

**Edited transcript of Charlie Munger at The Daily Journal
DJCO 2018 annual meeting – for information purposes only –
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We're waiting for, some of our directors who are in the rest room. If you have a group elderly males, they never get together on time.

[00:00:22] Well I call the meeting to order. I'm Charlie Munger, Chairman. I'm here with the rest of our directors. Rick Guerin, wave to them. Gerry Salzman, wave. And Peter Kaufman. Gary Wilcox. And Michelle Stevens, executor of our meeting. So too is our corporate controller, Wade [Inaudible]. Eleanor [Rowe], record of elections. Will you wave? Arnos Boranda and Martin of Square Miller, our conference, will you new wave. We will now proceed to the formal business of the meeting, and that will be followed by quantification, and questions.

[00:01:05] If anybody has a proxy that hasn't been delivered, go ahead and do it. Eleanor, will you please report the number of shares present and, that's all.

[00:01:25] On December 22nd 2017, the record date fixed by the board of directors for determining the shareholders entitled to vote today, there were 1,380,746 shares of common stock of the corporation outstanding. I have a list of the shareholders who are on record as of that date, certified by the corporation's transfer agent, Infinity [Inaudible]. I also have an affidavit certifying the information of the mail in that notice of that meeting, proxy card and the 2017 annual report along with a pre-paid posted return envelope to shareholders. Proxies representing the 1, 283, 857 shares of common stock entitled to go to this meeting have been filed. The total number of shares represented in person held by proxy at this meeting 1,283,857 which is more than a majority of voting power of all outstanding common stock of the corporation and the meeting may proceed. I will attach the affidavits to the minutes of this meeting and have a copy of the minutes of the last meeting.

[00:02:26] All right. The first order of business is the election of a board of directors. Five Directors are to be elected [Inaudible] person's name.

[00:02:41] Nominees have received the following number of votes. Charles T Munger, 792,490. J.P. Guerin, 768,559, Gerald L Salzman, 794,824, Gary L Wilcox and Peter D Kaufman, 793,660.

[00:03:03] No other nominations were received. This record of elections is reported and the Board is confirmed.

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[00:03:26] The second proposal is the ratification of this election or our independent accountants. [Inaudible] has recommended that Square Milner be reappointed has won the vote. You can report again.

[00:03:48] For the [Inaudible] 1,283,308. Against 275, and abstaining 244.

[00:03:58] That's a lot of votes to [] Some of this stuff is really weird. Maybe they fired somebody. [Inaudible] I need a second. All in favor? Aye

Our first comment is to think about the general [Inaudible] of the Daily Journal and [INAUDIBLE] it's quite interesting what's going on. It's a real minefield. So, there is valuable information buried in the [Inaudible] system that nobody could get out before.

[00:05:11] Of course lawyers want to know what they're demonstrating on previous cases, how many cases the opposing council has won or lost and so forth. So it's starting to be a big business, delivering more information to people. And of course there are a hoard of people trying to get into that. Some of them are the [Inaudible] types and some of them, other types. And I myself didn't come out [Inaudible]

The chances that we get [Inaudible] that we had before when we were the only newspaper and timely publication [Inaudible] court opinions [Inaudible] is zero. In other words, our glory days are behind us as a traditional business.

And now it may well survive [Inaudible] but it's not going to be big business. Most newspapers by the way, I think are going to perish. Just because [Inaudible] I mean there all... You know the New York Times is the only newspaper [Inaudible] at the airport. But by and large the newspaper business is not going well. I mean virtually everybody owns a mobile and buying [Inaudible].

[00:06:55] On the other side we have this second business in the Daily Journal Company which is this software business. And that of course is taking a while to [Inaudible] for our software business to really produce a lot more revenue.

It's a very competitive business, and it's difficult. A lot of people in the software business don't want to deal with a bunch of [Inaudible] It's too much anguish. But if your used to just printing one, automatic paper [Inaudible]. And the way we're making money is slow and hard. It's a software business but it's a slow and hard software business. We're having internal arguments about whether revenue comes four years after the first customer comes or after seven, it doesn't matter. [Inaudible] But we have a lot of different processes to get [Inaudible].

If you do it right, these customers eventually trust you and the rest can turn itself. Only because they're all [Inaudible]. And the real pleasure of earning a slow level of trust of a bunch of customers, then you're doing your job right and handling how your business is [Inaudible]. I would say that things are done okay,

[00:09:02] The new business is slow in coming as Charlie indicated but I [Inaudible] once you get there, you have to understand will be quite long because the [Inaudible] you have to spend additional time changing software companies. It's very painful. And one of the problems is always the convergence and the interfaces. Some of our clients have upwards of 20 different interfaces and an appetite for many more, because they recognize that if there's an interface [Inaudible] and so we have maybe 25 people primarily based in our office in Denver doing nothing but interfaces and convergence.

The implementation of most systems depends on the implementation of convergence and the interface. That is one of the continuing headaches, because most Government agencies have old systems and it's extremely difficult to convert information that went into the system thirty years ago. That's one of the problems we face on every single installation.

We have a large number of installations going on. Most will take upwards of a year, some much longer, depending on the client. And some clients have very good people that are assigned to work with us on the implementation. And other clients have upwards of 15 people so we find that the 15 people is a great investment from the client's standpoint because it's much faster, and they learn how to do it and make changes into the future. And that's our objective, is to have them be totally familiar with the system and when they're requirements change, they are then able to configure it, create documents in a very effective way.

In contrast historically the Government agencies would ask their IT department to do something and it would together for their IT department to do it. Now it's much more efficient and very effective and it helps the IT department feel important. And it's important for us that the IT department feel important because then the IT staff will stick around rather than find greener pastures. And that enables us to get in and our much faster and satisfy the client.

[00:12:27] There's two thing that shareholders should know about our software business. One is the system is more configurable than that of, offered by many of our competitors. That is a hugely good idea on our part.

And the other thing is that we're slower to recognize revenue when somebody [Inaudible] us than most of our competitors. And that is also a good thing, because if you need to get some computer software, a lot of paper developing the system, you can spend a lot of money and get nothing back and the buyers are very wary. And we are playing to that by... it's one of the advantages of being very rich, you can behave better than other people.

And not only do we hear it, we don't give a damn what we report in any given quarter and that gives us an advantage in saying to these government agencies, you're not taking a risk with us because you're not going to pay us until the system is working. And I think it's a very good idea that we're able to have that attitude to our customers and we want the customers to be right when they trust us. And I will confess to one thing to this group of shareholders. I've fallen in love with the [Inaudible] agencies of South Australia. We have a contract there and I think we trust them and they trust us. And we're going to do a hell of a good job for Australia and it gives me enormous pleasure. So I'm biased in favor of Australia. And you others will just have to live with it. We may end up with the whole [Inaudible]

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system in Australia. If we do it will be because we deserve it. That's our system.

[00:14:36] Well that's pretty much [Inaudible] going along, [Inaudible] we're taking some territory but it's not rapid and it's never going to be [Inaudible]. It's going to be a long, long slog. But we have a big bag of money and we have strong growth and we have a lot of our people working on the system and I think it's going to go pretty well.

Now, in addition to our businesses we have a great number of shares. And I'm not going to try to distill the numbers now, but this is not, we do not have some minor version of Berkshire Hathaway.

[Inaudible] We have a big bundle of securities by accident. We made a lot of money out of the foreclosure movement, and it just happened to come in by the time the market hit bottom and of course we look like a genius now because we put the money into securities because we preferred it to going only cash. But this is not Berkshire Hathaway, this is a computer software company with a stable but small print business and we just have a lot of extra liquidity on hand which came to us by accident. Of course that money came to us by accident and we invested as shrewdly that we could. But the chance that we will continue to gain at the rate we have over the past four or five years is zero.

[00:16:34] Now having said that, we're going to report for the next quarter a big increase in net worth because our deferred taxes have gone down thanks to the Trump changes in the tax code. So, we're going to look like a genius from another accident for four more quarters.

[00:16:58] Something about those securities, there's one security in there that's very interesting. Because BYD, who's got a very significant position around here. And that's what Berkshire Hathaway is, [Inaudible] it's really a venture capital type play that knows what's in the public market. And BYD has developed into a huge company. It's got 250,000 employees, more or less. It has a huge electric car business, it has a small gasoline car business and huge battery business, it has a huge new lithium mine company, and the production is [Inaudible] but they're the best, it has a lake full of toxic water that if you drank it, it would kill you, but it's perfect for mining lithium. And it's a big lake, one of the biggest in the world.

And so we have an interesting Venture Capitalist type business, and BYD has gone into a business we were never in before, which is monorails. And they are selling monorails like you can't believe. Boom-ity, boom-ity, boom. Whole cities in China. And you sell me one and then they are also selling those big electric buses etc etc.

[00:18:30] It's weird that anybody who has worked here, or in the Munger family, or the Daily Journal, would have anything to do with a little company in China that becomes the big company. But it happened, and there's a varied story here that's wonderful. The man who founded BYD was, like the eighth son of a peasant. And older brother noticed [Inaudible] changes and then [Inaudible] historically the older brother [Inaudible] and he got to be a PHD engineer and then he decided to go into the business of making cellphone batteries in competition with the Japanese who had all the patents. And he got \$300,000 dollars from the bank of China, and it was his cousin who approved the loan.

Very confusing system, and at any rate, from that tiny start, he built this enormous company. 250,000

employees. And of course the governments of Shenzhen and this province up in Tibet, love BYD. It's not some part-foreign joint venture, it's a Chinese company created by Chinese. It's high tech, it does wonderful things. And it hasn't disappointed anybody yet in any significant way. And it's heartening for me to watch.

Think of how hard it would be to build for this big monorail business, if somebody starts to [Inaudible]. Think of how few monorails there are in the United States. Of course the Chinese permitting system is totally different to the United States. So if the Chinese want to do something they just do it. I love that system. If [Inaudible] wants to do something he just does it.

But there are some various stories like that, and it's a pleasure to be affiliated with people who're accomplishing a lot. And of course [Inaudible] can't breathe the air and this business that we have, building monorails, will help contribute to that etc etc.

[00:20:51] There are some weirdness or weirdness around here. I don't think we were very weird about buying into banks when they were very depressed but the Wells Fargo position is interesting and I'm going to look at questions about that. So I'll question them again in advance.

Of course, Wells Fargo had incentive systems that were too strong in the wrong direction, and of course they were too slow in reacting properly to bad news when it came. Technically everybody makes those mistakes. And I think around here we make fewer than others, but we still make them in the same direction. And I think Wells Fargo will be better off for having made those mistakes.

Any bank can make a lot of money by making a bunch of ten year loans at higher interest rates, or using adjustments for very aggressive treatments. And of course banks really shouldn't do that. And I think as a result of all the trouble, Wells Fargo customers are going to be better off for this event. And I think it's time for the regulators to [Inaudible] on Wells Fargo.

Is there anything else that deserves a lot of comment beyond our basic [Inaudible]?

[00:22:38] Everybody's met a bunch of shareholders who didn't really buy Daily Journal stock because of [Inaudible], there's one exception. Big exception. But most of you are here for some other reason, you're groupies.

So I know I feel nervous when I see them. Of all ages. And all I can say is, takes one to know one. So I guess that's enough of it.

I might go on, one of our Directors came up with a list of qualities that any investment advisor should have. And he gave it to a futures picker, a very professional [Inaudible] and the picker immediately fired half his picks. And I thought that was such a peculiar outcome, that I thought Peter Kaufman could share with you his five aces system for picking an investment manager. Peter, go ahead.

[00:23:54] So I came up with the list when giving a reference to a very exceptional money man. And I not only wanted to give what I thought was a correct reference, I wanted the person who I was giving

the reference to, to in turn be able to relate this to the real shot caller, so that a compelling narrative could be transferred directly from me, to the ultimate shot caller. So I came up with what I call the five aces. Five aces being the highest hand you can have in a wildcard poker game.

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

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

Now I know we have money managers in the room.

[00:25:58] Do we ever!

[00:26:04] And we have people who employ money managers. If you employ money managers, this is an excellent formula to evaluate your money managers.

[00:26:15] Yeah we're talking about half of those we hire.

[00:26:22] But perhaps more importantly, if you're a money manager, this should be your list of five aspirations. What characteristics should I seek as a money manager to possess? I should be completely trustworthy, I should have actual deep fluency in what I claim that I'm going to do. I should adopt a fee structure that's genuinely fair in both directions. I should seek an uncrowded space, because, as we all know, in business where there's mystery, there's margin. What kind of margin are you going to have in a crowded space? And number five, many of you in here, are very fortunate, you get to check that box for having a long runway. Some of the best money managers in history only get to check four out of those five aces, because they don't qualify for number five.

[00:27:25] Those include those who are addressing you. We do not have a long runway. That doesn't mean we won't do well but, in terms of investment management runway, it's rather [Inaudible]. Berkshire Hathaway's [Inaudible] are imminent, its directors are so old and its managers are so old. And the only institution that exceeds Berkshire Hathaway and the Daily Journal in terms of old directors and governors is the Mormon Church. The Mormon Church is run by two people and two wonderful fathers. There's no paid clergy in the Mormon Church. And the ruling power is a group of males between about 85 and 100. That system is more successful than any other church. No [Inaudible] very old males. Obviously we are copying that system. And we are so much older than the Berkshire directors, who are also very old. Warren says we're always [Inaudible] to see how the young fellows are doing. The Daily Journal [Inaudible].

It is certainly weird. But who would have guess that the Church with the best record of keeping people happy and so on and so on would be the Mormon Church. Who would guess that it had no paid clergy,

was run only by males who were 85 and up? Now that is a very odd result. And I guess I should like odd results, because I sure have been living a life about odd results. And I'm very surprised to be here. As somebody said, and old woman who I like, at her 94th birthday party, she said: "I'm very pleased to be here. In fact I'm very pleased to be anywhere."

[00:29:51] Well that's what it is. And we think the inventive structure in investment management is very interesting. If you look at the people who have a ton of money from the past. Let's say, Massachusetts Investment Brokers or something like that, which pioneered mutual funds in the United States after mutual funds were allowed, and certainly gave them a respectable and honorable place. But once it gets to be \$700 million or whatever it is, hires a lot of young men and has a big staff, and young women too. And it spreads its securities over, its investments over fifty securities at least, the chances that it's going to outperform the S&P average shrinks to about zero.

And of course they wonder whether people will keep paying whatever it is basis points that Massachusetts charges for the long term, and they may feel under pressure and there world is threatened. And another place that's threatened is suppose you're charging say one and twenty. One percent off the top and twenty percent of the profits. Or even worse, two percent off the top and twenty percent off the profits. And you've got \$30 billion or so under management. And you're hiring young ambitious people all of whom want to get up reasonably fast. What are your chances of doing better for your clients?

[00:31:43] Well the average entity that charges those fees, the chances their clients will do well are pretty poor. That's the reason more [Inaudible] the hedge funds do better than the S&P averages. And they have a carefully selected bunch of geniuses charging very high fees and of course the high fees will just kill you. It's so hard in a competitive world to get big advantages just by buying securities. Particularly when you're doing it by the billion. And then you add the burden of very hard fees, and think that by reading all the sell side research you're going to do well. It's delusional. It's not good to face the world in a delusional way. And I don't think, when Berkshire came up, we had an easier world than people are facing. I don't think you're going to get the kind of results we got just by doing what we did. That's not to say that what we did, and the attitudes that we had are obsolete, or won't be useful. It's just that the prospects are worse.

We're all [Inaudible] rule. And the first rule of fishing is fish where the fish are. And the second rule of fishing is don't forget the first rule. And investing is the same thing. Some places have lots of fish, and you don't have to be that good a fisherman to do pretty well. Other places are so heavily fished that no matter how good a fisherman you are, you're not going to do very well.

And the world we're living in now, an awful lot of places are in the second category.

I don't think that should discourage anyone. I mean life's a long game and there are easy stretches and hard stretches and the younger generation has opportunities. And the right way to go through life is to take it as it comes and to do the best you can. And if you live to an old age, you'll get your share and now there [Inaudible] that may be your full share. If you choose one of the two, you'll do all right.

And now with that quantification I'll take questions.

[00:34:344] Hi Mr Munger. My name is Max Clark from [Inaudible] Washington. Thank you for having us here and happy Valentine's day to you. My question is about mid-Western values. How you define them. How they influence you. And how much they're embedded into the DNA of Berkshire?

[00:35:13] Well I think there is some mid-Western values embedded in Berkshire. I don't think it would be the same place if it had grown up in the middle of Manhattan Island. There's just so much buzz and craziness in Finance in a place like Manhattan that I think it was actually an advantage for a while to be working in a place out in Omaha. And certainly, I have deep ties of affection and respect for my life in Omaha and my parents and our friends and so I like what I think of as mid-Western culture and I really don't like crazy culture. And there's a lot of that in a lot of places, so yeah I [Inaudible] mid-Western culture.

I don't think it's that bad in the South or the East, but I have less experience with that culture. I go to Montana to fly fish and I like Montana when I'm there but that's too rugged for me. I like more intellectualism in a bigger city. So Omaha was just right for me.

Some other questions.

[00:36:50] Good morning, thank you. My name is Will Conquess, I'm a groupie from Philadelphia. And my question relates to BYD. Given that you successfully invested in commodities in the past, how do you view investing in things such as cobalt, lithium and helium as technologies of the future? Thank you.

[00:37:11] Well I'm hardly an expert in commodity investing. But certainly cobalt is a very interesting example and it's up about 100% from the bottom and it could get tighter. But that's not my game. I don't know much about... I haven't invested in metals in my life much. I think I bought copper once with a few thousand dollars, I think that's my only experience.

[00:37:50] Good morning Mr Munger. Jason from San Francisco. When I reflect on where I am here in my thirties, I often think about the multiple [Inaudible] that you were done when you were my age and you [Inaudible] speech in Pasadena. [Inaudible]. In contrast to that, could you tell us about some of the people and experiences that helped you through that period? And my friend also has a slightly different question.

[00:38:22] Hi, Latif from [Inaudible] City. I did not know he was going to do that but. Mr Munger, I produce comedy shows and I was just wondering, did you ever have any aspirations to be a comedian because [Inaudible].

[00:38:43] Well. I think you, understanding that I'm really what I call a gentile Jew. You know if you look at the way world is working, about 2% of the people provide about 60% of the humor. Really. And this is weird because this world just has a lot of trouble. And so, I mean I just like to use humor. It's my way of coping. And by the way I recommend that, I might tell a story about this darling girl, her wispy

blonde hair, a beautiful girl, goes into a pet store. The pet store owner says, “oh you darling little blonde-haired girl. What can we do for you?”

“Wabbits”

“Oh we’ve got wonderful wabbits. Grey wabbits, white wabbits, brown wabbits. What kind of wabbits do you want?”

And she said, “I don’t think my lovely big snake is gonna give a shit”.

[00:40:40] It does help to go for a bit of humor. One thing that’s nice about the human condition is that people are always doing thoroughly ridiculous things. If you don’t laugh a little, those things will break you

Another question.

[00:40:58] Hello Mr Munger, my name is Richard Lewis from Culver City. And I have a question about a talk you did back in 1995 at Harvard on the standard causes of human misjudgment. And I thought you ended it in a very interesting way when you said: “I don’t think it’s good teaching psychology to the masses. In fact I think it’s terrible.” Would you elaborate on that comment?

[00:41:22] Well it sounds as though I was somewhat misquoted. I do think it’s hard to teach the whole reach of Psychology the way they do it in Academia. The way they do it in Academia, is they want to do experiments. And they want to work things from the experiments and make them public. Therefore, these experiments have to be pretty simple. Testing one particular triggering factor if they can. And by doing that, over a vast number of triggering factors, they accumulate a big body of experimental outputs and you can drag some general principles out of them.

But the great utility of psychology is when you know those principles as fluently as you know how to read. Really fluently. And you use those principles in synthesis with the rest of knowledge. The interplay with the rest of knowledge is a vastly productive area for correct thinking.

But the Psychology professors can’t do it because they can’t know the rest of knowledge. And there’s no reward in Psychology for synthesizing the rest of knowledge with psychology. The rewards are for doing another experiment. And so it’s mis-taught. If the subject doesn’t translate, but it works best when you use it in combination with some other discipline. But academia is not set up for people to get good at using a [Inaudible] of disciplines. So the whole damn system is wrong.

[00:43:17] On the other hand it gave great opportunity to me because, I always [Inaudible] when I was young. If my parents didn’t know, it didn’t matter I could tell this for myself. I could tell from the very first instance that the big territory was synthesizing psychology with the rest of knowledge and so I learnt psychology so I could do it. The psychology process is just [Inaudible] the way it’s taught. There’s no reward if you want to express psychology by synthesizing with the rest of knowledge. And now you people should follow my example, not the example of the psychology professors. I guarantee

you won't find any money doing it their way.

Occasionally you find a group like Faber's Group that just won the Nobel Prize by the way. And he's trying to synthesize with knowledge and I say more power to Faber. And it's a good sign that the world has given Faber a Nobel Prize.

[00:44:36] Hi I'm Eva Mackey from London. Speaking of the Munger system, if you had to teach the Munger system of mental models to primary children, would you focus on covering all the models or would you focus on teaching them how to figure it out themselves?

[00:45:19] Oh well I'd do both. Of course if you can get the right number of models in your head it helps. And of course you want to get fluency in creating models. There isn't any road to just get them [Inaudible]. My whole system, I'm a big admirer of Carlisle approach which was quoted all the time. Carlisle says the task of man is not to see the place dimly in the distance, but to do the task that's clearly at hand. And I think that's right. I think that most of the time you should get the work that's before you done, and let the future fall as it will.

[00:46:35] Hi Charlie, Phil Smith from Los Altos. Privilege to be here with you. My question is concerning Commercial Banks. Obviously Berkshire has a very large, I think \$60 billion portfolio there. The Daily Journal has a sizable one. My question is as I look at that portfolio, especially the Berkshire portfolio, there are quite a few banks that appear to be at or close to the quality of what's in that portfolio. Some of which people like you think highly of. My question is, I realize they are fairly fully value now compared to four or five years ago when they weren't, but why aren't there more of those higher quality banks in Berkshire's portfolio? Is it just concentration in the portfolio, [Inaudible] or is there some matter among those banks that make them less attractive to you and Mr Buffett?

[00:47:31] Well Banking is a very peculiar business. The temptations that come to a banking CEO are way, the temptations to do something stupid are way bigger in banking than they are in most businesses. Therefore it's a dangerous place to invest. There are a lot of ways in banking to make your near term future look good by taking risks you really shouldn't take for the sake of your longer term future. And so banking is a dangerous place to invest, and there are few exceptions. And Berkshire tries to be in the exceptions, as best it could. And I have nothing more to say on that subject except, I'm sure I'm right.

[00:48:18] Good morning Charlie. My name is Frank Wing, I'm from Houston. My question is, your thoughts on the valuation of software companies like Apple, Facebook, Google, Amazon, Alibaba. Are they overvalued, potentially undervalued, too early to tell?

[00:48:49] Well my answer is I don't know. Next question.

[00:49:07] Good morning. I actually have a question for Mr Kaufman and if Mr Munger would like to comment I'm sure we would appreciate that too. So Mr Kaufman, you mentioned about the five aces. And one of them is aligning interests with the investor with the right fee structure that benefits both. My question is, for, what can we see that actually a good fee structure is. First for a startup one, let's

say a million dollars in assets and then a larger one?

[00:49:41] I can't entirely answer that because he can describe to you what he thinks is the most fair fee formula that ever existing and that's the formula of Warren Buffet's original partnership.

[00:49:51] Yeah Buffet copied that from Graham.

And Monessh is probably here. Is Moneesh here? Quick stand up on the ledge a little bit.

[00:50:04] This man uses the Warren Buffet formula and always has, we just copied it. And Moneesh just completed ten years where there was no, he was making up for high water mark but he took nothing off the top at all for ten years. He sucked his living off of his own capital for ten long years, because that's what a good money manager is cheerfully willing to do. But there aren't many Moneeshes. Everybody else wants to scrape it off the top and God, and it's the wrong system. Why shouldn't a man [Inaudible] Why would you want to give your money to somebody who hasn't done anything. And by the time he is forty. If he has some money, why shouldn't he on the downside suffer like everyone [Inaudible]. I'm not talking about the employee under the top manager but [Inaudible].

Everybody wants to scrape it off the top. They do because that's what everybody [Inaudible] that's what is comforting, you know human nature. And the thing with the Buffett formula is he took 25% of the profits over 6% per annum, to the high water mark. And so if the investor didn't get 6%, Buffet would get nothing. And [Inaudible]. And I like that system, but it's like many things that I like and I think should spread. All of those successes [Inaudible] it just seems too hard to people who are trying to make money [Inaudible] it just seems too hard. If it were easier I think there'd be more copying [Inaudible].

[00:52:51] Mr Munger. Mr Munger why have you chosen to have your friends call you Charlie Munger when you could have instead chosen to go by Chuck Munger?

[00:53:07] The only people who call me Chuck, call me by the telephone and ask me to invest in oil plays. No I don't mind being called Charlie. My grandfather was Charlie Munger. When he got to the point that everybody thought he was [Inaudible]. He [Inaudible] his initials and he was GC Munger instead of CT. But I didn't follow my grandfather's [Inaudible] willing to have an undignified name.

[00:53:45] Hi Mr Munger. Patrick [Inaudible] from New York. Two questions if I may. Could you give more detail around the Berkshire, JP Morgan, Amazon healthcare partnership and why in the initial press release it said that the model would be spread beyond the employees of the three companies but then the Wall Street Journal reported that Jamie Dimon had received some phone calls from upset healthcare CEOs and he said the model would only be for the employees of the three companies.

My second question is, can you give your view of what is [Inaudible] talent. Thank you.

[00:54:24] Well those are two unrelated questions the [Inaudible] will rule against it. Three is too much.

On the healthcare system, the existing system runs out of control on the cost side and it causes a lot of behavior which is not only regrettable but there is a lot of totally unnecessary [Inaudible] to make more money and the costs are totally out of control.

And other people have systems which have better statistics for maybe just as much if you're talking about Singapore, maybe half as much for some of the European systems. So they're just concerned about [Inaudible] we've got the incentives wrong and they want to study it and do something with the three companies. Of course that's a very difficult thing to think on. I don't know how it will work out.

The man on earth who thinks about these subjects who I much admire is [Inaudible] at Harvard [Inaudible]. He's also [Inaudible] a man who checks all the boxes. So there's a lot wrong and these people are looking at it to see if they can do something. And they're going to find it plenty difficult. It wouldn't be hard if you [Inaudible] to do something pretty dramatic [Inaudible] Old people who have it [Inaudible] it's a shock. Well I can [Inaudible] a damn shock.

And there's different substances you use and one of them costs a fortune and the other costs practically nothing and they both work about equally well and of course [Inaudible] being used a lot in America is the more expensive of the two substances. There's a lot wrong with that system and it just crept in through a lot of unnecessary cost. And medicine is evolving, understand that. And many of the man who is dying, it's like a carcass on the plains of Africa. In come a whole load of vultures and jackals and hyenas and so on and the dying old person in many American hospitals looks just like a carcass in Africa. It's [Inaudible]. It's not right. And there's not a hospital in America that doesn't have people lying in the dialysis ward [Inaudible].

So it's down to somebody make some [Inaudible] on the healthcare system I'm all for it. On the other hand I'm glad I'm not doing it. It's really difficult. I'm too old for that one. But I grew up with someone who's [Inaudible]. It's deeply wrong what's happening. And some stuff is not getting done that is very cost effective, and a lot of totally unnecessary stuff is being done. I'm all for somebody trying to figure it out. Just ask me to serve up such a [Inaudible] I decline. It's really hard going and you're stepping on a lot of.

The second question was [Inaudible]. What was so unusual about [Inaudible]. He was one of the most successful investors, and managers. He was just someone [Inaudible] and he saw the light as best he could and he wound up very good at it. But he was very good. He's ferociously smart. He's very energetic, that also helps. And he's very aggressive. He's willing to patiently wait and then aggressively pounce. Very desirable temperament to have. If an [Inaudible] comes he takes it. Also a good quality to have. It's not very hard to [Inaudible]. It works, but there aren't that many that [Inaudible]. In my life, I've given my money to one outside manager, and that's [Inaudible]. It's not that there aren't [Inaudible] out there, it's just that they're hard to find.

It doesn't help you if somebody's designed a wonderful thing to buy and you can't figure it out.

[01:00:13] My name is Michelle. And I have a question for you on Brands. In the past you've talked about buying a business with a durable competitive advantage. And you've talked at length about the

value of great brands in pricing [Inaudible]. Currently, big consumer brands are losing their cache with younger consumers, new emerging brands are starting online. Private label products like Kirkland Signature are getting better by the day and in turn, big consumer brands are losing sales and pricing power. In a world where durable advantage seems to be acquired from scale, like Amazon and Costco, has your view on big consumer brand models changed.

[01:00:46] Well a big consumer brand is still very valuable, but they had an easier time on a former Earth than I think they will on a future Earth. I think you're right about that, of course. Amazon I don't know that much about except that it's unbelievably aggressive and the man who heads it ferociously smart. On the other hand he's trying to do things that are difficult. Costco I know a lot about because I've been a Director for about 20 years. And I think Costco will continue to flourish. And it's a damn miracle the way the Kirkland keeps getting more and more accepted, you're right about that. So you're right it's going to be harder for the big brands, but they're still quite valuable. If you could have, only say, the Snickers bar trademarks and so forth, it'll still be a good asset sixty years from now. It may not be quite as good for the owner as it was in the last sixty years. But it doesn't have to be.

In fact it makes it harder for new investors. It used to be that [Inaudible] I don't think it's quite that simple any more. It's harder to get good value. But you know that, it wasn't really a question.

[01:02:32] Good morning Mr Munger. My name's [Inaudible]. My question is you once said in an interview that you're of the view that the US would import the oil [Inaudible]. Where I come from, which is the Middle East, Kuwait, oil represents around 85-90% of the government's revenues. Basically my question is, what do you think the future holds?

[01:03:07] Future of oil? Was it the future of oil or the future of Kuwait?

[01:03:10] Future of oil!

[01:03:15] Well I thought last year that oil was very interesting. There are very big companies like Exxon producing about a third as much as they used to at the peak, and yet they are still very prosperous because the price of oil has gone up faster than production has gone down. But it's a weird subject, you know what's going to happen with oil. Eventually it's going to get very hard to have more oil, and eventually the price is going to go very high.

As a chemical feedstock it's totally essential. So it's never going to go out of vogue. And we're going to need it for energy for a long, long, time ahead. But as an investment, I know it's a difficult subject. And you will notice that the structure in its whole history is that very few [Inaudible]. You know, some but not that many. So... the Daily Journal doesn't have any, because it's a tough subject and as I said, last year, I think the correct policy for the United States will be to not produce our oil so fast. I think oil is so precious and so desirable for the long haul, I'd be very happy to have more of oil to stay in the ground and just pay upfront to the Arabs to use up theirs. I think that would be best policy for the United States. Only 99.9% of the rest of the people in the world want us to use it now. Why would we want to use up all our oil as fast as we can? Why would that be smart? Do we want to use up the tops of our oil as fast as we can? I don't think so. So I think our current policies are totally nutty.

And it you go on, when I was young there was about 2 billion bushels of corn. And a big chunk of that corn is being turned into more fuel. That is an utterly insane policy that happens because of the political [Inaudible] of the United States. Nothing could be dumber than using our topsoil to create corn for motor fuel. It's really dumb and yet it's there and [Inaudible] ain't changing.

It's a weird subject. But oil is so essential. Our great topsoil doesn't work very well. The miracle grains are miracles that can be used on [Inaudible] topsoil. It's weird. The current population of the earth is being fed by miracle grains, and the miracle is, they turn oil into food. So it's a weird subject, almost like [Inaudible].

[01:07:17] Hi Charlie, Bill More from Los Angeles. My question is, some of the greatest advances to humanity seem to be the result of public-private partnerships. The railroads boom, electrification, the technology revolution. Now all of those require some measure of rationality and foresight among politicians and business leaders, although this doesn't seem to be in much supply at the moment. But do you see any opportunities today in terms of possibilities for partnering for infrastructure or basic research or that sort of thing? Thank you.

[01:07:55] I think one of the obvious needs, is a really big national grid, which takes new federal legislation and a lot of other things. I think it'll come. We should have it already. It's a failure of the government that we don't have a wonderful electric grid. And, but it will come and I think [Inaudible] a great deal [Inaudible].

But it's easy to overestimate the potential. Why don't we have a big electric grid that works already? And there are a lot of things that should happen but don't happen. Or happen very slowly.

Going into a public-private partnership sounds wonderful, everybody wants to [Inaudible] to the government to have a robust narrative. That's what people specialize in America, robust narratives. Public-private partnership sounds like a robust narrative. It sounds to me like a bunch of thieving bankers who get together with a bunch of thieving [Inaudible]. It's a robust-narrative.

[01:09:17] Harry [Inaudible], Irvine, California. You once said, when you acquire a company your time horizon is typically forever. That being said, what did you recognize about General Electric before that you wanted to get out. And it looks like you got out at the right time.

[01:09:37] Well we made an investment in General Electric in the middle of a panic because it was a decent buy as a security that we passively held. And it worked out for us fine. General Electric of course is a very complicated and interesting subject. It is interesting that a company so well regarded, active [Inaudible], technology etc etc to end up so ill-regarded as a result of a long period of sub-par performance. People didn't expect it. Of course, people were saying, what caused the failure of performance at General Electric? And I tend to agree firmly that [Inaudible] accident in this world. That's part of it. And part of it I would say, is the system at General Electric where you rotate executives through so different assignments as if they were so many army officers, building up a resume to see if they can become Generals. I don't think that works as well as keeping people in one

business for a long time and having them identify with the business, the way Berkshire does.

And so, I would say to some extent, what happened is they... maybe there should be a little less of this corporate management style of the US army, and maybe people could actually do a bit more of the Berkshire style where by and large people tend to [Inaudible].

[01:11:51] Good morning Mr Munger. Owen Glenn, Fairfax, Virginia. You served for many decades on a variety of boards including in the for-profit sector, Berkshire and Daily Journal and also the non-profit sector. Could you give us any lessons you have learned for serving on a board. And touch on also the criteria you consider for hiring and removal when necessary of executives.

[01:12:23] Well, I don't think I can do the [Inaudible] one short burst of pomposity, so, each situation is different. But, I would say this. If you ask people with long experience of management, what their mistakes were looking backwards. The standard is [Inaudible] somebody who should have been removed wasn't for way too long. I think that general lesson is true practically everywhere. But beyond that I don't... it's too broad a question.

[01:13:11] Howard Winston, Santa Monica. Are you concerned at all about the rising level of government debt to GDP at the same that we're running large deficits this late in the economic cycle?

[01:13:27] Of course I'm concerned about the rising level of government debt. This is new territory for us and new territory problem has some danger. On the other hand, it is possible that the world will function more or less pretty well, even with a very different pattern of government behavior than you and I would have considered responsible based on history to date.

Of course if you look at the inflation we got over the last 100 years, when the announced objective of government was to keep prices stable. Now the announced objective is 2% inflation. What the hell's gonna happen? Well the answer is that we don't know. But isn't the way to bet that it's going to be inflation over the long term that's higher than 2%? I think the answer is yes. But I think that we have learned from what has happened in the past but macroeconomics is a very [Inaudible] subject and government worked like this in a system that is different than the system that was written in the last decade and different systems have different formulas. And they don't tell you when systems change and when the formulas have to change.

So I don't think... I don't expect the world to go totally A-up because well, look at what happened in Germany after World War I. The hyper-inflation when the currency basically went to zero value. [Inaudible] And what happened? Well what happened is that it exacerbated... when the Great Depression we had [Inaudible]. And they did it by creating a new Reichsmark backed by the [Inaudible]. And that new Reichsmark was working pretty well and Germany had pretty well recovered from that catastrophe, and then along came the Great Depression, and the combination of the Great Depression and the Reichsmark inflation really brought in Hitler.

What happened, and by the way in 1930, what was the leading economic power in Europe? It was Germany. Because Hitler in his crazy desire for vengeance and so on bought a lot of munitions and trained a lot of soldiers and so forth, and the accidental Keynesian of German [Inaudible] caused this

vast burst of prosperity. So Germany was the most prosperous place in Europe in 1930.

So all that catastrophe they were [Inaudible]. So I don't think we should be too discouraged by the idea the world might have some compulsions. Because of the way it recovered. Now I'm not advocating the German system, but I do think knowing these historical examples creates what I call mental buoys. You'd think this country that destroyed its own through a silly war, destroyed its own currency, [Inaudible] in 1939 is the most prosperous country in Europe. It's encouraging.

I hope you feel better.

[01:17:25] Thank you for taking my question. So my question is, since the mid-1990s the number of Department of Justice cases filed annually under the Sherman Act has collapsed from 20 to almost zero. Over the same period, we've seen a dramatic increase in the winner-takes-all effect. And the market share of the top five companies across almost all industries has surged. And not just technology and media. And the number of publicly traded companies has dropped close to 50%, so for example from 8,100 to 4,300. Why do you think the Department of Justice has been less active in enforcing anti-trust legislation over the past 20+ years, and do you think the DoJ is likely to become more active, and how do you think that will affect the financial markets.

[01:18:08] Well I don't whether the Department of Justice is going to become more active or not. I'm not terribly firm what the present state of the economy, or the present state of the concentration of economic power. Wherever I see companies [Inaudible] there is plenty of competition so I'm not [Inaudible] whole world is wrong [Inaudible].

Everybody feels... there are companies now that people were worried about being too powerful, like Kodak, and I am hearing that and, I think we have enough competition by and large. I do not think the world is going to hell from lack of activity in the Justice Department.

[01:19:03] Steven [Inaudible] from Canada. Mr Munger thank you for sharing your wisdom with us. I am an actuary and I'm always curious about Berkshire re-insurance operation. How did James Berkshire reinsurance from scratch? If you could share some insight, this would be really appreciated.

[01:19:23] Well it's very simple. He worked about 90 hours a week. He was very smart. He was very honorable. He was very pleasant to deal with. And he talked to every natural born [Inaudible]. He'd just find somebody else [Inaudible]. You won't do as well because the game is harder now than it was then. And that's my answer to your question.

[01:19:50] Hi Charlie, I, like you, was named after my grandfather. His name was Orin Robinson, and that's my name. I have a question now regarding Warren Buffett. In 2008, you wrote an Op-Ed article regarding the depths of the bear market. You talked about how he had previously put his own money into Treasuries. And to my mind he's normally thought of as a buy-and-hold investor. But in this case he had a lot of his money, almost all of it, in Treasuries. And I want you to speak to, if you could, to the value of holding money in a portfolio at the proper time.

[01:20:27] Well it's possible that there could be a time when a wise investor would be all in treasuries.

It is not impossible but it's certainly impossible for me. But I can imagine such a [Inaudible]. But I haven't been that an [Inaudible] holder yet. So... I would generally say that long-term treasuries are a losing [Inaudible]. And that's my view.

[01:21:11] Mr Munger, in 1999 Warren Buffet said he could return 50% if he were handed one million dollars. Given what you said about the investment landscape today being more difficult, what do you think that number would be today?

[01:21:23] Well I do think that a very smart man could take some money and if he is willing to work hard and move around in untraveled places, like thinly traded stocks and other odd places, I do think a person with a lot of shrewdness and [Inaudible] capital, could get high returns on capital to this day. However, that is not my personal problem at the moment. And for me, it's harder. For Berkshire it's harder. And for the Daily Journal, we don't have any [Inaudible] either. It's disadvantageous to have securities in a corporate vehicle like the Daily Journal. It's an accident we have them there. We have them there because that's where the money was. But it wasn't... the way it's worked out, it's not desirable if you're a shareholder. There's a whole layer of corporate taxes between you and your securities, you directly own.

Once you get open securities held in a public corporation, you have to no longer see [Inaudible] internal revenue. All kinds of factors, including income tax, can affect your investment position. And it's much easier to invest in shares if you have them under your personal pension.

Generally speaking, I would say if it involves small sums of money, I [Inaudible]. The minute you get bigger sums, it becomes increasingly difficult. And it can get really more difficult for [Inaudible] what worked for me, when I was in your position. But, I'm about to die and you have a lot of years left.

[01:23:40] My name is [Inaudible] I come from India. The friend who asked me to come here said that Mr Munger is not getting any younger but I think he was wrong, when I see you, so thanks for the opportunity. My question is that I am a teacher of graduate back in India, I'm also a parent, so my question is, what would you advise me, as a teacher and as a parent, to help my kids and to help my students become thinkers and decision makers, and also to be happy in life.

[01:24:14] I did not pick that up. If you were trying to help me by hurrying up, that's not the best system.

[01:24:45] Well it's a wonderful question and, I would say, the minute you have the [Inaudible] you already expressed, you're probably going to win. And everything you want to learn, you just keep trying to live a good life, and a constructive life and to be rational and to be honorable and to keep reasonable expectations of people who depend on you. I'm pretty sure then you'll get ahead over time.

Of course the best way to teach is by example, and of course example works better when you win and if you behave right, you're more likely to win. So I would say, you're on the right track already, all you have to do is keep at it. With your attitude, you can't fail.

[Inaudible]

[01:25:54] In the most recent annual report of Berkshire, as in the past reports, the growth in book value was shown and over the past 50 years it's grown from \$19 to \$172,000. That represents a return of 19% a year. Is in large part that outsized percentage attributable to the leverage inherent in the insurance company such that you can own an investment in the insurance company that returns, say, 14% and that becomes 20% in book value?

[01:26:29] Well, there was a little leverage carried into the Berkshire company. Obviously the [Inaudible]. It's not overwhelming in its [Inaudible]. There were years when it was leveraged. There were years when [Inaudible] would make so much money it was almost embarrassing. Then he [Inaudible] make 20% on the money. So, there were some years when there were some remarkable synergies between the insurance business and the rest of Berkshire Hathaway. But basically the insurance business is not some Saint easy way to make money. There is a lot of danger and trouble in the insurance business, and it's more and more competitive, with all the times now that we're seeing [Inaudible]. So, Berkshire succeeded because there were very few big errors, there were like no big errors. And there were a considerable number of successes. All of which of would have been much harder to get under present conditions, than it was at the time we got the results.

And there are very few companies that have compounded at 19% per annum. It's weird [Inaudible] that's very peculiar. I wouldn't count on it happening again too. It may well happen to the Daily Journal.

[01:28:12] This question is for Mr Munger and Rick Guerin. This is a question about margin trading. With the recent decline in the US stock market recently, there were a lot of margin calls to customers. I know back in your partnership days, back in '73, '74, there was a big bear market, and a lot of declines in your portfolio. Would you care to comment on the productivity of margin trade?

[01:28:47] Well of course it's dangerous when you have a margin account because your, the person who's getting the credit can wipe you out just as the bottom hits because he feels nervous. And therefore of course, people like Berkshire totally avoid any position where anybody else could start selling our securities [Inaudible]. And of course there are a lot of people now who are pushing margin trading very, very hard. And of course that will give name to weird new instruments like these VIX contracts that triggered new selling just because new selling happens. So you get a feedback effect where a little decline becomes a big one and a big one becomes a bigger one and so on. And it rapidly goes down the lot in short time. I'm afraid that there are conditions that the risk of what happened recently with the VIX, is just part of the market conditions.

And of course we'll always market [Inaudible], we'll always have catastrophes. Peter Hopper was just wiped out by the [Inaudible] and at the same time, he's a very talented man. Peter Hopper was famous at Harvard, his name became a verb. It was called the Peter Hopper curriculum. He was a great card player and a great squash player, he was a national champion. He had scholarships because he didn't have much money but he had very high grades. But he didn't want to do any work. So [Inaudible] he signed up for nothing but the toughest graduate courses in economics. And economics advanced

courses [Inaudible] to the professors. So nobody ever gave him anything less than an A. And for a while, Peter Hopper didn't go to class if that meant they had a new John Maynard Keynes at Harvard. He was just lining up for courses where he couldn't get a low grade. Interesting story. Interesting man. Wiped out for a second time. He's a very talented man. Pushing life that hard, is a mistake. It's maybe a level mistake when you're trying to get onto the [Inaudible]. But when you're already rich, it's insane. Why would you risk what you have and need in order to get what you don't have and don't need? Really stupid.

[01:31:53] Good morning, Charlie. My name is Yung Lee, from New York. Thank you so much for sharing the teachings of you and Warren. It's had a profound effect on myself, and many of my friends. Thank you so much. I have a question about the U.S. high-speed rail system. As you know, the U.S. high-speed rail Act was introduced back in 1965, when Berkshire had the first annual meeting. I was just wondering what's your thinking or outlook or comments about its current status towards the high-speed rail system, including the one that's building here in California. And the possibility for a national high-speed rail system. Thank you.

[01:32:41] Well it's a very interesting question. The high-speed rail system that was aggressively created in China was a huge success and very desirable. So it's not like an ostensibly dumb idea. However, in the [Inaudible] we actually have [Inaudible] a high-speed rail system is really difficult and could it make any money in California? I'm not at all sure that trying to have a high-speed rail system in California was wise all factors considered. But I'm not sure it isn't, on the other hand. Just put me down as skeptical but not determinedly opposed. And I know it would cost a fortune and I'm sure [Inaudible]. The trouble with it is, it's competing with something that works pretty well, the Airport. So, I can't answer your question... that's as simple as I can. I know we [Inaudible]. I'm not sure the United States needs a high-speed railway. I would say, that may have passed us by.

[01:34:06] Good morning Mr Munger, Marcus Lane from San Diego. Thank you for doing this. I just wanted to ask, given your experience with companies like See's Candy and Borsheims Jewelry, could you comment on whether you ever considered investments in Hershey or Tiffanies that have done very well over the long term and offered attractive entry-points?

[01:34:29] Well I mean I'd like to own either Hershey's or Tiffanies if it's the right price, wouldn't you? It's just a question of price. Of course there good companies. But that's not enough, you have to have the company available at the price you're willing to pay.

Hershey's is a private company. Nobody's offering me Hershey's. I can buy the candy but I can't buy the company.

[01:35:14] [Inaudible] Okay, sorry. Mr Munger, I'm here with my 92 year old grandma, who has spent the past 52 years investing for our family. As a college senior with a passion for value investing, it keeps me up at night knowing that I will eventually be entrusted with the portfolio she built over her lifetime. Based on the successful decisions you've made for your large family here today, what advice do you have with regards to seizing a few opportunities when I will have to act decisively for my family, without jeopardizing her life's work?

[01:36:04] Well first I like [Inaudible] of your old person. Particularly if it's a good looking woman who is [Inaudible]. Instead of being eager to have her gone. I'd say if you have a big winner in your family, try and live your life so you can be a big winner too. I'll take another.

[01:36:53] Good morning Mr Munger. My name is Chi Wen, and I'm from Chicago. I have a question on the subject of Artificial Intelligence. It looks like the AI is going to have a much bigger impact on society than internet revolution, so would you mind sharing some of your thoughts on how Artificial Intelligence will impact different industries in general, and how it will impact the future of the human race.

[01:37:27] Well, that's a nice question. The people who study artificial intelligence don't really know the answer to that quite question. I have not studied artificial intelligence because I wouldn't be able to learn much about it. I can see that artificial intelligence is working in the marketing arrangements of Facebook and Google, so I think it is working in some places very well.

But it's a very complicated subject. And what its exact consequences are going to be, I don't know. I've done so well in life just by using organized common sense that I never wanted to get into these fields like artificial intelligence. You can walk along the shores and pick up boulders of gold, as long as the boulders keep being found and picked up, I don't want to go into [Inaudible] mining, sifting vast amounts of data for some edge, where you're just talking to the wrong person. I'm not at all sure how great... I don't think artificial intelligence is at all sure to be a great economic revolution. I'm sure it will be useful but whether the consequence of using artificial intelligence become the world's best [Inaudible]. There may be places where it works. We thought about it at Geiko for years and years and years, but we're still using the old fashioned intelligence. So, I don't know enough about it to say more than that.

[01:39:21] Hi Mr Munger, my name is Peter Berland from Oakfield, Ontario. I just wanted to ask a few questions about culture. How can an outsider really know a company's culture, and for that matter, how can an insider [Inaudible] be certain about the culture. And then finally how do you go about assessing the culture of [Inaudible] like General Electric [Inaudible].

[01:39:55] Well you understand culture best where it's really dominant. So for a place like Costco, and there the culture is a vast and constructive force. And it will probably continue for a very, very, long time. And then you get into General Electric, part decentralized, partly not. And it gets very complicated. What is the culture of General Electric? The businesses can be so radically different.

Maybe headquarters can have a certain kind of culture. And maybe [Inaudible] will be able to run on it. Maybe if you're on the ship, people around the business leader will [Inaudible]. And I do think it's, there are very few businesses like Costco that have a very extreme culture where [Inaudible] basically one big business all the way.

And I love a business like Costco, because of the strong culture and how much can be achieved if the culture is great. But the minute you get into bigger and more complicated places, I mean can you talk

about the culture of General Motors, or the culture of AT&T, it's a very difficult subject.

What big businesses have in common is that they get very bureaucratic. That's the one norm in culture is they get very bureaucratic. And this happens to the government too. Big governmental bodies. They [Inaudible] I don't like bureaucracy. I mean it fixes a lot of errors, I don't have any substitute for it though. [Inaudible] But I don't personally like big, bureaucratic cultures. I don't think very much about big bureaucratic cultures.

I don't know how to fix bureaucracy in a big place. I would regard it as a sentence to hell if they gave me some company with a million employees and told me to change the culture. I mean it's hard to change the culture in a restaurant. If a business is already bureaucratic, how do you make it un-bureaucratic? It's a very hard problem.

Berkshire has suffered the problem as best it can but bureaucracy, you can't have too much bureaucracy at headquarters if there's not bodies at headquarters. That's our system.

I don't think it arose because we were geniuses or anything. It was partly an accident. But once we saw how well it worked, we kept it. But I don't have a solution for corporate culture at monstrous places.

[01:44:15] Good morning, Mr Munger. How are you doing? First of I think this needs to be said. We love you. Thank you for being a voice of reason the voice of a guardian. Now my question to you is [Inaudible] this thing with climate change, what's your current view of climate change today.

[01:43:50] Well, I am deeply skeptical of the conventional wisdom, of the people who call themselves climate scientists. I strongly suspect that they're more alarmist than the facts call for, and that they kind of like the fact that the thing [Inaudible] something they find alarming. I am not nearly as afraid as the biblical so-called climate scientist is. I think that the difficulties of what they [Inaudible] as a remedy are underestimated. I think people, and besides just because you're smart enough by knowing the laws of physics, to accurately figure out that climate change was a huge problem, and that you were right, that would not automatically mean you know how to fix it.

Fixing it would be a vast, complicated problem involving geopolitics, political science, all the tiny little things that just because you understood the chemistry of climate change, you wouldn't have any expertise as. So I think there's a hell of a lot of uncertainty on the climate change thing. But there's no doubt that CO2 does cause some global warming.

But just because you accept that doesn't mean it's absolutely certain that the world is going to hell in a hand basket. Or that the seas are going to rise by 200 feet and so on. So I'm deeply skeptical of a lot of these things. And yet I don't want to be a [Inaudible], we need to recognize that CO2 does have some effect on temperatures. Now I've managed to offend everybody in the room.

[01:46:05] Can you hear me? How's it going Charlie, I'm Steve Nash I'm [Inaudible] at Notre Dame, and I've got a kind of funny story but if you told me five years ago that the posters I would have in college would have been of a couple of old guys, I wouldn't have believed you but, I'm happy to say

that I'm here and I wake up to you and Warren every morning.

So my question for you is, in an age that's very different from the one you grew up in, if you were a young gun like me with a lot of runway like Peter talked about, where would you focus your attention.

[01:46:39] Well I would approach life a lot like Carlisle. I would just get up every morning and do the best I could in every way and I'd expect over time to do pretty well. It's not very hard. Try to marry the right person instead of the wrong person and I think everything will be quite [Inaudible]. You know, I would guess that practically every person your age in this room is going to do pretty well. You're not that mad at the world here. Your trying to hit your [Inaudible] to do a little better. I mean you're going to do alright. People like that succeed. If the whole thing [Inaudible] you wouldn't have such a bright future. Those people are compounding their idiocy in, instead of [Inaudible].

[01:47:52] Our national discourse has displayed some odd characteristics lately with fake news, partisan [Inaudible], cycles of crypto and others. Which cognitive biases do you think are particularly on display at the national level?

[01:48:05] Well it's hard because there are so many cockroaches in the kitchen it's hard to identify a place to eat. No I would say, every bias that man is drawn to has always worked, and that's the nature of the system. There may have been more people that come to believe that the maybe how polarized our parties are becoming and now you turn on the TV and you can even turn to channel A and you've got your candidate, or you turn to Channel B and you've got the other person's candidate. [Inaudible] And they're playing to an audience that is [Inaudible]. Of course it's a little misleading. [Inaudible] This choose your idiot form of news gathering I don't much like. I flip back and forth between idiot types. I will not stay with just one type of idiot. So that's my system.

I mean you're right. Now the world is always been [Inaudible]. And there's always been crazy people, and crazy people who follow crazy people. What I like about the [Inaudible] situation is it gives more incentive to try to stay rational. And I find life works best when you are trying to stay rational. So I can say that these idiots are giving me more incentive. I don't want to be like any of them. You should be able to turn on the TV, and here's one idiot comes at you this way and here's one idiot misrepresenting the facts. I don't want to be like either of them and so, I don't know whether we're going to have more of what's developed or whether we're going to go back to something more pleasant.

[01:50:52] Good morning Mr Munger. [Inaudible] from San Jose. I have a question. What do you think are some of the critical challenges that business models relying heavily on advertising as a source of revenue in this digital age?

[01:51:30] Well if I'm wrong after I... we have a new digital age where people are using computer science to sift our correlations that might be predictive, and then to try trading algorithms on an instant basis, in and out, for large amounts of money they're making. Like say, Renaissance technologies. And there's way more there than a toy for those people. I don't consider it a good development. I don't see it as a contribution to civilization. Having a lot of people using computer algorithms to out trade other people on a short term basis. Some people think it creates more liquidity in the markets and is therefore

constructive, but I'd just as soon do without it. I would rather make money some other way than short term trading based on computer algorithms.

But there is more of it, you're right about that. And by and large the one thing they have in common is they can't take infinite amounts of money. You print out too much money and the [Inaudible] and thank God.

[01:52:58] Good morning Mr Munger, my name is Phil Brewster, I was hoping to gain some insight into your and Warren's discussions regarding airlines. Whether or not it was a lightbulb went off in a certain year, whether or not the conversation sort of warped over time. I know that 2000-2013 was a prosperous [Inaudible] in the industry. So, just trying to get an idea of when you got open-minded to mainly investing in airlines and how you changed your mind.

[01:53:32] Well, we didn't change our mind. For a long time Warren and I hated the whole world because there were too many of them and [Inaudible] and the rules were too crazy and so they were awful investments for about 75 years. And then finally the world changed, and the double [Inaudible] was printing. It got down to [Inaudible] systems and all of sudden we liked railroads. Took [Inaudible]. Warren and I never like railroads for about fifty years, and then we bought one. Now airlines, Warren and I used to joke about them. He's say that it'd be better if the Wright brothers had never invented flight.

And given the conditions of where President Clinton stopped this purchase, and given the conditions of [Inaudible] where it's frowned upon, we thought it was okay to buy a bunch of airline stock. What more can I say. It's okay to change your mind when the facts change. And so much about the facts changed. It is harder to create [Inaudible] airlines than it was. And in the end we maybe learnt something. And I hope it works better, but I think that the chances of buying airlines and holding them for a hundred years is going to work pretty well.

[01:55:18] [Inaudible]...

[01:55:39] Well, all auditors are now paid to find some kind of weakness, and then fix it. And so there are very few companies that don't have some sort of material weakness that needs fixing. I am not that worried about the accountants at the Daily Journal. Basically it's more conservative than other people. Basically we're not trying to mislead anybody. And basically, we've got a couple of hundred million dollars in [Inaudible] securities and we're not mismanaging those [Inaudible]. So I don't think we have a big accounting problem [Inaudible].

I think it's typical what we're [Inaudible] for accounting. But the accountants have got [Inaudible], they've got new responsibilities and there are more of us. Everybody has a weakness. I don't think there's some wonderful accounting standard where all the accountants know what's weak and what isn't, and exactly how much. I'm not worried about the accountants at the Daily Journal.

But I think in this business, everybody in America is worried about people hacking in and getting [Inaudible]. And everybody has some weakness, meaning there [Inaudible] break up. I'm just doing the

best we can and taking the [Inaudible] and the benefits too. I'm not worried about any weakness in accounting.

There was a guy named Baby Robinson, he'd gotten out of the pools and started to do some [Inaudible] as a young man, his parents gave him a lot of money to come out here in the 1930s. And when he got here with all this money, he spent his time drinking heavily and chasing movie stars. And in those days the bankers were more pompous and old fashioned. And one of them called him in and said Mr Robinson I'm terribly worried about you drinking all this whiskey and chasing all these movie stars. [Inaudible] Baby Robinson said this to the banker, he said, my municipal bond is going great. [Inaudible]

[01:58:47] Mr Munger, I am Clifton Change. Santa Monica California. I think I read that you'd given the advice that [Inaudible] specific stock investments. Perhaps put your money into passive vehicles, like an index fund. One of my advisers is very concerned about the move of capital into index funds, for three reasons, and I'd like your comments. First he said, there's going to be an inadvertent concentration in particular stocks because similar investments get into the indexes. Second he thinks that long term the concentration of capital into preferred companies that are in the index funds will detract from your ability to... that they are able to raise money easily despite poor performance. Third he is also very concerned about the long term concentration of the management of these index funds into three institutions which is detrimental to the marketplace. So I'd appreciate your comments thank you.

[02:00:00] Well I think that a lot of people who are in the business of selling investment advice hate the fact that the Indexes have been outperforming them. So first, they can't say I hate it because it's ruining my life so they say they hate it because it's too concentrated.

Well the index contains 75% of the market capitalization, it's hardly so small. The index industry will work for quite a while when it's so broad. So, I don't think it's ruining the world or anything like that. It is peculiar. We've lived with a long time without this. It think it'll keep running for a long time and I think it'll keep working well for a long time. And I expect most money managers to hate it, it's making their life harder, but you see I don't mind these people having a hard life.

[02:01:1] Charlie on your left. My name is [Inaudible] Choudry, I'm an investor from India. I wanted to take your views... first of all thank you so much for teaching us so much, especially the value of humility which I think given your achievement both as an investor and a human being is something we should all take great [Inaudible] from. I'd love to get your views on, history doesn't tend to repeat itself but it certainly rhymes, and we've seen this meme in Bitcoin which is often akin to the Tulip mania [Inaudible] and I'd like to see your views on how you and Warren really navigated through these waters over several decades of investing and what it says about the human condition that we tend to keep constantly fostering these things despite what history teaches us.

[02:00:29] Well I don't think I don't think it's right. Well this. Is a long time. Overdue to get the word. Well I think most money managers just pay like so let's hear from you.

[02:02:04] Well you are of course right to suspect that I regard the bitcoin craze as a like an [Inaudible]. Create some manufactured currency. A different payment system could happen like WeChat in China and it's a better payment system than the one that we have at the moment. So something like that could happen. But Bitcoin, whether creating an alternative to gold or an alternative, to me, and then make a speculative vehicle. To me it's just such... I never considered for one second having anything to do with it. I detested it the moment it was raised, and the more popular it got the more I hated it.

On the other hand I expect the world to do silly things from time to time. Because everyone wants easy money. And of course the people who are peddling things and taking money off the top, or promoting the investment, they like it too. So these crazes they keep coming and coming and coming. But who would want their children to grow up buying things like Bitcoin? I just hope to god it doesn't happen to my family. It's just disgusting that people can be taken in by something like this. It's crazy.

I'm not saying that some different payment system might not be a good thing, like WeChat, that could come and be constructive. But Bitcoin is noxious poison.

I think they love it because computer science is intriguing to people. It's quite a feat what they've done, as a matter of pure computer science. But I'm sure you could get pretty good at torture if you spent a lot of time at it. It's not a good development. The government of China was stepping on it pretty hard. And our government's more lax approach to it is wrong. The right answer to stuff like that is to step on it pretty hard. And it's the government's job.

[02:04:37] So I'm Andreas from Austin. I wanted to thank you for sharing a lot of your wisdom outside of [Inaudible]. The one that stands out for me is that at a book show meeting a few years ago you said, if all I did was trade pieces of paper it would be a failed life. And that stuck on me.

But my question's a little different. In response to an earlier question, you said that a lot of your happiness comes from the partner you choose. So I'm curious, what are the qualities you look for in a life partner.

[02:05:15] I think what you really need in a life partner is somebody with low expectations. [Inaudible] standing up for two hours. I wouldn't stand up for two hours to listen to Isaac Newton again. So I guess our meeting is adjourned. I certainly wish you all well [Inaudible].