

CHARLIE MUNGER
USC GOULD SCHOOL OF LAW
COMMENCEMENT SPEECH

Von Kleinsmid Center
May 13, 2007

ABOUT CHARLIE MUNGER



Charlie Munger is Warren Buffett's long-time business partner and Vice Chairman at Berkshire Hathaway.

Charlie Munger was born in Omaha, Nebraska (like Warren Buffett) in 1924. As a teenager, Munger actually worked at Buffett & Son, a grocery store owned by Warren Buffett's grandfather, although Warren and Charlie wouldn't actually ever meet until 1960.

When he was 19, Munger dropped out of the University of Michigan to serve in the U.S. Army Air Corps during WWII. Eventually, Munger worked his way into Harvard Law School and founded the prominent Los Angeles-based law firm of Munger, Tolles & Olson.

Buffett met Munger in 1960 and convinced him to become an investor. So Munger set up an investment partnership.

Eventually, Munger joined Buffett at Berkshire Hathaway and become its Vice Chairman. And while Buffett was the one that convinced Munger to leave law and become an investor, Munger is credited for convincing Buffett to stop investing in only cheap, cigar butt style stocks and instead to invest in amazing companies at attractive prices. In other words, Munger convinced Buffett to stop investing in good companies at wonderful prices and instead to invest in *wonderful* companies at *good* prices.

In addition to his work at Berkshire Hathaway, Munger is the former CEO of Wesco Financial Corp (which had been a subsidiary of Berkshire Hathaway since the 1980s until it was wholly acquired by Berkshire in 2011), the chairman of the Daily Journal Corporation, and a director of Costco Wholesale Corporation.

Munger also serves on the USC Law Board of Councilors and is a renowned philanthropist. As president of the Alfred C. Munger Foundation, named for his father, Munger has donated millions of dollars to Los Angeles schools, libraries, museums, and other community and health care organizations.

Munger is highly respected for his financial insight and wisdom. His knowledge – in the form of “Mungerisms” – is the subject of his book, *Poor Charlie's Almanac: The Wit and Wisdom of Charles T. Munger*, edited by Peter D. Kaufman.

USC GOULD SCHOOL OF LAW, COMMENCEMENT SPEECH, MAY 13, 2007 — CHARLIE MUNGER

Well no doubt many of you are wondering why the speaker is so old.

Well the answer is obvious: he hasn't died yet.

And why was the speaker chosen?

Well I don't know that either. I like to think that the development department had nothing to do with it.

Whatever the reason I think it's very fitting that I'm sitting here because I see one crowd of faces in the rear not wearing robes, and I know, from having educated an army of descendants, who really deserves a lot of the honors that are being given to the people here upfront. The sacrifice and the wisdom and the value transfer that comes from one generation to the next can never be underrated.

And that gives me enormous pleasure as I look at this sea of Asian faces to my left. All my life I've admired Confucius. I like the idea of filial piety, the idea that there are values that are taught and duties that come naturally and all that should be passed on to the next generation. And you people who don't think there's anything in this idea, please note how fast these Asian faces are rising in American life. I think they have something.

All right, I scratched out a few notes and I'm going to try and just give an account of some ideas and attitudes that have worked well for *me*. I don't claim that they are perfect for everybody. Although I think many of them are pretty close to universal values and many of them are can't fail ideas.

What are the core ideas that have helped me? Well luckily I got at a very early age the idea that the safest way to try and *get* what you want is to try and *deserve* what you want. It's such a simple idea, it's the golden rule so to speak. You want to deliver to the world what you would buy if you were on the other end. There is no ethos in my opinion that is better for any lawyer or any other person to have.

By and large the people who have this ethos win in life and they don't win just money, just honors. They win the respect, the deserved trust, of the people they deal with, and there is huge pleasure in life to be obtained from getting deserved trust. And the way to get it is to deliver what you'd want to buy if the circumstances were reversed.

Occasionally you find a perfect rogue of a person, who dies rich and unwidely known. But mostly these people are fully understood by the surrounding civilization, and when the cathedral is full of people at the funeral ceremony, most of them are there to celebrate the fact that the person is dead. And, that reminds me of the story of the time when one of these people died and the minister said, "it's now time for someone to say something nice about the deceased." And nobody came forward. And nobody came forward. And nobody came forward. And finally one man came up and he said, "Well, his brother was

worse." That is not where you want to go! That's not the kind of funeral you want to have – you'll leave entirely the wrong example.

A second idea that I got very early was that there is no love that's so right as admiration-based love, and that love should include the instructive dead. Somehow I got that idea and I lived with it all my life and it's been very, very useful to me. A love like that celebrated by Somerset Maugham and his book "Of Human Bondage" – that's a sick kind of love, it's a disease. And if you find yourself in a disease like that my advice to you is turn around and fix it. Eliminate it.

Another idea that I got – and this may remind you of Confucius too – is that wisdom acquisition is a moral duty, it's not something you do just to advance in life. Wisdom acquisition is a moral duty.

And there's a corollary to that proposition which is very important, it means that you're hooked for lifetime learning, and without lifetime learning you people are not going to do very well. You are not going to get very far in life based on what you already know. You're going to advance in life by what you're going to learn after you leave here.

If you take Berkshire Hathaway which is certainly one of the best regarded corporations in the world and may have the best long-term investment record in the entire history of civilization, the skill that got Berkshire through one decade would not have sufficed to get it through the next decade with the achievements made. Without Warren Buffett being a learning machine, a continuous learning machine, the record would have been absolutely impossible.

The same is true at lower walks of life. I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines, they go to bed every night a little wiser than when they got up and boy does that help, particularly when you have a long run ahead of you.

Alfred North Whitehead said one time that "The rapid advance of civilization came only when man invented the method of invention," and of course he was referring to the huge growth of GDP per capita and all the other good things that we now take for granted which started a few hundred years ago and before that all was stasis. So if civilization can progress only when it invents the method of invention, you can progress only when you learn the method of learning.

I was very lucky. I came to law school having learned the method of learning and nothing has served me better in my long life than continuous learning.

And if you take Warren Buffett and watched him with a time clock, I would say half of all the time he spends is sitting on his ass and reading. And a big chunk of the rest of the time is spent talking one-on-one either on the telephone or personally with highly gifted people whom he trusts and who trust him. In other words, it looks quite academic all this worldly success.

Academia has many wonderful values in it. I came across such a value not too long ago. It was several years ago. In my capacity as a hospital board chairman I was dealing with a medical school academic. And this man over years of hard work had made himself know more about bone tumor pathology than almost anybody else in the world. And he wanted to pass this knowledge on to the rest of us, so that people could treat bone cancer.

And how was he going to do it?

Well he decided to write a textbook that would be very useful to other people. And I don't think a textbook like this sells two thousand copies – but those two thousand copies are in all the major cancer centers in the world.

He took a year sabbatical, he sat down on his computer and he had all the slides because he saved them and organized them and filed them. He worked 17 hours a day, 7 days a week, for a year and that was his sabbatical. At the end of the year he had one of the great bone tumor pathology textbooks in the world. When you're around values like that, you want to pick up as much as you can.

Another idea that was hugely useful to me was that I listened in law school when some wag said, "A legal mind is a mind that when two things are all twisted up together and interacting, it's feasible to think responsibly about one thing and not the other."

Well I could see from that one sentence that that was perfectly ridiculous, and it pushed me further into my natural drift, which was into learning all the big ideas and all the big disciplines. So I wouldn't be a perfect damn fool who was trying to think about one aspect of something that couldn't be removed from the totality of the situation in a constructive fashion. And what I noted, since the really big ideas carry 95% of the freight, it wasn't at all hard for me to pick up all the big ideas and all the big disciplines and make them a standard part of my mental routines. Once you have the ideas of course they are no good if you don't practice. You don't practice, you lose it.

So I went through life constantly practicing this model of disciplinary approach. Well I can't tell you what that's done for me, it's made life more fun, it's made me more constructive, it's made me more helpful to others, it's made me enormously rich, you name it, that attitude really helps.

Now there are dangers in it, because it works so well, that if you do it, you will frequently find you are sitting in the presence of some other expert, maybe even an expert that's superior to you, supervising you. And you will know more than he does about his own specialty, a lot more. You will see the correct answer when he's missed it.

That is a very dangerous position to be in. You can cause enormous offense by helpfully being right in a way that causes somebody else to lose face. And I never found a perfect way to solve that problem.

I was a great poker player when I was young but I wasn't a good enough poker player so that people failed to sense that I thought I knew more than they did about their subjects and it gave a lot of offense. Now I'm just regarded as eccentric but there was a difficult period to go through.

And my advice to you is to learn sometimes to keep your light under a bushel.

One of my colleagues, also number one in his class in law school, a great success in life, clerk for the supreme court, etc. But he knew a lot and he tended to show it as a very young lawyer and one day the senior partner called him in and said, "Listen Chuck, I want to explain something to you. Your duty under any circumstances is to behave in such a way that the client thinks he's the smartest person in the world. If you have any little energy and insight available after that, use it to make your senior partner look like the smartest person in the world. And only after you've satisfied those two obligations do you want your light to shine at all."

Well, that may be very good advice for rising in a large firm. But it wasn't what I did I always obeyed the drift of my nature and if other people didn't like it, well I didn't need to be adored by everybody.

Another idea – and by the way when I talk about this multidisciplinary attitude I'm really following a very key idea of the greatest lawyer of antiquity, Marcus Tullius Cicero.

Cicero is famous for saying, "A man who doesn't know what happened before he was born goes through life like a child." That is a very correct idea of Cicero's. And he's right to ridicule somebody so foolish as not to know what happened before he was born.

But if you generalize Cicero as I think one should, there are all these other things that you should know in addition to history and those other things are the big ideas in all the other disciplines. And it doesn't help you just to know them enough just so you can prattle them back on an exam and get an A. You have to learn these things in such a way that they're in a mental latticework in your head and you automatically use them for the rest of your life.

If you do that I solemnly promise you that one day you'll be walking down the street and you'll look to your right and left and think, "My heavenly days! I'm now one of the few most competent people of my whole age cohort."

If you don't do it, many of the brightest of you will live in the middle ranks or in the shallows.

Another idea that I got, and it was encapsulated by that story the Dean recounted about the man who wanted to know where he was going to die and he wouldn't go there, that rustic who had that idea had a profound truth in his hand.

The way complex adaptive systems work and the way mental constructs work, problems frequently get easier and I would even say usually are easier to solve if you turn them around in reverse.

In other words if you want to help India, the question you should ask is not "how can I help India?", you think "what's doing the worst damage in India? What would automatically do the worst damage and how do I avoid it?"

You'd think they're logically the same thing, they're not.

Those of you who have mastered algebra know that inversion frequently will solve problems which nothing else will solve.

And in life, unless you're more gifted than Einstein, inversion will help you solve problems that you can't solve in other ways.

Let me use a little inversion now: What will really fail in life? What do you want to avoid? Such an easy answer: sloth and unreliability.

If you're unreliable it doesn't matter what your virtues are, you're going to crater immediately.

So doing what you have faithfully engaged to do should be an automatic part of your conduct. You want to avoid sloth and unreliability.

Another thing I think should be avoided is extremely intense ideology because it cabbages up one's mind.

You've seen that. You see a lot of it on TV – preachers for instance, you know they've all got different ideas about theology and a lot of them have minds that are made of cabbage.

But that can happen with political ideology. And if you're young it's easy to drift into loyalties and when you announce that you're a loyal member and you start shouting the orthodox ideology out what you're doing is pounding it in, pounding it in and you're gradually ruining your mind so you want to be very, very careful with this ideology. It's a big danger.

In my mind I've got a little example I use whenever I think about ideology and it's these Scandinavian canoeists who succeeded in taming all the rapids of Scandinavia and they thought they would tackle the whirlpools of the Arran Rapids here in the United States. The death rate was 100%.

A big whirlpool is not something you want to go into and I think the same is true about a really deep ideology.

I have what I call an iron prescription that helps me keep sane when I naturally drift toward preferring one ideology over another. And that is I say "I'm not entitled to have an opinion on this subject unless

I can state the arguments *against* my position better than the people do who are supporting it." I think only when I reach that state am I qualified to speak.

Now you can say that that's too much of an iron discipline. It's not too much of an iron discipline, it's not even that hard to do. It sounds a lot like the iron prescription of Ferdinand the Great, "It's not necessary to hope in order to persevere."

That probably is too tough for most people – I don't think it's too tough for me but it's too tough for most people.

But this business of not drifting into extreme ideology is a very, very important thing in life if you want to have more correct knowledge and be wiser than other people. A heavy ideology is very likely to do you in.

Another thing of course that does one in is the self-serving bias to which we are all subject.

You think that your "little me" is entitled to do what it wants to do, and for instance why shouldn't the true "little me" overspend my income?

Well, there once was a man who became the most famous composer in the world but he was utterly miserable most of the time and one of the reasons was he always overspent his income. That was Mozart.

If Mozart can't get by with this kind of asinine conduct, I don't think you should try it.

Generally speaking, envy, resentment, revenge, and self-pity are disastrous modes of thought. Self-pity gets pretty close to paranoia, and paranoia is one of the very hardest things to reverse. You do not want to drift into self-pity.

I have a friend who carried a big stack of linen cards – about this thick – and when somebody would make a comment that reflected self-pity, he would take out one of the cards, take the top one off the stack and hand it to the person, and the card said, "Your story has touched my heart. Never have I heard of anyone with as many misfortunes as you." Well you can say that's waggery, but I suggest that every time you find you're drifting into self-pity, and I don't care the cause – your child could be dying of cancer, self-pity is not going to improve the situation – just give yourself one of those cards.

It's a ridiculous way to behave, and when you avoid it you get a great advantage over everybody else, almost everybody else, because self-pity is a standard condition and yet you can train yourself out of it.

And of course the self-serving bias, you want to get out of yourself, thinking that what's good for you is good for the wider civilization and rationalizing all these ridiculous conclusions based on the subconscious tendency to serve one's self.

It's a terribly inaccurate way to think and of course you want to drive that out of yourself because you want to be wise not foolish.

You also have to allow for the self-serving bias of everybody else, because most people are not gonna remove it all that successfully, the human condition being what it is. If you don't allow for self-serving bias in your conduct, again you're a fool.

I watched the brilliant Harvard Law Review-trained general counsel of Solomon lose his career, and what he did was when the CEO was aware some underling has done something wrong the general counsel said, "Gee, we don't have any legal duty to report this but I think it's what we should do. It's our moral duty."

Of course the general counsel was totally correct but of course it didn't work – it was a very unpleasant thing for the CEO to do and he put it off and put it off and of course everything eroded into a major scandal and down went the CEO and the general counsel with him.

The correct answer in situations like that was given by Ben Franklin. He said, "If you want to persuade, appeal to interest not to reason." The self-serving bias is so extreme.

If the general counsel had said, "Look this is going to erupt into something that will destroy you, take away your money, take away your status – it's a perfect disaster," it would have worked!

You want to appeal to interest. You want to do it of lofty motives, but you should not avoid appealing to interest.

Another thing, perverse incentives. You don't want to be in a perverse incentive system that's causing you to behave more and more foolishly or worse and worse.

Incentives are too powerful a controller of human cognition and human behavior and one of the things you are going to find in some modern law firms is billable hour quotas. And I could not have lived under a billable hour quota of 2,400 hours a year. That would have caused serious problems for me, I wouldn't have done it and I don't have a solution for that for you, you'll have to figure it out for yourself. But it's a significant problem.

Perverse associations, also to be avoided. And you particularly want to avoid working directly under somebody you really don't admire and don't want to be like.

It's very dangerous. We are all subject to control to some extent by authority figures, particularly authority figures that are rewarding us.

And that requires some talent. The way I solved that is I figured out the people I did admire and I maneuvered cleverly without criticizing anybody so I was working entirely under people I admired. And a lot of law firms will permit that if you're shrewd enough to work it out, and your outcome in life will be way more satisfactory and way better if you work under people you really admire. The alternative is not a good idea.

Objectivity maintenance. Well we all remember that Darwin paid special attention to disconfirming evidence, particularly when it disconfirmed something he believed and loved.

Well objectivity maintenance routines are totally required in life if you're going to be a correct thinker. And there we're talking about Darwin's attitude – special attention to the disconfirming evidence, and also checklist routines.

Checklist routines avoid a lot of errors. You should have all this elementary wisdom and then you should go through a mental checklist in order to use it. There is no other procedure that will work as well.

A last idea that I found very important is I realized very early that non-egality would work better in the parts of the world I wanted to inhabit. What do I mean by non-egality? I mean John Wooden when he was the number one basketball coach in the world, he just said to the bottom five players, "You don't get to play – you're sparring partners", and the top seven did the whole playing. Well the top seven learned more, remember the learning machine, because they were doing all the playing. And when he got to that system Wooden won more than he'd ever won before.

I think the game of life in many respects is getting a lot of practice into the hands of the people that have the most aptitude to learn and the most tendency to be learning machines. And if you want the very highest reaches of human civilization that's where you have to go.

You do not want to choose a brain surgeon for your child among fifty applicants, all of them just taking turns during the procedure.

You don't want your airplanes designed that way.

You don't want your Berkshire Hathaway's run that way.

You want to get the power into the right people.

I frequently tell the story of Max Planck when he won the Nobel prize and went around Germany giving lectures on quantum mechanics, and the chauffeur gradually memorized the lecture and he said, "Would you mind Professor Planck, because it's so boring just staying in our routines, would you mind if I gave the lecture this time and you just sat in front with my chauffeur's hat?" And Planck said, "Sure."

And the chauffeur got up and gave this long lecture on quantum mechanics after which a physics professor stood up in the rear and asked a perfectly ghastly question and the chauffeur said, "Well, I'm surprised that in an advanced city like Munich I get such an elementary question, I'm going to ask my chauffeur to reply."

Well the reason I tell that story is not entirely to celebrate the quick-wittedness of the protagonist.

In this world we have two kinds of knowledge" one is Planck knowledge – the people who really know, they've paid the dues they have the aptitude.

Then we've got chauffeur knowledge – they have learned to prattle the talk. They have a big head of hair, they have a fine temper in the voice, they make a hell of an impression, but in the end they've got chauffeur knowledge... I think I've just described practically every politician in the United States.

And you are gonna have the problem in your life of getting the responsibility into the people with the Planck knowledge and away from the people who have the chauffeur knowledge, and there are huge forces working against you.

My generation has failed you to some extent. We are delivering to you in California a legislature where only the certified nuts from the left and the certified nuts from the right are allowed to serve and none of them are removable.

That's what my generation has done for you, but you wouldn't like it to be too easy would you?

Another thing that I found is that an intense interest in the subject is indispensable if you are really going to excel. I could force myself to be fairly good in a lot of things, but I couldn't be really good in anything where I didn't have an intense interest, so to some extent you're going to have to follow me.

If at all feasible you want to drift into doing something in which you really have a natural interest.

Another thing you have to do of course is have a lot of assiduity. I like that word because it means sit down on your ass until you do it.

I've had marvelous partners all my life. I think I got them partly because I tried to deserve them and partly because I was wise enough to select them and partly maybe it was some luck.

But two partners that I chose for one little phase of my life had the following rule and they created a little design-build construction team. And they sat down and said, two man partnership, divide everything equally, here's the rule: "Whenever we're behind in our commitments to other people we will both work 14 hours a day until we're caught up." Well needless to say that firm didn't fail! The people died honored and rich. It's such a simple idea. It's such a simple idea.

Another thing of course is life will have terrible blows in it, horrible blows, unfair blows, doesn't matter. And some people recover and others don't. And there I think the attitude of Epictetus is the best. He thought that every mischance in life was an opportunity to behave well, every mischance in life was an opportunity to learn something and that your duty was not to be submerged in self-pity but to utilize the terrible blow in a constructive fashion. That is a very good idea.

You may remember the epitaph which Epictetus left for himself, "Here lies Epictetus, a slave, maimed in body, the ultimate in poverty, and favored of the gods."

Well that's the way Epictetus is now remembered. He's had big consequences. And he *was* favored of the gods! He was favored because he became wise, and he became manly. Very good idea.

I've got a final little idea because I'm all for prudence as well as opportunism.

My grandfather was the only federal judge in his city for nearly forty years and I really admired him. I'm his namesake.

And I'm Confucian enough that even now I sit here and I'm saying, "Well, Judge Munger would be pleased to see me here."

So I'm Confucian enough all these years after my grandfather is dead to carry the torch for my grandfather's values.

And grandfather Munger was a federal judge at the time and there were no pensions for widows of federal judges, so if he didn't save from his income well then my grandmother would've been in penury. And being the kind of man he was he underspent his income all his life and left her in comfortable circumstances.

Along the way in the thirties my uncle's bank failed and couldn't reopen and my grandfather saved the bank by taking over a third of his assets, good assets, and putting them into the bank and taking up horrible assets in exchange.

And of course it did save the bank, and while my grandfather took a loss he got most of his money back eventually.

But I've always remembered the example. And so when I got to college and I came across Housman, I remember the little poem from Houseman that went something like this:

*"The thoughts of others
were light and fleeting,
of lovers' meeting
or luck or fame.
Mine were of trouble,
and mine were steady;
So I was ready
when trouble came."*

You can say, "Who wants to go through life anticipating trouble?" Well I did! All my life I've gone through life anticipating trouble and here I am well along on my 84th year and like Epictetus I've had a favored life.

It didn't make me unhappy to anticipate trouble all the time and be ready to perform adequately if trouble came. It didn't hurt me at all. In fact it helped me. So I quitclaim to you Housman and Judge Munger.

The last idea that I want to give to you as you go out into a profession that frequently puts a lot of procedure and a lot of precautions and a lot of mumbo jumbo into what it does: this is not the highest form which civilization can reach. The highest form which civilization can reach is a seamless web of deserved trust. Not much procedure just totally reliable people correctly trusting one another. That's the way an operating room works at the Mayo Clinic.

If a bunch of lawyers were to introduce a lot of process the patients would all die.

So never forget when you're a lawyer that you may be rewarded for selling this stuff but you don't have to buy it.

In your own life what you want is a seamless web of deserved trust. And if your proposed marriage contract has 47 pages my suggestion is *do not enter*.

Well that's enough for one graduation.

I hope these ruminations of an old man are useful to you. In the end I'm like old Valiant-for-truth in The Pilgrim's Progress:

"My sword I leave to him who can wear it."