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FINANCIAL MANAGEMENT



The Other Warren Buffett...

How many of you have heard the name of Warren Buffett's partner, Charlie Munger?

Charlie is Vice Chairman of Berkshire Hathaway, and like Buffett, a native of Omaha, Nebraska. Before teaming with Buffett, Charlie ran a very successful investment partnership that delivered compounded annual returns of 19.8% from 1962-1975, way above the Dow's 5% annualized return for the same period.

Like Warren, Charlie too is a bit of a philosopher, which we get to see in a 2005 book titled "Poor Charlie's Almanac" compiled from his writings and speeches.

So here is an Investing Principles Checklist based on the wisdom of Charlie Munger.

Risk

"All investment evaluations should begin by measuring risk, **especially risk to your reputation.**"

"Always incorporate an appropriate Margin of Safety." (**Steve:** I talk a lot about this a lot too - when you make an investment, keep a margin of safety for things you just cannot predict, to minimize your losses if you're wrong).

"Avoid big mistakes, shun permanent capital loss." (**Steve:** Stay away from stocks like Enron and Lehman where you do not understand the risk).

Independence

“Objectivity and rationality require independence of thought. And remember, just because other people agree or disagree with you doesn’t make you right or wrong. The only thing that matters is the correctness of your analysis and judgment.”

“Mimicking the herd will only give you average returns”.

Preparation

“The only way to win is to work, work, work, work, and hope to have a few insights.”

“Develop into a lifelong self-learner through voracious reading. Cultivate curiosity and strive to become a little wiser every day.”

“More important than the will to win, is the will to prepare.” “If you want to get smart, the question you have to keep asking is why, why, why.”

Intellectual Humility

“Acknowledging what you don’t know is the dawning of wisdom. Stay within a well-defined circle of competence.” (**Steve:** Warren and Charlie acknowledge that they aren’t the smartest guys around; that if their IQs were higher, they would have made more mistakes. They succeeded by sticking to things they understood well and avoiding everything else).

“Above all, never fool yourself and remember that the easiest person to fool is yourself.”

Analytic Rigor

“Use the scientific method and an effective checklist to minimize errors and omissions.”

Investing

“Determine value apart from price, progress apart from activity, and wealth apart from size. It is better to remember the obvious than to grasp the esoteric.”

“Be a business analyst, not a market macroeconomic or securities analyst.”
(**Steve:** Understand the businesses you are getting into).

Allocation

“Proper allocation of capital is an investor’s Number 1 job. Good ideas are rare. When the odds are greatly in your favor... bet heavily.” (**Steve:** This is exactly what Warren and Charlie do so well).

“Don’t fall in love with an investment. Be situation dependent and opportunity driven if circumstances change, make necessary adjustments”.

Patience

“Understanding the power of compound interest, and the difficulty of getting it, is at the heart and soul of understanding a lot of things.”

“Resist the natural human bias to act. (**Steve:** this means avoid over handling which causes unnecessary taxes and commissions).

“Be alert for the arrival of luck.”

“Enjoy the process along with the proceeds because the process is where you live.”

Decisiveness

“When proper circumstances present themselves, act with decisiveness and conviction.”

“Be fearful when others are greedy and greedy when others are fearful.”
(**Steve:** A-ha! I always thought this was said by Warren but I guess Charlie really said it).

Another one I love: “Opportunity does not come often, so when it does come, seize it. An opportunity meeting the prepared mind – that’s the game.”

Change

“Live with change and accept un-removable complexity.” (**Steve:** In other words, accept things you cannot change).

“Recognize and adapt to the true nature of the world around you. Don’t expect it to adapt to you.” (**Steve:** Something we should tell our kids, right?!)

“Continually challenge and willingly amend your best loved ideas. Recognize reality, even when you don’t like it... especially when you don’t like it.”

Focus

“Keep things simple and remember what you set out to do.”

“Remember that reputation and integrity are your most valuable assets, and can be lost in a heartbeat.”

“Face your big troubles. Don’t sweep them under the rug.”

In the end, it comes down to Charlie’s most basic guiding principles - **preparation, discipline, patience and decisiveness.**

All great thoughts, from Poor Charlie’s Almanac! Thanks Charlie!