Daily Journal Corp Annual Meeting Notes (Feb 6, 2013)

Charlie Munger: and this building, which, of course, is on a site that we cleared old buildings off of. You have the Tilmet Building (sp?). That was very cheap to construct. You can look around at how nicely it works. It's a very inexpensive building. It has high ceilings and good lighting et cetera.

First, we'll talk briefly about the Daily Journal business. And, of course, the Daily Journal is really two businesses. It's the traditional...Well, it's really three businesses.

First, it's the traditional information-providing newspaper for lawyers.

Second, it's the newspaper that publishes a lot of public notices that are required by law, which is where a lot of the money has been made, of course.

And third, of course, we have this relatively new software business, which is really a form of venture capital since a lot of meaningful money has not been made, and a fair amount has been lost from the two businesses that are now combined.

The traditional information business is suffering tremendous headwinds. This business made a lot a money out of lawyers' subscriptions for a long time because there was no way a lawyer could get information about the recent decisions in, say, the appellate courts in California and the federal appellate courts in California except by picking up the "Daily Appellate Report," which we included in our newspapers.

We had something that lawyers had to have, and there was no way in the old technology for them to get it on time except through our newspaper. When the electronic stuff came, the lawyers were all trained to use electronic media to keep up with the courts.

And the new lawyers coming out could hardly do anything else but pound keys on a computer. It wasn't good for our traditional information model and our subscriptions continue to shrink year after year after year.

The public notice business, of course, is an ancient business. The old technology where the law wanted people to have some public way of getting notice and the only way to do it was with a printing press. They passed all these laws. The people who pass laws have not been quick to change from the old printed method to the modern post ink and storage basis, accessible by computer.

And that has preserved revenues from the old business, and then you had the foreclosure boom, of course. There was a torrent of revenues. I don't think there ever was a foreclosure boom -- let's call it a boom, it was a boom for us -- as big as the one we've just been through.

There's never been anything like it. And it's not over. There's still a considerable pipeline of underwater homes. Of course, it's through the press. That's the traditional business. Of course, we've made an unholy amount of money out of the public notice business, which I do not regard as a business I would bet on for the next 50 years. In other words, it's got a Sword of Damocles hanging over its head, and the traditional print business presents a very interesting problem.

Of course, practically all newspapers in America have faced the same technological revolution from changing technology, and the standard result has been an enormous impairment of the business that was a total monopoly for most proprietors of the only daily newspaper in a city or community. They own the world. An idiot could make money, and a man who's half-way competent could make an enormous amount of money.

The by-product that happened with that, and that with all this impregnable economic power, the people who controlled the newspapers, influenced by the ethos of the journalists that worked for them, by and large behaved pretty well. Whether they were Republicans or Democrats, and they got … the fourth estate. They helped run the country.

Here was a totally independent part of the governmental system in functioning actuality that served very well. That's why they call it the fourth estate. Nobody who created the Constitution had any thought of deliberately creating local monopolies. That we would have a separate branch of the government that just sort of arose through accident and had this enormous power, but that system which evolved by accident served this country very well.

The daily press with all its power is by and large civic-minded and honest all through the country, and of course, it's horribly threatened. The country is going to pay a terrible price for losing this constructive influence. … isn't like we don't have any other journalism, but I think that we are losing something.

We never used The Daily Journal, which you people own part of, as a mouthpiece for our personal political opinions. For one thing, we didn't have an impregnable monopoly. For another thing, we just didn't want... we had very intelligent readers, judges and lawyers. Half of them were in one party, and half of them were in ano**ther. I don't think either Rick or I felt at all comfortable telling somebody else what we thought on every subject as if we were God, and so we never did it.**

I also think that was the best business policy. We always wanted the paper to be trusted, and I think it by and large is. I think the judges and lawyers who read it, they don't think we've got some crazy personal agenda. We're trying to tell it like it is. That's, of course, the ultimate, correct journalistic ethos.

How people cope with a technological revolution is interesting. A great number of the great collections of newspapers borrowed a lot of money to buy more papers. They like monopoly and they like to buy more of it on credit. When the technology changed, two or three or four of them got hung out to dry. That basically destroyed the entire common equity of the shareholder. That happened at a lot of places.

Even places that are super-strong like The New York Times destroyed an enormous amount of equity by paying a billion dollars for the newspaper in Boston which now makes no money at all, in fact, is probably losing.

There's been a lot of agony in the field. Around here, all we ever bought was other public notice rags. We bought every one that we could find, occasionally, one case at least, in another state. Did we ever buy anything except Arizona out of state?

Jerry Lee: We bought one in Denver.

Munger: Yes, all right, two. But we bought these public notice rags. They were slightly incremental, and they had this embedded option in case there was ever a flood of public notices and the action was for free, so to speak. That's the way the average real estate gets rich when he does. Somewhere in his operations there's an embedded option that he really hasn't paid for, and the harvest in due time comes, and that's what happened with us. Jerry was unbelievably good at dealing with all these little proprietorship, where a man and his wife to be making $60,000 a year running a little paper. We bought a lot of them.

Lee: Plus Phoenix.

Munger: Plus Phoenix, and Phoenix was just ridiculous. I don't know how many percent per annum we made on that investment. It was thousands. I think thousands of percent per annum on the investment. I don't know how much credit we do get for doing that, but at least...You look around these other newspaper companies which have either had this horrible contraction of earnings, or they've gone completely broke. Here we are with...We're still making money out of the public notices and we've got all these marketable securities, which we bought using the proceeds of our public notice boom. **We're like the fellow who had a funeral parlor, and there was a plague.**

Well, you can laugh, but that's what happened. The Texans have a marvelous saying about the people who get rich by accident and think they're geniuses. They say, “Well, old Charlie was out in the field playing the big bass tuba the day it rained gold.” That type of saying to some extent applies to us, but to some extent we were pretty true in running around and scrambling for these minor little properties, and running them intelligently and coping with the problems. I think we can fairly say that we did not anticipate a harvest like the one that came.

Of course, many of you are come here because you're investment groupies. You're not really Daily Journal shareholders.

You're addicts. You're addicts to a certain attitude toward life. It's not that large a group, but you're pretty badly addicted.

At any rate, that's the thing. Now, the software business is something else. I think you would argue correctly if you said, “You never should have bought the first one.” It looked a little bit like a pre-op showing. Spend a few million dollars and maybe we'd get a position which enabled us to have an unusual access to data that lawyers would want and so on. We had various little theories. Of course, the theories didn't work out, and we kept getting sucked in to perfecting a software system by paying other people by the hour to make it, and we lost quite a bit of your money in our first venture.

Now, we're still losing money, we've just doubled down. We've bought another company, which is about five times our size in terms of actual revenues. But it's got a much better sales team and a much bigger installed base than we have, and we really like the people. We instantly liked and trusted the people. I don't think you'd like and trust everybody in the modern software business.

In fact somebody ran a public search recently on the name of one of the leading software titans of the world with a deep profanity attached and said, “Can you find any double hits,” and of course there were so many double hits that you couldn't believe it. So software is not a perfect business or an easy business or anything else.

You people have the declining remnants of the top tick of an old information business, the newspaper, and this pile of marketable securities, and this very interesting software play, which is like venture capital.

Most of you did not buy the Daily Journal company to get this particular outcome, but we didn't set out to create this outcome either. It just happened. **Therein lies a lesson in life. I think most lives work best when you simply react intelligently to the opportunities and difficulties you encounter, and just take the results as they fall.**

Some people think that by master planning, you will solve everything, but what I find is that the master plan gets a life of its own, and people believe it because they previously decided on that then, and they make all kinds of mistakes.

(Thomas) Carlyle was a very smart man, and one of his favorite sayings was, the task of man is not to see what lies dimly in the distance but to do what lies clearly at hand.

(Ed: actual quote: “Our main business is not to see what lies dimly at a distance, but to do what clearly lies at hand.”)

It was that message from Carlyle that caused Sir William Osler to create the medical school, which became a model or revising all the medical schools of the world, which was Johns Hopkins.

He didn't have a master plan for Johns Hopkins. He just reacted to the opportunities and hazards of his time as best he could. And lo and behold, we got the leading medical school in the world.

Incidentally, that wouldn't have happened without money from Carnegie and Rockefeller. So the robber barons of old, when they set out to do charity, were some of the most effective givers in the history of philanthropy. Rockefeller's $50 million, in the course of two or three years, completely changed medicine in America.

They drove all these charlatans out that had one pill for everything from cancer to impotence, and none of it worked. They drove out a lot of people who should have been driven out, and they caused modern education and research establishments to be created.

There's interesting precedent given the strength of the Johns Hopkins system and Carlyle's basic idea, and based on that we have a certain modest prosperity in spite of being through an enormous headwind. And our basic business I think demonstrates that Carlyle might not have been wrong at all. To the extent that any of you have problems in your life, this enlightened opportunism and this resolute desire to fix problems as fast as they come up, which Jerry's a genius at.

Jerry's fixes what's wrong quickly, and he runs down opportunity quickly.

That's what we've been through with the Daily Journal, and it's interesting to us. Neither (J.P “Rick”) Guerin nor I have taken one penny out in all the years we've been invested, and you can see this is the ultimate...What would you call it? Are we misers? I don't think so. Guerin was like a prince.

I don't look too badly myself. But we're certainly willing to go through a lot of self-denial, and we really want people we scarcely know who just happened to buy this stock to do well and that isn't true at a lot of places.

They talk the talk, but they don't really walk the walk. I don't think many people who work in the executive ranks of General Motors or have served on its board of directors have any feeling of guilt that they destroyed 100 percent of the common equity, starting with the strongest company in the world.

But we're not like that. We would feel terrible loss, but we don't mind taking you through a little hell on the way. But we want you to come out all right if you keep the faith. That's the culture, and I don't think that's going to change.

Anyway, that's the Daily Journal. Jerry, do you want to say anything to this group?

Lee: No, I'm fine.

Munger: All right. Now we'll open the meeting to questions. Yeah.

Shareholder: Why double down now?

Munger: That's a very good question. You could argue if we were poorer and meaner, we wouldn't have done it, but we admire the people whose firm we've just bought. We admire the people running it. We feel it's at least a decent gamble. I have no feeling I'm just deliberately wasting money. I'm just taking a gamble I might not have taken if it was the last money I had on earth. I think that's probably what we should do. We employ a lot of people. We're located in the state, and it would be very helpful. There is some chance of it working into a bonanza. Now it may be a small chance, but there is some chance.

What is interesting about this, for legal information, those of you are students of capitalism, it was a duopoly in the legal information field, including the electronic stuff.

One was Reed-Elsevier, and the other was Thompson-Reuters. These are two very powerful places.

Reed-Elsevier got rich on one of the greatest business models ever created.

They published scientific journals. They didn't pay a dime for the content, because people want to be published. Didn't pay a dime for the reviewing and editing, because the people wanted to do the reviewing and editing as part of their duty to science.

With content totally free, they published the journal and every library had to buy them, and every leading scientist. It was just a total racket, and every year they raised the price by 15 percent. Of course, they could then buy all these other papers. You could say, “Why didn't we start in scientific publishing?” Well, the accidents of life didn't present us with that opportunity.

But what's happened there is that duopoly has suddenly gotten a new entrant, which is Bloomberg. Bloomberg is worth tens of billions of dollars and drowns in money, and has a total monopoly of its own with which it can use to do what it damn pleases to try and take territory. It can behave a lot like Amazon if it wants to, where it just takes territory from incumbents by brute force.

Now we have a three-way race, and it's interesting. You guys are professional investors. It's hard to predict which nice, comfortable two person duopolies will suddenly become a gas leak and competitive miasma. It just happens. Who would have predicted that Bloomberg would have charged into legal publishing? It has, and it's no fun for the incumbents. You do have this unpredictability in American competition, and it causes weird results.

You give me that question, but I think our chances were good enough to justify the investment, but I don't think we would have made it, if it was the last dollar we had on Earth. We're not ashamed of it. We're glad we did it. We may win. We're certainly going to try. Of course, when I say, “We're going to try,” I mean, “They're going to try.”

Munger: Any other questions?

*

Shareholder: Do you have any thoughts on how the legal challenges to the ratings agencies will work out?

Munger: That’s a very interesting question and very topical. Up till now, the rating agencies have avoided any big loss from judgments. Their attitude is that they know how to sell guarantees that securities would be paid off and they weren't selling guarantees. They were selling opinions. Their attitude is, you want a guarantee, you would have to pay for it but a lot more. All we gave you is an opinion and as long as we believe their opinion and weren't deliberately lying to you, you can't recover.

That's probably a correct explanation of the law, but if you ask for a jury in their embarrassing emails and so on, this can be quite expensive. There isn't any doubt.

Both of the rating agencies have admitted to serious mistakes in judgment. Of course, those mistakes in judgment were undoubtedly contributed to by the fact that they're re-paid to do all this.

I personally don't think they were consciously lying. I'm not saying there wasn't a one person there somewhere in our organization that may not have liked his company's product, but I don't think they were consciously doing it.

They were stupid and one of the reasons they were stupid is the self-conscious selected their own interest. It's a serious bit of legal trouble. All I can tell you that I don't think anybody's ever paid any big money on this area before, but you do have embarrassing emails and so forth.

Generally speaking, the emails are great for lawyers. The record is permanent. You have an army of people. Somebody's going to say some dumb thing and you can get that dumb thing before a jury. Maybe you can make some money or browbeat somebody into a big settlement.

Which gets into the question of should young people be creating these permanent paper records on Facebook, and so on of the dumbest thing they ever did or thought, so it's immortal. I think it's insane. I would hate to have to read the dumbest things I ever said at fifteen years of age -- it would be embarrassing for all of us, at least it would be embarrassing for me.

I don't like the way the world evolved on that. I do think the rating agencies use very poor judgment. I think the people that were issuing the bonds, these are really smart people, much smarter people than the people in the rating agencies.

Of course, they paid tremendous penalties. Some of them have gone broke. Others have given them millions and millions in settlement. You'll reach impairments in reputation, so on and so on.

What happened in the boom and the lousy credit and market spiels, packaged up into lousy securities, mis-rated by mistakes by jerks who believed in mathematical formulas instead of common sense. It was not pretty. People paid a terrible price for it, and the country has paid a terrible price for it. I can't predict what's going to happen in the litigation.

I can say one thing, the rating agencies would have been way better off if they'd made less money, had been more careful, and thorough, so the extent any of us have decisions to make. Foregoing money, because it's sort of tainted, or too close to tainted, or too close to gaming, is a very good thing. Sol Price (founder of Price Club) used to say, success in business came from deciding which business you could intelligently do without.

He had a list of business he didn't want. Those things he didn't want -- he didn't want business from people who wrote bad checks. He didn't want business of people who shoplifted. He didn't want business of people who clogged-up his parking lot without buying very much. He carefully invented a system where he kept those people out, and succeeded by deciding what he would be better off without and avoiding it. This is a very good way to think, and it's not all that common. It's, perfectly, obvious, isn't it? And it has been of enormous help to the people sitting at this head table. But most people just aren't trained to do that — if it's more business, they tend to want it.

There's enormous money and happiness, and better service to be gained, by just deciding, “I'm going to do without that.” Warren used to say, when we were brokers at Solomon, “I'm waiting for a list of the business that we have declined because it was morally beneath us even though it was legal.” People are just so competitive they just want to do every damn thing that can be done, profitably, whereas, we need something beyond that. I'd imagine, he'd behave, just slightly better, than what would take him to prison, in order to get money.

You should have personal standards that are way better than the criminal law requires. Why should the criminal law determine your behavior? It would be crazy. Who would behave that way in marriage, or in partnership, or anything else? Why should you do it in your general dealing?

I think this mess, and, of course, it's a little dispiriting to find that many of the people who are the worst miscreants don't have much sense of shame and are trying to go back as much as they can to the old behavior.

The truth of the matter is, once you've shouted into the phone, “I'll take x and y,” and three days later, you have an extra 5 million, once that has happened, the people just become hopeless addicts, and they lose their bearings. You can argue we shouldn't allow a system where that can happen.

Look at the people who get addicted to poker, both online poker and gambling parlor poker. A huge crowd of people, 50, 60 hours a week and grinding away at these tables, of course somebody who's making croupier's profit off the top, and the very shrewd people are taking away money from the less shrewd people. Is this really in the public interest? I don't think so.

Even if it were in the interest to allow this recreational poker, to turn the public securities markets into a very effective gambling house for the people who think like the poker addicts and behave like the poker addicts — if I were running the world, I would put a lot of people out of business, including several in this room. In other words, I don't think you necessarily want a huge class of people getting rich in software by being a little cleverer than other people.

Shareholder: Two questions, if you don't mind. From 2000 to 2008, Daily Journal seemed to reinvest nearly all of its profits into US Treasury notes and bills. In the last two years, after February 2009, Daily Journal has invested over $30 million into common stock of three companies. Can you discuss the difference between the investment landscape over the last few years versus 2000 to 2008?

Munger: Well, when we're engaged in something difficult, as we were with our declining main business, we tended to want extra reserves of strength. As we got so much extra money and the opportunities in marketable securities got more extreme, we changed our point of view as the facts change.

Keynes used to say, “When the facts change, do you change your opinion?” *(Keynes actual quote was: "When the facts change, I change my mind. What do you do, sir?")* Well, of course you do. That's what we did. Our circumstances were different and our opportunities were different, so we behaved differently. What would you do?

Shareholder: Is it any reflection of the investment climate, or purely...

Munger: Yes, of course, that was part of it. The price you pay for some of those securities was ridiculously low. In fact some of that stuff was something that happens once in 40 years or something. Who in the hell keeps money sitting around waiting for one of those opportunities? (A) It might come and go and you may not recognize it, and (B) what do you do during the 40 years you're waiting?

So I don't think you should be terribly encouraged by what has happened. It doesn't indicate that suddenly a recurring stream of money going from people in their 90s. It just means that for one reason or another, we behaved pretty sensibly, and reacted pretty intelligently to opportunities. Other people didn't do it.

General Motors, out of the profits of their good years, they could have bought, every year, for many years, a big company. They could have bought Eli Lilly one year and Merck the next, and United Technologies. General Motors could own the world. Instead, what they declared to their shareholders was a goose egg. They took the common equity to zero. And they would say it was all somebody else's fault. The climate was bad, the unions got powerful. Those damn Asians and Europeans were too competitive.

The truth of the matter is, their very prosperity made them weak. The dealerships got in the hands of inheritors, and the executives on the sales field, they go around and drink martinis with inheritors, and didn't pay enough attention to defects in their vehicles. And one thing led to another, and when they were all done the shareholders' equity went to zero.

And that was in a company that at its peak was one of the most admirable companies in the world. Take the stuff that Boss Kettering (Charles Kettering - head of research at General Motors from 1920 to 1947) had invented in the early days. Kettering was one of the most useful citizens that ever lived in America.

A self-starter on a car is a wonderful thing. Under the old system, you frequently broke your arm. You would give it a crank and it would answer back by spinning backwards and breaking your arm. I would much rather push a button than have my arm broken. Nor do I have the opportunity to go and crank in the sleet and snow.

Kettering did a lot of inventions like that. In the early days of General Motors, they really made some enormous contributions to civilization. And they are still making contributions, but it is so competitive.

I should tell you people a story, because you are groupies for stories. I talked recently to a man who shall go nameless. But his company was one of the great growth stocks of America.

And they had armies of PhDs in there who had mastered very difficult disciplines. And they had patents, and technology, and know-how, what have you -- and hard-to-replace plants. What they make is difficult to make in a lot of different categories.

And the profits in the business are very mediocre, to put it mildly. And it isn't that it has been that badly run. It's just that everybody's learned how to make these difficult things, and there are too many of them trying to make them. It just gets terrible. And what happens then is, you're now the CEO of the place and you see it's getting tough. Your duty, your acquired self-image is a guy that knows how to fix things. You never have a category in your mind of, “It's too tough to fix,” which is a really stupid idea. You can recognize all kinds of things that are too tough to fix.

But if you don't, then you are a sucker for some narrative to say, maybe there's some company in your industry that makes something really complicated that other people can't match. And you say, “Well, I'll buy that. That solves my problem.” But your friendly investment banker and your friendly management consultant want you to buy it at 30 times' earnings and 12 times' book. Of course, at that price, it won't solve your problems. And you do it anyway. After all, you've got consultants, and it gives you hope.

Many of these people buy things the way that people used to go Mexico and ingest apricot pits when they had pancreatic cancer. They wanted something that provided hope, and so they believed in apricot pits. A lot of American industry helped by their friendly investment bankers and consultants of other kinds, they want to believe that in this terrible, tough business, there's an easy solution. It just requires listening to the siren song and writing the check. Of course, usually it doesn't work.

The ordinary acquisition in corporate American does not work for the shareholder. In other words, on average all the acquisitions together are anti-shareholder. Only occasional ones work, and work well, and it is rather interesting that Berkshire, on average, they work pretty well.

What is the difference? Why are Berkshire's acquisitions, why are they averaged out so well when we pay the prices for whole companies, and the standard experience in America is that the acquisition doesn't work that well.

There are a number of reasons. Partly they're that people like buying in their own field? As to a field that is prosperous like newspapers? They keep buying up higher, and higher prices to encourage everybody wants to buy the same thing, so you get in a very bad daisy chain that is anti-shareholder.

In its places where you want to believe that there is a simple way to buy your way out of trouble. Why should it be simple to buy your way out of trouble? You get a little pancreatic cancer, are you going to buy your way out of trouble?

I don't think so. There are all kinds of things you can't buy your way out of. You have to adapt to them. Part of Berkshire's secret is that, less than most people, we don't pour endless treasure into losing hands, on the theory that we're going to win and do it fast.

Berkshire got though this helpful reputation among their group of addicts over a long period of time. It took a long time. It's a very useful, useful thing to have. Two, I think Berkshire's been blessed with these big insurance companies. It's got two things to do. It can buy companies or it can buy securities as insurance companies. Aren't you going to make better investments, if you can get two reasonable options at all times instead of one? Doesn't that make sense? That's another of the reasons.

I don't see why Berkshire isn't more copied, except I think people look at it and they look at their culture with its own traditions. They came to power at 58 they're going to be gone at 63. They don't see any way of getting from where they are to where we are.

How would you change DuPont into Berkshire Hathaway, if you were the CEO of DuPont? It's addicting. I've got right to give up on the problem and not even think about it. At any rate, I do think of it as peculiar. This acquisition business — It's generally a tough game.

Shareholder: I had a second question. The second question was you had mentioned talk about doubling down on the New Dawn acquisition. In 2012, the company also added a supplemental addendum to management incentives, where management should be compensated should Sustain be sold or IPO. I was curious if there's anything that we should think about if Sustain were a standalone business, if it could have value to another owner that exceeds what's currently being suggested by the current financials?

Munger: Well, of course Sustain could eventually...Sustain and New Dawn, I'm a total convert to the new product, of course, I think if we've succeeded, that would be valuable to other people.

As it is now, it's not like ordinary software. The people like Oracle and Microsoft, and never wanted to be a mixed businesses too awful. The RFP, the consultants, the bureaucracy, it's just agony squared, agony cubed. And they like easy money, and they're right, too.

We generally chose this hair shirt, and it is agony and it is hard, but it's challenging. Eventually, if we succeed, it will do a lot of good in terms of service and efficiency and so on. We went the unusual incentive program, because everybody in software expects some carrot so we were just bending to the wind in the field, really. That explains that.

Shareholder: As a fellow addict, I wanted to comment and then a question, and that has to be why so many people gathered to hear a 90-year-old. I'm reminded of the difference between knowledge and wisdom. We're here for wisdom. Knowledge is knowing the tomato is a fruit, but wisdom is knowing not to put it in the fruit salad.

Munger: Well, I think there's some truth in that.

Shareholder: So we hear from the liberals that have commented on had to do with paradigm shifts in management styles and is that the goals in management should be... I'd like you to apply that to the government, because I think the elephant in the room that I haven't heard that, is all of us share a concern for the leadership … and the consequences of the decisions

Munger: Well, of course, if you take the whole history of government in the world, it's a pretty sad story. Think of all those years of crazy kings, crazy theocrats, the holy inquisition, populist mobs — Imagine the French mob that cut off the head of the greatest chemist in the world, Lavoisier (Antoine-Laurent de Lavoisier – the father of modern chemistry).

If you look at the history of government in the world, you see just a lot of crazy — Think of Mao killing 20 or 30 million people on some dumb idea about farming. There's been a lot of horrible... Think of the whole Soviet Union getting so they provide perfect job security. Everybody had a job. The way they described that was, "They pretend to pay us and we pretend to work." And despite what's been working for every else the Soviet Union (didn't want to use that.)

The whole history of the government has been bad. Of course, our founders realized there were dangers buried in democracy. It was Ben Franklin who put it in "Poor Richard's Almanac," he says, "When citizens of the Republic learn they can vote money, the end of the Republic is nigh."

Well, not that near, but it's a very dangerous thing that you learn you can vote yourself money. What's safe unless everybody's working their way toward productivity and success. Just ganging up to vote yourselves, money is dangerous. When it's carried to excess like Greek culture where A), everybody tried to vote themselves money instead of doing anything else or B), so they succeeded from paying taxes or anything else, you're talking about a very dysfunctional society.

It's not as dysfunctional as the Soviet Union. After all, the sheep farmer in Greece probably was pretty efficient at tending the sheep. In the Soviet Union, nothing was efficient, except the high science. Get a bunch of high IQ people together and give them problem sets -- why, you can do that as well in the gulag as you can do it somewhere else.

But short of that, why...I can't fix the problems of government. There's so much that's good, including in government, but I think it's probably a mistake to concentrate too much on what's awful but certainly a lot of intelligent people are a bit discouraged by a lot that's happened.

But you wouldn't have liked the politicians of yesteryear. They built the transcontinental railroads with Congress taking cash bribes from people like Huntington and Stanford. They got the railroad built but it wasn't pretty.

People were cheating the government way back. The Civil War was full of lousy products sold to the soldiers. I can't think of any much more heartless. Remember the local druggist who diluted all the cancer drugs so they could make more money. Imagine doing that — That was routinely done in the Civil War by respectable manufacturers. They just cheated the government troops.

There's a lot of unhappy occurrences in the history of man, and there's a lot of peculiar government...If you go back to where government was simpler and more honest, then 85 percent of the people were on farms doing backbreaking labor and they could never leave the farm or leave the farm or read anything or see any athletic events. I'd rather have a little sin and not be doing brute labor on the farm.

But at any rate, I can't solve your problem. You're right to be concerned about it. But if you also look around, you'll find example after example of fabulous good government and various institutions, both private corporations and public. I'm very much impressed with the way they run the University of Michigan. It's a tough hand at the state when there's nothing but economic squeeze for all a long time. That University has gone up, up, up, better loved, better respected, better serving. If you look around, you'll find much that's good in human governments, as well as bad.

Shareholder: what is the company doing today different from yesterday and that could be reflected in the picking of the right software?

Munger: We bought New Dawn, which has a way better sales culture than we have and a bigger installed base and we like the people. That is very different.

Shareholder: Is that proprietary?

Charlie: Well, meaning is it a cinch that we will win? The answer is no. Is it quite possible that we will win? The answer is yes. But it's quite different. Yeah?

Shareholder: If you're design a proxy statement and you're trying to think about a couple simple long term metrics to incentivize management. What would you think about?

Munger: Well, if you want to talk about that subject, which is really interesting from your point of view... you have touched a real nerve. What has happened, of course, is that institutional money management has been hooked with the aid of these consultants, whom I can't stand.

So everybody wants to raise the indexes and they've got 50 different indexes, but everybody's racing an index. The monthly statement shows how you performed that month in relation to the index. Your shareholders who'll make the decision as to whether or not to buy the stock are institutional money managers and they're worried about not losing assets and fees that are related to the assets from getting behind the other people?

That is a dysfunctional, stupid system and it gets stronger and stronger with every passing day. That is a serious problem.

I don't think little changes in governance are going to fix something so awful. These people are locked in this horrible system, all the participants, and they can't do much about it. They have to live there. They've got a wife and children and a mortgage, but they have to live in the system they're in.

It's not a pretty system. The people who are profiting from it like it the way it is. It does cause extra action in terms of brokers' commissions, and so on and so on, and more fees and more different kinds of investment vehicles.

It's the same thing like the apricot pits for the cancer sufferer, or the guy who acquire his way to wealth, having failed in his basic business. If it doesn't work, there's a new investment vehicle, a new technique. There's a bunch of Pied Pipers who are always selling some new thing that everybody can try.

It's a crazy, dysfunctional system. In a better world, we wouldn't have all those incentives to make money on a short-term basis. To have everybody engaged in trying to out-think everybody else about what's going to be bought next or be fashionable next, is a very dysfunctional system.

I don't think you are going to have great improvements in governance by tinkering with the rules about proxies, when the whole damned system is fundamentally flawed, when people have these perverse motives.

I look at the votes on these. Everybody votes with ISS (all these institutions) and they've got formulas, and what they are is pro-takeover. If you're a money manager, and you get four takeovers in a year out of your portfolios, that may be the difference between fired and not being fired.

So, the institutions like takeovers, but I'm not sure we want everything in America taken over by Carl Icahn.

Would that be a great outcome for the country? I don't think so.

I think the whole subject of proper governance is a really important subject, but I would argue that the compensation system is crazy, the institutional money-management system is crazy, and the rewards system is quite unfair in many cases. People are voting themselves money they're not entitled to.

It's not a good system, and I don't think there's any easy fix. Well, there is an easy fix, but it's not one that would be easy to get through by vote.

Shareholder: Markets are making five year highs, what do you think …

Munger: Well, I'm not shocked that the market goes up after a long period after which it has gone down, particularly with long-term interest rates that are practically zero. I'm not surprised. That's one of the reasons that they would journalize a bunch of securities and whatnot. That doesn't mean that we've reached the hog-heaven condition for the investor. It just may mean that common stocks are a better bet than long-term bonds, but that doesn't guarantee wonderful results for everybody in common stocks.

I think the idea that everybody is going to have wonderful results from investing is inherently crazy. Nobody thinks everybody is going to have wonderful results from playing poker.

In the end, the wealth of the country is based on the productivity of the country, which only advances so fast. Of course, if you pay more and more people for not working, it's hard to see how that grows the productivity of the country.

Shareholder: You talked about modern institutional money management. How would you contrast that system with what you were doing in the late 1960s, your mindset and how you went about your business?

Munger: Well, there were some delusions we avoided. Other people thought that you hired very intelligent people, who'd worked very hard to learn their trade and taken tests making them certified whatevers, and then you organized them into specialties. One guy would study chemicals, one would study autos, one would study this and that. So, you had 100 different specialists in 100 different fields, all with high IQs and all working very hard, that they could invest in big common stocks using this wonderful system, and gain an advantage over other people.

There's only one trouble with this idea. It doesn't work. It's just too competitive. Too many people are trying to do the same thing. We had a different idea. We always thought that a good investment idea was hard to get, usually, and that by working hard, you might get a few of them.

We never had the idea that just by hiring smart people, we could be good at understanding 5,000 different securities or even 100 different securities. I just had the idea that maybe we could find a few, often enough so it would serve our lifetime needs, and we were patient and we waited and we occasionally made a few investment decisions.

In my personal accounts, guess how many securities transactions I had last year.

Zero

We are not normal.

Can you imagine trying to run an investment management operation with transactions of zero? Anyway, we do have differences, a few decent places. What do the Munger’s own? They own Berkshire, they own Costco, and they own a bunch of Asian securities with a guy who's like Charlie Munger born again, except he's younger (presume he’s talking about Li Lu). Do I need more diversification. But if you went to the average school in your district and said, “Is this a suitable investment decision?, they'd say the man who made that decision is crazy. That is not the way to intelligently invest money. I guess I just give all the money back. I didn't do it in the right way.

But it is the right way. It's the other people who are wrong. If you want to get rich, you'll need a few decent ideas, where you really know what you're doing. Then you've got to have the courage to stick with them and take the ups and downs. Not very complicated, and it's very old fashioned. Haven't I described (Rudyard) Kipling's poem, “If?” “If you can keep your head when all about you are losing theirs,” and so on and so on, and if you do this, “You'll be a man, my son.” I think Kipling's poem, If, is a great poem, even if it did come from a man who has somewhat irritated the English departments of the world by also saying, “A woman's only a woman, but a good cigar is a smoke.” He's not politically correct. He was right — So, I'm saying what still works is “if.”

Shareholder: Quick follow-up there...

Munger: It's very old-fashioned. How could you teach it in business school? They teach that you have to have reverse rotation, sector rotation, God knows what in the hell they were teaching. I never paid any attention. Zero.

Shareholder: You talk about patience and long periods of dullness.

Munger: Yes.

Shareholder: What did your process look like back then at Pacific Coast Stock Exchange on a daily basis?

Munger: Oh, we had specialist but somebody else was doing that. I wasn't making those decisions. That was just grunt work to make a little money, making a market. In those days, we were opportunistic and needed a few things. When we had a good idea, we went at it rather heavily. Sometimes we would actually trust an individual.

When I went into that deal with Diversified Retail, that was one of the dumbest things that Warren and I ever did. We both went in on four department stores in Baltimore below the liquidating value of the company, Ben Graham style. We bought it half using bank loans from local people. I remember my share. I had 10 percent. It was $600,000.

As the ink dried on the papers, we realized how ghastly the competition was, and how much capital to operate a department store, and that we were not that much better or different from the other stores, and that maybe department stores did not have the world's greatest future. At least we had enough sense to quickly change our minds and managed to scrabble out of that having lost a few hundred thousand dollars out of $6 million we put up.

But in the course of doing that, other opportunities had come to us, and we borrowed the $6 million with no covenant. Now we had a huge panic. So we use all this capital, including the borrowed covenant, to buy all these ridiculously-priced securities, including some of our own. And so that failed, stupid investment, if you traced it through, it's so many billions of dollars of Berkshire stock, you can hardly believe it.

To some extent, it requires scrambling, it requires the ability to change your mind. At least I'd chosen my associate. I thought that I had an associate that thought he could fix this department store. Warren never had one second — The minute he recognized what we were in, we both wanted out, which was the correct solution.

So all these things are lessons to you, but it's this old-fashioned stuff that really works. Now, I don't say it works to create a Money Minute, unless you have one like Mohnish's (Pabrai), which is a copy of the Berkshire Hathaway system down to the last comma.

By the way, he's rich and happy. Look at him.

He copied a good system. How many people do? There are not that many Mohnish's. The system still works. You can even use it to create a money management business. You've got a man right in the front row who demonstrates it can be done.

Shareholder: Could you give an example of an investment decision …

Munger: Well, I don't want to rehash the old investment decisions, but I'll rehash a failure, because I believe in rubbing my noses in failure. Some of this is in Poor Charlie's Almanac. This is one of the dumbest investment decisions I ever made. After I'd wound up (the Munger investing partnership), I was a well to do fellow, but I wasn't, which I really wanted to do. I had enough so I didn't really have to work, but I didn't have enough so I could do any damn thing I pleased.

A guy called me offering me 300 shares of Bell Rich Oil and I had the cash and I said, "Sure, I'll take the listing."

It was selling there maybe a fifth of what the oil companies were. They owned the oil field. So I bought it. Then he called me back and said, "I've got 1,500 more." I didn't have the money on hand. I had to sell something. I think about it and I said, "Hold it for 10 minutes and I'll call you back." I thought about it for 10 minutes and called him back and didn't buy it. Well, Bell Rich Oil sold about for 35 times the price I was going to pay within a year and a half.

If I had made the different decision, the Mungers would be ahead by way of more than a billion dollars, as I sit here now. To count the opportunity cost, it was a real bonehead decision. There was no risk. I could have borrowed. There wasn't the slightest in borrowing money to buy Bell Rich Oil. The worst that would happen was I would get out with a small profit. It was a really dumb decision.

You don't get that many great opportunities in a lifetime. When life finally gave me one, I blew it. So I tell you that story to say you're no different from me. You're not going to get that many really good ones — don't blow your opportunities. They're not that common, the ones that are clearly recognizable with virtually no downside and big upsides.

Don't be too timid, when you really have a cinch. Go at life with a little courage. There's an old word commonly used in the south that I never hear anybody use now, except myself, and that's gumption. I would say what you need is intelligence plus gumption.

Shareholder question on BYD

Munger: BYD, Li Lu is in the back standing up. Li Lu, come up here. This is the man who got me into the BYD.

Li Lu: What do you want me to say?

Munger: Like it is. Why did you buy BYD when you did?

Li Lu: It really is a quite unusually talented group of people who were able to manage, to solve a problem like no other group of people I've ever seen. Like all other talented people, they have their ups and downs. But in the first 15 years since BYD was founded, he has 15 years uninterrupted period of time of compounding at about 75 percent annually. It's nearly doubled every year for the 15 years in a row, for the first 15 years, with very, very little capital. They originally maybe $300,000 US, and these money twice, and altogether a few hundred million by the time they reached multiple billions in revenue.

Of course, that growth was accumulated with all sorts of different problems. Some of you who follow the stock, you have seen that in the last few years. And just like they have always done, they have dealt with it just the way it is.

They have put their heads in the sand and solve the problem, one-by-one, and slowly but surely, after three years, they solved most of your problem. They're now back on their feet and strong.

And the speed of which, they really mastered the technology. It's just unprecedented. I've never seen anybody like it. For example, they got into the auto business in 2003, and produced their first car in 2005. That's only seven years ago.

Munger: And they did this with almost no capital.

Li Lu: Little capital.

Munger: And over our objection. [laughter]

Li Lu: They competed with everybody. The Chinese auto market is about as open a market as any market in the world, better than US. Every auto maker on the whole planet is really competing there. They all have much richer capital base, longer history, well recognized brand name and superior technology. Yet this little company was able to really stand on its feet, and now they're probably selling 500,000 cars a year. But more importantly, they have a mastery of the state of the art technology from the traditional auto while really pioneering all the technology know how’s of the new cars and electric cars.

In a few years, all of the BYD cars are likely to be either hybrid, or platinum hybrid or electric, and also equipped with the state of the art technology from the traditional combustion engine, and also promising efficiency.

It is not a normal feat. I cannot find it in any other group in this field.

Munger: The Korean's did the same thing.

Li Lu: The Korean's did it primarily on the traditional auto, and in a term, in a way to catch up with the traditional auto, but they have not, in a sense, pioneered a new technology pointing in a new direction. They just basically matched everybody else, that surpass in a certain area, but it's no kind of making a new path. They also have a whole bunch of other driven areas that have creditable promises. That was really the reason we're all quite enthused about it.

Munger: These are very unusual people. This is the son of pheasant who got through engineering school, what with the aid of a brother, and got a PhD in engineering at a young age, and so is a very talented human being. Of course, they are hiring young talented Chinese engineers. They are hiring them by the thousands. How many employees does BYD have now?

Li Lu: About 180,000 people.

Man 4: They are young Chinese. I don't want to compete with 180,000 young Chinese. I'd rather bet with them. Anyway, you ask a question, I think? You'll have it direct from the horse's mouth.

Shareholder Question: I was wondering when the electric car might make it to the United States. Can you expand on that?

Li Lu: Well, they have basically, I think correctly, chosen to focus, and going to treat the car effort into public transportation. Transportation rather than probably the largest contribution across the emission of pollution, and also they really would utilize the data on the battery, because they are on the road all the time. As far as I can tell, their battery probably has the longest hours on the road as we are speaking. There are probably tens of millions of hours accumulated on the road. Therefore the longer they run, if their batteries are good enough to run for a long time and of course after 30 million miles on the road, they have proved that point.

The longer you ride, the better and superior economics of the electric car has really become. At least in China, the differences of the electricity and the gasoline is about 80 percent off. That actually is here too, and in Europe, the economics are even more superior because of the surplus taxes on gasoline.

Who is the 80 percent of the savings operation? The longer you're on the road, the more savings you have. In fact, if you use for public transportation, for taxis or electric buses, just the saving itself within the several years could've produced multiple cars, given the expectancy of the battery life.

At least the company believes that the battery would last longer than the car itself. If that were the case, they would be able to make multiple...the savings itself would pay for multiple cars within the life. So much so that the Chinese Development Bank recently have committed about 30 billion Chinese dollars in loan to finance a package that people can really pay to zero down. No down payment, to purchase cars and use only the equivalents of gas free cost to pay for the entire mortgage.

They calculate, in the end, they will still make a profit, a large profit. If that becomes successful, it would really lay out a new business model for electrifying public transportation.

Given the air quality of Beijing and all the other cities in China, China has 7 of the 10 worst polluted cities on the whole planet. Public transportation contributes roughly a third of the emission. Electrifying the public transportation with BYD has proved A) doable, B) profitable, and C) actually good and providing enormous social benefit.

This is a line they're correctly pushing in that direction, not only in the US, but not only in China, but all over Europe and all over South and North America. They have several dozen trials going on all over the major capitals of the world, as we're speaking.

Munger: Yes, but tell them about Beijing, because this is very interesting. Beijing probably has the worst air pollution in the world. People are dying from pollution. Of course, it's a huge metropolitan area. And the net purchases of BYD electric taxis and buses in Beijing is zero.

But we like that, because that leaves a lot to be done. Of course, what happens is the Chinese local governments have enormous autonomy. They favor the people that are providing jobs in Beijing, making standard automobiles.

Yet if more and more people are dying, is that going to last forever?

Our bet would be that one way or another, China will get a lot more electric transportation and public vehicles in its heavily polluted cities. BYD is better at that than other people, and they may have quite the market. There are quite a few Chinese in some big polluted city.

It's a lot like the Daily Journal. It's an upside that you're really not paying for. We bought those little public notice rags, we got an upside that we weren't paying for. That's what we're doing. But that's more than you probably anticipated when you asked the question of BYD, and you had the man in America, who probably knows more about BYD than anybody else, to tell you what you want to know.

(missed a chunk here...)

That reminds me very much of a man I knew when I first came to California. The name was B. B. Robinson. In the pool operations of the late 1920s, he was a very young man. He scrambled out of the ruin of the great crash with about $10 or $11 million in cash and came out to California, where he spent his life doing heavy drinking and chasing young movie stars. Those days the banks were quite serious about the kind of clients they had. The leading banker took him out to lunch and said, “We're terribly concerned about all this drinking and chasing movie stars and so forth.” B. B. Robinson looked this banker in the eye and he said, “If I were you, I wouldn't worry.” He said, “My municipal bonds don't drink.”

In the sense the Daily Journal is like B. B. Robinson, we may have had a little flurry here of venture capital type investment, but we might actually succeed at it, and if we don't, we still have a lot of municipal bonds that don't drink.

We have assets that if this fails, we're not alone in the world without resources. Yes?

Shareholder: Charlie, you mention this idea of gumption -- also have the courage to take advantage of things. Can you help us understand just a little bit more about how you balance those two, because from that example -- obviously, it would to be aggressive, but there's also the sense that Berkshire's always been much more prudent and cautious than others.

Munger: Well, yes. That's an interesting example. Berkshire, of course, if we behaved like Rupert Murdoch or somebody — that is, we used all the credit we could get all the way — Berkshire would now own the world.

We have achieved what we've achieved with our hands tied behind our back. The reason for that is, of course, is that we have a fiduciary gene. We know the human faces. We trusted Warren when he was young and trusted me when I was young and so forth. In many cases, it's their main asset in life. We're just not interested in taking a substantial chance of taking a lot of very decent people back to “Go” so we can have one more zero on our net worth at the time, and they put us under the ground where we can't come back anyway.

We're just not going to do it. We are not maximizes in the world of capital -- aggrandizement through aggression. But what I did had no risk.

There are real risks. We didn't know the whole damn world was doomed -- implode in something really serious in the last crisis. Berkshire was not buying hand over fist with its available resources. It was making sure that Berkshire remained through it no matter how awful the conditions got.

Berkshire is a conservative way to face the world. If you want real aggression, why it doesn't play its hand with that much aggression. It does in cinches. But if there's real risk, even though the odds are in our favor, we're not going to play too hard. And that's just the way it is.

What I'm telling you is when it's virtually a cinch, or it's in a gamble you can easily afford, and the odds are way in your favor and you know it for sure -- I'm just saying don't be timid. Gurin never needed that advice. He was never timid.

Shareholder: When Bell Rich Oil goes up 35 times, it's pretty...I imagine myself have a lot of regret or debilitating. How does one recuperate from something like that? A big missed opportunity?

Munger: Yeah.

Shareholder: How does one recover from that? How do you end up not dwelling on that?

Munger: You know what Kipling said? Treat those two imposters just the same -- success and failure. Of course, there's going to be some failure in making the correct decisions. Nobody bets a thousand. I think it's important to review your past stupidities so you are less likely to repeat them, but I'm not gnashing my teeth over it or suffering or enduring it. I regard it as perfectly normal to fail and make bad decisions**. I think the tragedy in life is to be so timid that you don't play hard enough so you have some reverses.**

Shareholder: You commented on the challenges that the newspaper industry and other forms of print media. Can you comment on Berkshire's investments in the newspaper industry as of late?

Munger: Well, sure. I'm glad to. The papers that have the best hands economically are the ones that have a real community acceptance, that are part of the warp and woof of the community, like in the small towns. Those are going down slower and are proving to be better investments than the big city dailies, with the expensive difficulty of carrying great heavy stuff through big cities and so on and so on.

That's by and large what Berkshire is buying — the entrenched, small, local papers. We're trying to buy them, and we don't mind something that is declining. After all, everybody that buys an oil field is buying something he expects to decline in due course to zero. They just expect to make enough money out of it to compensate for the money they're employing.

That's the way we feel about most small newspapers. We think we're very likely to get our money back with a modest rate of return at the worst. And the stuff we're buying. The reason it's available is other people just — the idea of a lousy investment. Doesn't appeal to them. But — we like newspapers.

Who can tell? They have such a wonderful history and make such a wonderful contribution to civilization. I think if you buy them on the basis where you're very unlikely to get hurt very much. We've got a system for managing a lot of very high-grade people, namely the world of people. Let us note. The people were buying you're perfectly decent people who stay on, so we're glad to buy newspapers.

But it's not that newspapers have some fabulous growth, high growth future. Of course, they're an object lesson of the hazards of leverage if you get a big technical development that goes against you. When this alternative technology came in, it just destroyed capital values like you can't believe.

Even the New York Times -- for which you'll soon be paying four dollars or five dollars at an airport if you're not already -- has a pretty modest prospect. I think it will continue to make pretty good money as far ahead as you can see, but I don't it's going to gallop to the heavens or anything like that. There are very few New York Times, just in terms of that a niche, where people won't four dollars or five dollars for it in an airport.

I think newspapers as economic entities have way worse prospects than they used to. Believe me, Berkshire's not buying these things expecting some bonanza. I don't think there's any foreclosure boom to create a sudden ton of lovely money for all of Berkshire's newspapers. It's a decent investment and it's responsible behavior. We have tons of money. It's just costing us zero to borrow. I don't think there's anything useful to you in our newspaper purchases.

Shareholder: Yeah. Two quick questions about the investment portfolio of Daily Journal. Who's going to manage your investment portfolio when you're not managing it? And the second question is how come you've chosen not to tell us what's in the investment portfolio?

Munger: Well, look. You can figure it out anyway, but we have a general attitude that, we will tell people what we hold and why we do it, because we don't want to buy more. We don't want to sell. We don't want to be talking about our investments any more than we have to. Berkshire does the same thing. You shouldn't be surprised.

End of the day, it is not...If I thought that portfolio needed a lot of management, we wouldn't be having it. Like B. B. Robinson's mom said, “Don't drink.” That portfolio's like to do well when all of us are dead.

Shareholder: In spite of your comment about not knowing who competes with BYD employees, can you share or do you have to respect the manufacturing ...

Munger: Manufacturing what?

Shareholder: Just the manufacturing industry in this country.

Munger: Well, of course, manufacturing has gotten way more competition than it used to have -- a lot of it from China. It's been devastating. One of Berkshire's greatest mistakes was when we gave two percent of Berkshire for a wonderful shoe business in Maine, which was the wonderful, most trusted supplier of J. C. Penney and so on and so on. Basically I would say we gave two percent of Berkshire. What we got was hardly anything.

It was a big mistake. On the other hand, it just impaired Berkshire's performance by two percent once in one year out of many, so while we remember the mistake we made in the hope of not repeating it. In the hope of not repeating it, it wasn't that they could deal in terms of the outcome, even though it was a true opportunity cost loss was enormous.

Berkshire got clobbered on a Chinese competition in shoes. Chinese had armies of young people engaged in subsistence agriculture. They were disciplined, organized young people. Sort of a Confucian family ethic and so on. They're not a crazy bunch of hippies. They came into these factories and they learned rapidly how to do a lot of complicated stuff.

The Chinese are very entrepreneurial. For years, they were called the Jews of the Orient. That was a compliment to both people. You take these people who've been hobbled by crazy rulers and a Malthusian trap where they had to just keep working like a goat just to stay alive in terms of calories. And unleash them on modern capitalism. You've got a very powerful force.

Of course, that's an interesting force. It's not easy to make a lot of money in China, just because you have that one insight. After all, all kinds of crazy things can happen. China has its fair share of corruption. It takes talent to do well, but there are powerful forces there that were operating, and that are operating.

I don't think, BYD, anyplace else in the world could have done what it did. To go from no capital and no knowledge, except basic engineering, not related to automobiles. To go from no cars to 600,000 cars a year, I don't they could have done it any place on earth except China. For the right kind of an operator, China creates some remarkable opportunities. But of course, there are never enough of what I call the right kind of an operator.

I don't think Wang Chuanfu hardly ever has worked a week that doesn't have 70 hours of labor in it in his whole life. These are not normal people that make these unusual achievements.

American manufacture. Well, American manufacturing, of course, doesn't sound like Wang Chuanfu, does it?

Not that it isn't good and doesn't have some talent. It hasn't had such hardship. It's a more affluent culture. It's not the same. I do think there's a lot of talent in American manufacturers. I looked at some of these companies; take the Otis Elevator company. They are good at the elevator business. The elevators work. They're serviced and that would be a hard business for somebody to nudge them out of. There's some great imagination in American manufacturers. I don't think we've lost all of our manufacturing business. Even Boeing, which has made some really stupid mistakes will recover and do well.

You're doing something that's difficult. It's creating new airliners from scratch. It's easy to have the first in, but I don't think Boeing is dead as a major manufacturer. They'll solve all their problems.

If you stop to think about it, Boeing has presided in America over a culture that has created whole years, whole series of years, without a single fatality for a passenger on a commercial airliner. That's a huge technical achievement. The achievement part of Boeing hasn't gone away, because they got one big glitch (speaking, I believe, of the recent battery problem).

There's been a lot of renewals in American manufacturing. You've even had some that come back from abroad. It's a great civilization and it has a lot of achievement still in it. But I don't think we'll be making many shoes in America.

Shareholder: I'm just wondering what your thoughts might be on California politics and the propositions and maybe the marginal tax rates that we face here.

Munger: Well, I think California's policies have been insane. For a state in the United States not to be user friendly to the elderly rich is a massively stupid thing to do. It's a mistake that's not made by Hawaii. It's not made by Georgia. It's not made by Florida. It's not made by lots of other places. They want to be very user friendly to the elderly rich. Elderly well to do aren't committing any crimes. They don't fill your prisons. They have terrible health, for which the United States government pays. So, you have wonderful employment opportunities for people. They've got money that comes in for sure, which they have to spend. They don't burden the schools, which are very expensive to run.

You're out of your mind to drive out the elderly well to do and California just keeps thinking that the ideal way for the taxes to drive out the elderly rich. This is insane. I live amid the elderly rich, as you can well imagine. I want to tell you that a lot of them are self-centered and lot of them will leave. They've got options. Other elderly rich won't come. A lot of people won't come to open manufacturing plants.

California has insane tax policies in a world where other people are smart. You take this room. How many people realize California operated more like Florida in terms of being friendly? I don't like young people committing a lot of crimes. I don't like huge costs. By and large, I like the elder generation. They behave pretty well so far. I don't want to force out the elderly rich.

I think our policies are stark raving mad. This idea of constantly having people game the system to get money without effort, which happens in workman's compensation insurance and lots of other places, just massive fraud. I believe all that stuff should have been squeezed out and un-encouraged. But the people making money out of the system have huge political power. So, a lot is wrong in California.

On the other hand, a lot is right. I wouldn't move across the street to save my children $50 million. They're entitled to what's left over, so I'm not going to be chased out by California taxes.

I recommend that same course of action to all of you. Let the little darlings have what's left over. But **I don't think we should torture our whole life to make our children's life as easy as we can possibly make it**. This room, the main difficulty's going to be we make the children's lives too easy, not that we make it too hard.?

Shareholder: Charlie, in the past the board has offered some book recommendations. I wonder if they might have books that they might recommend. And yourself?

Munger: Well, I'm reading a physics book that I recommend to everybody. It's called "Something Out of Nothing," which is a...It's one of the most remarkable books I've ever read, and something we all ought to know and practically know. But it's basically...The recent history and outcome in astronomy and astrophysics, and it's utterly fascinating, at least to me. I think some of you will find it interesting. It is the most remarkable story, and it's all happened while we were just sitting around securities.

When I was young, they didn't know why the sun shone. It was Hans Bethe who figured that out. When he did, he figured it out one afternoon. He took his wife out to dinner, and he said, "You're having dinner with the only guy in the world who knows why the sun shines!"

But there have been dozens of those achievements. “Something Out of Nothing.” It's absolutely fascinating. Of course, what's happened is fascinating, of how something -- how could you have a Big Bang and a whole damn universe appear? I guarantee ya some won't like this book;

…

Munger: Well, we ordinarily let these things go on way too long, even though we have a board meeting, because some of you have come a long way, and we'll do that some, but it won't be endless.

Shareholder: Lawrence Krauss (author of the book)

Charlie: Lawrence Krauss, yeah.

Shareholder: I have a question about the government involvement in the economy. It's obvious that with continuation of QE that government's doing a lot to support the economy and the market and the stock market. What do you think the right role … and involvement, and what do you ?

Munger: Well, you just asked one of the most complicated and interesting questions and one of the most important questions in the whole world. Of course, nobody knows the answer -- just when too much is too much. We know you can't just start printing money to run the whole economy and stopping taxation. At some point on that road, you get a backlash, which causes anguish you don't want to get to. But how far you can go in having these Keynesian benefits and get by with it without risking that backlash, nobody knows for sure. **If you're like me, I believe in giving big trouble a wide berth, so I would try and stop a little short on this. Solving my problems by printing money.**

Somebody like Paul Krugman, who's overdosed on mathematics, and uses the king's English better than practically anybody alive, so he's very dangerous. He just thinks there's no limit to the amount of -- he wouldn't say that, but he thinks the limit is so far away you don't need to worry about it at all. That is not my view. But nobody knows the answer to that.

Shareholder: I wanted to see how you see the retail landscape. The future of retail from your Costco lens, and how it might be affected...?

Munger: Well, that's a very good question. I think retailing is going to get tougher and tougher and tougher. I don't think Costco is making it easier on others. I think Costco is one of the winners. I'll give you an example. I just got a new tube of toothpaste. I didn't buy it. The man who helps me with the house -- a very nice man -- bought it for me at Costco. I've used the major brands of toothpaste all my life. The brand on this toothpaste is Kirkland.

Costco got one of the major toothpaste manufacturers of the world to make their toothpaste in Costco's tube at a very low price.

This is not good for the Proctors and Gambles and Unilevers of the world, and the Colgates of the world. So, generally speaking, that's one threat.

Then you add the Amazon threat.

Then you add the fact that we have too damn many stores that are the natural over-optimism of both lenders and real estate developers and merchants and so forth.

So, I would say retailing looks tough and dangerous to me. Now, that isn't to say there aren't some people in it that are so good they're going to succeed in spite of everything, like Costco, but I think for ordinary people engaged in retailing, it's a business that's going to have a lot of head winds.

That Amazon system, where you just punch a button and it comes the next day. Don't have to drive through traffic; you don't have to look for a parking spot. You don't have to wait in line.

It's pretty damn simple, so if you got something expensive. I think the Amazon thing is a big cloud, and I think the rise of the Costcos and the Sam's Clubs and so forth, so the Proctor and Gambles of the world keep losing . I think retailing is tough. Don't you? That's why you asked the question.

Shareholder: I think it's really tough, and it's ...

Munger: Yeah.

Shareholder: I'm almost running out of...

Munger: He wanted to hear somebody else say what he already believes. He should go to the Catholic Church.

Shareholder: You described what seemed to me is an unsustainable situation.

Munger: We know there's some limit, don't we? Everybody in the room knows it. Keep pushing that forward and it will eventually blow up in your face.

Shareholder: Most of us admire is how resolute you've been with your investment philosophy. Can you talk a little bit on that?

Munger: I don't think I've changed my views on any of those subjects in a long, long time. It isn't like the first time I've seen collapses, opportunities, craziness, disappointment.

No, I think one of the reasons -- we in our old catechism -- use your head. Of course, we have nothing but contempt for modern portfolio theory and all of this stuff they teach in business schools. One of the blessings that I have. I never went near those crazy people.

By the way, I'd be glad to have any one of them marry into my family. **They're nice people. They just have the wrong ideas.**

By the way, all their ideas aren't wrong. It's just the ones that are related to portfolio management are wrong.

Being a professional money manager is not so easy. It shouldn't be easy. You're complaining about not having egg in your face; you say you had. Furrow your brow a little bit, and your plan worked.

Shareholder: Hey, Charlie. That gentleman back there on the book recommendation.

Munger: Yeah.

Shareholder: I have a book recommendation, but the story -- it has both humor and mystery attached to it. In effect, you're going to get a Warren Buffet book recommendation here. I've got this email the other day from Todd Combs. He said, "Warren gave me a copy of this book yesterday, and I just finished it. And would recommend you read it as well." The name of the book is The Outsiders. I had a member of my staff buy that. I'll get to that. Give me a moment.

I had a member of my staff buy the book from Amazon, and the book arrived. Rather -- how unusual a book for Warren Buffet to recommend, but I thought maybe he's getting more like Charlie. Charlie is always reading very interesting, unconventional non-business books.

Well, this is really an unconventional book. This is about a group of lower class students who are being bullied by very high-class rich students. I thought, Wow! Warren Buffet's really branching out in his reading. But two days later in the mail, I got a book from the author, Mr. Thorndike. A book called The Outsiders. It's a book about Henry Singleton and Warren Buffett.

All these different business people who operate outside the normal conventional approaches to business. So the mystery was solved. I emailed back the author of the book and I said, "There may be other people who are going to make the same mistake I did. Maybe you should get with your publisher and figure out how to make sure Amazon makes it clear to people looking for The Outsiders that they don't get confused; By the way, would anybody like this?

Munger: That book by Thorndike is quite an interesting book, because he describes companies and their CEOs who had utterly remarkable records and there's some common threads.

They were a very unusual bunch of people, many of whom I knew personally.

These were not normal people. They were Henry Singleton and Tom Murphy and so on. That is a very good book for you investment types. It's really very, very interesting. I think that there's one category that's not -- no, it's too much, but most people. **The ideal investment in many respects is one where anybody who owned it could make a lot**

more money with no risk simply by raising prices. You say that there can't be such opportunities lying around anymore than there'd be lots of $100 bills lying around unpicked up on the streets. How could there be?

But if you read that book, you'll realize that in the early days of network television, it was a cinch. All they had to do was sit there and keep raising the prices. Then you make huge amounts of money.

But the main thing was you were sitting in a place where all you had to do was sit there with your network television station, keep raising the prices. And there are such opportunities, and you may find a few of them in your lifetime. If you can identify them, it's some of the easiest money that there is.

That happened to us with See's Candy. When we bought See's Candy, we knew it was a marvelous business -- well run and made a nice candy, but we had no idea it was selling at $1.95 a pound. And we had no idea that we could just keep raising the prices, year after year after year by large amounts. And the earnings would keep going up or staying the same.

And See's Candy grew -- many years it's yielded more than 300 percent per annum than what we paid for the whole company. Partly, people just don't care if it goes up an extra 25 cents a pound, because it's a gift item and they love the candy. There's no price reference. Warren and I did not realize that pricing power existed. We found out by having a little gumption and doing.

There again, other factors made the company worth what we paid for it, and this extra opportunity we didn't pay for. It was these little public notice rags that Jerry bought. There was a possibility of having a bonanza if certain things happen. And a given fact that thing had no price resistance to speak of. We could have a bonanza and lo and behold, we did.

And of course, I would argue that we wouldn't have bought Coca Cola as early as we did if we hadn't had the experience with See's Candy. We just learn through doing how powerful some brands were. And so, I recommend to you people the same idea.

It probably took some gumption to buy See's Candy. We didn't know anything about the candy; we didn't have anybody that knew how to run it for sure. But the gumption to think of the bonanza that's been brought.

OK, We are going to have a director's meeting. I have done my duty for you groupies.