
Investment Lessons Learned from Charles T. Munger

Thomas A. Russo

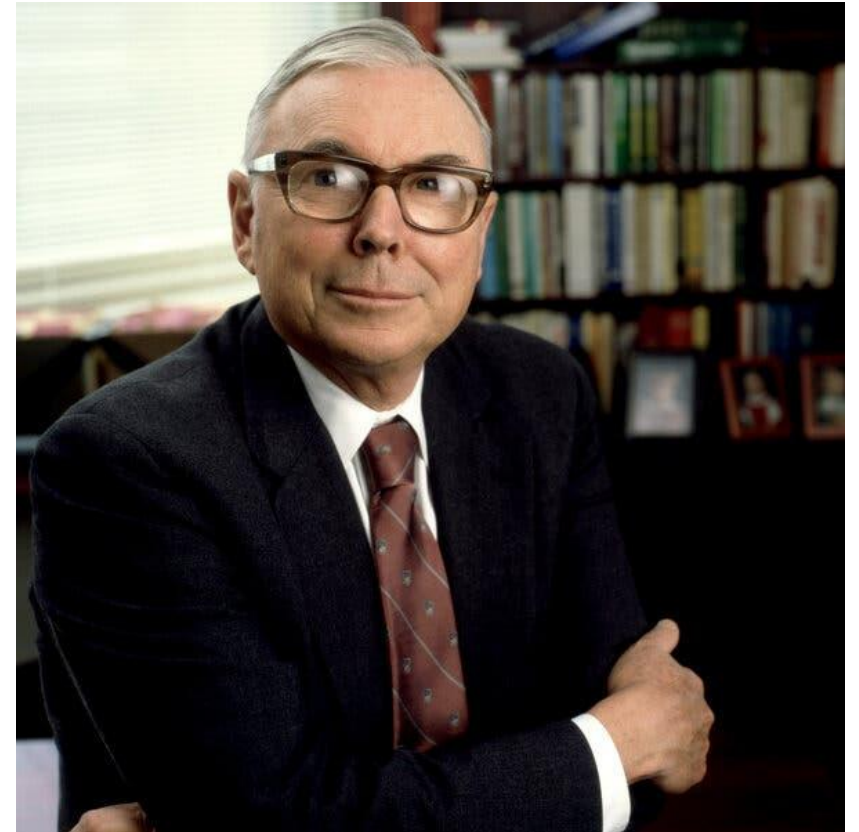
Chairman, Gardner Russo & Quinn LLC

21st Annual Value Investor Conference – Omaha

May 2024

The Wit and Wisdom of Charlie Munger

1. “Give Back”
2. “Circle of Deserved Trust”
3. “Because We Felt Like It”
4. “We Just Try to Be Rational”
5. “Architect of Berkshire Hathaway”
6. “Investor & Lawyer”
7. “Waiting” and “Weighting”
8. “Never Give Up, Never Give Up, Never Give Up”
9. “And Then What???”



1. “Give Back”

- Stanford Law School, 1983
 - Stanford Royalty
- Russell Sage
- White Hands
- Guard your reputation – only one you will ever have
 - Lifetime to build a reputation, seconds to destroy
 - No do-overs



2. “Circle of Deserved Trust”

- **Associate with “exemplars”**
 - No one knows
 - Surely, however, they would most undoubtedly look like Ben Franklin or Charlie Munger
- John Arrillaga, Stanford University (BA '60). Modern Stanford University was built on a handshake with alumnus John Arrillaga
 - Charlie’s trusted contractor/venture investor, John Arrillaga, expanded Stanford’s campus while amassing a fortune, from which he donated \$300 million to the school
 - Avoid agency costs at all costs
- Revered Lee Kuan Yew, transformative Singaporean leader
 - Built Singapore with equal parts of transparency, honesty, and capability, even while paying senior public government officials tens of millions of dollars per year, per official
- Ben Franklin – Mother of all “exemplars”
 - The Ben Franklin Fund
 - Truly “long term”



3. “Because We Felt Like It”

- “Charlie, why did you sell Wesco’s holdings in Freddie Mac, as they have nearly doubled since your sale?”
 - “Because Warren and I felt like it”
 - We’re too old to lose sleep or lose appetite, so we sadly have to let you go
 - Trust one’s gut, which often holds answers to one’s deepest and most difficult-to-make decisions
 - “I Know” versus “I Believe”
- **Rational answers often prove elusive, trust one’s gut.** In addition, Charlie’s “informed” gut suggested the following worrisome factors concerning Freddie Mac that the markets missed:
 - Assumed undisclosed interest rate exposure through lengthening portfolios’ average maturities
 - Relaxed credit terms for inclusion in Freddie Mac pools
 - Concealed portfolio holdings in high-yield corporate bonds outside permitted mandate
- No contract can be drawn to make a good deal with a bad person
 - **Agency costs**



4. “We Just Try to Be Rational”

- Unlike other advisors whose managers from time to time have been described as “really smart but not nearly as smart as they thought they were and that has been their downfall,” Berkshire Hathaway’s investment goals, by contrast, are simply to “just try to be rational”
 - **No extra points for degrees of difficulty**
- Weekend readings
 - “Charlie, you were right.” “No Warren, you were right.”
 - “I have nothing else to add”
- Sometimes “generally right” trumps “precisely wrong”
- “Charlie has the best thirty second mind in the world” – Warren E. Buffett



5. “Architect of Berkshire Hathaway”

- Charlie designed stalwart foundations onto which to fasten Berkshire Hathaway’s investments
 - BYD investment to capture extraordinary drive and commercial instincts held by BYD ... with a return in excess of \$7 billion
 - Wisely referred Berkshire co-investor, Todd Combs, to Warren ... resulting in Todd’s extraordinarily valued presence
- Charlie’s Beloved Architectural Legacy:
 - The Huntington Library
 - Stanford University Graduate Law JD/MBA housing – Stanford Munger Graduate Residence
 - University of Michigan student housing – Munger Graduate Residences
 - Dartmouth College proposed site, defeated by the “Granite of New Hampshire”
 - Mendocino Coastal Development



6. “Investor & Lawyer”

- Charlie’s investing insights blended the best from his legal and investment wisdom
- **Acquired See’s Candies**
 - Charlie’s lawyerly insight, honed from years of M&A work, recommended purchase of See’s Candies, despite premium price paid. Charlie’s wisdom in such advice was evident by the \$2 billion in dividends Berkshire Hathaway received from See’s Candies for its \$30 million initial investment.
 - See’s Candies – Charlie recognized the economic value of goodwill and the need to give loyal consumers just exactly what they treasure
 - Charlie’s insistence to buy See’s Candies furthered the move from Berkshire Hathaway’s earlier focus (i.e., “finding 50 cent dollar bills”) to one dependent upon franchise value which depends on legal concepts of economic goodwill
 - To Charlie, Berkshire Hathaway’s duty at See’s Candies was simply to never force See’s Candies’ valued consumers to “have to look elsewhere for satisfaction”
 - See’s Candies reinvestment – Warren and Charlie realized See’s Candies would not well absorb incremental investment. Thus commenced profitable Berkshire Hathaway practice of subsidiaries “**sending back to Omaha**” **operating cash flow** that lacked segment reinvestment opportunity



6. “Investor & Lawyer” (continued)

- Avoidance of three words when closely proximate – Coastal Commission, hill, and architect. Mendocino mess, decades consumed as a result of legal and regulatory challenges
- **Charlie as “client”**
 - Charlie recognized law as the vehicle for his first million dollar return when he “hired” himself to get the best legal advice possible, when developing Southern California Garden Apartments
- **Charlie inveigled Warren to pay up for goodwill**, which Berkshire Hathaway traditionally avoided
 - Charlie’s legal practice ensured that intellectual property, often considered goodwill, was Berkshire Hathaway’s calling



7. “Waiting” and “Weighting”

- Gone fishing – literally, Charlie’s preference for freshwater fishing at Star Lake
 - Guerin to the rescue
- All great investment returns result from “waiting.” Successful investors generally seek out returns patiently and hold indefinitely.
 - Added benefit from capital gains tax deferral
- “Weighting” is critical to determine how right you are when you are right. Charlie’s feeling about Berkshire Hathaway’s silver investment, for example, was one of Warren’s investments in the commodity silver that amused Charlie. Charlie pondered with annual meeting attendees how one should “ponder the mind of an investor” who spends 40 years looking at an investment (i.e., as Warren had done in a commodity like silver), only to direct less than one percent of investment assets into the idea when awaited conditions arrived. Charlie preferred larger position weightings than Warren committed to silver (e.g., Munger family holdings in Costco understood to be nearly 35% of their AUM).
- Investors should find pursuits to fill their hours while waiting for investment opportunities to surface. Charlie’s pursuit was architecture.



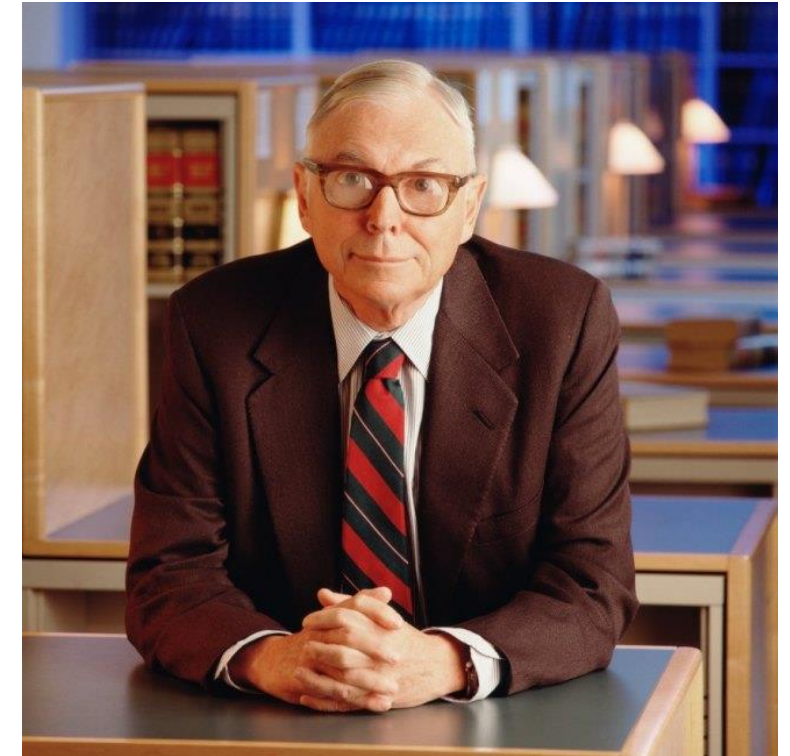
7. “Waiting” and “Weighting” (continued)

- Charlie’s preference for larger and longer holdings was clearly met. Berkshire Hathaway hit pay dirt when Warren emerged with Apple holdings valued at peak, over \$300 billion!!!
- Cannot hurry investment return, figure ways to remain engaged while away from investments as one waits



8. “Never Give Up, Never Give Up, Never Give Up”

- Greeted personal challenges directly and honorably despite heavy personal challenges
- Mastered braille following loss of eyesight
- Believed that learning every day was all it took to master challenges in his life and others
- Channeling Winston Churchill – “Never Give Up”
- “I’m right, and you’re smart, and sooner or later you’ll see I’m right”
- Remain resilient. Charlie advised investors at Berkshire Hathaway’s annual meeting several years ago that they “must never forget that what made Berkshire great may not be the same as that which will be needed to keep Berkshire great”



9. “And Then What???”

- **“Invert, Invert, Invert”**
 - Often, the right path emerges when reasoning backwards
 - Goal in life is to make things as “simple as possible,” but no more so
- Charlie will be missed by all, especially his partner of 60 years, Warren Buffett
- Charlie’s parting observation when asked at last year’s annual meeting (i.e., 2023) to reflect on the process of aging was that he and Warren “might be a little less smart” but at the same time he felt that they may have become “a little bit wiser”



Epilogue - Investment Specific Advice

- Investors need not “make back money the same way they lost money”
- “Investments do not know you own them”
- “Low expectations” – the secret of investment success, as well as a happy marriage
- Stay far removed from the chalk line (tennis metaphor)
- Know your circle of competence and stay inside your circle



Disclosures

The material contained in this communication is intended solely for the recipient. No further dissemination is permitted without the written consent of Gardner Russo & Quinn LLC.

This document is not an offer or the solicitation of an offer to buy interests in any investment vehicle (each, a “Fund”, and collectively, the “Funds”) advised by Gardner Russo & Quinn LLC (“GRQ”). An offering of interests will be made only by means of a confidential private offering memorandum or a confidential explanatory memorandum (each, a “Memorandum”) for the relevant fund, and only to sophisticated investors in jurisdictions where permitted by law.

The information in this investor presentation is current as of the date of the cover page and is subject to change or amendment. The delivery of this investor presentation at any time does not imply that the information contained herein is correct at any time subsequent to such date. Certain information contained herein has been obtained by GRQ by third party sources. While GRQ believes such sources are reliable, it cannot guarantee the accuracy or completeness of any such information.

The investment examples included in this presentation are for illustrative purposes only. The investment examples were selected based on objective, non-performance based criteria, namely that such investments, in GRQ’s opinion, are illustrative of the firm’s investment process. The investment examples were not chosen to demonstrate their profitability or the expected performance of any Fund’s portfolio. The reader should not assume that an investment in the positions identified was or will be profitable.

This presentation contains certain forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties which may cause actual results and performance to be materially different from future results or performance expressed or implied by these forward-looking statements and projections. Prospective investors are cautioned not to invest based on these forward-looking statements.

The investment guidelines presented in this document are internal guidelines that are set and managed at the discretion of GRQ. The investment guidelines are not investment restrictions of the Funds. Accordingly, the Fund’s portfolio may deviate from the investment guidelines from time to time and any such deviation would not constitute a violation of the terms of the Funds. To the extent any of the investment guidelines presented in this document deviate from the terms of the Funds as disclosed in the Funds’ offering documents, the Funds’ offering documents would control.

The investment guidelines presented in this document are internal guidelines that are set and managed at the discretion of GRQ. The investment guidelines are not investment restrictions of the Funds. Accordingly, the Fund’s portfolio may deviate from the investment guidelines from time to time and any such deviation would not constitute a violation of the terms of the Funds. To the extent any of the investment guidelines presented in this document deviate from the terms of the Funds as disclosed in the Funds’ offering documents, the Funds’ offering documents would control.