



A HUNGER FOR MORE CHARLIE MUNGER

A few days ago I was looking at the main stories on Bloomberg when I noticed a headline for an article with the title “America will miss Munger as Mencken” written by Alice Schroeder. This immediately grabbed my attention because it was written by Schroeder (best known as author of *The Snowball- Warren Buffett and the business of Life*) and it had to be about Charlie Munger, Warren Buffett’s business partner. I read the article and discovered one significant piece of information about Munger and wondered whether this could be the basis for an opinion piece. I then remembered that I had not written about him in any previous piece. Not writing about Munger is an obvious oversight on my behalf and therefore I decided to use this as an opportunity to rectify that situation.

First of all I have to admit that I am not the world’s greatest expert on Munger. In fact the extent of my knowledge is limited to reading a couple of his letters to shareholders, statements he made at the Berkshire annual meeting and whatever was written about him in *The Snowball*. Despite not having done an exhaustive amount of research, I feel that I now know a couple of things about the man that are worth highlighting.

In my opinion one of the most interesting things highlighted in *The Snowball* about Munger was how he played a significant role in changing Buffett’s approach to investing. As the book states about Buffett:

Everything he bought was extraordinarily cheap.....But that was before he met Charlie Munger.

The book goes on to describe how Munger had developed his own philosophy.

Munger was quoted as saying:

I just like the great businesses

He would also go around asking people

What’s the best business you’ve ever heard of

As Schroeder says:

He wanted to hear about the intangibles: the strength of its management, the durability of its brand, how someone else could compete with it.

In other words here we have evidence that Munger was ahead of Buffett and even though it was Buffett that ultimately became more famous for adapting and using this approach I think it is important to acknowledge the person that influenced his thinking.

This influence was seen in the purchase of a company that Buffett owns to this day, See’s Candy. When they were told See’s was for sale Munger is quoted as saying the following to Buffett:

See’s has a name that nobody can get near in California. It’s impossible to compete with that brand without spending all kinds of money

In other words Buffett listened to Munger when it came to buying one of the companies that he defined as a great business. (He sure was right because See's Candy is still generating fantastic returns for them over forty years later.)

I have highlighted all of this because I attempt to do the same when I look for investments. I love to find really great companies and often it is down to intangible things that make them great. I have written about this in a number of Opinion Pieces. For example I believe that there are fantastic intangibles such as unique company cultures at the likes of ASM Pacific and Linear Technology. (Covered in Opinion Pieces 15, 16, 43 and 58)

From early on in my investment career I have been inclined to try and find those really great companies but as described in opinion piece 16 I have often made the mistake of paying too high a price. The skill that Buffett has perfected is only buying when the price is right. When I find what I believe to be a great company I generally want to buy it straight away but if the price is wrong I must have the emotional strength to wait. Obviously this may ultimately mean that I never invest at all! When Buffett and Munger were buying See's Candy Munger is quoted in the Snowball as saying:

They came to the exact dollar limit of what we were willing to pay.

It is this discipline on price that distinguishes the great investor. It seems to have come to Munger and Buffett instinctively but it is something that I have made mistakes on in the past and only time will tell whether I have got better at this crucial skill.

I now want to return to that Alice Schroeder article I referred to at the beginning. In it she describes what she regards as Munger's finest hour. I had not heard this particular story before and having now heard it I feel I should shout about it because it is such a great story.

Back in the late 1980s Munger was Chairman and Chief Executive of an S&L (Savings and Loan, the American equivalent of a building society). He saw that most of the other S&Ls were using accounting tricks and that this would ultimately lead to bankruptcies. He did everything to distance himself from the other S&Ls by resigning from the U.S. League of Savings Institutions. In the resignation letter he likened the trade association to metastasizing cancer cells and called its lobbying practices flawed, indeed disgraceful.

As Schroeder states:

It was a quixotic move, one that only a person who was willing to be detested by an entire industry would make.

I admire him for taking such a strong stance and if the story becomes more widely known maybe more people will see Munger as the type of role model to restore confidence in a flawed capitalist system.

I know that I have a lot more to learn about Munger. When I get the time I must read "Poor Charlie's Almanac", a collection of articles he has written. You never know a future opinion piece might be written about things I discover when I get the time to read his book. In the meantime I have a hunger to learn more about Munger.....



Munger with Buffett