



**CHARLES
MUNGER**
USA



Investor profile at InvestingByTheBooks:

The book *The World's 99 Greatest Investors: The Secret of Success* provides a unique opportunity to learn from the most prominent investors globally. In the book they generously share their experiences, advice and insights and we are proud to present these excerpts. Magnus Angenfelt, previously a top ranked sell side analyst and hedge fund manager, will be presenting one investor per month. For those who cannot wait for the monthly columns, we strongly recommend you to buy the book. The investor himself writes the first section below and then Angenfelt describes the background of the investor and comments on his investment philosophy. Enjoy.

If you're going to be an investor, you're going to make some investments where you don't have all the experience you need. But if you keep trying to get a little better over time, you'll start to make investments that are virtually certain to have a good outcome. The keys are discipline, hard work, and practice. It's like playing golf – you have to work on it.

You need a different checklist and different mental models for different companies. I can never make it easy by saying, 'Here are three things'. You have to derive it yourself to ingrain it in your head for the rest of your life.

The ethos of not fooling yourself is one of the best you could possibly have. It's powerful because it's so rare.

BORN Omaha, Nebraska, USA 1924.

EDUCATION After studies in mathematics at the University of Michigan he entered Harvard Law School, and graduated 1948.

CAREER He founded and worked as a real estate attorney at Munger, Tolles & Olson LLP until 1965. Before taking up his present role as vice-chairman of Berkshire Hathaway Corporation and 'partner' to Warren Buffett, he managed Wheeler, Munger, and Co., an investment partnership, between 1962 and 1975.

INVESTMENT PHILOSOPHY Munger is a stock market value investor, but has a more flexible approach than the common value investor. He is a supporter of operating with multiple models depending on circumstances. If the investor manages a small number of assets he should search for small cap in leading market positions. In Berkshire Hathaway Munger has to focus on big companies. If your goal is to become rich quickly you need leverage – a rule he himself applied in the early stages – but his most famous characteristic is his skill to buy and hold good companies, or as he describes it himself, 'Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6 % on capital over forty years and you hold it for that 40 years, you're not going to

make much different than a 6 % return even if you originally buy it at a huge discount. Conversely, if a business earns 18 % on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with a fine result.' This strategy explains much of Berkshire Hathaway's fabulous performance.

He regards the risk as the most important priority, and he recommends that all investment evaluations should begin by measuring risk, especially risk that could impact on your reputation. Other principles include: (i) Incorporate an appropriate margin of safety. (ii) Avoid dealing with people of questionable character. (iii) Insist upon proper compensation for risk assumed. (iiiv) Always beware of inflation and interest rate exposures. (v) Avoid big mistakes; shun permanent capital loss. In the end, it comes down to Munger's most basic guiding principles, his fundamental philosophy of life: Preparation, Discipline, Patience, and Decisiveness.

OTHER Munger has introduced the concept of 'elementary, worldly wisdom', a set of mental models answering business-related problems that have influenced the management of Berkshire Hathaway as well. He is an advocate of wisdom, and has said that nothing has served him better in his long life than continuous learning. Not surprisingly, universities are the main beneficiaries of his philanthropy. Two other cornerstones in his work are incentives and ethical issues: he believes that incentives explain why people behave the way they do, and good businesses are ethical businesses. A business model that relies on trickery is doomed to fail. Munger has studied Albert Einstein, Charles Darwin, and Isaac Newton, but Benjamin Franklin is the one he admires most.

Sources: Charles Munger, Poor Charlie's Almanac (1978), Charles Munger, "The art of stock picking"; Wheeler, Munger & Co. Partnership; Wikipedia.