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## Charles Munger: Secrets of Buffett's Success?

By Jason Zweig



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Why did nearly 250 investors converge on Los Angeles this past week to listen to a 90-year-old man [address the annual meeting](#) of a tiny legal-publishing and software company? To hear [Charles T. Munger](#)—better known as [Warren Buffett](#)'s right-hand man—expound on one of his least-known holdings and just about everything else.



**The Intelligent Investor**

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COMMENTARY

Since 1977, Mr. Munger, the vice chairman of Berkshire Hathaway, has also been the chairman of Daily Journal, a peculiar combination of a venture-capital firm and a mutual fund. His public appearances are so rare and his remarks so entertaining and illuminating that investors came from as far away as Alabama, Massachusetts, Minnesota and Ontario to hear him speak.

They weren't disappointed. Mr. Munger talked almost nonstop for two hours, lambasting the banking and money-management industries, hailing the economic potential of China and, above all, dispensing

common-sense advice that anyone can benefit from. His central message: Investors can reach their fullest potential only by thinking for themselves. “If you stay rational yourself,” he told the crowd, “the stupidity of the world helps you.”

I also spoke to Mr. Munger [privately after the meeting](#). Here’s some of what he told me.

He regards 3G Capital, the Brazilian firm with which Berkshire took over H.J. Heinz last year and which is seeking to merge [Burger King Worldwide](#) with Tim Hortons of Canada, as “probably the best in the world” at making “companies function better at lower cost.”

He added, “Ultimately, I think we don’t do the world a favor by employing more people than we need for companies to run efficiently.”

Fifty years ago next year, Mr. Buffett took control at Berkshire. For that anniversary, Mr. Buffett is asking Mr. Munger to answer two questions: “Why did it work? And will it continue?”

The questions are “very interesting,” said Mr. Munger, “because the actual result at Berkshire is really preposterous.” Even he is a bit puzzled by how two men could take a jumble of dying textile mills, stagnant department stores and a trading-stamp company and turn it into the fifth-biggest firm in America, with a stock-market value of \$337 billion.

“How the hell does this thing end up blowing past GE?” asked Mr. Munger, a sense of wonder in his voice. (General Electric’s stock is valued at \$260 billion.)

First, he said, other companies like GE “long had a history of moving [division leaders] around internally, and that’s like asking an oboe player in the symphony to perform on the piano and expecting the quality of the music not to suffer.” At Berkshire, Messrs. Buffett and Munger let great managers stay put.

Second, he added, “I think we have had a temperamental advantage: Warren and I know better than most people what we know and what we don’t know. That’s even better than having a lot of extra IQ points.”

Mr. Munger continued: “People chronically misappraise the limits of their own knowledge; that’s one of the most basic parts of human nature. Knowing the edge of your circle of competence is one of the most difficult things for a human being to do. Knowing what you don’t know is much more useful in life and business than being brilliant.”

Mr. Munger had mentioned during the annual meeting that some \$120,000, apparently from a retirement-account distribution, had “floated” into his account earlier in the week. He sees nothing worth investing it in right now and hasn’t bought an investment in his personal accounts in at least two years, because he is waiting for an irresistible bargain.

Added Mr. Munger, “One person said to me, ‘I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.’ Well, that’s a reasonable thing to do. But how many people have that kind of discipline? Not one in 100.”

Successful investing, Mr. Munger told me, requires “this crazy combination of gumption and patience, and then being ready to pounce when the opportunity presents itself, because in this world opportunities just don’t last very long.” Mr. Munger showed that in March 2009, when he bought 1.6 million shares of

Wells Fargo for Daily Journal at an average cost he estimates at \$8.58 per share. The stock was trading at around \$51.50 this week.

“It’s waiting that helps you as an investor, and a lot of people just can’t stand to wait,” he said. “If you didn’t get the deferred-gratification gene, you’ve got to work very hard to overcome that.”

How long can he and Mr. Buffett, 84, continue running their companies? “We’re surrounded by a lot of smart people who will not hesitate to help us make the recognition [that it is time to retire],” Mr. Munger told me. “We won’t have an undiagnosed dotage.”

He added matter-of-factly, “I don’t have that much time relative to Warren, statistically speaking, given the longevity tables.”

But Mr. Munger told me that after speaking to investors for two hours nonstop, then presiding over a board meeting that ran for at least three hours after that. Men half his age would have been ready for a nap, but he shows no signs of slowing down.

*You can read more from the interview with Mr. Munger [here](#).*

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