Remembering Charlie Munger: Personal Reflections on a Legendary Investor's Impact

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners Podcast. Today, we're going to do something a little different. So all of us in the finance world got some really sad news yesterday, a day before Charlie Munger has passed away. I heard this through Twitter. One of the people I follow mentioned it to me, and so I heard about it. So we've been trying to process his life and what he has meant to us. And we thought maybe today we would share some of our thoughts about Charlie and how he has impacted us, not only personally, but also in our investing. And he's also cast a big shadow over our show, along with Warren.

Dave [00:00:40]:

So we thought it would be appropriate to talk a little bit about our thoughts related to Charlie. And every podcast in the world that's related to finance is going to be talking about Charlie. And I think that's appropriate. But we thought we would share our points of view. So with that, then maybe I can start off a little bit by talking about maybe what Charlie kind of one of the things that a big impact he had on me, and one of them is something a lot of people don't really talk about much. And for me, it was the story of perseverance. So most people see Charlie as this titan of industry, extremely wealthy man and very successful man. But what a lot of people don't know is his earlier backstory is not so great.

Dave [00:01:25]:

And he had kind of a rough life for a while, and he never gave up. He just kept moving along and moving along. And so you're probably asking yourself, well, Dave, what kind of hard life did he have? He was a billionaire. Well, for those who don't know, Charlie was, he got divorced at a young age. He had been married for eight years, and he and his wife separated. And this was back in the 1950s. And you may be thinking, okay, yeah, big deal. But back in the 1950s, divorce was a big, big thing, and it was not as nearly as common as it is today.

Dave [00:02:01]:

And so there was a very big social stigma on couples that got divorced back in the. So Charlie had to endure that whole period. Now, also, keep in mind that he lost everything in the divorce. His wife got the house. She got all of his money, all of his investments, took part of his business, and so she got everything. And he ended up having to live in, as one of his friends put it, deplorable situation. So I don't know specifically how awful it was, but I'm just kind of envisioning kind of a one room kind of apartment with the bare necessities in the apartment. And just not being a great situation.

Dave [00:02:45]:

A year later, his eight year old son was diagnosed with leukemia. Keep in mind, again, this is in the 1950s, so the medical advances that we have today were not available at that time. So Charlie and his ex wife had to go to the hospital together. So he had to endure that whole situation, that awkwardness, with his ex wife also trying to hopefully help save their son. He's at the hospital. He's taking his son every day for treatments to get blood work done, spending as much time as he can with him. And unfortunately, a year later, he passed away. So he lost his nine year old son a year after he got divorced.

Dave [00:03:27]:

So most people would go into a shell after something like that. Most people would crawl under a rock. They would hide in alcohol or drugs, and Charlie didn't do that. He kept grinding. He kept working. He kept trying to do the right thing and believing that life would get better. And it did for a while. But then, in his 50s, he developed cataracts in his eyes.

Dave [00:03:55]:

And during surgery to remove one of the cataracts, they basically butchered the surgery, and he had to keep the eye and the cataracts, and he developed cancer in the eye, and it became so painful that they had to remove one of his eyes. And so he only had one eye for the rest of his life. Now, that would be a tragedy in and of itself. But Charlie also was a book with legs, and he read voraciously throughout his entire life. So that would have been a huge adaptation that he would have had to have made to his life. But again, he didn't give up. He didn't complain. He didn't whine.

Dave [00:04:32]:

If you listen to any of his speeches, if you listen to any of his. Read any of his writings, he doesn't belabor his point. He doesn't even talk about these struggles that he faced, hardly ever. And these are all things that could have greatly derailed his life, and he chose not to let them. And those kinds of things, whenever I've struggled with any sort of personal struggles, whether it was going through divorce, discovering diabetes, having a heart attack, any of those kinds of things, they don't rise, I think, to the same level as what Charlie experienced, but they could easily distract you or derail you. But I chose to listen to what Charlie was saying and try to continue doing what I felt like needed to be done. And that, to me, is one of the things that I think if we can take anything away from his life, is the idea that life will throw. You know, it's not all going to know roses and sunshine and there's going to be hard periods in all of our lives, and hopefully not.

Dave [00:05:36]:

But the chances are excellent that you will have struggles in your life. And if you can think through some of the things that I was just talking about with Charlie, and you can take solace in that, or you can take comfort in those ideas and they can help you improve, then Charlie's life is one that was well worth lived because that's what he's done for me, and that's what I hope he could do for you. And that's one of the things that I have taken away from Charlie. So now, I have spoken for a long time now, so I'm going to let Sir Andrew kind of take the stand for just a moment.

Dave [00:06:09]:

It's so know, I wonder if they never really even had to do the annual meetings, like, if that's something he chose to do because he realized that the things he says makes an impact. I mean, by the time they started doing the annual meetings with Berkshire, he was already, what? Multi millionaire billionaire.

Dave [00:06:29]:

Oh, yeah.

Dave [00:06:29]:

Didn't need to go to these meetings.

Dave [00:06:31]:

No, they didn't have to do them.

Dave [00:06:33]:

I think he had the sense that his life could inspire others. And it's very clear it has. I know for you and for me as well.

Dave [00:06:42]:

Yeah, for sure, I guess. What are a few things that maybe you have learned from Charlie on your journey that you feel have been helpful to you and helped us help other people?

Andrew [00:06:54]:

I mean, not nearly as profound as what you were talking about, but I really enjoyed the way he would speak often about mental models and about the importance of having a well rounded education as an investor. And this idea that you can take concepts from the sciences, biology, he said, especially psychology, and apply that to investing in the stock market. And those things can be sometimes even more powerful than the traditional finance stuff that you learn trying to pick stocks. And I don't know if he had never said those things. I wonder if I just wouldn't have given the respect or attention that some of those things should be given. I mean, just to be a well rounded person in general, but also to become a better investor, because once you kind of realize those things are there, you start seeing them. And it is fascinating. I feel like I've belabored the tree metaphor countlessly on the show, but if you think about the way a forest grows and the competition, but also some of the synergies that happen as a forest grows, there's just a lot of parallels to the business world and maybe my favorite one when it comes to trees is no tree grows to the sky.

Dave [00:08:12]:

And that's important to remember as an investor, too.

Dave [00:08:15]:

Yeah, it is. I think the thing that I always enjoyed about Charlie, especially in conjunction with Warren, and Charlie was a great man unto himself as a part of the grouping, but he was also a great person on his own. And he, a lot of times, because he was more, I guess, understated than Warren, he probably faded into the background a little more than, I think, his intellect and his ability really deserved. And a lot of know, he wasn't as wealthy as Charlie Warren, and he wasn't as outgoing. He wasn't as gregarious. He rarely, rarely gave interviews, and he would rarely go on TV where Warren was on TV, not a lot, but he was certainly on CNBC with, you know, not regularly, maybe a little bit of a stretch, but more frequently. Whereas Charlie basically chose to be at home with family and friends and not really interact much with the public, which is fine. But I think when you would watch him not so much at the Berkshire meetings, but when you would watch him at the Daily Journal meetings, where he was the chairman of the board for that company for a very long time, then you got to really see him really kind of spread his wings, if you will, because he was the main focus.

Dave [00:09:39]:

He was the main show at those meetings, as opposed to the Berkshire meetings. And so he would be a lot more eloquent in those meetings than he would be at Berkshire, but he would certainly drop a lot of his famous one liners or his little EBITDA know bullshit and the whole bitcoin rat poison kind of idea, those all came from those shorter sessions and his shorter wit. But if you ever listen to any of his speeches, and in particular, the two that I really kind of come back to, one is the one he did at USC, and the other one was the one he did at Harvard. The psychology of human misjudgment is the title of that one, and that's probably his most famous one. And he has 25 different tendencies or biases that he exposes in that speech that you could spend a lifetime researching each one. And he goes through 25 of them. And when you really sit down and think through all of them, they're all so brilliant, and they're all such great mental models. And when you think about them logically, they all make so much sense, and they really help explain why we humans do the things that we do, because sometimes they can be very illogical and very, if you step back away from it, why do we react that way to these certain things? And it's not just about business.

Dave [00:11:03]:

It was about how to live a life. And I think that's one of the things that I always liked about kind of his contrast to Warren was that Charlie, I felt, like, focused way more on the mental side of investing and focused more on trying to be a better person than Warren did. And I'm not saying that Warren Buffett is not and does not focus on those things. I always felt like Charlie, though, that was really kind of his, you know, the mental models and everything like that. Those, I think, are legendary. And I know Andrew spends a lot of time thinking about mental models and how you can try to take these ideas and use them as a framework to help guide other decisions. And I think it's a fantastic way to try to make decisions because then it's not as emotional. And that's one of the things that I admire about what Andrew does and has done, is that he really tries to focus on those things.

Dave [00:11:57]:

And I think that's very helpful. Not only his work and his investing, but also as a person. And that's what makes people grow and become better, is by trying to be consistent with their emotions and their decisions. And that's a really hard place to get to.

Dave [00:12:13]:

For, say, how has he shaped you as an investor? I mean, obviously, there's so many great lessons and the mental models. If you could boil it down, how would you say Charlie Munger has shaped you as an investor?

Dave [00:12:27]:

I think probably the biggest thing that I have learned from him that I've really tried to apply, is this idea of inversion, this idea of looking at an idea and trying to tear it down or reverse engineer it to figure out A, how it can be successful, and B, how it cannot be successful and what has to happen for it to avoid that becoming a reality. So, in other words, when you think about investing in a company, most people, when they invest in, I'll just pick a company, visa. When most people invest in visa, they spend the majority of their time thinking how this investment can be successful. And I think there's value in that. But Charlie would argue that the best way to have a long term success with that investment is to figure out what can make it successful, but also figure out what could make it not successful and then try to determine how likely those scenarios are to become. So if you are investing in a company like Visa, you obviously want to know what the business model is and what drives their growth, but you also want to know what could disrupt it and what could unseat the company? What could cause Visa not to be a great investment? Maybe not tomorrow, but maybe two years down the road, and how could it go awry? And I think by trying to, I guess, reverse engineer those kinds of ideas, that really helps me hopefully understand what it is I'm trying to buy and why I'm trying to buy it. It's not just because I want to get rich or it's not because I want the company to be successful. It's also, what are the things that drive Visa being successful, for example, and what are the potential downfalls for buying this investment, and how likely are those downfalls? Bitcoin is the one that always comes up is that bitcoin is going to unseat visa, and it may.

Dave [00:14:40]:

But if you really understand Visa, then you would spend time trying to understand Bitcoin, at least a little bit, and see how likely something like that could be to unseat a company like Visa. And so, for me, when I think about Charlie and what I've learned from him, inversion is always the thing that comes to mind. And it's not just about investing. It's about how do I invert my diet so that I'm diabetic, I don't want to go on another medication? How can I reverse engineer what I'm eating and experiment with what I'm eating and try to figure out what can I not eat and avoid having to take medication to control my diabetes? And that leads you to lots of different places to research different kinds of foods and the impacts they could have on you. It also leads you to testing. That's really the only way you can find out, is, hey, if I eat an apple, is that going to spike my sugar? And if it does, okay, I can't have apples. Let's try strawberries. See, strawberries do, but not as bad.

Dave [00:15:45]:

And then you can try something like blueberries. Oh, blueberries. You think, oh, that's not going to be. But you eat them, they don't spike your sugar at all. Okay, so now If I'm craving a sugary snack, I can have blueberries, and it's just those little things that you can do. Not to turn this into a diabetes conversation, but that's how I've used an idea like inversion in my personal life. And there's lots of different ways that you can use these different models, but that's the thing that has really kind of impacted me the most. What about you?

Dave [00:16:19]:

That one's definitely. I don't know if I would say it's the most, but it's definitely up there is probably one of the top impacts. Maybe it's a hat tip to Charlie. He would probably enjoy a conversation like this because I know he's probably got the thickest skin any investor can.

Dave [00:16:34]:

Right.

Dave [00:16:35]:

How would you invert one of his best investment ideas and kind of attack it? Not to say, know this is a bad idea, but just to kind of invert to say, all right, what are the ways that this investment can fail, and what is this company doing to combat it?

Dave [00:16:54]:

Right. That's a great question. I think when he passed, he only had four companies in his portfolio, so it's a pretty limited choice. So I think maybe instead of directly trying to tear one down, I'll kind of look and you can kind of see maybe what did happen with one and how it did impact that investment. And that would be Wells Fargo. So if you looked at Wells Fargo 20 years ago, the company was revered as one of the best banks out there. They had a great culture, they had growing sales. They seemed to have very strong management, very strong balance sheet, and it really seemed like they were on top of the world.

Dave [00:17:38]:

And at one point, I think, believe they were the top bank by market cap globally. And that all came crashing down when it was discovered that management was allowing lower level employees to basically cheat their customers by opening fake accounts, opening fake credit cards, all these things in pursuit of.

Dave [00:18:01]:

What about Costco?

Dave [00:18:02]:

What about, well, Costco, I think, you know, that is an enduring company with an enduring moat. And I think, really, the only thing that really I could come up with that could potentially upset a company like that would be a change in management that doesn't believe in the same culture that pervades the company. And if they got the wrong manager in there, I would worry that could filter down into all the things that makes Costco special. In other words, finding the best products for a really great price, and they ruin relationships with their vendors, which causes them to not have as good of products. Then there could be a potential for, they could raise prices such that people feel like they're not getting a deal anymore, and they're doing that because they're not getting as good of prices from their vendors and the quality of the product degrades. So you have a combination of price increases along with deteriorating products that would filter back into people not subscribing to be a member. Right now, their renewal rate is 90, 91% or some crazy number like that. And if that ever started to deteriorate, that would eat into their margins.

Dave [00:19:26]:

And that would eat into their profitability and it would just kind of all kind of cascade down from there. But I would feel like that if they got an air quote ham sandwich in there to run the company and they didn't stick to what they had been doing, know, if they tried to change the formula, then I think that would probably unseat Costco. What about you?

Dave [00:19:49]:

Yeah, that's a good one.

Dave [00:19:50]:

That's really the only thing I can think of that could really derail the company. I mean, it's such a strong business that I think if things stay status quo, I don't see anything coming in to try to disrupt them, if you will.

Dave [00:20:04]:

What about the Amazon risk?

Dave [00:20:06]:

Well, I think that's, of course, there's always a risk, but I think Amazon has been doing what they've been doing for so long and Costco has continued to do what they do. I don't really think it hasn't shown itself as much of a risk to Costco. And I don't think that they can really do anything at this point that really will unseat it. I think their opportunity was years ago and it didn't materialize. And so now I think that's kind of water under the bridge.

Dave [00:20:33]:

I'm probably the biggest Costco fan in my zip code. I also have shares in Costco, so you have to take all this with a grain of salt. But to me, the context of shopping at Costco versus Amazon is completely different. And so if you invert the problem and say, can Amazon be Costco? Because Amazon can get it to your house really fast, they might know five years away from getting it to your house in an hour if they don't do that already. Right, but maybe doing it for free. So you think, okay, well, why wouldn't a customer pick that? Why would they go to Costco? And just as a Costco shopper, I feel like the context for me is if I want something that's $30 on Amazon, that's a small thing like microphone cables that I need to replace, I'm going to buy it from Amazon. If I have this itching desire to spend $300 that I didn't plan to spend, I go to Costco.

Dave [00:21:31]:

Right?

Dave [00:21:31]:

Costco just has different deals every single time you go. It's just a completely different shopping experience and you're getting an insane amount of value every time you go.

Dave [00:21:42]:

Right.

Dave [00:21:43]:

And so if the context is different by inverting kind of, instead of concentrating on why Costco is so great, you think about why, what makes them different. And I feel like that can help them compete against Amazon, compete against Walmart, compete against these other places that might try to undercut them but can't because of the way to your point. Management keeps the margins down so that customers get that extra value. They have to be really dumb to mess with that recipe.

Dave [00:22:16]:

Yeah, you would for sure. To me, I'm maybe not as big a fan as you, but I'm probably close. And I'm newer to the cult, if you will, than others. But one of the things that I have noticed is that the difference, for me anyway, is that when I go to a Costco store, I experience finding these little nuggets of things that are so awesome. For example, a couple of things that kind of spring to mind. I found these green olives that were stuffed with garlic and jalapenos. So two of my favorite things all in one little package. And it was so addicting eating those things.

Dave [00:22:56]:

You buy this 20 ounce can or bottle of these olives and I devour the whole thing in, like two days, and I get my daughter in law hooked on them. And so we're both just craving these things. And that, to me, is not something I necessarily would find thumbing through on my phone on Amazon. Yeah, I could. But when it's there and it's visceral and you can see it and touch it, it's a different experience than when you see it online. And it's not necessarily something you wouldn't find it unless you were in the store. And then another thing that how they all have all those little tasters around the store, well, this one woman had these little chocolate barks. They were dark chocolate little nuts in them.

Dave [00:23:41]:

And it had a little bit of a blueberry flavor infused into the dark chocolate. And I ate one and it was like heaven, just. And I bought a bag and then I buy them every single time I go back to Costco because it's something I can eat. It's dark chocolate. So it's not sweet sweet, but it's sweet. And it's something I can eat. Doesn't hamper my diabetes, and I love it. And that's not something I would, again, discover online.

Dave [00:24:07]:

And so to me, that's what makes Costco not impervious. But I think that's what separates them from Amazon to me.

Dave [00:24:16]:

Oh, yeah. And I don't know if Charlie's ever outright said this, but I'm pretty sure he's a super big Costco fan. As mean I do know that this guy has billions of dollars and he buys his clothes from Costco, right? He's got to love the mentality. I mean, value investor through and through. Go to Costco, get a good mean. The funny thing to me about Costco is I remember going there as a kid, and it's the exact same as really they had the formula. It's been there, it's been hiding in plain sight all of these years.

Dave [00:24:50]:

Right.

Dave [00:24:50]:

Only somebody like Charlie was smart enough to take advantage of. Mean, I don't even know what the numbers are on how much money he's made on that, but the compoundings have. It's got to be stupid, right?

Dave [00:25:03]:

Yeah, for sure. Yeah, it's got to be nuts. And he was on the board of directors for them for a long, long time. I don't have the specific numbers, but it was decades, so I know he was intimately involved in what they were doing, for sure.

Dave [00:25:18]:

Yeah, I guess. Anything else about Charlie's life feel like we've left unsaid out of the millions of things we could say? Yeah.

Dave [00:25:25]:

I think the last thing I probably would want to touch a little bit on is just his love of learning and his continual efforts to improve himself and trying to become better, whatever it was. And I just think that he, like Warren, was a perpetual learning machine and that I aspire to because he was endlessly curious and he always wanted to learn more. And he spent a lot of time talking to some of the smartest people in the world, and he continually loved to learn, loved to meet new people, loved to learn new ideas and discover new things and try to figure out different angles of things that he thought he probably already knew. And I just think that continual effort to learn something and never be not satisfied, that's not quite the right word for it. But never be content that you know everything you could possibly know about a particular subject. And I think that having that kind of curiosity and mindset can really, really take you a long, long ways in life. And that's something that I've always tried to encourage in myself and encourage it in my daughter. And hopefully that resonates with people because you could never know everything.

Dave [00:26:42]:

And that's what I think what makes investing in particular so fascinating.

Dave [00:26:45]:

I have nothing to add.

Dave [00:26:51]:

For those of you unfamiliar, that was a very common refrain for Charlie at the annual meetings that they would have. I think that's probably the best way to end it. All right, well, with that, we will go ahead and wrap up our show for today. Again, thank you for listening. We hope you enjoyed our conversation related to Charlie Munger. If you have not read any of his speeches, I would highly encourage you to go on the Internet, the Interweb, Google Chat, GBT, Bard, any of them. You'll find all of collection of all of Charlie's speeches. His book, the book Poor Charlie the Almanac is also a fantastic read.

Dave [00:27:24]:

If you ever really want to dive into the wit and wisdom of Charlie Munger, that would be a great collection for you to read as well. He was a smart, smart man and there's a lot you can learn from him.

Dave [00:27:34]:

And I'll throw into all of the Berkshire meetings are on YouTube and you can find them and there's just nothing to replace listening to those two guys talk for 4 hours. It's awesome.

Dave [00:27:45]:

Yeah, it is. One of our favorite investors, Jake Taylor, he actually listens to those on loop in the background so that he can absorb them osmosively, I guess. Yeah, that's pretty awesome. Well, with that, we hope you guys enjoyed the show and thank you for enduring us talking about Charlie and his impact on us and hopefully you find some value in what we talked about today. And with that, I will go ahead and sign us off. You guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week and we'll talk to you all next week.