

Munger, Charles T. (ed by Kaufman, Peter D.) - Poor Charlies Almanack

PCA Publications, 3rd ed 2008, [Behavioural Finance] Grade ★★★★★

Despite achieving a cult-like status among a niche group of investors, I would dare to say that Charles Munger is one of the most underrated investors of our age, and a true original thinker. Warren Buffett has been the embodiment of Berkshire Hathaway's success, but Munger has in many ways supplied the synapses that made the company what it is today. Without Munger's influence there would have been no profits from holdings of Coca-Cola, Gillette and J&J, and no Buffett-quotes such as: "It's far better to buy a wonderful business at a fair price than a fair business at a wonderful price". Munger has in a way represented three of the most important investor skills; an analytical edge, a behavioural edge and freedom from institutional barriers.

The book's title ties into Munger's all-time role-model. Between 1733 and 1758, Benjamin Franklin published a hugely successful almanack. To some extent, Munger has taken the philosophies of Franklin to an extreme, not only as regards to compounding, but mostly in viewing the world through the binoculars of multiple disciplines. Munger's appreciation for "wonderful businesses" comes straight from Franklin's compounding experiment and praise for innovation as a way to a long-lasting competitive edge. The layout of the book consists of 11 writings, complimented with pictures and additional information. The speech at USC in 1994 would all by itself be enough to put Munger at a legendary status. For any serious investor it should without question be required reading. For people in general, the "Elementary, Worldy Wisdom" that Munger strives to acquire is never more eloquently described than in this speech. To him, learning has always been a lifelong endeavour.

Starting with his own investment partnership between 1962 to 1975 earning a compounded 19,8% vs. 5% for the Dow Jones, onto the years within Berkshire, Munger has put into practice a few, powerful ideas: a) Stay within your circle of

competence but constantly strive to widen it. This has often been misunderstood about Berkshire. Despite mostly owning familiar businesses (at that time), they let thousands of ideas pass through their brains only to say "no thanks". This flow increases the circle of competence over time. b) You only have a few, truly valuable insights in your life. "Great investors bet very big when they have the odds. The rest of the time they don't. It's that simple, damn it!" Looking at Berkshire's record, the top ten investments have provided almost all of the accumulated wealth. c) The combination of quality and value. Previously, an investor either believed in Ben Graham's value methods or Phil Fisher's growth-framework. What Munger did was to define value not as a static multiple relative to your assets and earnings, but as a function of the likely longevity of a company's cash flow relative to today's market cap. d) The iron rule of life is that only 20% can be in the top-fifth. The average result in the stock market will be the performance of the index. It's quite hard for anybody to beat the market by significant margins as a stock picker by just being intelligent and working in a disciplined way. You need what Munger has referred to as "a mental latticework", where facts are hung together in a usable form. And above all, you need to constantly practice what he has once said was the most important attribute for his success: Rationality.

Poor Charlie's Almanack (PCA) is at first glance a book about the author himself. But as Munger is as fanatical as they come about certain ideas, the lessons a long-term investor can draw from this book are priceless. In terms of constructing a framework around investments, what's actually important and what's merely market-noise, and with the use of marvellous analogies, PCA leaves the reader with a strong feeling of fulfilment. For me, the feeling while reading this book years ago was "this is all one needs"! The rest is just up to basic arithmetic, a strong will and a shiver of good luck.

Henrik Andersson, January 9, 2012