was the power of Charlie's mind and that was the end of the introduction of the book that I'm going to talk to you about today and the one I've read for the second time now the towel or maybe actually maybe three or four times the towel Charlie Munger a compilation of quotes from Berchard Hathaway's vice chairman

on life business and the pursuit of wealth and it was put together by David Clark and the reason I said I probably read this three or four times because the very first time I read it was all the way back in 2019 it was episode 78 of founders but I have the hard cover Kindle and all the audible versions of this book that's how important it is I hope I can convince you if you don't already own it to order it by the time you finish listening to this podcast but I've re-listened I re-listened to the audible version over and over and over again and I think having the hard cover the physical copy of the book and just leave it out on the table your desk because it's the way it's set up is like you have these tiny chapters just like hundred or you know hundred fifty different chapters and they just start off with quotes from Charlie and then David Clark adding some like context to it and so you can read the book all the way through but you don't have to you can just pick it up you know five ten fifteen minutes a day read some of Charlie's words he's going to give you something to think about so I want to jump into one of his quotes right here Charlie says life is like a poker game wherein you have to learn to quit sometimes when holding a much loved hand you must learn to handle mistakes and new facts that change the odds and so this is some context provided by David Clark Charlie experienced this with home mortgage lender Freddie Mac when Berkshire bought shares in Freddie Mac in the 1980s it was a very well run conservatively managed profitable enterprise that was involved in the mortgage business as time went on Freddie's management branched out into a new line of business in which they were using their quasi governmental status to aggressively borrow short short term money and then lend it out long term the same financial equation that eventually put Lehman brothers into bankruptcy seeing the dramatic increase in risk and the change in the attitude of Freddie Mac's management Berkshire sold its much loved investment at a profit in nineteen ninety nine nine years later check out this out by two thousand eight Freddie Mac was in receivership the old management had been fired and the stock was worth a tiny fraction of what it had been when Berkshire showed its shares and then the next page is another quote by Charlie says my idea of shooting a fish in a barrel is draining the barrel first and so will pop to my mind when I read that is something that's very common in all these that history is pretty common you'll see over and over again if you read their biographies is they're always trying to figure out how they can build an unfair advantage I don't mean an illegal advantage right an unfair advantage and the way to think about this is something that Jeff Bezos said one time and he says do you really want to plan

for a future in which you might have to fight with somebody who is just as good as you are I wouldn't and then Charlie goes into the importance of always advancing your thinking they talked about you know for the first part of Warren's career he stuck to Graham's playbook and what they realized is that there was actually quantitative measures and a wonderful business and a truly great business that would have horrified Graham and so he says well even if they horrified Graham we started thinking about better businesses and then David gives us an example of Berkshire's decision to invest in Coca-Cola that would have never happened if they were just using Graham's playbook he says in Graham's investment philosophy there was no such thing as owning a company for 20 years or longer and letting the underlying economics of the business grow the company and lift the stock price Charlie and Warren realized that some businesses have exceptional economics working in their favor that will cause their intrinsic value to increase over time and so the numbers are going to be a little dated in the book because this book is you know seven years old or whatever the case is but you'll get the point Berkshire decides to put one point let's call it \$1.3 billion in Coke in 1988 over the last 27 years with that investment alone has grown to over \$17 billion but that does not include all the dividends that I received in that time period in the year before the book was published Coca-Cola paid Berkshire \$528 million in dividends a current annual dividend rate of 40% on the initial investment of \$1.299 billion which I think is a great illustration on the importance of advancing your thinking and so that concept of get in a good business and stay there get in a great business and stay there is going to appear over and over again Charlie says it in many different ways one is better off buying a business with exceptional business economics working in its favor and holding it for many years then engaging in a lot of buying and selling Charlie knows that time is a good friend to the to a business that has exceptional economics working in its favor but for a mediocre business time can be a curse so this is something you hear me repeat over and over again pops up in these stories time carries most of the weight and the reason that's so important to repeat over and over again because it goes against human nature even it's so hard to build a truly great business and yet more likely than not your truly great business is not going to be destroyed by competition it's going to be destroyed by you and so there's another chart line that Charlie repeats that I think is not in this book but ties into exactly what he's talking about here the problem isn't getting rich it's staying sane so it's not redundant that Charlie repeats this over and over again it's really important repetition first of all is the mother of all learning but its repetition is also persuasive and so and the most important for us to person for us to persuade is ourselves we're in a good business if you're in a good business just know that it's human nature to mess it up don't mess it up just stay there and let time do its work going back to another line that Charlie repeats over and over again the worshipping at the altar of diversification I think is really crazy this is the note I love myself and something I'm trying to apply in my life one truly great business will make your unborn grandchildren wealthy and then on the next page there's one line there's one line from Charlie and I'm like over here writing novels about it so I'll tell you what pops up to my mind mimicking the herd invites regression to the mean so that's what Charlie says mimicking the herd were invites regression to the mean now we're getting to my novel and then I have other notes on this too Charlie and Warren trust their own judgment implicitly

they don't care what other people are doing our thinking then I grabbed a quote from episode 286 which is titled I think Warren Buffett and Charlie Munger speaking directly to you and there's a line in the book that I read for that episode it says I would say if Charlie and I have any advantage it is because we're rational and we very seldom let extreme extraneous factors interfere with our own thoughts we do not let other people's opinions interfere and this also made me think of something that happened when we were having dinner with Charlie Andrew or Chris I can't remember which one from tiny asked Charlie a fantastic question and there were the question was I'm gonna paraphrase here I wasn't it's not like I was taking notes I had all these I had prepared all these questions and ideas I want to talk to Charlie about and I never looked at my phone one time and so they asked like were you motivated with like part of your your desire to be successful like this drive to succeed did have anything to do with like proving or like getting the the appreciation or the like what did you do it because of your relationship with like your dad or your mom which is a good question because this appears over and over again in the biographies that you and I talk about this idea that came from Francis Ford Coppola's biography but was really in almost every single story and it's the idea that you can always understand the son by the story of the father that the story of the father is embedded in the son and so Charlie's answers to the question was fascinating he says no I always had an inner clock and so Charlie's point there was that he was doing it for him he did it because he wanted to do these things he was interested in them not because even if it you know you obviously love your parents but those are external factors like everything came from internally he has an inner clock and so when I was taking notes I had to paraphrase like I was trying to think okay what are the things like I want to never forget this right like Charlie like it's a night that Charlie Munger probably won't remember and I'll never forget and so I wanted to make sure and document like in writing what are the things that jumped out at me and so one of the notes I this is one of the notes I left myself these are not the words that he used he never uses word but this is exactly like the impression he left on me and so I wrote Charlie has always had an inner clock he just does what he wants to do and doesn't give a fuck about the ideas or thoughts of others think all of that ties back to what Charlie's saying here in the book mimicking the herd invites regression to the mean Charlie Munger was not put on the earth to be average he has no desire and has never had a desire to mimic the herd go back to what Warren 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 we do not let other people's opinions interfere and so moving ahead in the book we see this idea same idea that we've already gone over right presented a different way he talks about the like why are you worrying about prediction I have never been able to predict accurately I don't make money predicting accurately we just tend to get into good businesses and stay there again what I write on this page whatever note to myself on this page time carries most of the weight stop over complicating things just get into a wonderful business and stay there another idea that Warren and Charlie repeat over and over again is the fact that financial crisis the equal opportunity will go over this later on because I've got some notes down he says this in another way and I just tie in a bunch of the founders that you and I have studied you know advance they use financial crisis because everybody else again it goes against human nature everybody

else runs away they run towards and they actually wind up growing their businesses by leaps and bounds by investing and investing into their business when everybody else is running if you like me live through the 1973 to 1974 financial crisis or even the early 1990s there was a waiting list to get out of the country club that's when you know things are tough if you live long enough you'll see it this goes back to the main thing I learned from speaking to him is this complete almost complete indifference to problems troubles will be from time to time they should be expected they're inescapable you cannot let them bother you and also not let them kill you like your business should have redundancy so you can survive them right he's another way that Charlie says is he says listen it's in the nature of stocks that they go down from time to time and so he talks about keeping cash for this inevitability like why don't you have cash why aren't you prepared for this he knows that cyclical financial crisis is are just in the nature of capitalism random recessions and crashes are programmed into Charlie's buying strategy he lets cash pile up and Warren let cash pile up they wait for a recession and crash even if it means getting low rates of return on their cash holdings as they wait for the inevitable when the crash hits they make their purchases as Charlie has said many times it was not brains that made him so rich it was temperaments and this is an idea that they're still using in present day at the end of 2022 Berkshire held 92 billion dollars of treasury bills and we brought this up at dinner and he said something like it was hilarious just how nonchalant he was about it he goes yeah the world came around to us on that and so in this book they talk about the importance of patience over and over again and they have one line here I'm actually going to read the full quote this comes from a episode 286 to tell Charlie Munger it says I succeeded I succeeded because I have a long attention span that's still a fantastic quote but I like that what happens before it and it's just a reminder something I'm trying to obviously do with founders is he says I think people that multitask pay a huge price I only do this right only focus on this this is something I actually like I got an idea from Charlie and the way I break it down in my own mind it's only two words stop multitasking I have like a little Charlie Munger on my shoulder that like admonishes my behavior from time to time I think people that multitask pay a huge price 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 do practically everybody is drifting into that mistake I did not succeed in life by intelligence I succeeded because I have a long attention span and so that quote in this book is under the headline patience something that I heard Charlie say a long time ago that I've never forgotten and I think reading biographies and obviously listening to found podcasts like founders are just going to play the role that Barron's magazine played in his life and so he like another way to talk about the importance of patience is he tells the stories like well you know I made four or five hundred million dollars from reading Barron's magazine for 50 years and people like what what what are you talking about and so his whole point is like listen I read Barron's magazine for 50 years I only found at the entire time I found one idea that I could act on only one I made 80 million dollars on that idea basically risk-free then I took that 80 million dollars and I gave it to Lee Lu and he turned it into four or five hundred million dollars and so that is how I learned how I made four or five hundred million dollars from reading Barron's for 50 years that is one of the greatest anecdotes you could ever hear about the importance of patience and then this is Charlie on the dangers

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of overconfidence smart people are not exempt from professional disasters from overconfidence another way to think about that is he says this in a different way the problem is not getting rich it is staying sane then they go back into the importance of having patience and waiting for great opportunities I love this sentence because again it could just the reason that we could shout this these things from the rooftops most humans are never going to do it just because it goes against human nature and they're incapable of going against our nature right and Charlie and Warren are capable of going of bucking the trend one of the reasons Charlie and Warren have never worried about anyone mimicking their investment style because no other institution or individual has the discipline or the patience to wait as long as they can he then talks about the importance of making sure that you can endure problems and isolated example that's very rare is much easier to endure than a perfect sea of misery that never ceases and again this all ties back to that main theme where it's like the formula is simple but not easy great businesses and great people getting great businesses surround yourself with great people that's going to take care of most of the avoid what one of the best things that Charlie said on episode 286 right that it's crazy how much information he's able to convey to us in three words and I think they are this all ties together wisdom is prevention and how do you prevent from having to solve problems you avoid them wisdom is prevention and how do you avoid problems you you get into great businesses and you surround yourself with great people Charlie is talking about the difference between an excellent company which might confront a major problem a few times in a span of 20 years compared with a mediocre company which might go from problem to problem year after year and one way you know that you're around low quality people is because that they are a perfect sea of misery that never ceases they just have one problem after another my wife has this beautiful way to describe this she says in Spanish but it loosely translates to that person can drown in a cup of water on the next page Charlie says something that I'm doing in my life and it's something that jumped out at me basically think of something I learned from Ed Thorpe and Jeff Bezos he says move only when you have the advantage you have to understand the odds and have the discipline to bet only when the odds are in your favor something that popped up when I when I read this page as well is advice that I learned from Ed Thorpe on episode 222 which is only play games where you have an edge and in his very last shareholder letter that Jeff wrote as the CEO of Amazon he has another great three line piece of advice differentiation is survival to understand this piece of advice you need a little bit of Charlie history in the late 1960s both Charlie and Warren had their own hedge fund as the bull market of late 1960s raised on everything became overpriced and Warren could no longer find anything cheap enough to buy so rather than alter his investment strategy Warren shut down his hedge fund and return the money to his partners putting the vast majority of his own money into cash equivalents Charlie kept on investing and enjoyed great returns until the stock market crash of 1973 and 1974 when he lost nearly half of his partner's money he called it the worst time of his life Warren who was sitting on a huge amount of cash because everything running up to the crash had been overpriced suddenly found himself surrounded by dozens of wonderful companies selling at bargain prices another thing I learned from Charlie aim for durability in his eyes durability is a first class trait more about this now Charlie and Warren's theory is that a company with a durable competitive advantage has business economics that will

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expand the underlying value of the business over time and the more time passes the more the company's value will expand time carry that's another way saying time carries most of the weight we can apply that into actionable advice get in a great business and stay there more advice from Charlie's make sure you have an accurate representation of your business in your mind I think once you recognize reality even when one doesn't like it indeed especially when one doesn't like it they talk of monger and Buffett talk about the importance of stepping on problems early like the type of the right time when you have a problem to act is right now monger has this great quote wise people step on big and growing troubles early wise people step on big and growing troubles early and then this is one of the most well known of Charlie monger's quotes it's remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid instead of trying to be very intelligent there must be some wisdom in the folks that say it's the strong swimmers who drown Charlie's interested in a simple strategy that allows him to post superior results over the long term the foundation of which is trying not to do anything stupid another main theme that Charlie repeats over and over again is the ability to recognize it's not just good enough to recognize an opportunity when it's presented to you you have to act on it you do get an occasional opportunity to get into a wonderful business that's being run by a wonderful manager and of course that's hog heaven day Charlie believes that if you aren't buying like crazy when you have the opportunity to buy a business that has huge potential it is a big mistake and then he has a hilarious story his whole thing is like listen if you have an exceptional exceptional business will just keep on earning money over and over and over again forever and so he has a fantastic way to tell the story and he says when I came out to California there was this playboy and he spent all his time drinking heavily and chasing movie stars his banker called him in and said that he was very nervous about his behavior he told his banker let me tell you something my municipal bonds don't drink I love that and then Charlie says that learning from history is a form of leverage the fact is so few people can do this that and you see this because financials the financial disasters of today are almost completely forgotten in a year or two and so this goes back to the idea that Warren and Charlie just trust their own judgment and so it says if people weren't wrong so often we wouldn't be so rich and so I read that one sentence and without looking up any notes I just wrote down I go okay what are other people what are a list of other entrepreneurs that you and I have studied that other people said that what these people were doing wouldn't work Sam Walton Steve Jobs Jeff Bezos Rockefeller Edwin Land Coco Chanel Andrew Carnegie Michael Jordan Kobe Bryant Larry Ellison Ray Kroc John Malone Henry Ford George Lucas the Wright brothers and if we went through every single episode or biography read so far for founders the list would be a lot longer than that this goes back to patients and again this idea of like breaking down what you're trying to say and just very simple like rules for life to me it's like human nature is to be impatient and quit just do the opposite you have to be very patient you have to wait until something comes along which at the price you're paying is easy that's contrary to human nature just to sit there all day long doing nothing and waiting it's easy for us we have lots of other things to do but for an ordinary person can you imagine just sitting for five years doing nothing you don't feel active you don't feel useful so you do something stupid and so they break down what is the likely human reaction if you wake up one morning determined to invest

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your money your chances of finding an investment that would meet Charlie's standards is almost zero so you settle for something less when you could have gotten something more if you just waited Charlie's approach is contrary to human nature this is what I mentioned earlier how that they run in when everybody else is running away and that this is actually a great way to expand your business we have a history when things are really horrible of waiting in when no one else will all these people used economic downturns to their advantage this is when they expanded Rockefeller Carnegie Henry Clay Frick and Izzy Sharp Izzy Sharp is the founder four seasons and so this came up a few times at dinner he tells these wonderful stories with amazing recalls like all these different deals or businesses or ideas they came across as they built you know Berkshire over the last was that 60 years 50 years something like that and he just has like this tagline this is like my again I wasn't taking notes this is something I wrote down after the fact but really he's just like we made so much money because we had cash and we could move fast think about how crazy that is that that could be a advantage obviously you're getting you're seeing these deals too which is a you know another advantage that you have to figure out like how to build up in your own business but once you are getting the deal flow and actually seeing the opportunities that are coming to you right the idea is like we're just we just made a lot of money because we had cash and we could move fast and then the book goes into something that obviously Charlie and I share the fact that we're both biography nuts hope one day to catch him although now I know I've having seen his bookshelves I have to step my game way up he was on another thing it's like people say don't meet your heroes and I understand that advice but like I just came away like even more impressed by him like not only was he unbelievably intelligent his mind is really powerful he told amazing stories super impressive at 99 years old but he was just unbelievably like polite I asked like hey Charlie do you mind if I look at your bookshelves like go ahead do whatever you want just on I just could not believe how generous he was so I saw the reason I bring this up is because you know I'm thinking I'm getting close to 300 biographies for the podcast he has so many books I've never even heard of like it was just amazing in some cases he's making his own books he has transcriptions from very valuable and rare interviews with some of history's greatest founders and he put them in binders that's what I mean is like oh I'm gonna I need to step my game way up here so there's gonna be a bunch of books coming over the next you know few few months to few years that I found on Charlie's bookshelf and now I'm trying to like they're very rare books I have to like go and hunt them down I was just unbelievably again I repeat myself but I was just unbelievably impressed with just how much and how dedicated he was to reading and how he says like that that made all the difference in his life there isn't a single formula you need to know a lot about business and human nature and the numbers it is unreasonable to expect that there's a magic system that will do it for you people are looking for a simple method that they can learn from reading one book that will make them rich it doesn't happen that way one is actually better off reading a hundred business biographies and a hundred books on investing why because if we learn the history of a hundred different business models we learn when the businesses had tough times and how they got through them we also learn what made them great are not so great and so on the next page it goes back to this idea where it's like hey we made a lot of money because we had the cash and we can move fast right and essentially saying hey these opportunities

they present themselves you got to make a decision right then they're not gonna like oh it's on the open market it's gonna sit there for months and so he says you have to be ready to pounce when the opportunity presents itself because in this world opportunities just don't last very long and so when I got to that section it made me think of one of my favorite quotes I got to re redo this podcast because the it's Mark and Jason's blog archive which I still think is fantastic it's episode 50 I'm gonna read two paragraphs from Mark and Jason's blog archive this was written probably 15 years ago and it's ties into what Charlie's talking about here this is what Mark said the second rule of career planning instead of planning your career focus on pursuing opportunities opportunities that present themselves

to you are the consequence of being in the right place at the right time they tend to present themselves when you're not expecting it and often when you're engaged in other activities that would seem to preclude you from pursuing them and they come and go quickly if you don't jump all over an opportunity somebody else generally will and it will vanish I am continually amazed at the number of people who are presented with an opportunity and pass there's your basic dividing line between the people who shoot up in their careers like a rocket ship and those who don't right there I am also continually amazed at the number of people who coast to life and don't go out and see and don't go and seek out opportunities even when they know in their gut that is what they'd really like to do do not be one of those people life is way too short and so now we got to the part that I mentioned earlier where he was talking about the fact that people that they're coming from poor countries or that they have immigrant mentality they just work so unbelievably hard much harder than people who grew up using like wealth and comfort and you should not be surprised if a person's working and putting in you know two or five or ten times the effort that you lose to this person this is this spawned a bunch of thoughts for me as well as he's talking about the rise of Korea in the business world and he says Koreans came up from nothing in the auto business so let me pause right there Chung Ju Young the most I've read you know 300 biographies so far for the podcast number episode 117 that is the single most inspiring autobiography that I have read so far it's called born of this land my life story I think Chung Ju Young was the founder of Hyundai he grew up so poor he had to eat tree bark in the winter to survive as a kid and he winds up dying as a richest man in Korea Koreans came up from nothing in the auto business they worked 84 hours a week for more than a decade at the same time every Korean child came home from grade school and worked with a tutor for four hours in the afternoon are you surprised when you lose to people like that only if you're a total idiot and so when I read this part not only do I think a Chung Ju Young but I thought of my friend Sam Hinky was on the best like the best podcast and the the title is find your people I think it's find your people I will I will find the actual link and put in the show notes for you and Sam it is an authority on the writing of Robert Karo I think Karo's multiple part series on Lyndon B Johnson is Sam's favorite book but he says something on the podcast I took these notes years ago or maybe like a year ago and I thought it was fascinating it relates to exactly what Charlie is saying here and so Sam is talking about like you know Karo is famous for writing his series on Lyndon B Johnson and it's famous for writing the power broker on Robert Moses I read the power broker I'm working my way through the Lyndon Johnson series right now but Sam says something

was fascinating he says Karo profiled two men whose seeds were not high in the tournament of life they were born without many advantages and to get all the way to the top you probably had to sacrifice everything to the effort the meta lesson is if you are not willing to pay that price you should presume that someone else will if you want something like the presidency and then and then my note here is ours or being a billionaire if you want something like the presidency you should presume there is someone out there who will devote all their time money relationships sense of ethics everything in sacrifice of that one goal of course that person would win that race and to me that sounds a lot like the same lesson that Charlie is trying to impart on you and I here are you surprised when you lose to some people like that only if you are a total idiot another person Charlie brings up that he admired a lot with Sam Walton and so this quote from Charlie made me think of a quote that I read in Sam's fantastic autobiography which I covered for the second time on episode 234 I'll probably read that book I would imagine I read that book five or ten times throughout my life I just had lunch with somebody that was in town to have dinner with with Peter Teal and he said something that was fascinating that Peter had mentioned at dinner I just randomly said oh yeah I was reading this book for the seventh time and he noticed something and I was like oh okay like I thought like reading them two times was enough maybe three times enough and again you just your constantly supposed to see people that just take things farther than you otherwise would Charlie says we just keep our heads down and handle the headwinds and tailwinds as best we can and take the result after a period of years Sam and his fantastic autobiography said when he was asked how did Walmart do it he says friend we just got after it and we stayed after it and then we're almost to the end of the book and we come to one of my this is one of my favorite Charlie Munger ideas of all time in business we often find that the winning system goes almost ridiculously far in maximizing and or minimizing one or a few variables like the discount warehouses of Costco Costco is obsessed with keeping operating costs to a minimum it does so now David Clark is giving us some commentary on like how extreme they are and he's going to tie into something I asked something I got to ask Charlie about Jim Senegal because he knows Jim Senegal he loves Jim Senegal and it's just hilarious and I love Jim Senegal too and I was well I'll get there in a minute so it says Costco is obsessed with keeping operating costs to a minimum it does not provide shopping bags saving Costco 2 to 5 cents each on plastic bags and 10 to 25 cents each on paper ones this might not seem significant but consider this there's approximately 150 million customer checkouts every year Costco that's crazy so let's say that each checkout if they provided bags it cost them 30 cents if you multiply that 30 cents by the total checkouts that's 45 million dollars a year by simply getting rid of paper bags to check out Costco arguably saves itself 45 million a year and saying Costco's not alone in this kind of thinking Geico did something that seemed outrageous early on it got rid of its insurance agent and its commission by selling directly to the consumer thereby reducing its costs which allowed it to be more competitive in the pricing and still maintain its profit margins another example Nebraska Furniture Mart buys huge quantities of furniture from a single manufacturer at a huge discount which allows its stores to sell us a sofa cheaper than the competition and still keep its margins high this paragraph is so important I have a giant exclamation point next to this in the book the one thing that all of Berkshire's businesses have in common is that they are managed by people

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who are willing to go to great lengths to keep costs low that goes for Berkshire's home office as well it doesn't have a public relations department or an investor services department and for many years the annual report was printed on the cheapest paper possible and had no expensive color photos note in recent years the paper quality has improved and the annual report now sports one color photo which may be a sign that management is starting to slip and so there's few people in the world that love Costco more than Charlie Munger I got to ask him I was like hey I love Jim Cinesgal you know the only thing I've ever found him in writing is the fact that he wrote the introduction to SoulPrices Biography which was like his hero and his mentor and I was like what's going on like why can't I I forgot the exact way I said it's like why does like I asked him like why Jim kept a low profile that it's just so hard to find speeches or writings of Jim and Charlie's simple answer was that's because he was busy working I thought there was a lesson there and then Charlie brings up the fact that this is harder to understand especially for people in business like just how magical that's the only way to describe it like a great brand is nothing short of magic if you think about it like the quote unquote you know richest person in the world right now Bernardo Naut has built his fortune on the power the magic of brands and so they didn't understand Warren and Charlie didn't understand the magic of brands until they bought C's candies and says when we bought C's candies we didn't know the power of a good brand over time we just discovered that we could raise prices by 10% a year and no one cared learning that changed Berkshire it was really important and this is why it's so important and valuable some brand names own a piece of consumers minds and they do not have any direct competition when Charlie and Warren first discovered such companies they called them consumer monopolies and I thought this was interesting one way Charlie found great businesses is by buying a bunch of bad businesses first Charlie and Warren have both owned a few bad businesses in their day department store a windfield man windmill manufacturer a textile factory in an airline why are those businesses bad because they are involved in intensely competitive industries think about what Jeff Bezosotus differentiation is survival because they're involved in intensely competitive industries that beat each other up over price which brings their profit margins down kills their cash flow and diminishes their chances of long-term survivability now we know that the secret is always to go with the better business that has a durable competitive advantage he mentioned this earlier that is in the nature of stocks to go up and down if you're not willing to rack with equanimity to market price decline of 50% two or three times a century you're not fit to be a common shareholder and you deserve the mediocre result you're going to get compared with the people who do have the temperament who can be more philosophical about these market fluctuations I would condense that down even further into an aphorism that you and I could take with us in the future tough times don't last but tough people do average out betting on the quality of a business is better than betting on the quality of the management but very rarely you find a manager who is so good that you're wise to follow him into what looks like a mediocre business and so they use this example of Rose Blumkin Mrs. B who's my favorite character in all of Warren's shareholder letters I wish there was I can't find a biography on her if you find a biography on Mrs. B please let me know Mrs. B started the Nebraska Furniture Mart in Omaha in 1937 she grew into the most successful furniture store in the United States Berkshire bought 90% of the company from her when she was 89 years old and she stayed on

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managing managing it with her sons five years later she gets into a fight with her sons she leaves in a huff and starts a new store across the street what harm can a 94 year old woman do to a multi-billion dollar conglomerate in no time at all she had taken so much of Nebraska Furniture Mart's business that Berkshire was forced to spend millions of dollars buying her out a second time but this time around they had her sign a non-complete clause a very wise thing to do given that she went on to work seven days a week open to close so she passed away at the age of 104 but as a general bet on the quality of the business not on the quality of the management unless you've got a Mrs. B in that case go all in Mrs. B is gonna make another appearance under the section of master plans which is hilarious at Berkshire there's never been a master plan anyone who wanted to do it we fired because it takes on a life of its own and doesn't cover new reality we want people taking into account new information that's a great way to describe it I think they described described it even better in episode 286 they said we are individual opportunity driven our acquisition technique at Berkshire is simple is simplicity itself we answer the phone individual opportunity driven and so at the end of the section it goes back to Mrs. B we'd rather keep things simple and improvise as we go along whenever I think of master plans I remember Nebraska Furniture Mart's founder Mrs. B who in response to a question about having a business plan replied yes sell cheap and tell the truth so this is a quote you don't hear all the time it's the idea ties together these two ideas that the importance of continuing advancing your thinking and then know when to stretch for great opportunities and so there's this company called Iscar it's actually the first time they bought a wholly owned company outside United States and so Charlie was gonna describe it now he says we didn't know when we were young which things to stretch for but by the time we reached Iscar which we never would have bought when we were young we knew to stretch for the right people so stretch for the right people and so this is a description of what they did Iscar is an Israel based worldwide maker of precision carbide metal cutting tools used in industry it is the dominant player in its field so Berkshire bought 80% of the company 2006 for four billion and then purchased the final 20% in 2013 for two billion which shows that it was a better business in 2013 than it was in 2006 Benjamin Graham would have never bought it because it wasn't selling below book value Charlie and Warren learning with the purchase of Nebraska Furniture Mart that if the dominant player is large enough and well enough entrenched with its customer base the cost of entry into its market is much too high for potential competitors size and market domination can create this is the punchline size and market domination can create their own kind of durable competitive advantage which is what Iscar had in spades so something Charlie brought up at dinner as well as the people he greatly admired we were talking a lot about Benjamin Franklin he says there was unlikely to ever be another life as remarkable as Ben Franklans and another person that he greatly admires and I saw a bunch of books about was Lee Kwan Lee you I'm gonna actually do a podcast on Lee's book which is called the from third world to first to first Singapore story because it says in this book that that book is well worth reading and actually says Charlie became so enamored of Lee that he commissioned a bronze bust of him to keep the one he owns of Benjamin Franklin company so I thought that was interesting this is what Charlie said about Lee and Singapore in a democracy everyone takes turns but if you really want a lot of wisdom it's better to concentrate decisions

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are pro and process in one person so to repeat that if you really want a lot of wisdom it's better to concentrate decisions and process in one person it is no accident that Singapore has had a much much better record given where it started than the United States their power was concentrated in an enormously talented person Lee Kwan Yoo who was the Warren Buffett of Singapore

and so the reason I wanted to include that in the discussion you and I are having today is because when I read that I didn't think about Lee Kwan Yoo and I didn't think about Warren Buffett I actually thought about Steve Jobs and it's something that I read in I read the biography of Johnny Ive which is fantastic for episode 178 and this idea that founders have absolute control right it's better to concentrate decisions and process in one person and there's a story in that book when Steve comes back to Apple where he's getting a lot of pushback with some of the people over there and Jobs just refused to take no for an answer and because he had absolute control and absolute authority he could do so so there's a paragraph in the book of it's called Johnny Ive the genius behind Apple's greatest products and it says this is what Steve Jobs talking when we took it this idea when we took this idea to the engineers they came up with 38 reasons they couldn't do it jobs are called and I said no no we're doing this and they said well why and I said because I'm the CEO and I think it can be done and they grudgingly

did it and then they get into the importance of the trait that you and I share this idea like lifelong learning and so if improvement lasts as long as the breath lasts because why because it's so valuable there's a compounding effect to knowledge in Charlie's own life when he was practicing law he implemented a self-education regime of one hour a day to learn such things as real estate development stock investing it was slow going at first but after a great number of years and thousands of books read he started to see how different areas of knowledge interplay with each other and how knowledge like money can compound making one more and more aware of the world in

which he or she lives I'm usually pretty suspect of formulas but I actually think this three-part formula is actually really good these are Charlie Munger's three rules for career number one don't sell anything you wouldn't buy yourself number two don't work for anyone you don't respect and admire and three work only with people you enjoy and so when I was rereading my highlights last night because I knew I was going to sit down and talk to you about this today when I got to this part again about making mistakes this is what I wrote at the top of the page this was my main takeaway from my dinner with Charlie his complete indifference to problems and this is what he says

there's no way you can live an adequate life without many mistakes in fact one trick in life is to get so you can handle mistakes and so one of my favorite quotes on this actually came from the founder of Akia I read his autobiography all the way back on just like years ago episode 104 and he has this great line I've never forgotten you know many years since he says only those who are sleep make no mistakes making mistakes is the privilege of the active the fear of making mistakes

is the root of bureaucracy and the enemy of development it is always the mediocre people who are negative who spend their time proving that they were not wrong the strong person is always positive and moves forward and so when Charlie says listen you're going to go through life you're going to make mistakes right the fact is that you have to get a get to a point where you can handle

them I would also say something he mentioned a few times is the importance of learning from mistakes and so he brought up a few times so tonight some mistakes that he had made and then what he learned from them and it reminded me of this he has a there's a short chapter in this book called admitting stupidity and this is the quote from Charlie that I feel that he definitely applied to his own life he says I like people admitting that they were complete stupid horses asses I know I'll perform better if I rub my nose and my mistakes this is a wonderful trick to learn and so before sitting down and rereading this book for like the second or third time or whatever it was I had listened to the entire audiobook and I heard once I heard this part in the audiobook I had the thought I was like oh that's definitely going in the podcast I love this this is another one of his ideas that I'm trying to use in my own work he says extreme specialization is the way to succeed most people are way better off specializing than trying to understand the world and this is the commentary by David Clark specialization is the key to survival in any species and that is the key to success in any business specialization protects us from competition why because specialization presents a barrier of entry to the competition and the more difficult it is to become specialized the greater the barrier if all we do is what everyone else does we will spend our lives competing head to head with everyone else but if we specialize in something and excel at it the specialization will set us apart from the rest of the crowd do we take our Porsche to the local car mechanic who works on everyone's car of course not we take it to the shop that specializes in Porsches it charges us twice the normal hourly rate and gets away with it because it is a Porsche specialist it is specialist who make the big bucks and then this next one is titled secret of success which usually I'm very skeptical when I hear things like this but I really do believe it does most of the heavy lifting if we believe and I think what Charlie said is accurate but if we believe what he said is accurate is that listen problems are inevitable but if you if you surround yourself with great people and get into great businesses it eliminates wisdom is prevention it's going to eliminate most of the problems that you have that you're going to have in life that are under your control right so I think that's a hugely important idea and I would combine it with this and I think this is the same principle and he says I have never succeeded very much in anything in which I was not very interested if you can't somehow find yourself very interested

in something I don't think you'll succeed very much even if you're fairly smart there's another way that I've heard him explain this exact same idea and that he says an intense interest in any subject is indispensable if you want to excel and this is the commentary by David Clark Charlie often says that the key to being a great business manager is to have a passion for the business

for people who have that they are artists whose passion for their work drives and defines their lives here Charlie's pointing out that this theory applies to anything that we do in life to be successful in something we need to be passionately interested in it and that passion more than raw intelligence tends to determine whether or not we will succeed at what we do as Steve Jobs said work is going to fill a large part of your life and the only way to be truly satisfied is to do what you believe is a great work and the only way to do great work is to love what you do and I want to summarize that again with by repeating this an intense interest in any subject is indispensable if you want to excel at it a few pages later he goes right back at it this time it's from the opposite angle that most people are rat poison they're very you should avoid them the other side of that is obviously go for great right go for great I think is the the maximum

that's coming gonna come out of this podcast I don't remember the most oh it's just so useful dealing with people you can trust and getting all the others the hell out of your life wise people want to avoid other people who are just total rat poison and there are a lot of them wise people want to avoid other people who are just total rat poison and there are a lot of them when I read this this quote from Charlie it made me think of something that I read in in Warren Buffett shareholder letters and it's really this application of the idea they only want to work with other great people and what warrants I'm going to read this paragraph from his shareholder letters real quick and really what he's talking about is like just most businesses right are poorly run to average run and so he says our major contribution to the operations of our subsidiaries is applause but it is not the indiscriminate applause of a Pollyanna this is Warren writing by the way rather it is informed applause based upon the two long careers that we have spent intensively observing business performance and managerial behavior Charlie and I have seen so much of the ordinary in business that we can truly appreciate a virtuoso performance another piece of advice from Charlie there is no cookie cutter solutions think about his answer when he was asked hey if you are if you ever had to teach like a class a business class or a finance class what would you do and he's like I would take a hundred uh studies of company history and just talk about what they did correctly and what they did incorrectly early in the book to say hey you're better off reading hundreds of biographies than just reading you know a hundred business books and this is why it's like you're when you're doing that you're just watching game tape it's no different than a young Kobe Bryant watching videotape of Michael Jordan and Magic and Magic Johnson

and just constantly being exposed to a million different game scenarios and then using that knowledge in his own work when he's presented with another complex scenario and it says beware of cookie cutter solutions one solution fits all is not the way to go the right culture for the Mayo Clinic is different from the right culture at a Hollywood movie studio you cannot run all these places with a cookie cutter solution and then Charlie talks about the importance of being a learning machine and you see this that what's amazing to me is you know I've read every single book that I can find up on Charlie Munger hopefully I've covered them all Charlie of 41 or 45 would get his ass kicked by the 65 year old Charlie the 70 year old Charlie he applied this in his own life like he took his own advice Warren is one of the best learning machines on this earth Warren's investing skills have markedly increased since he turned 65 having watched the whole process with Warren I can report that if he had stopped with what he knew at earlier points the record would be a pale shadow of what it is and this commentary by David Clark is one of my favorite sections in this entire book there is another point that I've noticed with men and women who truly excel at their craft or profession they keep on learning and improving themselves long long after most people would have retired it's like sharks they have to swim to live learning is just something those people have to do and a large part of the way that Warren and Charlie learned not only through the experience

they spent a ton of time reading and then talking to smart people this is actually another idea that I that I stole from Charlie and I'm using I don't know if I told you this like hopefully this podcast is you're like learning something and being entertained by this because I still feel like like I'm on the high that this happened the reason I bring that up is because I can't remember if I told you that I got a chance to write a letter to Charlie before I met up with them and it was really short just explaining like the the influence I had a chance to tell one of my heroes like this

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is not hyperbolic your idea has changed my life your thinking has shaped mine and so I won't read the whole thing but I do want to read a section and this is just a handful of these ideas so I wrote them I wrote them letters like I'm using a collection of your ideas as a blueprint for building my business and I just listed off some of them and you know this is just part a few of them become friends with the eminent dead aim for durability take a simple idea and take it seriously find what you're best at and keep pounding away at it forever stop multitasking self-improvement lasts as long as the breath does so that second to last one right there to stop multitasking this is what he says look at this generation with all of its electronic devices and multitasking I will confidently predict less success than Warren who just focused on reading and then this is the extension of that idea reading personal biographies allows one to experience multiple lives and successes and failures reading business biographies allows one to experience the vicissitudes of a business and learn how problems were solved both Charlie and Warren are copious readers of personal and business biographies and that last line is an understatement I thought I've read a lot of biographies Charlie and Warren make me look like an absolute amateur Sam Zell I don't think I've told you this yet I'm working on a podcast about it but I got to also have a two-hour lunch sitting directly across from Sam Zell same thing this guy knew more about business history than I did every obscure figure every obscure book every obscure company I try to bring up he knew the founder he knew the company history he knew the outcome it was remarkable and again just meeting Sam talking to him talking to Charlie it's like okay I get done with this and like I'm clearly clearly on the right path and then Charlie shares a lesson that he learned from his dad when his dad was still alive I asked my father why he did his dad was an attorney for a bunch of businessmen in Omaha I asked my father why he did so much work

for a big blowhard an overreaching jerk rather than for his best friend Grant McFadden he said that man you call a blowhard is a walking bonanza of legal troubles whereas Grant McFadden who fixes

problems promptly and is nice hardly generates any legal work at all and again that ties into a main theme of this book same with businesses the great ones don't have endless problems there's a great line that's in the inside cover of this book and it says Munger is a deeply perceptive observer of human nature this next quote from him maybe think of that something I also wrote down to myself after after I did it with him I said Charlie looks at nearly everything through the lens of history you aren't changing human nature things will just keep repeating forever and so he says all human beings work better when they get what psychologists call reinforcement if you get constant rewards even if you're Warren Buffett you will respond learn from this and find out how to prosper by reinforcing the people who are close to you next quote from Charlie I just wrote simply this is excellent you must have the confidence to override people with more credentials than you whose cognition is impaired by incentive caused bias or some similar psychological force that is obviously present but there are also cases where you have to recognize that you have no wisdom to add and that your best course is to trust some expert we are lucky if we get to live to old age and so he has advice for that the best armor for old age is a well spent life preceding it I wrote down on this page after I reread the highlights last night another takeaway from my dinner with Charlie he did this the best armor of old age is a well spent life preceding it and so this is some of his best advice because I think it applies specifically to people like you and I these like very driven trying to do something in the world willing to push yourself

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wanting to build a successful business a successful life and it's amazing how many wealthy people I know have not heeded this advice yet and their lives are worse off at this he says I've heard Warren say a half a dozen times it's not greed that drives the world but envy you have to cure yourself of this curing yourself of this is key key for a well-lived life Charlie is known for saying that self pity has no utility envy doesn't either envy has no utility and then Charlie talks about his favorite habit that's the habit of reading I got to see this firsthand again this is advice that Charlie gives it's advice that Warren gives it's something I experienced directly when I when I had lunch with Sam Zell in my whole life I have known no wise people who didn't read all the time none zero you'd be amazed at how much Warren reads and how much I read my children laugh

at me they think I'm a book with a couple of legs sticking out Charlie's always been a voracious reader as a child he lived in the downtown Omaha Public Library where exploring the stacks

he met the towering intellectuals of both the past and present in books by the age of eight both Thomas Jefferson and Benjamin Franklin had permanent places on the bookshelf above his bed it is reading that helped put him ahead of the pack in fact this is my oversight that I have not that I have not done I have a biography of Thomas Jefferson I just haven't read it yet and I haven't done it from the podcast forgot that he that Thomas Jefferson was one of Charlie Munger's heroes and who he looked up to and influenced his thinking so that that alone is why I need to do it and I as I'd imagine Charlie Munger would recommend as well next thing this is definitely a really important advice and something you see that Charlie does in his own life life is always going to hurt some people in some ways and help others there should be more willingness to take the blows of life as they fall that's what manhood is taking life as it falls not whining all the time and trying to fix it by whining as the great American cowboy actor John Wayne once said son I don't care much for quitters and then this is Charlie repeating the compounding effect of knowledge I constantly see people rise in life who are not the smartest sometimes not even the most diligent but they are learning machines they go to bed every night a little wiser than they were when they got up and boy does that help particularly when you have a long run ahead of you then you

repeat stop multitasking I think people who multitask pay a huge price it was in one of the books I can't remember it was on the Bill Gates biography that I just recently did or one of the Warren Buffett biographies but I read this story where a young Bill Gates and then a slightly older but still younger Warren version of Warren Buffett because I think he's like a decade and a half older and Bill maybe two decades something like that maybe even three but uh Warren uh Warren and Bill Gates are at a some kind of dinner or meeting and their Bill Gates's dad is there and he was asking the group they're like in the small group like okay what was uh what was the one trait or what was most responsible for your success and Warren Buffett and Bill Gates both answered the same way they said focus and I think if you listen to episode 290 or if you read the book that the episode is about hard drive Bill Gates and the making the Microsoft Empire you'd realize that he had complete focus on in fact I heard Bill speak later in like some kind of documentary where he said he knew something had changed because when he started having to deal with

the antitrust suit uh that Microsoft was going through for the first time since the founding of Microsoft he was actively looking for a distraction so let's go back to this idea that

Charlie mentioned the fact that this is what Ben Franklin did this is what Andrew Carnegie did this is what uh him and Warren Buffett did it you've got to try to build this seamless web of trust with the people that are around you the highest form of civilization can reach as a seamless web of deserve trust not much procedure just totally reliable people correctly trusting one another in your own life what you want is a seamless web of deserve trust and if your proposed marriage contract has 47 pages I suggest you not enter the corporate culture at Berkshire is that if you can't trust someone you really shouldn't be doing business with him or her so Charlie was just telling us that envy has no utility this is when he talks about the self pity has no utility at all either I think the attitude of Epicetus is the best he thought that every miss chance in life was an opportunity to behave well every miss chance in life was an opportunity to learn something and that your duty was not to be submerged in self pity but to utilize the terrible blow in a constructive fashion that is a very good idea and I love the fact that you know he says that studying from history is a form of leverage like hopefully you and I have multiple decades left in our career and think about all the lessons that we're able to observe from other people and learn from other people's experience that we can apply in the same fashion Charlie did that but he also had to learn from his own experience so this is an example of this is the fact that he didn't cry about these mistakes he learned the lesson and then applied the the the lesson that he learned to his profit later on in life if he had never experienced troubles with a business in a very competitive industries like textile shoes retail and airlines he would have never gained the insight into the wonders of owning a business that had a consumer monopoly such as Coca-Cola or C's candies he would have never seen how a low-cost producer such as Geico can have a competitive advantage over its much bigger competitors if he had never experienced the pain of the market crash of 1973 and 1974 he would have never had the foresight to stockpile the cash he used to buy Wells Fargo stock in 2008 and 2009 so there's a lesson I learned from reading two of Arnold Schwarzenegger's autobiographies it's episode 193 that's the autobiography Arnold wrote when he was like 70 and episode 141 which is the the episode that he wrote when he was like 30 and you kind of at the very end the book ends of him calling his shots and hey the same lessons that I've used to to become a world champion of bodybuilding I'm just going to use to become an actor and build a business empire so it's kind of interesting that he called the shot there but one thing he said he's like it's very dangerous when you start doubting yourself that you're going to get don't worry the external world is going to try to get you to doubt yourself as much as possible but it's dangerous when you actually believe when you start doubting yourself this ties into what this the story that Charlie's about to tell you and I it's like it's very dangerous if you start lying to yourself and this is a great little story to remember how dangerous that is and how to avoid it Dean Kendall once told me a story when I was a little boy I was put in charge of a little retail operation that included candy my father saw me take a piece of candy and eat it and I told him don't worry I intend to replace it now listen to this what his this fantastic advice that this father gave his son my father said remember he's like oh don't worry I'll eat it I'll replace it later my father said that sort of thinking will ruin your mind it will be much better for you if you take all you want and call yourself a thief every time you do it he's trying to tell his son don't lie to yourself and then this is the second to last piece of advice from Charlie Munger to you and I if you have enough sense to become a mental adult yourself you couldn't run rings around people smarter than you just pick up the key ideas from all the disciplines not just a few and you're immensely wiser than they are and finally he says over the long term

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the eclipse rate of great civilizations being overtaken is a hundred percent so you know how it's going to end when we brought up the subject of death he said he wasn't afraid of it and he made a joke saying he just planned to lay there like everyone else does and that is where I'll leave it for the full story highly recommend I really think it's it's crazy if you don't buy this book it's to me it's just a manual for for life for business keep it around keep it out constantly pick it up if you don't buy the physical copy at least buy the audible and just listen to it over and over again and if you buy the book and you use the link that's in the show notes in your podcast player are available at founderspodcast.com you'll be supporting the podcast at the same time if you haven't yet signed up for founders premium that link is also down below and available at founderspodcast.com that is so you can listen to the AMA the ask me anything episodes that I've been making I might actually do a Charlie Munger only AMA episode soon as well I had that idea earlier today that's available down below in the show notes in your podcast player and available at founderspodcast.com and if you want to join my free email newsletter where I email the top 10 highlights for the books that I read that link is also below that is 295 books down and if I want to catch up with Charlie Munger 10 000 to go and I'll talk to you again soon