“Confronted with a challenge to distill the secret of sound investment into three words, we venture the motto, Margin of Safety.” – Ben Graham

Greatest Hits

"Price is what you pay; value is what you get." – Ben Graham

“Investment is most intelligent when it is most businesslike.” – Ben Graham

"The single greatest edge an investor can have is a long-term orientation."- Seth Klarman

“Compound interest is the eighth wonder of the world.” – Various

> “Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn’t, pays it.”**—** Albert Einstein (citation?)

“Value investing is the discipline of buying securities at a significant discount from their current underlying values and holding them until more of their value is realized. The element of a bargain is the key to the process.” – Seth Klarman, *Margin of Safety*

Independent thinking, in-depth research, and the ability to persevere through near-term underperformance, are three keys to being a successful value investor. Worrying about near-term volatility has nothing to do with being a successful value investor. – Joel Greenblatt

“Value investing is at its core the marriage of a contrarian streak and a calculator.” – Seth Klarman[1]

“Invert, always invert.” – Jacobi (and Charlie Munger)

“Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now. Over time, you will find only a few companies that meet these standards – so when you see one that qualifies, you should buy a meaningful amount of stock. You must also resist the temptation to stray from your guidelines: If you aren’t willing to own a stock for ten years, don’t even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio’s market value.” –Warren Buffett

"Beware the investment activity that produces applause; the great moves are usually greeted by yawns." - Warren Buffett

“Microeconomics is what we do, macroeconomics is what we put up with.” – Charlie Munger

“The key to investing is ... determining the competitive advantage of any given company and, above all, the durability of that advantage. The products or services that have wide, sustainable moats around them are the ones that deliver rewards to investors.” – Warren Buffett, Fortune magazine, 1999

“The durability and strength of the franchise is the most important thing in figuring out [whether it’s a good business]. If you think a business is going to be around 10 or 20 years from now, and that they’re going to be able to price advantageously, that’s going to be a good business. And if somebody has to have a prayer session every time they want to raise the price a dollar a pound on whatever they’re selling, that’s not going to be a good business.” – Warren Buffett

“The single most important decision in evaluating a business is pricing power. If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”
–Warren Buffett, 2011 (Financial Crisis Inquiry Commission)

“We work really hard never to get confused with what we know from what we think or hope or wish.” -Seth Klarman

"You have to have time to think. It's so easy to get so busy that you no longer have time to think and you pay a huge price for that." - Charlie Munger

On how an investor could understand a company well enough to invest in it: “I would just put myself in the frame of mind that I had just inherited that company, and it was the only asset my company was ever going to own. What would I do with it? What am I thinking about? What am I worried about? Who are my competitors? Who are my customers? Go talk to them. Find out the strengths and weaknesses of this particular company vs. other ones. ...A great business always has some sort of moat around it. What you’re looking for is a big castle

[1] OID, Vold. 22, No. 1&2, March 17, 2009

and a wide moat, and you're looking for a moat that widens over time. If you've got a business earning 200 percent on capital, there's someone trying to see what you're doing. It better be awful difficult for them to do it." – Warren Buffett, 1993 appearance at Columbia University

"We believe in diversification for risk reducing, but we don't want to diversify ourselves into ignorance. If we can do three smart things in a year and nothing dumb, we will be very successful. If we can do five, that's a home run." – David Abrams

"There is no investment rule that remains immutable except the margin of safety." – Peter Cundill

"The intelligent investor is a realist who sells to optimists and buys from pessimists." ~ Benjamin Graham[2]

"To be a value investor, you have to be willing [and able] to suffer pain." - Jean Marie Eveillard

Value investing works over time, but it doesn't work all the time. And because it doesn't work all the time is why it works. – paraphrasing Joel Greenblatt

"My largest positions are not the ones I think I'm going to make the most money from... My largest positions are the ones I don't think I'm going to lose money in." – Joel Greenblatt

"Rationality is essential when others are making decisions based on short-term greed or fear. That is when the money is made." – Warren Buffett[3]

"One question I always ask myself in appraising a business is how I would like, assuming I had ample capital and skilled personnel, to compete with it." – Warren Buffett

On how thinking like a journalist has shaped the way he invests:

> "If I didn't do what I do in my life, I would want to be a journalist. I mean, I consider myself a journalist to some extent, I assign myself a story. I say, 'Is the Washington Post company worth $22 per share in 1973?' I say, 'Is BNSF railroad worth us paying $34B?' I assign myself the story. It's my working hypothesis that it is, but then I go and look for the facts, and I try not to be selective about the facts that I use as input. So, journalism it's fascinating. I love it. I would say that, A: Always observe that rule about not letting the hypothesis determine the story. B: You've gotta learn. You've gotta learn about accounting, about how business works, if we're talking about business journalism. And, you can always get smarter. And if you do the right kind of job, you will attract the right kind of sources. I'm a source for certain journalists, and the reason I am is because I admire their work. The others get no place with me. It's very important, if you want to become a great journalist, to behave like one as you go along. And then all the other pieces will fall into place. And you want to have a curiosity about business. There are so many good stories that haven't been written yet. You couldn't be working in a better area." – Warren Buffett, interview with publisher and ASU professor, Jeff Cunningham

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[2] Per Jason Zweig in *The Intelligent Investor, Rev. Ed.*
[3] *Fortune*, October 30, 1989

Buffett: Some businesses are a lot easier to understand than others. And Charlie and I don't like difficult problems. If something is difficult to figure... We'd rather multiply by 3 than by π.

Munger: That's such an obvious point. Yet so many people think that if they just hire somebody with the appropriate labels, they can do something very difficult. That is one of the most dangerous ideas a human being can have. All kinds of things can create problems by causing complexity. The other day I was dealing with a problem – it was a new building. And I said, "This problem has three things I've learned to fear – an architect, a contractor and a hill."

If you go through life like that, I think you'll at least make *fewer* mistakes than people who think they can do anything, no matter how complex, by just hiring somebody with a credible label. You don't have to hire out your thinking if you keep it simple…

Buffett: If you get into some complicated business, you can get a report that's 1,000 pages thick and you can have Ph.D.'s working on it. But it doesn't mean anything. What you'll have is a report. But you won't have any better understanding of that business and what it's going to look like in 10 or 15 years. The big thing to do is to avoid being *wrong*. (Berkshire Hathaway annual meeting, 1994, *Outstanding Investor Digest*, June 23, 1994, p.23.)

"There are two key concepts that investors must master: value and cycles." – Howard Marks

"You can't predict, [but] you can prepare." – Howard Marks

"I'm convinced that everything that's important in investing is counterintuitive, and everything that's obvious is wrong." -- Howard Marks

Danny Kahneman:[4]

On persistence: "When I work I have no sunk costs. I like changing my mind. Some people really don't like it but for me changing my mind is a thrill. It's an indication that i'm learning something. So I have no sunk costs in the sense that I can walk away from an idea that I've worked on for a year if I can see a better idea. It's a good attitude for a researcher. The main track that young researchers fall into is sunk costs. They get to work on a project that doesn't work and that is not promising but they keep at it. I think too much persistence can be bad for you in the intellectual world."

On flip-flopping: "Ideas become part of who we are. People get invested in their ideas, especially if they get invested publicly and identify with their ideas. So there are many forces against changing your mind. Flip-flopping is a bad word to people. It shouldn't be. Within sciences, people who give up on an idea and change their mind get good points. It's a rare quality of a good scientist, but it's an esteemed one."

On collaborations: "One of the quotes attributed to [his late partner] Amos Tversky is, 'The world is not kind to collaboration.' That's an interesting phrase. What he meant by that is when people look at a joint project, they are very curious about 'who did it.' The assumption is that one person did it. But neither of us could have done what we did by ourselves. We had two people who were both quite good, but our joint work is clearly superior to anything we could have done alone. And yet, either one of us could talk about our work and it sounded as if we had done it alone. It didn't sound as if we needed somebody else. Amos said, 'I talk to people about our joint work and people don't think I need

[4] http://www.collaborativefund.com/blog/a-chat-with-daniel-kahneman/

anybody else.' So there is a problem of how to treat collaborations and how to foster them. Quite often the actions of the environment are destructive to collaborations. The urge is to allocate credit and to single out people and not treat collaborations as units. If Michael Lewis's book makes people think about the value of collaborations it would be useful."

On education changing thinking: "There are studies showing that when you present evidence to people they get very polarized even if they are highly educated. They find ways to interpret the evidence in conflicting ways. Our mind is constructed so that in many situations where we have beliefs and we have facts, the beliefs come first. That's what makes people incapable of being convinced by evidence. So education by itself is not going to change the culture. Changing critical thinking through education is very slow and I'm not very optimistic about it."

Asked if he could comment on brain trauma. "No, because I don't know anything about it and I strongly believe people should stay in their own lanes when giving opinions."

"Usually a very long list of securities is not a sign of the brilliant investor, but of one who is unsure of himself."
– Phil Fisher, *Common Stocks and Uncommon Profits*

"Even a very talented manager who makes excellent stock picks over the long term can trail the market averages for years at a time. In fact, this is almost a certainty with a concentrated portfolio. But the reality is that a manager who significantly underperforms the market averages for two or three years has a good chance of losing most of his or her investors! Most investors just can't figure out which managers fall behind the market averages because of bad luck or bad timing and which managers fall behind due to a poor investment process and a lack of talent. Most don't wait around to figure out which is which. Like the Cowardly Lion, they just turn and run! And no investors means no business! Over the long term, managing a concentrated portfolio may be a great way to beat the market averages, but over shorter time horizons it's also a great way to risk your business and your career. As a result, only a few brave souls choose this route in the mutual fund world."

"The best performing mutual fund of the past decade earned 18 percent annually (by the way, this fund runs a concentrated portfolio of fewer than 25 large-cap stocks). This is particularly impressive since the market as measured by the S&P 500 was actually down close to 1 percent per year between 2000 and 2009. Yet the average investor in this same fund managed to *lose* 11 percent per year over those 10 years. How? Pretty much after every period in which the fund did well, investors piled in. After every period in which the fund did poorly, investors ran for the exits. So the average investor managed to lose money in the best-performing fund purely by buying and selling the fund at just the wrong times!"

"Looking at just the top quartile (best-performing 25 percent) of managers over a recent decade [1/1/00-12/31/09], almost all of these top-performing managers (96 percent) spent at least one three-year period during that decade in the bottom half of the performance rankings. Even more telling, 79 percent spent at least three years in the bottom quartile (bottom 25 percent of managers) and a staggering 47 percent spent at least three years I the bottom 10 percent. In other words, even the best-performing managers go through long periods of significant underperformance." – Joel Greenblatt, *The Big Secret for the Little Investor*

“Psychologically, I don’t mind *holding* a company I like and admire and I trust and know that it will be stronger than now after many years. And if the valuation gets a little stilly, I just ignore it. So I *own* assets that I would never *buy* at their current prices but I am quite comfortable *holding* them.

…I am almost constitutionally…I have a defect. And I just won’t pay 30 times earnings…I have never done that but I have one or two now which are now worth eight or 10 times what I paid for them and they are still marvelous businesses and are still growing and I just hold them. Many investors I know are like me. I cannot defend it in terms of logic. I don’t defend this logic. I just say this is the way to do it and it keeps *me* more comfortable to do it this way. And I am entitled to this; it’s my own money and I am entitled to do it my own way. A lot of people are just like me. Li Lu is just like me. He will hold things that he bought a long time ago at tiny prices in what are still great companies but he won’t buy more.” – Charlie Munger

"If I were running $50, $100, $200 million, I would have 80 percent in five positions, with 25 percent for the largest" - Buffett in 2008

"If you can identify six wonderful businesses, that is all the diversification you need. And I can guarantee that going into the seventh one instead of putting more money into your first one is going to be terrible mistake. Very few people have gotten rich on their seventh best idea." – Buffett in 2006

“The number of securities that should be owned to reduce portfolio risk is not great; as few as ten to fifteen holdings usually suffice” – Seth Klarman, “Margin of Safety”

“After purchasing six or eight stocks in different industries, the benefits of adding even more stocks to your portfolio in an effort to decrease risk is small” – Joel Greenblatt, “You Can Be a Stock Market Genius”

“Chieftain partners will not begin to buy a stock unless they are willing to put at least 5 percent of their assets into it. The Chieftain portfolio has far fewer than the 20 names that a strict 5 percent rule might imply. The partners normally hold 8 to 10 stocks in their account” – Bruce Greenwald on Chieftain in “Value Investing”

"Our investment style has been given a name - focus investing - which implies ten holdings, not one hundred or four hundred. The idea that it is hard to find good investments, so concentrate in a few, seems to me to be an obvious idea. But 98% of the investment world does not think this way." – Charlie Munger

“If in a small town you bought the McDonald's franchise, you bought the Ford dealership, the best class of office building, and you want the best residential building. Right? So if you've got these four assets. So [Munger’s] perspective was that if in Peoria, Illinois you own these four assets, and you just sat on them for your whole life, you would end up probably quite wealthy.” – Monish Pabrai on Munger’s philosophy

"You have to have time to think. It's so easy to get so busy that you no longer have time to think and you pay a huge price for that." – Charlie Munger

“The difference between a good business and a bad business is that good businesses throw up one easy decision after another. The bad businesses throw up painful decisions time after time.” – Charlie Munger, “Damn Right”

“Wesco continues to try more to profit from always remembering the obvious than from grasping the esoteric. … It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent. There must be some wisdom in the folk saying, `It’s the strong swimmers who drown.'” – Charlie Munger

"If you really know businesses, you probably shouldn’t own more than six of them. If you can identify six wonderful businesses, that is all the diversification you need. And you will make a lot of money. And I can guarantee that going into the seventh one instead of putting more money into your first one is [going to] be a terrible mistake. Very few people have gotten rich on their seventh best idea. So I would say for anyone working with normal capital who really knows the businesses they have gone into, six is plenty, and I’d probably have half in what I like best." – Warren Buffett, 1998 speech at University of Florida

In 2009, Charlie Munger was asked how concerned he was that Berkshire Hathaway (NYSE: BRK-B) shares — which made up most of his net worth — dropped more than 50%. He quickly interrupted the interviewer and responded:

> “Zero. This is the third time that Warren [Buffett] and I have seen our holdings in Berkshire Hathaway go down, top tick to bottom tick, by 50%. I think it's in the nature of long-term shareholding that the normal vicissitudes in markets means that the long-term holder has the quoted value of his stocks go down by, say, 50%. In fact, you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder, and you deserve the mediocre result you're going to get compared to the people who can be more philosophical about these market fluctuations.”

“It’s in the nature of stock markets to way down from time to time. There’s no system to avoid bad markets. You can’t do it unless you try to time the market, which is a seriously dumb thing to do. Conservative investing with steady savings without expecting miracles is the way to go.” -- Charlie Munger

“The first thing I heard when I got in the business…was bulls make money, bears make money, and pigs get slaughtered. I’m here to tell you I was a pig. And **I strongly believe the only way to make long-term returns in our business that are superior is by being a pig. I think diversification and all the stuff they’re teaching at business school today is probably the most misguided concept [anywhere]. And if you look at all the great investors that are as different as Warren Buffett, Carl Icahn, Ken Langone, they tend to be very, very concentrated bets.** They see something, they bet it, and they bet the ranch on it…[O]nly maybe one or two times a year do you see something that really, really excites you. And if you look at what excites you and then you look down the road, your record on those particular transactions is far superior to everything else, but **the mistake I’d say 98 percent of money managers and individuals make is they fell like they got to be playing in a bunch of stuff. And if you really see it, put all your eggs in one basket and then watch the basket very carefully.**” – Stan Druckenmiller, speech at Lost Tree Club on 1-18-15

> **“**But you know what, **I’ve thought a lot of things when I’m managing money with great, great conviction, and a lot of times I’m wrong. And when you’re betting the ranch and the circumstances change, you have to change,** and that’s how I’ve always managed money.**”** – Stan Druckenmiller, speech at Lost Tree Club on 1-18-15

"[N]ever, ever invest in the present. It doesn't matter what a company's earning, what they have earned…you have to visualize the situation 18 months from now, and whatever that is, that's where the prices will be, not where it is today. And too many people tend to look at the present, oh this is a great company, they've done this or this central bank is doing all the right things. But you have to look to the future. **If you invest in the present, you're going to get run over**. The other thing [Speros Drelles] taught me is **earnings don't move the overall market; it's the Federal Reserve Board**. And whatever I do, **focus on the central banks and focus on the movement of liquidity…most people are looking for earnings and conventional measures. It's liquidity that moves markets**." – Stan Druckenmiller, speech at Lost Tree Club on 1-18-15

What's the single most important lesson to be learned from your career as an investor?

It is just appalling the nerve strain people put themselves under trying to buy something today and sell it tomorrow. It's a small-win proposition. If you are a truly long-range investor, of which I am practically a vanishing breed, the profits are so tremendously greater. One of my early clients made a remark that, while it is factually correct, is completely unrealistic when he said, "Nobody ever went broke taking a profit.'

Well, it is true that you don't go broke taking a profit, but that assumes you will make a profit on everything you do. It doesn't allow for the mistakes you're bound to make in the investment business.

Funny thing is, I know plenty of guys who consider themselves to be long-term investors but who are still perfectly happy to trade in and out and back into their favorite stocks.

Some years ago I was the adviser to a profit-sharing trust for a large commodities dealer. I bought for them--I think the stock has been split 15 times since then--a block of Texas Instruments at $14 a share. When the stock got up to $28, the pressure got so strong ("Well, why don't we sell half of it, so as to get our bait back?') I had all I could do to hold them until it got to $35. Then the same argument: "Phil, sell some of it; we can buy it back when it gets down again.'

That is a totally ridiculous argument. Either this is a better investment than another one or a worse one. Getting your bait back is just a question of psychological comfort. It doesn't have anything to do with whether it is the right move or not.

But, at any rate, we did that. The stock subsequently went above $250 within two or three years. Then it had a wide open break and fell to the mid-50s. But it didn't go down to $35.

- Phil Fisher

"What counts is knowledge of background conditions. An understanding of what probably will happen over the next several years is of overriding importance…[I]t is the next five years' earnings, not those of the past five years, that now matter." – Phil Fisher, *Common Stocks and Uncommon Profits*

"Occasionally, as in 1929, the economy gets so out of line that speculative enthusiasm for the future runs to unprecedented proportions. Even in our present state of economic ignorance, it is possible to make a pretty accurate guess as to what will occur. However, I doubt if the years when it is safe to do this have averaged much more than one out of ten. They may be even rarer in the future." – Phil Fisher, *Common Stocks and Uncommon Profits*

> "Does this mean that if a person has some money to invest he should completely ignore what the future trend of the business cycle may be and invest 100 per cent of this fund the moment he has found the right stocks, as defined [by the 15 Points], and located a good buying point [as indicated herein]? A depression might strike right after he has made his investment. Since a decline of 40 to 50 per cent from its peak is not at all uncommon for even the best stock in a normal business depression, is not completely ignoring the business cycle a rather risky policy? I think this risk may be taken in stride by the investor who, for a considerable period of time, has already had the bulk of his stocks placed in well-chosen situations. If properly chosen, these should by now have already shown him some fairly substantial capital gains. But now, either because he believes one of his securities should be sold or because some new funds have come his way, such an investor has funds to purchase something new. **Unless it is one of those rare years when speculative buying is running riot in the stock market and major economic storm signals are virtually screaming their warnings (as happened in 1908 and 1928), I believe this class of investor should ignore any guesses on the coming trend of general business or the stock market. Instead he should invest the appropriate funds as soon as the suitable buying opportunity arises.** In contrast to guessing which way general business or the stock market may go, he should be able to judge with only a small probability of error what the company into which he wants to buy is going to do in relation to business in general. Therefore he starts off with two advantages. He is making his bet upon something which he knows to be the case, rather than upon something about which he is largely guessing. Furthermore, since by definition he is only buying into a situation which for one reason or another is about to have a worthwhile increase in its earning power in the near- or medium-term future, he has a second element of support." – Phil Fisher, *Common Stocks and Uncommon Profits* (emphasis added)
>
> "**All types of common stock investors might well keep one basic thought in mind; otherwise the financial community's constant worry about and preoccupations with the danger of downswings in the business cycle will paralyze much worthwhile investment action**. This thought is that here in the mid-twentieth century **the current phase of the business cycle is but one of at least five powerful forces**. All of these forces, either by influencing mass psychology or by direct economic operation, can have an extremely powerful influence on the general level of stock prices. **The other four influences are the trend of interest rates, the over-all governmental attitude toward investment and private enterprise, the long-range trend to more and more inflation and – possibly most powerful of all – new inventions and techniques as they affect old industries. These forces are seldom all pulling stock prices in the same direction at the same time**. Nor is any one of them necessarily going to be of vastly greater importance than any other for long periods of time. **So complex and diverse are these influences that the safest course to follow will be the one that at first glance appears to be the most risky. This is to take investment action when matters you know about a specific company appear**

to warrant such action. Be undeterred by fears or hopes based on conjectures, or conclusions based on surmises." – Phil Fisher, *Common Stocks and Uncommon Profits* (emphasis added)

"More money has probably been lost by investors holding a stock they really did not want until they could 'at least come out even' than from any other single reason." – Phil Fisher, *Common Stocks and Uncommon Profits*

"In economics things take longer to happen than you think they will, and then they happen faster than you thought they could." – Rudiger Dornbusch

"…and they go much further than you thought they could." – Howard Marks[5]

"With a profession such as investing, people see the 'doing' as the buying and selling. It is difficult to come home from work, and answer your spouse's question, 'What did you do today?" with 'Well, I read a lot, and I talked a little.' If you're not buying or selling, you may feel you aren't doing anything." – David Abrams

"One of the lessons your management has learned—and, unfortunately, sometimes re-learned—is the importance of being in businesses where tailwinds prevail rather than headwinds." – Warren Buffett

"There are three great friends: an old wife, an old dog, and ready money."
- Ben Franklin

"Successful investing 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."
-Charlie Munger

"Investors frequently benefit from making decisions with less than perfect knowledge and are well rewarded for bearing the risk of uncertainty. The time other investors spend delving into the last unanswered detail may cost them the chance to buy into situations at prices so low they offer a margin of safety despite the incomplete information." - Seth Klarman

"Just because something is cheap does not mean it isn't going to go down." -Warren Buffett

"I must remind you that value investing is not designed to outperform in a bull market. In a bull market, anyone, with any investment strategy or none at all, can do well, often better than value investors. It is only in a bear market that the value investing discipline becomes especially important because value investing, virtually alone among strategies, gives you exposure to the upside with limited downside risk." - Seth Klarman

"The single most powerful pattern I have noticed is that successful people find value in unexpected places, and they do this by thinking about business from first principles instead of formulas." -Peter Theil

[5] "The Lessons of Oil," December 18, 2014.

"Investors like things that appear certain. My view is that everything is uncertain - you're just trading one type of uncertainty for another." - Seth Klarman

"Bear markets make people a lot of money, they just don't know it at the time." -Chris Davis

"My first lesson was that the math can be great, but if you don't truly understand the business, you're in trouble." - Larry Robbins

"What you pay for a stock is an accident of history and should have no bearing on what you sell it for." - Chris Browne

- "I never liked talking to my LPs about ideas that I had…because you become somewhat wedded to it. It's harder to change your mind over time. You become pre-committed to your positions." – Todd Combs[6]
- "If you speak up and put it on record, you end up getting too wedded to your thesis, and that's dangerous. Because everything that you're invested in is a function of the circumstances on a given day. It changes." – Ted Wescher[7]

"Since we have emphasized that analysis will lead to a positive conclusion only in the exceptional case, it follows that many securities must be examined before one is found that has any real possibilities for the analyst. By what practical means does he proceed to make his discoveries? Mainly by hard and systematic work." – Graham and Dodd, *Security Analysis*

> "The ones that have the edge are the ones who really have the temperament to look at a business, look at an industry and not care what the person next to them thinks about it, not care what they read about it in the newspaper, not care what they hear about it on the television, not listen to people who say, "This is going to happen," or, "That's going to happen." You have to come to your own conclusions, and you have to do it based on facts that are available. **If you don't have enough facts to reach a conclusion, you forget it. You go on to the next one. You have to also have the willingness to walk away from things that other people think are very simple.** A lot of people don't have that. I don't know why it is. I've been asked a lot of times whether that was something that you're born with or something you learn. I'm not sure I know the answer. Temperament's important. ...If you don't know the answer yourself don't accept somebody else to tell you. If you don't know the answer yourself and somebody else says they know the answer, don't let that fact push you into coming to a conclusion about something that you don't know enough to come to a conclusion on." -- Warren Buffett's 2011 interview in India

6 https://finance.yahoo.com/news/warren-buffetts-money-managers-todd-combs-ted-weschler-speak-142643892.html
7 https://finance.yahoo.com/news/warren-buffetts-money-managers-todd-combs-ted-weschler-speak-142643892.html

“A dreamy business offering has at least four characteristics. Customers love it, it can grow to very large size, it has strong returns on capital, and it’s durable in time – with the potential to endure for decades. When you find one of these, don’t just swipe right, get married.” – Jeff Bezos

“The first principle is that you must not fool yourself, and you are the easier person to fool.” – Richard Feynman

> “When Feynman faces a problem, he’s unusually good at going back to being like a child, ignoring what everyone else thinks. He was so unstuck – if something didn’t work, he’d look at it another way.” – Marvin Minsky

“I always start [investing] from a position of fear.” – Warren Buffett

“Choice of attention – to pay attention to this and ignore that – is to the inner life what choice of action is to the outer. In both cases, a man is responsible for his choice and must accept the consequences, whatever they may be.” — W. H. Auden

“The riskiest moment is when you are right.” – Peter Bernstein

"Know what you own, and know why you own it" - Peter Lynch

“It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.” –Charlie Munger

“Activity is the enemy of investment returns.” – Warren Buffett

“The plan itself is opportunism. There is no plan before that.” – Warren Buffett

"Patience and aggressive opportunism is what you need. It's an odd combination, but it's what works best.” – Charlie Munger

Munger told Pabrai those three areas [cannibals, spinoffs, cloning] are what investors should look at if they want superior performance. Note the absence of advice to buy companies with strong moats or brands, as many false prophets of Munger would have one believe. In fact, at a Young Presidents' Organization meeting at the Huntington Library some time after that, where both Pabrai and Munger spoke, Munger explicitly said that if he were running a small pool of capital today, he would not "buy and hold forever," but that he would buy securities at a discount, sell at full price, and rinse and repeat, just as he actually did when he ran his investment partnership.

“[T]he secret to investing is to figure out the value of something – and then pay a lot less.” – Joel Greenblatt[8]

“One of the advantages of a fellow like Buffett is that he automatically thinks in terms of decision trees.” – Charlie Munger[9]

[8] The Big Secret for the Small Investor: A New Route to Long-Term Investment Success
[9] May 5, 1995 edition of “Outstanding Investor Digest,” p. 50

"In the short run, the market is a voting machine, but in the long run it is a weighing machine." - Ben Graham

“Every [individual] decision increases the prospect that a mistake will be made.” – Unknown

“Everyone should be thinking about opportunity cost all the time.” – Charlie Munger[10]

“The chains of habit are too light to be felt until they are too heavy to be broken.” – Warren Buffett

“The stock market is filled with individuals who know the price of everything but the value of nothing.” – Phil Fisher

“What is the most reliable way to make money as an investor? Find situations where perception underestimates reality.” – *Oaktree Capital Management presentation by Howard Marks*

"I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it so that you had 20 punches, representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all. Under those rules, you’d really think carefully about what you did, and you’d be forced to load up on what you’d really thought about. So you’d do much better.” – Warren Buffett

<u>2016 Berkshire annual meeting:</u>

Charlie Munger:	We try and avoid the worst anchoring effect which is always your previous conclusion. We really try and destroy our previous ideas.
Warren Buffett:	Charlie says that if you disagree with somebody, you want to be able to state their case better than they can.
Charlie Munger:	Absolutely.
Warren Buffett:	And at that point you’ve earned the right to disagree with them.
Charlie Munger:	Otherwise you should keep quiet. It would do wonders for our politics if everybody followed my system.

"First, they focus on process and not outcomes. In other words, they make the best decisions they can with the information they have, and then let the outcomes take care of themselves. Second, they always seek to have the odds in their favor. Finally, they understand the role of time. You can do the right thing for some time and it won't show up in results. You have to be able to manage money to see another day - that is, preserve options for future play - and take a long term view."

Michael Mauboussin
(via 'The Manual of Ideas')

[10] Per notes of Vivian Chan at Feb. ’13 meeting of DJCO

"…**you don't win by predicting the future; you win by getting the odds right. You can be right about the future and still not make any money.** At the racetrack, for example, the favorite horse may be the one most likely to win, but since everyone wants to bet on the favorite, how likely is it that betting on the favorite will make you money? The horse to bet on is the one more likely to win than most people expect. That's the one that gives you the best odds. That's the bet that pays off over time." – William Bonner, *Mobs, Messiahs, and Markets: Surviving the Public Spectacle in Finance and Politics*

"If you look carefully, almost all Old Money secrets can be traced to a single source: a longer-term outlook." – William Bonner

"Active management strategies demand uninstitutional behavior from institutions, creating a paradox that few can unravel. Establishing and maintaining an unconventional investment profile requires acceptance of uncomfortably idiosyncratic portfolios, which frequently appear downright imprudent in the eyes of conventional wisdom." – David Swensen

"The most attractive investment opportunities fail to provide returns in a steady, predictable fashion." – David Swensen on the issue of consistent returns

"Investors should remember that excitement and expenses are their enemies." – Warren Buffett

"If [investors] insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful." – Warren Buffett

"We work really hard never to get confused with what we know from what we think or hope or wish." — Seth Klarman

"We do not play any games to either accelerated or defer taxes. We make investment decisions based on our evaluation of the most profitable combination of probabilities. If this means paying taxes – fine…" – Warren Buffett, letter to BPL partners

"More investment sins are probably committed by otherwise quite intelligent people because of 'tax considerations' than from any other cause. One of my friends – a noted West Coast philosopher [Charlie Munger] – maintains that a majority of life's errors are caused by forgetting what one is really trying to do… What is one really trying to do in the investment world? Not pay the least taxes, although that may be a factor to be considered in achieving the end. Means and end should not be confused, however, and the end is to come away with the largest after-tax rate of compound…If gains are involved, changing portfolios involves paying taxes. Except in very unusual cases…the amount of the tax is of minor importance if the difference in expectable performance is significant…So it is going to continue to be the policy of BPL to try to maximize investment gains, not minimize taxes. We will do our level best to create the maximum revenue for the Treasury – at the lowest rates the rules will allow." – Warren Buffett, letter to BPL partners

"…I consider the buying end to be about 90% of this business…These stocks have been bought and are continuing to be bought at prices considerably below their value to a private owner. We have been buying one of these situations for approximately 18 months and both of the others for about a year. It would not surprise me if we continued to do nothing but patiently buy these securities week after week for at least another year, and perhaps even two years or more." – Warren Buffett, letter to BPL partners

"The gross profits in many workouts appear quite small. It's a little like looking for parking meters with some time left on them. However, the predictability coupled with a short holding period produces quite decent average annual rates of return after allowance for the occasional substantial loss." – Warren Buffett, letter to BPL partners

"The number one idea is to view a stock as an ownership of the business [and] to judge the staying quality of the business in terms of its competitive advantage. Look for more value in terms of discounted future cash flow than you're paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor." – Charles Munger[11]

"It just seems logical that sticking to investing in only a small number of companies that you understand well, rather than moving down the list to your thirtieth or fiftieth favorite pick, would create a much greater potential to earn above-average investment returns." – Joel Greenblatt[12]

"Forget about earnings. That's a priesthood of the accounting profession What you're really after is appreciating assets. You want to own as much of that asset as you can; then you want to finance it as efficiently as possible." – John Malone[13]

John Malone (Variety, May 2016):

- On sage advice he received from one of his first bosses: "Always analyze the downside and structure everything so that you live to fight another day."
- On his preternatural focus on minimizing tax bills: "The government is your partner. They just don't get to go to all your meetings. In the end, you can invest the money better than they can."
- On his proudest achievement: "After four years of really trying, I got my wife to say yes. It took me four years and that was four years of abstention, by the way. So it was really meaningful."
- On his greatest disappointment: "I let business take too large a part of my life for a period in my life and probably neglected the kids more than I should have."
- On the tug-of-war between cable and digital video purveyors: "It's kind of poetic justice. The capital investments that our industry has made, not only domestically but internationally, have created the network capabilities that allow the Googles and the Apples and the Facebooks in particular to succeed. So we're sort of part of that but we're also threatened by it but we're also driven by it."
- On the need for greater scale in traditional media companies: "We no longer can think of scale being sufficient if it's just the U.S. When Mark Zuckerberg talks about a billion simultaneous daily users — those are big numbers."

[11] http://www.law.harvard.edu/news/bulletin/2001/summer/feature_1-fulltext.html
[12] The Big Secret for the Small Investor: A New Route to Long-Term Investment Success
[13] Cable Cowboy

- On the growth of original series production: “It’s like a children’s soccer match. Everybody in the industry is chasing the soccer ball instead of holding their position.”
- On the fate of the cable bundle: “I don’t think the bundle will break down by itself. I think other bundles will build up. … The big bundle only breaks down if sports breaks down. That’s really the muscle. Sports is the glue that holds the bundle together. I don’t see that changing anytime soon.”
- On Comcast’s acquisition of DreamWorks Animation: “I cheer that deal. Jeffrey (Katzenberg) had a great run but I think Brian (Roberts) can do more with the asset than Jeffrey. I love that. I like to see efficiency. I like to see good guys come out well.”
- On his personal fortune (estimated by Forbes at $6.4 billion): “I couldn’t spend the money I’ve made if I lived 10 lifetimes. I’m going to give it away.”

"We make no heroic assumptions in our analysis, hoping, instead, that by compounding multiple conservative assumptions, we will create such a substantial margin of safety that a lot can go wrong without impairing our capital much or even at all. We never invest just to invest and don’t bet blindly on mean reversion or on historical relationships holding up. Our settings are permanently turned to “risk off.”" – Seth Klarman[14]

Howard Marks, from *The Most Important Thing:*

> "Being right may be a necessary condition for investment success, but it won't be sufficient. You must be more right than others."
>
> "Well bought is half sold."
>
> "When things are going well and prices are high, investors rush to buy, forgetting all prudence. Then when there's chaos all around and assets are on the bargain counter, they lose all willingness to bear risk and rush to sell. And it will ever be so."
>
> "Risk control is the best route to loss avoidance. Risk avoidance, on the other hand, is likely to lead to return avoidance as well."
>
> “…it’s not enough to bet against the crowd. Given the difficulties associated with contrarianism just mentioned, the potentially profitable recognition of divergences from consensus thinking must be based on reason and analysis. You must do things not just because they’re the opposite of what the crowd is doing, but because you know why the crowd is wrong. Only then will you be able to hold firmly to your views and perhaps buy more as your positions take on the appearance of mistakes and as losses accrue rather than gains.”

“There are three important principles to Graham’s approach. [The first is to look at stocks as fractional shares of a business, which] gives you an entirely different view than most people who are in the market. [The second

[14] 2012 letter to Baupost partners

principle is the margin-of-safety concept, which] gives you the competitive advantage. [The third is having a true investor's attitude toward the stock market, which] if you have that attitude, you start out ahead of 99 percent of all the people who are operating in the stock market – it's an enormous advantage."[15] – Warren Buffett

"If you're an investor, you're looking at what the asset – in our case, businesses – will do. If you're a speculator, you're primarily forecasting on what the price will do independent of the business."[16] – Warren Buffett

"Persist – don't take no for an answer. If you're happy to sit at your desk and not take any risk, you'll be sitting at your desk for the next 20 years." - David Rubenstein

"If you took our top fifteen decisions out, we'd have a pretty average record. It wasn't hyperactivity, but a hell of a lot of patience. You stuck to your principles and when opportunities came along, you pounced on them with vigor." - Charlie Munger

"We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side." — Charlie Munger

"The ability to destroy your ideas rapidly instead of slowly when the occasion is right is one of the most valuable things. You have to work hard on it. Ask yourself what are the arguments on the other side. It's bad to have an opinion you're proud of if you can't state the arguments for the other side better than your opponents. This is a great mental discipline." — Charlie Munger

"Most people are not cut out for value investing, because human nature shrinks from pain." – Jean-Marie Eveillard[17]

"The four most dangerous words in investing are: 'this time it's different.'" - Sir John Templeton

"The individual investor should act consistently as an investor and not as a speculator." - Ben Graham

"Just as many smart people fail in the investment business as stupid ones. Intellectually active people are particularly attracted to elegant concepts, which can have the effect of distracting them from the simpler, more fundamental, truths." – Peter Cundill, *There's Always Something to Do*

[15] "The Warren Buffett Portfolio" by Robert Hagstrom, p. 143
[16] Ibid
[17] Interview with Jason Zweig, WSJ, Feb. 15, 2013

“You must stop this short term anticipation stuff. If you’ve done the numbers and are satisfied with them and the principle is right, you just have to grit your teeth and be patient.” – Peter Cundill, *There’s Always Something to Do*

“‘Price is what you pay; value is what you get.’ Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down.” - Warren Buffett

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful." - Warren Buffett

"The stock market is filled with individuals who know the price of everything, but the value of nothing." - Philip Fisher

“I’m only rich because I know when I’m wrong…I basically have survived by recognizing my mistakes.” - George Soros

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." - Paul Samuelson

"Wide diversification is only required when investors do not understand what they are doing." - Warren Buffett

“[Buffett] thinks of cash differently than conventional investors. This is one of the most important things I learned from him: the optionality of cash. He thinks of cash as a call option with no expiration date, an option on every asset class, with no strike price." – Alice Schroeder[18]

“…most people say, ‘We’re not going to try to catch a falling knife; it’s too dangerous.’ They usually add, ‘We’re going to wait until the dust settles and uncertainty is resolved.’ The one thing I’m sure of is that by the time the knife has stopped falling, the dust has settled and the uncertainty has been resolved, there’ll be no great bargains left…Thus a hugely profitable investment that doesn’t begin with discomfort is usually an oxymoron.”
Howard Marks

“The true investor scarcely ever is forced to sell his shares and at all other times is free to disregard the current price quotation.” – Ben Graham

Manage to opportunity, not the plan. Accept the world as it is. -- *Various*

“You don’t want to be in a position where someone can pull the rug out from under you or, emotionally, where you pull it out from under yourself.” – Warren Buffett, at the 2009 Berkshire shareholder meeting

“I’ve learned mainly by reading myself. So I don’t think I have any original ideas. Certainly, I talk about reading Graham. I’ve read Phil Fisher. So I’ve gotten a lot of my ideas from reading. You can learn a lot from other people. In fact, I think if you learn basically from other people, you don’t have to get too many new ideas on your own. You can just apply the best of what you see.”[19] – Warren Buffett

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[18] Schroeder at the annual Investment Industry Association of Canada conference, September 2012
[19] “The Warren Buffett Portfolio” by Robert Hagstrom, p.206

“Take the probability of loss times the amount of possible loss from the probability of gain times the amount of possible gain. That is what we’re trying to do. It’s imperfect, but that’s what it’s all about.” – Warren Buffett

“Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments.” – Seth Klarman[20]

“Investing lies at the intersection of economics and psychology, the place where net present value meets greed and fear. It is important to know the numbers – but that is not sufficient. And it is important to know how people think – but that, too, is not enough. Both matter; it is, of course, good to buy investment bargains, but it is far better if you know why they are bargain-priced.” – Seth Klarman[21]

“Generally, the greater the stigma or revulsion, the better the bargain.” – Seth Klarman, *The Most Important Thing Illuminated*

"It is impossible to produce superior performance unless you do something different from the majority." - John Templeton

“The best bargains are not stocks whose prices are down the most, but rather those stocks having the lowest prices in relation to possible earnings power of future years.” –John Templeton

“To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards.” – John Templeton.

“If you want to shoot rare, fast-moving elephants, you should always carry a loaded gun.” – Warren Buffett

"No wise pilot, no matter how great his talent and experience, fails to use his checklist." – Charlie Munger

"I sought good judgment mostly by collecting instances of bad judgment, then pondering ways to avoid such outcomes." – Charlie Munger

RAY DALIO: "To make money in the markets you have to think independently and be humble. You have to be an independent thinker because you can't make money agreeing with the consensus view, which is already embedded in the price." Institutional Investor - March 6, 2015

“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 they were when they got up and boy does that help, particularly when you have a long run ahead of you.” – Charlie Munger

“Mark Twain used to say, ‘A mine is a hole in the ground with a liar on the top.’ And a projection prepared by anybody who stands to earn a commission or an executive trying to justify a particular course of action will frequently be a lie – although it’s not a deliberate lie in most cases. The man has come to believe it himself.

[20] 2009 Baupost letter
[21] 2011 Baupost annual letter

And that's the worst kind. Projections should be handled with care – particularly when they're being provided by someone who has an interest in misleading you." –Charlie Munger, *Seeking Wisdom*

"It is difficult to get a man to understand something when his salary depends on his not understanding it." – Upton Sinclair

"Active management has to be seen as the search for mistakes." – Howard Marks[22]

"You don't need a rocket scientist. Investing is not a game where the 160 IQ guy beats the guy with the 130 IQ." – Warren Buffett[23]

"Investing, when at it looks the easiest, is at its hardest." – Seth Klarman[24]

> More *Baupost 1Q13 letter:*
>
> "Only a small number of investors maintain the fortitude and client confidence to pursue long-term investment success even at the price of short-term underperformance. Most investors feel the hefty weight of short-term performance expectations, forcing them to take up marginal or highly speculative investments that we shun."
>
> "Our willingness to invest amidst falling markets is the best way we know to build positions at great prices, but this strategy, too, can cause short-term underperformance. Buying as prices are falling can look stupid until sellers are exhausted and buyers who held back cannot effectively deploy capital except at much higher prices. Our resolve in holding cash balances--sometimes very large ones--absent compelling opportunity is another potential performance drag.
>
> "But we know that in a world in which being anti-fragile is good, what doesn't kill you can make you stronger. Short-term underperforrnance doesn't trouble us; indeed, because it is the price that must sometimes be paid for longer-term outperformance, it doesn't even enter into our list of concerns. Patience and discipline can make you look foolishly out of touch until they make you look prudent and even prescient. Holding significant, low or even zero-yielding cash can seem ridiculous until you are one of the few with buying power amidst a sudden downdraft. Avoiding leverage may seem overly conservative until it becomes the only sane course. Concentrating your portfolio in the most compelling opportunities and avoiding over diversification for its own sake may sometimes lead to short-term underperformance, but eventually it pays off in outperformance."

"Many of the biggest mistakes made in the business and investment worlds have to do with cycles. People extrapolate uptrends and downtrends into eternity, whereas the truth is that trends usually correct: rather than go well or poorly forever, most things regress to the mean. The longer a trend has gone on – making it appear more permanent – the more likely it usually is that the time for it to reverse is near. And the longer an uptrend goes on, the more optimistic, risk-tolerant and aggressive most people become…just as they should be turning more

[22] "It's All a Big Mistake," June 2012
[23] *Fortune*, October 30, 1989
[24] 1Q13 Baupost letter

cautious…Thus cycles are big sources of error, and pro-cyclical behavior is one of the biggest destroyers of capital." – Howard Marks[25]

"Markets can remain irrational a lot longer than you and I can remain solvent." – John Maynard Keynes[26]

"The idea of wholesale shifts is for various reasons impracticable and indeed undesirable. Most of those who attempt to sell too late and buy too late and do both too often, incurring heavy expenses and developing too unsettled and speculative state of mind." – John Maynard Keynes, General Theory

"Neither a short-term borrower nor a long-term lender be." – attributed to Polonius

"Almost all good businesses engage in 'pain today, gain tomorrow' activities." -- Charlie Munger

"I never allow myself to have an opinion on anything that I don't know the other side's argument better than they do." — Charlie Munger

"We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side." — Charlie Munger

"The ability to destroy your ideas rapidly instead of slowly when the occasion is right is one of the most valuable things. You have to work hard on it. Ask yourself what are the arguments on the other side. It's bad to have an opinion you're proud of if you can't state the arguments for the other side better than your opponents. This is a great mental discipline." — Charlie Munger

"Here is part of the tradeoff with diversification. You must be diversified enough to survive bad times or bad luck so that skill and good process can have the chance to pay off over the long term." –Joel Greenblatt, *The Most Important Thing Illuminated*

"Of the maxims of orthodox finance none, surely, is more anti-social than the fetish of liquidity, the doctrine of that it is a positive virtue on the part of investment institutions to concentrate their resources upon the holding of 'liquid' securities. It forgets that there is no such thing as liquidity of investment for the community as a whole." – John Maynard Keynes[27]

"We are unique in that we start with qualitative analysis. Our research process begins with company-level information. We want to understand on a very detailed level exactly what a company does, who it competes against, and the forces affecting its ability to earn sustained economic profits over long periods of time. We also want to understand the motivation of the people running the company. Are there incentives in place to align management's success with the success of passive shareholders? Is management doing what they said they would do? What is their history? Questions like these and many other qualitative factors are examined before we allow a company to be considered for the portfolio. Only after a company meets our internal qualitative criteria, and only after the idea has gone through an internal presentation and discussion, will we do valuation work. We understand that this process is the reverse of many managers, but we want to prevent ourselves from

[25] "It's All a Big Mistake," June 2012
[26] from A. Gary Shilling, Forbes (1993) v. 151, iss. 4, pg. 236.; this may be a misattribution to Keynes
[27] The General Theory of Employment, Interest and Money

being drawn into seductively cheap subpar businesses. Our process is built specifically to guard against this. We understand that it is hard for resource-constrained small-cap managers to look at the thousands of companies in their universe. Most of our competitors compensate by using a multi-factor screening tool to help whittle down their investable universe. The problem with doing this is that backward looking accounting data tells you very little about a company's current competitive position, management, strategy, and all of the things key to the internal compounding that will determine your success or failure as a stockholder." – Brian Bares[28]

Speculation is the attempt to forecast changes in the psychology of the market. – adapted from J.M. Keynes, *General Theory*

"Do not trust financial market risk models. Despite the predilection of some analysts to model the financial markets using sophisticated mathematics, the markets are governed by behavioral science, not physical science." – Seth Klarman[29]

"We don't have an analytical advantage, we just look in the right place." - Seth Klarman

"Risk and uncertainty aren't the same as loss, but they create the potential for loss when things go wrong. Some of the biggest losses occur when overconfidence regarding predictive ability causes investors to underestimate the range of possibilities, the difficulty of predicting which one will materialize, and the consequences of a surprise." – Howard Marks, *The Most Important Thing Illuminated*

"We don't like complexity and we distrust other systems and think it many times leads to false confidence. The harder you work, the more confidence you get. But you may be working hard on something that is false. We're so afraid of that process so we don't do it." – Charlie Munger

"In frothy markets, we would rather disappoint clients by being underinvested than try to keep up while incurring the risk of large losses." – Seth Klarman[30]

"The greatest risk doesn't come from low quality or high volatility. It comes from paying prices that are too high. This isn't a theoretical risk; it's very real." – Howard Marks, *The Most Important Thing Illuminated*

"Seek facts diligently, advice never." – Philip Carret

"At the root cause of business disasters: over and over, you'll find a predisposition towards endeavors that offer immediate gratification." – Clayton Christensen

"Doubt is not a pleasant condition, but certainty is absurd." – Voltaire

"Most people overestimate what they can do in one year and underestimate what they can do in ten years." – Bill Gates

"Try not to become a man of success but a man of value." --Albert Einstein (citation?)

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[28]

[29] Ibid

[30] 2011 Baupost annual letter

“Investing is the intersection of economics and psychology. The analysis is actually the easy part. The economics, the valuation of the business isn’t that hard. The psychology – how much do you buy, do you buy it at this price, do you wait for a lower price, what do you do when it looks like the world might end – those things are harder. Knowing whether you stand there, buy more, or whether something has legitimately gone wrong and you need to sell, those are harder things. That you learn with experience, by having the right psychological makeup.” – Seth Klarman[31]

“If you can remember that stocks aren’t pieces of paper that gyrate all the time – they are fractional interests in businesses – it all makes sense.” – Seth Klarman[32]

“Value investors have to be patient and disciplined, but what I really think is you need not to be greedy. If you’re greedy and you leverage, you blow up. Almost every financial blow up is because of leverage.” – Seth Klarman[33]

"Investing is an activity of forecasting the yield over the life of an asset while speculation is the activity of forecasting the psychology of the market." - John Maynard Keynes

“I’m not short, because I’m nervous about the liquidity. **The market can go up, so that’s why I have this cash, which is a great hedge. I’ll tell you this: it’s the best hedge; nothing else is as great a hedge.”** – David Tepper, 2007[34]

“The future is uncertain; it is always a difficult time to invest.” – John Griffin

"Stocks aren't cheap and popular at the same time." - Unknown

"There are two hedges I know of; one is cash and the other is knowledge." - Bruce Berkowitz

“Defensive investing, insistence on value, and shying away from leverage -they’re all important. And much of the reason they’re important stems from the fact that so little of short-term performance is under our control….We build portfolios based on the intrinsic values we see and the developments we think will unfold. But uncontrollable factors will have a profound impact on the results…. It’s essential to remember that the fact that something’s probable doesn’t mean it’ll happen, and the fact that something happened doesn’t mean it wasn’t improbable.” – Howard Marks

"Superior investors make more money in good times than they give back in bad times." - Howard Marks

"The desire to perform all the time is usually a barrier to performing over time." - Robert Olstein

"When you locate a bargain, you must ask, 'Why me, God? Why am I the only one who could find this bargain?'" - Charlie Munger

[31] Interview with Charlie Rose, 11/1/11
[32] Interview with Charlie Rose, 11/1/11
[33] Interview with Charlie Rose, 11/1/11
[34] Talk with Undergrad Business Students at Carnegie Mellon, 11.12.07

"One of our strategies for maintaining rational thinking at all times is to attempt to avoid the extreme stresses that lead to poor decision making. We have often described our techniques for accomplishing this: willingness to hold cash in the absence of compelling investment opportunity, a strong sell discipline, significant hedging activity and avoidance of recourse leverage, among others." – Seth Klarman

"The market always does what it's supposed to do only never when it's supposed to do it." - Arnold Van De Berg

"Risk shouldn't be defined as standard deviation (or volatility). I have never met a long-only investor who gives a damn about upside volatility. Risk is an altogether more complex topic – I have argued that a trinity of risk sums up the aspects that investors should be looking at. Valuation risk, business or earnings risk, and balance sheet risk." – James Montier[35]

"You can get in way more trouble with a good idea than a bad idea." – Ben Graham[36]

"A majority of life's errors are caused by forgetting what one is really trying to do." – Warren Buffett

"People underrate the importance of a few simple big ideas." — Charlie Munger

"I now use a two-track analysis. First, what are the factors that really govern the interest involved, rationally considered? And second, what are the subconscious influences where the brain at a subconscious level is automatically doing these things – which by and large are useful, but which often misfunction."[37] – Charlie Munger [*Ed. note: first, consider rational expectations and probabilities; then carefully weigh the psychological factors and assess the irrational component.]*

"When you build a bridge, you insist that it can carry 30,000 pounds, but you only drive 10,000-pound trucks across it. And that same principle works in investing." – Warren Buffett

"Whatever investment success we achieve will take place against a troubled backdrop." – Seth Klarman[38]

"Value is not quite enough. Buying low is a start…but you need the patience, discipline and grit to buy lower and still lower if the market opportunity presents itself, shutting out the extraneous noise coming from within the market and over the airwaves." – Seth Klarman

"Investment is an activity of forecasting the yield on assets over the life of the asset;…speculation is the activity of forecasting the psychology of the market."[39] – JM Keynes

"All of humanity's problems stem from man's inability to sit quietly in a room alone." – Blaise Pascal

"I always assume that my minimum bogie is at least a 6 percent return, even if interest rates are near zero, as they are now. Moreover, I have to beat 6 percent by a measurable amount because the assumption is that the 6

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[35] "Value Investing: Tools and Techniques for Intelligent Investment," p. 9
[36] "The Snowball" by Alice Schroeder, p. 12
[37] "The Warren Buffett Portfolio" by Robert Hagstrom, p. 146
[38] Letter to Baupost partners, January 2012
[39] "The Warren Buffett Portfolio" by Robert Hagstrom, p. 202

percent is risk-free. So I wouldn't take 8 percent, unless I have high confidence that it will grow over time. I need a "margin of safety," as Graham would say. I compare normalized earnings to the risk-free rate or 6 percent, whichever is higher." – Joel Greenblatt, *Hedge Fund Market Wizards*

"Value investing doesn't always work. The market doesn't always agree with you. Over time, value is roughly the way the market prices stocks, but over the short term, which sometimes can be as long as two or three years, there are periods when it doesn't work. And that is a very good thing. The fact that our value approach doesn't work over periods of time is precisely the reason why it continues to work over the long term." –Joel Greenblatt, *Hedge Fund Market Wizards*

"The power of value investing flies in the face of anything taught in academics. Value is the way stocks are eventually priced. It requires the perspective of patience because the market will eventually gravitate toward value." –Joel Greenblatt (as quoted in the book Hedge Fund Market Wizards)

"If we have a strength, it is in recognizing when we are operating well within our circle of competence and when we are approaching the perimeter." – Warren Buffett

"Typically, and this is not well understood, his way of thinking is that there are disqualifying features to an investment. So he rifles through and as soon as you hit one of those it's done. Doesn't like the CEO, forget it. Too much tail risk, forget it. Low-margin business, forget it. Many people would try to see whether a balance of other factors made up for these things. He doesn't analyze from A to Z; it's a time-waster." – Alice Schroeder on Warren Buffett[40]

"Charlie and I both have talked about it, we probably had a hundred ideas of things that would be good short sales. Probably 95 percent of them at least turned out to be, and I don't think we would have made a dime out of it if we had been engaged in the activity. It's too difficult," he explained, suggesting that the timing of short investments is crucial. "The whole thing about 'longs' is, if you know you're right, you can just keep buying, and the lower it goes, the better you like it, and you can't do that with shorts." – Warren Buffett[41]

"You only have to do a few things right in your life, so long as you don't do too many things wrong." – Warren Buffett

"The trick of successful investors is to sell when they want to, not when they have to." – Seth Klarman, *Margin of Safety*

"We are big fans of fear, and in investing it is clearly better to be scared than sorry." – Seth Klarman

"Beware of little expenses; a small leak will sink a great ship." – Benjamin Franklin

"The overwhelming majority of people are comfortable with consensus, but successful investors tend to have a contrarian bent." – Seth Klarman

[40] Interview with Miguel Barbosa, 2010
[41] http://dealbook.nytimes.com/2012/12/03/for-buffett-the-long-run-still-trumps-the-quick-return/

“The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.” – Warren Buffett[42]

“Those who spend too much will eventually be owned by those who are thrifty.” – John Templeton

“Risk means more things can happen than will happen.” – Peter Bernstein

“Being a value investor means you look at the downside before looking at the upside.” – Li Lu

“We worry top-down, but we invest bottom-up.” – Seth Klarman

“I know a lot of people have very strong and definite plans that they’ve worked out on all kinds of things, but we’re subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible. My only plan is to keep coming to work every day. I like to steer the boat each day rather than plan ahead way into the future.” – Henry Singleton

"More money has been lost reaching for yield than at the point of a gun." – Raymond DeVoe

“Both individual skill (art) and chance are important factors in determining success or failure.” – Graham and Dodd

“There is no such thing as a bad risk. There are only bad rates.” – Jack Ringwalt, Founder and CEO of National Indemnity

“Fish deeper, fish alone.” – Paul Sonkin

"The stock market is filled with individuals who know the price of everything, but the value of nothing." - Phil Fisher

“It turns out that value investing is something that is in your blood. There are people who just don’t have the patience and discipline to do it, and there are people who do. So it leads me to think it’s genetic.” – Seth Klarman

“It sounds kind of crazy, but in times of turmoil in the market, I’ve felt a sort of serenity in knowing that I’ve checked and re-checked my work, one plus one still equals two regardless of where a stock trades right after I buy it.” – Seth Klarman

“For forty years I’ve seen the manic-depressive cycle of investor psychology swing crazily: between fear and greed – we all know the refrain – but also between optimism and pessimism, and between credulity and skepticism. In general, following the beliefs of the herd – and swinging with the pendulum – will give you average performance in the long run and can get you killed at the extremes.” – Howard Marks

[42] 1998 (annual report?)

“The most dangerous investment conditions generally stem from psychology that’s too positive. For this reason, fundamentals don’t have to deteriorate in order for losses to occur; a downgrading of investor opinion will suffice. High prices often collapse of their own weight.” –Howard Marks, *The Most Important Thing Illuminated*

On where to find ideas: “From bad news. We generally look for that which is out of favor. What’s challenging different industries? Or what companies? We look for negative headlines. Wherever there’s dislocation, that’s where we shop. We shop at stores that are having sales, stores where the windows are blacked out with paper and we can’t see what's in there, so we have to walk in the store and take a peek. For example, with natural gas prices having dropped from $14 to $2, we look to see if there’s opportunity in that space? If headlines read (as they did) that Johnson & Johnson (JNJ) needs a bandaid, we’ll do some work on the name. Microsoft (MSFT) had their share of negative articles written about them as well. We ask ourselves: Are they real? Are they justified? There’s truth in them, certainly. But is that company’s stock price trading at a level that reflects that bad news? That’s how we look for ideas.” – Steve Romick

"Great investors are not unemotional, but are inversely emotional - they get worried when the market is up and feel good when everyone is worried." - Bill Miller

“The only way to do better than somebody else, or more importantly to do better than the market, is to have a way of interpreting the data that is different from other people’s. You have to have sources of information that are different and experiences that are different.” – Bill Miller[43]

"Most people invest and then sit around worrying what the next blowup will be. I do the opposite. I wait for the blowup, then invest.” - Richard Rainwater

“There are not many great businesses that come along in a lifetime. In 1954, television was just starting. People were losing a lot of money in the business, but it was about to explode. Because of the limited availability of licenses, there was limited competition, and so it exploded over the next thirty or forty years. I was very fortunate to be in broadcasting. The business is not capital intensive, nor is it labor intensive. There was a little government involvement but never any price controls. In the last forty or fifty years, broadcasting has been one of the great businesses of this nation. It’s less so now because of synchronous satellite, cable competition, and things like that, but it’s still a very good business.” – Tom Murphy[44]

"If we decide we are wrong about something, we exit. Period." -David Einhorn

“If you buy a cheap stock when the market is high, it is a challenge because, if the market being high is followed by a general decline in prices, then for you to make money in your cheap stock, you have to swim against the tide. If you buy when the market is low, and that lowness is going to be corrected by a general inflation, and you buy your cheap stock, then you have the tailwind in your favor….I think it is unrealistic and maybe hubristic to say, “I don’t care about what is going on in the world. I know a cheap stock when I see one.” If you don’t follow the pendulum and understand the cycle, then that implies that you always invest as much money as aggressively. That doesn’t make any sense to me. I have been around too long to think that a good investment is always equally good all the time regardless of the climate.” – Howard Marks

[43] Latticework by Robert Hagstrom, p. 137
[44] http://www.hbs.edu/entrepreneurs/pdf/tommurphy.pdf

“A hallmark of mediocrity and bad strategy is unnecessary complexity—a flurry of fluff masking an absence of substance.” – Richard Rumelt, author of Good Strategy Bad Strategy

"Always remembering that we might be wrong, we must contemplate alternatives, concoct hedges, and search vigilantly for validation of our assessments. We always sell when a security's price begins to reflect full value, because we are never sure that our thesis will be precisely correct."- Seth Klarman

"Having a large amount of leverage is like driving a car with a dagger on the steering wheel pointed at your heart. If you do that, you will be a better driver. There will be fewer accidents but when they happen, they will be fatal." - Warren Buffett

“To achieve long-term success over many financial market and economic cycles, observing a few rules is not enough. Too many things change too quickly in the investment world for that approach to succeed. It is necessary instead to understand the rationale behind the rules in order to appreciate why they work when they do and don't when they don't.” – Seth Klarman

“Buying’s easier, selling’s hard – [it’s] hard to know when to get out.” – Seth Klarman[45]

“I think markets will never be efficient because of human nature.” – Seth Klarman

Look at the numbers and think for yourself. – Unknown

“‘Experience’ is what you got when you didn’t get what you wanted.” – Howard Marks

“Many shall be restored that now are fallen and many shall fall that are now in honor.” – Horace

Value Investing World’s favorite quotes:

Favorite Quotes

“Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business whose earnings are virtually certain to be materially higher five, ten and twenty years from now. Over time, you will find only a few companies that meet these standards - so when you see one that qualifies, you should buy a meaningful amount of stock. You must also resist the temptation to stray from your guidelines: If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value.” –Warren Buffett (1996 Letter to Shareholders)

"It takes twenty years to build a reputation and five minutes to ruin it." -Warren Buffett

“Rule #1: Never Lose Money; Rule #2: Never forget Rule #1.” -Warren Buffett

[45] Interview with Charlie Rose, 11/1/11

"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative." -Ben Graham

“Be fearful when others are greedy, and greedy when others are fearful.” -Warren Buffett

“The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs.” -Warren Buffett

"What the wise man does in the beginning, the fool does in the end." -Warren Buffett

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent. There must be some wisdom in the folk saying: 'It's the strong swimmers who drown.'" –Charlie Munger

"I could see that I was not going to cope as well as I wished with life unless I could acquire a better theory-structure on which to hang my observations and experiences. By then, my craving for more theory had a long history. Partly, I had always loved theory as an aid in puzzle solving and as a means of satisfying my monkey-like-curiosity. And, partly, I had found that theory-structure was a superpower in helping one get what one wanted. As I had early discovered in school wherein I had excelled without labor, guided by theory, while many others, without mastery of theory failed despite monstrous effort. Better theory I thought had always worked for me and, if now available could make me acquire capital and independence faster and better assist everything I loved." -Charlie Munger

“The number one idea is to view a stock as an ownership of the business and to judge the staying quality of the business in terms of its competitive advantage. Look for more value in terms of discounted future cash-flow than you are paying for. Move only when you have an advantage.” –Charlie Munger

"Our job is to find a few intelligent things to do, not to keep up with every damn thing in the world." -Charlie Munger

"We don't have to be smarter than the rest. We have to be more disciplined than the rest." -Warren Buffett

"We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely." -Warren Buffett

"The hard part is discipline, patience, and judgment. Investors need discipline to avoid the many unattractive pitches that are thrown, patience to wait for the right pitch, and judgment to know when it is time to swing." -Seth Klarman

"Charlie and I have a number of filters that things have to get through before we'll think about them." -Warren Buffett

“We really can say no in 10 seconds or so to 90%+ of all the things that come along simply because we have these filters.” -Warren Buffett

"We're emphasizing the knowable by predicting how certain people and companies will swim against the current. We're not predicting the fluctuation in the current." -Charlie Munger

"I think I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I've underestimated it." -Charlie Munger

“It was never my thinking that made the big money. It was always my sitting. Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money.” -Jesse Livermore

Either: "In the short run, the market is a voting machine, but in the long run it is a weighing machine." or "the market is not a weighing machine ... Rather should we say that the market is a voting machine ... product partly of reason and partly of emotion." - Ben Graham

“Confronted with a challenge to distill the secret of sound investment into three words, we venture the motto, Margin of Safety.” - Ben Graham

“If it’s close, we don’t play.” - Ben Graham

"Value investing is risk aversion." - Seth Klarman

"Value investing is at its core the marriage of a contrarian streak and a calculator." - Seth Klarman

“To achieve long-term success over many financial market and economic cycles, observing a few rules is not enough. Too many things change too quickly in the investment world for that approach to succeed. It is necessary instead to understand the rationale behind the rules in order to appreciate why they work when they do and don't when they don't.” -Seth Klarman

“As to methods there may be a million and then some, but principles are few. The man who grasps principles can successfully select his own methods. The man who tries methods, ignoring principles, is sure to have trouble.” -Ralph Waldo Emerson

"You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick 'no'." -Warren Buffett

“The game of life is the game of everlasting learning. At least it is if you want to win.” –Charlie Munger

"1) Don’t sell anything you wouldn’t buy yourself, 2) Don’t work for anyone you don’t respect, 3) Work only with people you enjoy." - Charlie Munger

"It is better to be roughly right than precisely wrong." - John Maynard Keynes

"In our view, though, investment students need only two well-taught courses-How to Value a Business, and How to Think about Market Prices. Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business who's earnings are virtually certain to be materially higher five, ten and twenty years from now." -Warren Buffett

"All intelligent investing is value investing -- acquiring more that you are paying for. You must value the business in order to value the stock." - Charlie Munger

"Interestingly, we have beaten the market quite handsomely over this time frame, although beating the market has never been our objective. Rather, we have consistently tried not to lose money and, in doing so, have not only protected on the downside but also outperformed on the upside." - Seth Klarman

“Doubt is not a pleasant condition, but certainty is absurd.” –Voltaire

"The considerations upon which expectations of prospective yields are based are partly existing facts which we can assume to be known more or less for certain, and partly future events which can only be forecasted with more or less confidence.

It would be foolish, in forming our expectations, to attach great weight to matters which are very uncertain. It is reasonable, therefore, to be guided to a considerable degree by the facts about which we feel somewhat confident, even then they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty. For this reason the facts of the existing situation enter, in a sense disproportionately, into the formation of our long-term expectations; our usual practice being to take the existing situation and to project it into the future, modified only to the extent that we have more or less definite reasons for expecting a change.

The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield 10 years hence of a … [business enterprise] … amounts to little or sometimes to nothing; or even five years hence." - John Maynard Keynes

"The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it." -Warren Buffett

“We believe that almost all really good investment records will involve relatively little diversification. The basic idea that it was hard to find good investments and that you wanted to be in good investments, and therefore, you’d just find a few of them that you knew a lot about and concentrate on those seemed to me such an obviously good idea. And indeed, it’s proven to be an obviously good idea. Yet 98% of the investing world doesn’t follow it. That’s been good for us.” - Charlie Munger

“As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think that one limits one’s risk by spreading too much between enterprises about which one knows little and has no reason for special confidence….One’s knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself entitled to put full confidence.” - John Maynard Keynes

“An argument is made that there are just too many question marks about the near future; wouldn’t it be better to wait until things clear up a bit? You know the prose: “Maintain buying reserves until current uncertainties are resolved,” etc. Before reaching for that crutch, face up to two unpleasant facts: The future is never clear and you pay a very high price for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values.” -Warren Buffett

"Cash combined with courage in a time of crisis is priceless." -Warren Buffett

“The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces.” -Warren Buffett

“If only one word is to be used to describe what Baupost does, that word should be: 'Mispricing'. We look for mispricing due to over-reaction.” -Seth Klarman

“We work really hard never to get confused with what we know from what we think or hope or wish.” -Seth Klarman

“It’s one thing to have an opinion of the macro but something very different to act as if it’s correct.” - Howard Marks

“The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.” - William Arthur Ward

"Out of clutter, find simplicity. From discord, find harmony. In the middle of difficulty lies opportunity." - Albert Einstein

“In my opinion, there are two key concepts that investors must master: value and cycles. For each asset you’re considering, you must have a strongly held view of its intrinsic value. When its price is below that value, it’s generally a buy. When its price is higher, it’s a sell. In a nutshell, that’s value investing.

But values aren’t fixed; they move in response to changes in the economic environment. Thus, cyclical considerations influence an asset’s current value. Value depends on earnings, for example, and earnings are shaped by the economic cycle and the price being charged for liquidity.

Further, security prices are greatly affected by investor behavior; thus we can be aided in investing safely by understanding where we stand in terms of the market cycle. What’s going on in terms of investor psychology, and how does it tell us to act in the short run? We want to buy when prices seem attractive. But if investors are giddy and optimism is rampant, we have to consider whether a better buying opportunity mightn’t come along later.” –Howard Marks

"I have no data yet. It is a capital mistake to theorise before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." -The Adventures of Sherlock Holmes

“A man should never be ashamed to own that he has been in the wrong, which is but saying, in other words, that he is wiser today than he was yesterday.” –Jonathan Swift

“There is nothing wrong with changing a plan when the situation has changed.” –Seneca

“Occasions when you can change your mind should be cherished, because they mean you’re smarter than you were before.” -Malcolm Gladwell

“Life is not about waiting for the storm to pass, it is about learning to dance in the rain.” -Unknown

“Discovery is looking at what everyone else sees, and seeing what everyone else misses.” -Kauffman Foundation

“Don't be astonished at new ideas; you know it does not cease to be true because it is not accepted by many.” -Benedict de Spinoza

"The stock market is filled with individuals who know the price of everything, but the value of nothing." -Phil Fisher

"In economics, you always want to ask 'And then what?'" - Warren Buffett

“There is a tide in the affairs of men which, taken at the flood, leads on to fortune.” -Shakespeare

“The first principle is that you must not fool yourself, and you are the easiest person to fool.” -Richard Feynman

"The chains of habit are too light to be felt until they are too heavy to be broken." -Warren Buffett

“The minute you get away from the fundamentals – whether it’s proper technique, work ethic, or mental preparation – the bottom can fall out of your game, your schoolwork, your job, whatever you’re doing.” -Michael Jordan

"Be so good they can't ignore you." -Steve Martin

“Plough deep, while sluggards sleep, and you shall have corn to sell and keep. Work while it is called today, for you know not how much you may be hindered tomorrow. One today is worth two tomorrows, and Never leave that till tomorrow, which you can do today.”

“If you were a servant, would you not be ashamed that a good master should catch you idle? Are you then your own master? Be ashamed to catch yourself idle when there is so much to be done for yourself, your family, and your country. Handle your tools without mittens: Remember, that the cat in gloves catches no mice.”

“It is true, there is much to be done, and perhaps, you are weak handed; but stick to it steadily, and you will see great effects; for Constant dropping wears away stones; and by diligence and patience the mouse ate in two the cable; and little strokes fell great oaks.” -Ben Franklin

“Acquire Riches by Industry and Frugality.” -Ben Franklin

“Your life must focus on the maximization of objectivity." -Charlie Munger

“A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past.” -Charlie Munger

"Ain't only three things to gambling: knowing the 60-40 end of the proposition, money management, and knowing yourself." -"Puggy" Pearson

“You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don’t have that cast of mind, you’re destined for failure even if you have a high I.Q.” -Charlie Munger

"Here's one truth that perhaps your typical investment counselor would disagree with: if you're comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, so what?! Someone will always be getting richer faster than you. This is not a tragedy.” -Charlie Munger

“He is a wise man who does not grieve for the things which he has not, but rejoices for those which he has.” -Epictetus

“You’ve got to have models in your head and you’ve got to array you experience – both vicarious and direct – onto this latticework of mental models.” -Charlie Munger

“Acquire worldly wisdom and adjust your behavior accordingly. If your new behavior gives you a little temporary unpopularity with your peer group… then to hell with them.” -Charlie Munger

“If it is wisdom you’re after, you’re going to spend a lot of time on your ass reading.” -Charlie Munger

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time -- none, zero... You'd be amazed at how much Warren reads -- at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." -Charlie Munger

"Warren and I insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think. So Warren and I do more reading and thinking and less doing than most people in business." -Charlie Munger

“The man who doesn’t read good books has no advantage over the man who can’t read them.” -Mark Twain

“Not everything that counts can be counted, and not everything that can be counted counts.” -sign that hung in Albert Einstein’s office at Princeton

"Most of what we say and do is not essential. If you can eliminate it, you'll have more time, and more tranquility. Ask yourself at every moment, 'Is this necessary?'" -Marcus Aurelius

"The definition of insanity is doing something over and over again and expecting different results." -Albert Einstein

“If I have seen further [than certain other men] it is by standing upon the shoulders of giants.” -Sir Isaac Newton

“If I am anything, which I highly doubt, I have made myself so by hard work.” -Sir Isaac Newton

“The harder you work the luckier you get.” -Ben Franklin

"More important than the will to win is the will to prepare." -Charlie Munger

“In all things success depends on previous preparation, and without such previous preparation there is sure to be failure” –Confucius

"Hard work, honesty, if you keep at it, will get you almost anything." -Charlie Munger

"Plans are only good intentions unless they immediately degenerate into hard work." -Peter Drucker

"Determine never to be idle. No person will have occasion to complain of the want of time who never loses any. It is wonderful how much may be done if we are always doing." -Thomas Jefferson

"I have been speculating...what makes a man a discoverer of undiscovered things, and a most perplexing problem it is. Many men who are very clever, -- much cleverer than the discoverers -- never originate anything. As far as I can conjecture, the art consists in habitually searching for the causes and meaning of everything which occurs. This implies sharp observation and requires as much knowledge as possible of the subject investigated." -Charles Darwin

"The most difficult subjects can be explained to the most slow-witted man if he has not formed any idea of them already; but the simplest thing cannot be made clear to the most intelligent man if he is firmly persuaded that he knows already, without a shadow of doubt, what is laid before him." –Leo Tolstoy

“It is impossible to begin to learn that which one thinks one already knows.” –Epictetus

“In times of change, learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists.” -Eric Hoffer

"I have always thought that one man of tolerable abilities may work great changes, and accomplish great affairs among mankind if he first forms a good plan and, cutting off all amusements or other employments that would divert his attention, makes the execution of that same plan his sole study and business." -Ben Franklin

“The difference between successful people and really successful people is that really successful people say no to almost everything.” –Warren Buffett

“At Baupost, we constantly ask: 'What should we work on today?' We keep calling and talking. We keep gathering information. You never have perfect information. So you work, work and work. Sometimes we thumb through Value Line. How you fill your inbox is very important.” -Seth Klarman

"You can become, to an enormous degree, the person you want to be." -Warren Buffett

“I have a motto: it’s never too late to give up. It’s never too late to give up what you are doing, and start doing what you realise you love.” –Hans Rosling

"Success is not final, failure is not fatal: it is the courage to continue that counts." -Winston Churchill

“The content of your character is your choice. Day by day, what you choose, what you think, and what you do is who you become. Your integrity is your destiny…it is the light that guides your way.” -Heraclitus

"What difference does it make how much there is laid away in a man's safe or in his barns, how many head of stock he grazes or how much capital he puts out at interest, if he is always after what is another's and only counts what he has yet to get, never what he has already. You ask what is the proper limit to a person's wealth? First, having what is essential, and second, having what is enough." -Seneca

"When I was 17 I read a quote that went something like "If you live each day as if it was your last, someday you'll most certainly be right." It made an impression on me, and since then, for the past 33 years, I have looked in the mirror every morning and asked myself, "If today were the last day of my life, would I want to do what I am about to do today?" And whenever the answer has been "no" for too many days in a row, I know I need to change something. Remembering that I'll be dead soon is the most important thing I've ever encountered to help me make the big choices in life, because almost everything--all external expectations, all pride, all fear of embarrassment or failure--these things just fall away in the face of death, leaving only what is truly important. Remembering that you are going to die is the best way I know to avoid the trap of thinking you have something to lose. You are already naked. There is no reason not to follow your heart." -Steve Jobs

"Whenever you do any one thing intensely over a period of time you have to give up other lives you could be living. You have to have a real single-minded kind of tunnel vision if you want to get anything significant accomplished. Especially if the desire is not to be a businessman, but to be a creative person." -Steve Jobs

"Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they didn't really do it, they just saw something. It seemed obvious to them after a while. That's because they were able to connect experiences they've had and synthesize new things. And the reason they were able to do that was that they've had more experiences or they have thought more about their experiences than other people. Unfortunately, that's too rare a commodity. A lot of people in our industry haven't had very diverse experiences. So they don't have enough dots to connect, and they end up with very linear solutions without a broad perspective on the problem. The broader one's understanding of the human experience, the better design we will have." -Steve Jobs

"Complex systems don't have causes. There are just patterns and at any point one's state of health can move randomly onto a new path. It is not the particular path that one should think about. You move over an ensemble of possible paths, conditional on how you live and the choices you make. All you can do is to try to influence the distribution of possibilities. You can never set the particular path or outcome that will be yours from this time forward. If you think you can look back and see some cause of events, you are probably suffering hindsight bias or what I call complexity blindness.

Think of the freedom this view gives you. There is no possibility of failure because you only control your actions and they only influence the probable evolution of your life over stochastic future paths. There is no failure, only feedback." –Art De Vany

Warren Buffett on debt:

"We rarely use much debt and, when we do, we attempt to structure it on a long-term fixed rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, depositors, lenders and the many equity holders who have committed unusually large portions of their net worth to our care."

"In the end, alchemy, whether it is metallurgical or financial, fails. A base business can not be transformed into a golden business by tricks of accounting or capital structure. The man claiming to be a financial alchemist may become rich. But gullible investors rather than business achievements will usually be the source of his wealth."

"You really don't need leverage in this world much. If you're smart, you're going to make a lot of money without borrowing. I've never borrowed a significant amount of money in my life. Never. Never will. I've got no interest in it. The other reason is I never thought I would be way happier when I had 2X instead of X. You ought to have a good time all the time as you go along."

And:

"The financial calculus that Charlie and I employ would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my friends and family have and need in order to pursue what they don't have and don't need."

Seth Klarman on risk:

"The risk of an investment is described by both the probability and the potential amount of loss. The risk of an investment—the probability of an adverse outcome—is partly inherent in its very nature. A dollar spent on biotechnology research is a riskier investment than a dollar used to purchase utility equipment. The former has both a greater probability of loss and a greater percentage of the investment at stake.

In the financial markets, however, the connection between a marketable security and the underlying business is not as clear-cut. For investors in a marketable security the gain or loss associated with the various outcomes is not totally inherent in the underlying business; it also depends on the price paid, which is established by the marketplace. The view that risk is dependent on both the nature of investments and on their market price is very different from that described by beta.

While security analysts attempt to determine with precision the risk and return of investments, events alone accomplish that. For most investments the amount of profit earned can be known only after maturity or sale. Only for the safest of investments is return knowable at the time of purchase: a one-year 6 percent T-bill returns 6 percent at the end of one year. For riskier investments the outcome must be known before the return can be calculated. If you buy one hundred shares of Chrysler Corporation, for example, your return depends almost entirely on the price at which it is trading when you sell. Only then can the return be calculated.

Unlike return, however, risk is no more quantifiable at the end of an investment that it was at its beginning. Risk simply cannot be described by a single number. Intuitively we understand that risk varies from investment to investment: a government bond is not as risky as the stock of a high-technology company. But investments do not provide information about their risks the way food packages provide nutritional data.

Rather, risk is a perception in each investor's mind that results from analysis of the probability and amount of potential loss from an investment. If an exploratory oil well proves to be a dry hole, it is called risky. If a bond defaults or a stock plunges in price, they are called risky. But if the well is a gusher, the bond matures on schedule, and the stock rallies strongly, can we say they weren't risky when the investment after it is concluded than was known when it was made.

There are only a few things investors can do to counteract risk: diversify adequately, hedge when appropriate, and invest with a margin of safety. It is a precisely because we do not and cannot know all the risks of an investment that we strive to invest at a discount. The bargain element helps to provide a cushion for when things go wrong.”

“While some might mistakenly consider value investing a mechanical tool for identifying bargains, it is actually a comprehensive investment philosophy that emphasizes the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and resist crowd psychology.” -Seth Klarman

“Risk means more things can happen than will happen.” -Elroy Dimson

"We have two kinds of forecasters, those who don't know and those who don't know they don't know." -John Kenneth Galbraith

"It is frightening to think that you might not know something, but more frightening to think that by and large the world is run by people who have faith that they know exactly what is going on." -Amos Tversky

"It ain't what you don't know that gets you into trouble. It what you know for certain that just ain't true." -Mark Twain

“There is a great difference between knowing and understanding: you can know a lot about something and not really understand it.” –Charles F. Kettering

"I have no use whatsoever for projections or forecasts. They create an illusion of apparent precision. The more meticulous they are, the more concerned you should be. We never look at projections, but we care very much about, and look very deeply at, track records. If a company has a lousy track record, but a very bright future, we will miss the opportunity..." -Warren Buffett

"[Projections] are put together by people who have an interest in a particular outcome, have a subconscious bias, and its apparent precision makes it fallacious. They remind me of Mark Twain's saying, 'A mine is a hole in the ground owned by a liar.' Projections in America are often a lie, although not an intentional one, but the worst kind because the forecaster often believes them himself." -Charlie Munger

Quotes on Simplicity:

"We have a passion for keeping things simple." -Charles Munger

"It's amazing how many people even today use a computer to do something you can do with a pencil and paper in less time." -Richard Feynman (from No Ordinary Genius)

"The art of being wise is the art of knowing what to overlook." -William James

"Part of that [having uncommon sense], I think, is being able to tune out folly, as distinguished from recognizing wisdom. You've got whole categories of things you just bat away so your brain isn't cluttered with them. That way, you're better able to pick up a few sensible things to do." -Charles Munger

"Yeah, we don't consider many stupid things. I mean, we get rid of 'em fast...Just getting rid of the nonsense -- just figuring out that if people call you and say, 'I've got this great, wonderful idea', you don't spend 10 minutes once you know in the first sentence that it isn't a great, wonderful idea...Don't be polite and go through the whole process." -Warren Buffett

"The harder you work, the more confidence you get. But you may be working hard on something that is false." -Charles Munger

“Simplicity means the achievement of maximum effect with minimum means.” -Koichi Kawana

“He is a foolish swimmer who swims against the stream, when he might take the current sideways.” -Ovid

“If you can't explain it simply, you don't understand it well enough.” -possibly by Albert Einstein

“Order and simplification are the first steps toward the mastery of a subject.” -Thomas Mann

“A theory is the more impressive the greater the simplicity of its premises, the more different kinds of things it relates, and the more extended its area of applicability.” -Albert Einstein

“To avoid the various foolish opinions to which mankind are prone, no superhuman genius is required. A few simple rules will keep you, not from all error, but from silly error.” -Bertrand Russell

“There is a master key to success with which no man can fail. Its name is simplicity. Simplicity, I mean, in the sense of reducing to the simplest possible terms every problem that besets us. Whenever I have met a business proposition which, after taking thought, I could not reduce to simplicity, I have left it alone.” -Henri Deterding

“The ability to simplify means to eliminate the unnecessary so that the necessary may speak.” -Hans Hofmann

“There never was a sounder logical maxim of scientific procedure than Ockham’s razor: Entia non sunt multiplicanda praeter necessitatem. That is to say; before you try a complicated hypothesis, you should make quite sure that no simplification of it will explain the facts equally well.” -Charles Sanders Peirce

But it is also important to remember not try to over-simplify complex matters [Peter Bevelin comment]

“When discussing complex systems like brains and other societies, it is easy to oversimplify: I call this Occam's lobotomy.” -Irving John Good

“Theories should be as simple as possible, but no simpler.” -possibly by Albert Einstein

More from Ben Franklin:

“An ounce of prevention is worth a pound of cure.”

"He that would live in peace and at ease, must not speak all he knows, nor judge all he sees."

"What you would seem to be, be really."

"As Pride increases, Fortune declines."

"Industry, Perseverance, & Frugality, make Fortune yield."

"To-morrow I'll reform, the fool does say;
To-day itself's too late; - the wise did yesterday."

"Promises may get thee friends, but non-performance will turn them into enemies."

"Enjoy the present hour, be mindful of the past; And neither fear nor wish the approaches of the last."

"What signifies knowing the Names, if you know not the Natures of Things?"

"Well done, is twice done."

"There are three Things extreamly hard; Steel, a Diamond and to know one's self."

"O Lazy bones! Dost thou think God would have given thee arms and legs, if he had not design'd thou should'st use them?"

"He's a Fool that cannot conceal his Wisdom."

"No gains without pains."

"Beware of little Expenses: a small Leak will sink a great Ship."

"Pay what you owe, and you'll know what is your own."

"Be always ashamed to catch thyself idle."

"If you would keep your secret from an enemy, tell it not to a friend."

"Many have been ruined by buying good pennyworths."

"He that lieth down with dogs, shall rise up with fleas."

"A Slip of the Foot you may soon recover, but a slip of the Tongue you may never get over."

"He that waits upon fortune, is never sure of dinner."

"Would you live with ease, do what you ought, and not what you please."

“People who are wrapped up in themselves make small packages.”

“Would you persuade, speak of Interest, not of Reason.”

“Do good to thy Friend to keep him, to thy Enemy to gain him.”

“The first Degree of Folly, is to conceit one’s self wise; the second to profess it; the third to despise Counsel.”

“You may delay, but Time will not.”

“Lost time is never found again.”

“Take this remark from Richard, poor and lame, Whate’er’s begun in Anger, ends in Shame.”

“All things are easy to Industry, all things difficult to Sloth.”

“He that cannot obey, cannot command.”

“If you would reap Praise you must sow the Seeds, gentle Words and useful Deeds.”

“Haste makes Waste.”

“Early to bed and early to rise, makes a man healthy, wealthy, and wise.”

“If you know how to spend less than you get, you have the philosopher’s stone.”

“Diligence is the mother of good luck.”

“At a great penny worth, pause a while.”

“Ignorance leads Men into a party, and Shame keeps them from getting out again.”

“He that pays for work before it’s done, has but a pennyworth for two pence.”

“Anger is never without Reason, but seldom with a good One.”

“Thou can’st not joke an enemy into a friend, but thou may’st a friend into an enemy.”

“He that falls in love with himself, will have no rivals.”

“Patience in Market, is worth Pounds in a year.”

“When the well’s dry, we know the worth of water.”

“Virtue & Happiness are Mother and Daughter.”

“Buy what thou hast no need of, and e’er long thou shalt sell they necessaries.”

“If you would not be forgotten, as soon as you are dead and rotten, either write things worth reading, or do things worth the writing.”

“He that speaks much, is much mistaken.”

“Since thou art not sure of a Minute, throw not away an Hour.”

“’Tis easier to suppress the first Desire, than to satisfy all that follow it.”

“He that pursues two hares at once, does not catch one lets t’other go.”

“The sleeping Fox catches no poultry. Up! up!”

“If your Riches are yours, why don’t you take them to t’other World?”

“What more valuable than Gold? Diamonds. Than Diamonds? Virtue.”

“Great Estates may venture more; Little Boats must keep near Shore.”

“’Tis easier to prevent bad habits than to break them.”

“Blessed is he that expects nothing, for he shall never be disappointed.”

“Diligence overcomes Difficulties, Sloth makes them.”

“Neglect mending a small Fault, and ‘twill soon be a great One.”

“Proclaim not all though knowest, or all though owest.”

“A Change of Fortune hurts a wise Man no more than a Change of the Moon.”

“Love your Enemies, for they tell you your Faults.”

“Dost thou love Life? Then do not squander Time; for that’s the Stuff Life is made of.”

“Silence is not always a Sign of Wisdom, but Babbling is ever a Folly.”

“A long Life may not be good enough, but a good Life is long enough.”

“For Age and Want save while you may; No morning Sun lasts a whole day.”

“Don’t think so much of your own Cunning, as to forget other Men’s; a Cunning Man is overmatched by a cunning Man and a Half.”

“You may give a Man an Office, but you cannot give him Discretion.”

“He that doth what he should not, shall feel what he would not.”

“He is a Governor that governs his Passions, and he a Servant that serves them.”

“Employ thy time well, if thou meanest to gain leisure.”

“Suspicion may be no fault, but showing it may be a great one.”

“A good Example is the best Sermon.”

“Wise Men learn by others’ harms; Fools by their own.”

“Laziness travels so slowly that Poverty soon overtakes him.”

“He that by the Plough would thrive, himself must either hold or drive.”

“Life with Fools consists in Drinking; with the wise Man, living’s Thinking.”

“The second Vice is Lying; the first is running in Debt.”

“Three may keep a secret, if two of them are dead.”

“The honest Man takes Pains, and then enjoys Pleasures; the knave takes Pleasure, and then suffers Pains.”

“To be proud of Knowledge, is to be blind with Light.”

“Get what you can, and what you get hold; ‘tis the Stone that will turn all your Lead into Gold.”

“An honest Man will receive neither Money nor Praise that is not his due.”

“Men take more pains to mask than mend.”

“To be proud of Virtue, is to poison yourself with the Antidote.”

“One To-day is worth two To-morrows.”

“Idleness is the Dead Sea, that swallows all Virtues: Be active in Business, that Temptation may miss her Aim; the Bird that sits, is easily shot.”

“Let no pleasure tempt thee, no profit allure thee, no ambition corrupt thee, no example sway thee, no persuasion move thee, to do any thing which thou knowest to be evil; so shalt thou always live jollily; for a good conscience is a continual Christmas.”

"So convenient a thing it is to be a reasonable creature, since it enables one to find or make a reason for everything one has a mind to do."

"When in doubt, don't."

"For years, when someone asked me what my biggest fear was as an investor in managing my portfolio, my answer was that it was buying too soon on the way down from often very overvalued levels. I knew a market collapse was possible. And sometimes, I imagined that I was back in 1930 after the market had peaked the year before, and then dropped 30%. Surely, there would've been some tempting bargains then.
And just as surely, you'd have been crushed by the market's subsequent plunge over the next three years — down to below 20% of 1929 levels. A fall from 70 to 20, and from 100 to 20, would feel almost exactly the same by the time you hit 20." —Seth Klarman

“If only one word is to be used to describe what Baupost does, that word should be: 'Mispricing'. We look for mispricing due to over-reaction.” – Seth Klarman

“At Baupost, we constantly ask: 'What should we work on today?' We keep calling and talking. We keep gathering information. You never have perfect information. So you work, work and work. Sometimes we thumb through ValueLine. How you fill your inbox is very important.” – Seth Klarman

“While some might mistakenly consider value investing a mechanical tool for identifying bargains, it is actually a comprehensive investment philosophy that emphasizes the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and resist crowd psychology.” – Seth Klarman

“I think Buffett is a better investor than me because he has a better eye toward what makes a great business. And when I find a great business I’m happy to buy it and hold it. Most businesses don’t look so great to me.” – Seth Klarman[46]

Regarding a focus on daily price movements: “I don’t have a Bloomberg on my desk. I don’t care.” – Seth Klarman[47]

"It is crucial to have a strategy in place before problems hit, precisely because no one can accurately predict the future direction of the stock market or economy. Value investing, the strategy of buying stocks at an appreciable discount from the value of the underlying businesses, is one strategy that provides a road map to successfully navigate not only through good times but also through turmoil. Buying at a discount creates a margin of safety for the investor—room for imprecision, error, bad luck or the vicissitudes of volatile markets and economies. Following a value approach won’t be easy for everyone, especially in today’s media-dominated, short-term oriented markets, in that it requires deep reservoirs of patience and discipline. Yet it is the only truly risk averse strategy in a world where nearly all of us are, or should be, risk averse." – Seth Klarman

“The greatest long-range investment profits are never obtained by investing in marginal companies. Investors desiring maximum gains over the years had best stay away from low profit-margin or marginal companies.” – Phil Fisher

[46] Inteview with Charlie Rose, 11/1/11
[47] Inteview with Charlie Rose, 11/1/11

“As time goes on, I get more and more convinced that the right method of investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes.” – J. M. Keynes

“We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort level he must feel with its economic characteristics before buying into it.” – Warren Buffett

“If you took out our top 15 best ideas, most of you wouldn’t be here. We have this investment discipline of waiting for a fat pitch.” – Charlie Munger

“We’ve made some big mistakes starting to buy something that was cheap and within our circle of competence, but trickled off because price went up a bit. Good ideas are too scarce to be parsimonious with.” – Warren Buffett

“…thoughtful investors can toil in obscurity, achieving solid gains in the good years and losing less than others in the bad. They avoid sharing in the riskiest behavior because they’re so aware of how much they don’t know and because they have their egos in check. This, in my opinion, is the greatest formula for long-term wealth creation – but it doesn’t provide much ego gratification in the short-term. It’s just not that glamorous to follow a path that emphasizes humility, prudence, and risk control. Of course, investing shouldn’t be about glamour, but often it is.” – Howard Marks (The Most Important Thing, Chapter 10)

> “The big question about how people behave is whether they’ve got an Inner Scorecard or an Outer Scorecard. It helps if you can be satisfied with an Inner Scorecard. I always posed it this way. I say: ‘Lookit. Would you rather be the world’s greatest lover, but have everyone think you’re the world’s worst lover? Or would you rather be the world’s worst lover but have everyone think you’re the world’s greatest lover?’ Now that’s an interesting question.
>
> “Here’s another one. If the world couldn’t see your results, would you rather be thought of as the world’s greatest investor but in reality have the world’s worst record? Or be thought of as the world’s worst investor when you were actually the best?
>
> “In teaching your kids, I think the lesson they’re learning at a very, very early age is what their parents put the emphasis on. If all the emphasis is on what the world’s going to think about you, forgetting about how you really behave, you’ll end up with an Outer Scorecard. Now, my dad: He was a hundred percent Inner Scorecard guy.
>
> He was really a maverick. But he wasn’t a maverick for the sake of being a maverick. He just didn’t care what other people thought. My dad taught me how life should be lived…” – Warren Buffett (The Snowball, Chapter 3)

“You don’t have to be right on everything or 20%, 10%, or 5% of businesses. You only have to be right one or two times a year. You can come up with a very profitable decision on a single company. If someone asked me to handicap the 500 companies in the S&P 500, I wouldn’t do a very good job. You only have to be right a few times in your lifetime, as long as you don’t make any big mistakes.”—Warren Buffett

"If each of us hires people who are smaller than we are, we shall become a company of dwarfs. But, if each of us hires people who are bigger than we are, we shall become a company of giants." – David Ogilvy

“Quality is more important than quantity. One home run is much better than two doubles.” – Steve Jobs

“Focus and simplicity…once you get there, you can move mountains.” – Steve Jobs

“The only way to do great work is to love what you do. If you haven’t found it yet, keep looking. Don’t settle.” – Steve Jobs

“Our business is a little bit of a fraud, right? We offer the possibility of attaining what’s not possible attainable for everyone.” – Seth Klarman[48]

The four most dangerous words in investing: This time is different. – Attributed to John Templeton

Invest at the point of maximum pessimism. – Attributed to John Templeton

“Complex systems break in complex ways.” – Peter Neumann[49]

“If a business is not ethical, it will fail, perhaps not right away but eventually.” – John Templeton

“I never ask if the market is going to go up or down because I don't know, and besides it doesn't matter. I search nation after nation for stocks, asking: 'Where is the one that is lowest-priced in relation to what I believe it's worth?' Forty years of experience have taught me you can make money without ever knowing which way the market is going.” – John Templeton[50]

“One of my favorite clichés [is] the French saying: ‘The more it changes the more it’s the same thing.’ I have always thought this motto applied to the stock market better than anywhere else. The economic world has changed radically and it will change even more. Most people think now that the essential nature of the stock market has been undergoing a corresponding change. But if my cliché is sound…then the stock market will continue to be essentially what it always was in the past – a place where a big bull market is inevitably followed by a big bear market. In other words, a place where today’s free lunches are paid for doubly tomorrow.” – Ben Graham

“There are those who don’t know and those who don’t know they don’t know.” John Kenneth Galbraith

“Pundits forecast no because they know, but because they are asked.” – John Kenneth Galbraith

“Undervaluations caused by neglect or prejudice may persist for an inconveniently long time, and the same applies to inflated prices caused by over-enthusiasm or artificial stimulants.” – Ben Graham

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[48] http://www.hbs.edu/centennial/businesssummit/asset-management/active-management-private-equity-venture-capital-and-hedge-funds.html
[49] NYT article of 10.29.12: ‘Killing the computer to save it’
[50] Value Investor Insight issue of 11-29-11, citing Forbes

"The central principle of investment is to go contrary to the general opinion, on the grounds that if everyone agreed about its merits, the investment is inevitably too dear and therefore unattractive." – J.M. Keynes

"As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think that one limits one's risk by spreading too much between enterprises about which one knows little and has no reason for special confidence. . . . One's knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself entitled to put full confidence." – J.M. Keynes

"You have to turn over a lot of rocks to find those little anomalies. You have to find the companies that are off the map – way off the map." – Warren Buffett

"The investor's chief problem – even his worst enemy – is likely to be himself." – Benjamin Graham

"…generally, if you have done good valuation work, 98 percent of the time, two or three years is enough time for the market to agree with you. That is a very powerful concept. It gives you patience. Of course, if you do poor valuation work, you can get into trouble. But if you stick to things you understand well, do good valuation work, give yourself a wide margin of safety, and have confidence in your work, eventually, you will end up doing quite well." – Joel Greenblatt, *Hedge Fund Market Wizards*

"Better to buy a great business at a fair price than a fair business at a great price." – attributed to Charlie Munger

"I think I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I've underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther." – Charlie Munger

"This is really crucial: Warren [Buffett] is one of the best learning machines on this earth. The turtles who outrun the hares are learning machines. If you stop learning in this world, the world rushes right by you." – Charlie Munger

"(Value) investing is not a paint-by-numbers exercise. Skepticism and judgment are always required." – Seth Klarman[51]

"The art of stock picking is more about synthesizing information across disciplines and making decisions than a strict devotion to finance." – Allan Mecham

"The risk actually undertaken is very modest and remote. It is hard for us…to even see a scenario within any kind of real of reason that would see us losing one dollar in any of those transactions…We see no issues at all emerging." – Joe Cassano, head of AIGFP, August 2007, regarding AIGFP's subprime structured products

"That's why I am sleeping a little bit easier at night." – Martin Sullivan, CEO of AIG, in response

[51] Preface to *Security Analysis*

"Every corporate security may be best viewed, in the first instance, as an ownership interest in, or a claim against, a specific business enterprise." – Benjamin Graham

"We don't deal in absolutes. We deal in probabilities." – Seth Klarman[52]

In 2005, a group of students from the University of Kansas met with Warren Buffett. Their first question was whether he would still be able to earn investment returns of 50% annually. Buffett responded:

> "Yes, I would still say the same thing today. In fact, we are still earning those types of returns on some of our smaller investments. The best decade was the 1950s; I was earning 50% plus returns with small amounts of capital. I could do the same thing today with smaller amounts. It would perhaps even be easier to make that much money in today's environment because information is easier to access.
>
> "You have to turn over a lot of rocks to find those little anomalies. You have to find the companies that are off the map – way off the map. You may find local companies that have nothing wrong with them at all. A company that I found, Western Insurance Securities, was trading for $3/share when it was earning $20/share! I tried to buy up as much of it as possible. No one will tell you about these businesses. You have to find them."

"Intelligent investing is not complex, though that is far from saying that it is easy. What an investor needs is the ability to correctly evaluate selected businesses. Note that word "selected": You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital." – Warren Buffett

"Having great clients is the key to investment success." – Seth Klarman[53]

"Rationalism crashes in the tails." – N.N. Taleb[54]

"It is easier to rationalize than it is to be rational." – unknown

"[Todd Combs is] one of those rare people in finance who just really enjoys the process. He really wants to find the truth, and what is the value of a company. He's not a person who wants to delegate that to someone else or not do his own work…He just really loves what he does." – Charles A. Davis

"The plural of 'anecdote' is not data." – Ben Goldacre

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." – George Soros

"The one thing I will tell you is the worst investment you can have is cash. Everybody is talking about cash being king and all that sort of thing. Cash is going to become worth less over time. But good businesses are going to become worth more over time. And you don't want to pay too much for them so you have to have

[52] Bloomberg article of 6-11-10
[53] Interview with Jason Zweig, May 2010
[54] "Common Errors in Interpreting the Ideas of *The Black Swan* and Associated Papers," N.N. Taleb, NYU Poly Institute, 10-18-09

some discipline about what you pay. But the thing to do is find a good business and stick with it. We always keep enough cash around so I feel very comfortable and don't worry about sleeping at night. But it's not because I like cash as an investment. Cash is a bad investment over time. But you always want to have enough so that nobody else can determine your future essentially." – Warren Buffett

"Political and economic "tail events" are unpredictable, and their probabilities are not scientifically measurable. No matter how many dollars are spent on research, predicting revolutions is not the same as counting cards; humans will never be able to turn politics and economics into the tractable randomness of blackjack." –Nassim Taleb, *Antifragile*

"The central idea in *The Black Swan* is that: rare events cannot be estimated from empirical observation *since they are rare*." – N.N. Taleb[55] [emphasis original]

"This idea that in order to make a decision you need to focus on the consequences (which you can know) rather than the probability (which you can't know) is the central idea of uncertainty. Much of my life is based on it." – Nassim Taleb, *The Black Swan*

"Put yourself in situations where favorable consequences are much larger than unfavorable ones…Indeed, the notion of *asymmetric outcomes* is the central idea of this book: I will never get to know the unknown since, by definition, it is unknown. However, I can always guess how it might affect me, and I should base my decisions around that." –Nassim Taleb, *The Black Swan*

"The probabilities of very rare events are not computable; the effect of an event on us is considerably easier to ascertain (the rarer the event, the fuzzier the odds). We can have a clear idea of the consequences of an event, even if we do not know how likely it is to occur….This idea that in order to make a decision you need to focus on the consequences (which you can know) rather than the probability (which you can't know) is the central idea of uncertainty. Much of my life is based on it." –Nassim Taleb, *The Black Swan*

"Conventional wisdom holds that memory is like a serial recording device like a computer diskette. In reality, memory is dynamic—not static—like a paper on which new texts (or new versions of the same text) will be continuously recorded, thanks to the power of posterior information....Memory is more of a self-serving dynamic revision machine: you remember the last time you remembered the event and, without realizing it, change the story at every subsequent remembrance." – Nassim Taleb, *The Black Swan*

"You cannot ignore self-delusion. The problem with experts is that they do not know what they do not know. Lack of knowledge and delusion about the quality of your knowledge come together—the same process that makes you know less also makes you satisfied with your knowledge." – Nassim Taleb, *The Black Swan*

"You will be right, over the course of many transactions, if your hypotheses are correct, your facts are correct, and your reasoning is correct. True conservatism is only possible through knowledge and reason." – Warren Buffett

"Face up to two unpleasant facts: the future is never clear and you pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values."[56] – Warren Buffett

[55] Ibid.

"…although I do not suppose that either of us knows anything really beautiful and good, I am better off than he is, for he knows nothing, and thinks that he knows. I neither know nor think that I know. In this latter particular, then, I seem to have slightly the advantage of him." – Socrates

"I stopped wasting time on what [other] people claimed a stock was worth and started looking at the numbers." – Irving Kahn[57]

"This may surprise you, but there were a large number of valuable buys during the Depression." – Irving Kahn[58]

"With each investment you make, you should have the courage and the conviction to place at least 10 percent of your net worth in that stock." – Warren Buffett

"I would rather lose half of our clients than half of our clients' money." – Jean Marie Eveillard

"Ick investing means taking a special analytical interest in stocks that inspire a first reaction of 'ick.'" – Mike Burry, Scion Capital

"I hated discussing ideas with investors, because then I become a Defender of the Idea, and that influences your thought process." – Mike Burry

"We don't have to be smarter than the rest. We have to be more disciplined than the rest." – Warren Buffett

"Typically…his way of thinking is that there are disqualifying features to an investment. So he rifles through and as soon as you hit one of those it's done. Doesn't like the CEO, forget it. Too much tail risk, forget it. Low-margin business, forget it. Many people would try to see whether a balance of other factors made up for these things. He doesn't analyze from A to Z; it's a time-waster." – Alice Schroeder on Warren Buffett and his decision-making process[59]

"Go for a business that any idiot can run, because sooner or later any idiot probably is going to run it." – Peter Lynch

If it's growing like a weed, it might be a weed. – Unknown

"Hard work, honesty, if you keep at it, will get you almost anything." – Charles Munger

"You know, you never get the high and you never get the low." – Walter Schloss

"The person who turns over the most rocks wins the game." – Peter Lynch

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[56] The Warren Buffett Portfolio, p. 185
[57] http://www.thedailybeast.com/articles/2011/08/15/irving-kahn-105-perhaps-world-s-oldest-investment-banker-says-economy-in-downturn-just-a-blip.print.html
[58] http://www.thedailybeast.com/articles/2011/08/15/irving-kahn-105-perhaps-world-s-oldest-investment-banker-says-economy-in-downturn-just-a-blip.print.html
[59] Interview on www.simoleonsense.com

“Never confuse genius with a bull market.” – *Various*

“Organized common (or uncommon) sense is an enormously powerful tool. There are huge dangers with computers. People calculate too much and think too little.” – Charlie Munger

“Many of the mistakes I have made are the same ones that I had made before; they just look a little different each time—the same mistakes slightly disguised.” –Joel Greenblatt, *The Most Important Thing Illuminated*

“Don’t pass up something that’s attractive today because you think you will find something way more attractive tomorrow.” – Warren Buffett[60]

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.” -Warren Buffett

"Cash combined with courage in a time of crisis is priceless." – Warren Buffett

“The lesson of Buffet is, to succeed in a spectacular fashion you have to be spectacularly unusual.” – paraphrasing Mike Burry

“You don’t have to be the smartest analyst, you just have to be the most dogged.” – paraphrasing Michael Burry

“Read every line item until you get it.” – paraphrasing Michael Burry

“I don’t believe anything unless I understand it inside out. And even if I understand something, it is not uncommon that I disagree with accepted view (even if it’s a Nobel laureate).” – Mike Burry

“I have always believed that a single talented analyst, working very hard, can cover an amazing amount of investment landscape, and this belief remains unchallenged in my mind.” – Mike Burry

“The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.” – Warren Buffett[61]

“Money managers have to account for their actions to their shareholders, which means they have an undue fear of underperformance. We invest only our own money. Our investments are driven by optimism, not fear.” – Richard Chandler[62]

“If you are invested in big companies in big countries, that means there is a ready audience of benchmark-following investors who must buy the asset.” – Rich Chandler[63]

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[60] “Keeping America Great” – November 12, 2009
[61] 1998 (annual report?)
[62] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[63] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610

"By buying big – going narrow and deep, as opposed to a diversifying – you maximize your successes." – Richard Chandler[64] *[Note: in growing $10 million into $5 billion over 20 years, a mere five investments have been responsible for 90% of the gains.]*

"We like investments where the risk is time, not price." – Richard Chandler[65]

"We're just very much a plain-vanilla, long-only investment fund." – Richard Chandler, noting that Sovereign Global Investment has averaged leverage of less than 1% of assets since 1990 and has not borrowed at all since 1998, enabling the Chandlers "to take a very long-term view of risky markets, their key competitive advantage at a time when many investors, particularly highly leverage hedge funds, invest with a short-term horizon."[66]

"We learned to build our emotional muscles, helping us make it through major market falls and grind through the trying times without losing our equilibrium." – Richard Chandler[67]

"The market gives you the opportunity to arbitrage what the emotional investor will pay or sell at versus the fundamental value of a company, but you've got to pull the trigger promptly without hesitating. We've disciplined ourselves mentally and prepared ourselves in terms of information, as well as relationships with brokers, to do that." – Richard Chandler[68]

"Never underestimate the gullibility of large pools of money." -- David Swensen[69]

"We're in the business not so much of being contrarians deliberately, but rather we like to take perceived risk instead of actual risk. And what I mean by that is that you get paid for taking a risk that people think is risky, you particularly don't get paid for taking actual risk." – Wilbur Ross

"Investment is the discipline of relative selection." Sid Cottle

"Those who spend too much will eventually be owned by those who are thrifty." – John Templeton

"Risk means more things can happen than will happen." – Peter Bernstein

"What if I am wrong? Any rational investment plan has to start with that question." -Peter L. Bernstein

"If everyone thinks one way, it is likely to be wrong. If you can figure out that it is wrong, you are likely to make a lot of money." – Jim Rogers

"Markets look a lot less efficient from the banks of the Hudson than the banks of the Charles." – Fischer Black[70]

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[64] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[65] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[66] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[67] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[68] http://www.institutionalinvestor.com/Popups/PrintArticle.aspx?ArticleID=1019610
[69] Financial Times, October 8, 2009
[70] Bernstein, Peter. Against the Gods. New York: Wiley, 1996. p.7.

“Anyone who believes a growth rate in excess of 15% per annum over the long term is attainable should pursue a career in sales, but avoid one in mathematics.” – Warren Buffett

“They are not new lessons. Never owe any money you can't pay tomorrow morning. Never let the markets dictate your actions. Always be in a position to play your own game. Never take on more risks than you can handle…Good businesses, good management, plenty of liquidity, always having a loaded gun; if you play by those principles you will do fine no matter what happens. And you don't ever know what's going to happen…I mean, when times are good, it is kind of like Cinderella at the ball. She knew at midnight that everything was going to turn into pumpkins and mice, but it was just so much damn fun, dancing there, the guys looked better and the drinks got more frequent and there were no clocks on the wall. And that's what happened with capitalism. We have a lot of fun as the bubble blows up, and we all think we are going to get out five minutes before midnight, but there are no clocks on the wall.” —Warren Buffett's answer to "What are the key lessons you took from the financial crisis?"

“Onlookers frequently confuse edge with style…Edge means generating excess returns because of mispricing. Style suggests being in the right place at the right time. Sometimes edge and style overlap, sometimes they don’t.” – Michael Mauboussin[71]

“Edge also implies what Ben Graham….called a margin of safety. You have a margin of safety when you buy an asset at a price that is substantially less than its value. As Graham noted, the margin of safety ‘is available for absorbing the effect of miscalculations or worse than average luck.’ …Graham expands, “The margin of safety is always dependent on the price paid. It will be large at one price, small at some higher price, nonexistent at some still higher price.’” – Mauboussin[72]

“At the core of an analytical edge is an ability to systematically distinguish between fundamentals and expectations. Fundamentals are a well thought out distribution of outcomes, and expectations are what’s priced into an asset. A power metaphor is the [pari-mutuel] racetrack. The fundamentals are how fast a given horse will run and the expectations are the odds on the tote board. As any serious handicapper knows, you make money only by finding a mispricing between the performance of the horse and the odds. There are no ‘good’ or ‘bad’ horses, just correctly or incorrectly priced ones.” – Michael Mauboussin[73]

The purpose of a company is to maximize long-term value. As such, the prime responsibility of a management team is to invest financial, physical, and human capital at a rate in excess of the opportunity cost of capital. Operationally, this means identifying and executing strategies that deliver excess returns. Outstanding executives assess the attractiveness of various alternatives and deploy capital to where its value is highest. This not only captures investments including capital expenditures, working capital, and acquisitions, but also share buybacks. There are cases where buying back shares provides more value to continuing shareholders than investing in the business does. Astute capital allocators understand this.” – Michael Mauboussin[74]

“The low-risk, high-uncertainty situation gives us our most sought after coin-toss odds. Heads, I win; tails, I don’t lose much!” – Mohnish Pabrai

[71] “Untangling Skill and Luck” – July 15, 2010.
[72] “Untangling Skill and Luck” – July 15, 2010
[73] “Untangling Skill and Luck” – July 15, 2010
[74] “Share Repurchase from All Angles” – Legg Mason Capital Management, June 2012

“In many instances, value investing proves fundamentally uncomfortable, as the most attractive opportunities frequently lurk in unattractive or even frightening places.” – David Swensen, *Pioneering Portfolio Management*

“To boil it all down to just one sentence, I’d say the necessary condition for the existence of bargains is that perception has to be considerably worse than reality. That means the best opportunities are usually found among things most others won’t do.” – Howard Marks, *The Most Important Thing*

"There are no bad days in the market. When the market is down, you’ve got bargains, and it’s lovely to think of what you are buying at low prices. When the market is up, the bargains have gone, but you’re rich.” – Bruce Greenwald

“Warren Buffett has said many times that people either get value investing in five minutes or they won’t get it in five years. So, there is something in the human brain, that for some of us, makes all the difference in the world right away and the patience it requires is part of the wiring process.” – Mohnish Pabrai

“The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.” – Friedrich Hayek

To thrive as a value investor you have to “risk being called a dummy from time to time.” – Christopher H. Browne

“People are, by and large, quite poor at judging correct absolute values but are astute about determining relative values. Psychologists call this coherent arbitrariness, which suggests that individuals are coherent when they compare prices on a relative basis but arbitrary when those prices are considered versus fundamental value.” – Michael Mauboussin[75]

When the price of an asset rises, demand generally falls (and vice versa). When the price of a financial asset rises, however, demand generally rises (and vice versa). – Anonymous

Nothing so induces a change in attitude as seeing a friend or neighbor get rich. – Anonymous

“Value stocks are about as exciting as watching grass grow. But have you ever noticed how much your grass grows in a week?” – Christopher H. Browne

"A man with conviction is a hard man to change. Tell him you disagree and he turns away. Show him facts or figures and he questions your sources. Appeal to logic and he fails to see your point." – Leon Festinger

Investors need cash and courage, and “courage is a function of process.” – Seth Klarman

“Investment management is a ‘grunt work’ business. Were you to visit our offices, you would be reminded more of the reading room in a college library than some frenetic trading room.” – Christopher H. Browne[76]

[75] “Blaming the Rat” – Jan/Feb 2011
[76] 2001 letter to investors

“Nothing tells in the long run like good judgment, and no sound judgment can remain with the man whose mind is disturbed by the mercurial changes of the Stock Exchange. It places him under an influence akin to intoxication. What is not, he sees, and what he sees, is not. He cannot judge of relative values or get the true perspective of things. The molehill seems to him a mountain and the mountain a molehill, and he jumps at conclusions which he should arrive at by reason. His mind is upon the stock quotations and not upon the points that require calm thought. Speculation is a parasite feeding upon values, creating none.” – Andrew Carnegie

“The trick in life is not to die. The trick in investing is not to lose.” – Bruce Berkowitz

"We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen. Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price controls, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one-day drop in the Dow of 508 points, or treasury bill yields fluctuating between 2.8% and 17.4%. But, surprise - none of these blockbuster events made the slightest dent in Ben Graham's investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices. Imagine the cost to us, then, if we had let a fear of unknowns cause us to defer or alter the deployment of capital. Indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist." - Warren E. Buffett, 1994 Berkshire Hathaway Shareholder Letter

"We prefer knowing to thinking, because knowing has more immediate value.” – Neal Gabler

“It’s not that I’m so smart, it’s that I stay with problems longer.” – Albert Einstein

“My father, Benjamin Shiller, told me not to believe in authorities or celebrities — that society tends to imagine them as superhuman. It’s good advice. People are snowed by celebrities all the time. In academia people have this idea of achieving stardom — publishing in the best journals, being at the best university, writing on the hot topic everyone else is writing about. But that’s what my father told me not to do. He taught me that you have to pursue things that sound right to you. In 2004, when I wrote the second edition of my book Irrational Exuberance, I said in the preface I was worried that the boom in home prices might collapse, bring on bankruptcy in both households and businesses, and lead to a world recession. I remember thinking that this sounds kind of flaky — nobody else is saying this, I can’t prove it, this could be embarrassing. But I had learned from my father not to care what other people think. This was my book, and I believed this, so I just said it.” – Robert Shiller

“We easily think associatively, we think metaphorically, we think causally, but statistics requires thinking about many things at once, which is something that System 1 is not designed to do.” – Daniel Kahneman[77]

“An unbiased appreciation of uncertainty is a cornerstone of rationality—but it is not what people and organizations want. Extreme uncertainty is paralyzing under dangerous circumstances, and the admission that one is merely guessing is especially unacceptable when the stakes are high. Acting on pretended knowledge is often the preferred approach.” – Daniel Kahneman[78]

[77] Thinking, Fast and Slow
[78] Thinking, Fast and Slow

“A person who has not made peace with his losses is likely to accept gambles that would be unacceptable to him otherwise.” – Daniel Kahneman

"Survival prospects are poor for an animal that is not suspicious of novelty" — Daniel Kahneman

A central theme [behavioral psychology] is “that people who face a difficult question often answer an easier one instead, without realizing it.” – Daniel Kahneman

“We were required to predict a soldier’s performance in officer training and in combat, but we did so by evaluating his behavior over one hour in an artificial situation. This was a perfect instance of a general rule that I call WYSIATI, “What you see is all there is.” We had made up a story from the little we knew but had no way to allow for what we did not know about the individual’s future, which was almost everything that would actually matter. When you know as little as we did, you should not make extreme predictions like “He will be a star.” – Daniel Kahneman

“The illusion of skill is not only an individual aberration; it is deeply ingrained in the culture of the [investment management] industry.” – Daniel Kahneman

“The exaggerated expectation of consistency is a common error. We are prone to think that the world is more regular and predictable than it really is, because our memory automatically and continuously maintains a story about what is going on, and because the rules of memory tend to make that story as coherent as possible and to suppress alternatives. Fast thinking is not prone to doubt. The confidence we experience as we make a judgment is not a reasoned evaluation of the probability that it is right. Confidence is a feeling, one determined mostly by the coherence of the story and by the ease with which it comes to mind, even when the evidence for the story is sparse and unreliable. The bias toward coherence favors overconfidence. An individual who expresses high confidence probably has a good story, which may or may not be true.” – Daniel Kahneman

“To know whether you can trust a particular intuitive judgment, there are two questions you should ask: Is the environment in which the judgment is made sufficiently regular to enable predictions from the available evidence? The answer is yes for diagnosticians, no for stock pickers. Do the professionals have an adequate opportunity to learn the cues and the regularities? The answer here depends on the professionals’ experience and on the quality and speed with which they discover their mistakes.” – Daniel Kahneman

“The world is incomprehensible. It’s not the fault of the pundits. It’s the fault of the world. It’s just too complicated to predict. It’s too complicated, and luck plays an enormous role.” – Daniel Kahneman[79]

“The more successful a company becomes, the more difficult it is to continue the record: Competition, governmental controls, and increasing market saturation all play a role in slowing growth. Too, a management team skilled a t running a rapidly growing $50 or $100 million corporation may be lost at the $300 to $500 million sales level. Product and markets seemingly invulnerable to competition are suddenly inundated by it. Untouchable patents are circumvented by new discoveries. Costs cannot be controlled and prices cannot be raised, so profit margins are squeezed. Markets that appeared open for years of brisk growth become saturated. Political or economic events occur, such as an oil embargo or a sharp recession, totally beyond the control of

[79] http://www.thoughtleaderforum.com/957443.pdf

even the most astute management, wreaking havoc in the marketplace. History constantly reminds us that in an uncertain world there is no visibility of prospects. Future earnings cannot be predicted with accuracy." – David Dreman, Contrarian Investment Strategies: The Next Generation

"The [availability, recency, anchoring, and hindsight] heuristic biases, which are all interactive, seem to flourish particularly well in the stock market and to result in a high rate of investor error. We are too apt to look at insufficient information in order to confirm a course of action, we are too inclined to put great emphasis on recent or emotionally compelling events, and we expect our decisions to be met with quick market confirmation. The more we discuss a course of action and identify with it, the less we believe prior standards are valid. So each trend and fashion looks unique, is identified as such, and inevitably takes it toll. Knowledge that no fashion prevails for long is dismissed." – David Dreman, Contrarian Investment Strategies: The Next Generation

"Experience teaches us that when "everyone" comes to the same conclusion, that conclusion is just about always wrong." – David Dreman, Contrarian Investment Strategies: The Next Generation

"A good starting point [in the measurement of investment risk] is the preservation and enhancement of your purchasing power in real terms." – David Dreman, Contrarian Investment Strategies: The Next Generation

"A realistic definition of risk recognizes the potential loss of capital through inflation and taxes, and would include at least the following two factors:

1. The probability that the investment you chose will preserve your capital over the time you intend to invest your funds.
2. The probability the investments you select will outperform alternative investments for this period."

– David Dreman, Contrarian Investment Strategies: The Next Generation

"The qualitative factors upon which most stress is laid are the nature of the business and the character of the management. These elements are exceedingly important, but they are also exceedingly difficult to deal with intelligently." – Graham and Dodd

"Investing should be dull, like watching paint dry or grass grow." – Paul Samuelson

"A wise decision requires reflection, and reflection requires a pause." – Frank Partnoy[80]

"As value investors, our business is to buy bargains that financial market theory says do not exist. We've delivered great returns to our clients for a quarter century—a dollar invested at inception in our largest fund is now worth over 94 dollars, a 20% net compound return. We have achieved this not by incurring high risk as financial theory would suggest, but by deliberately avoiding or hedging the risks that we identified." – Seth Klarman

[80] http://www.ft.com/intl/cms/s/2/4551e9ee-b9fd-11e1-937b-00144feabdc0.html#axzz1yYyD6Jqn

"The stock market is the story of cycles and of the human behavior that is responsible for overreactions in both directions." – Seth Klarman

"Investors should always keep in mind that the most important metric is not the returns achieved but the returns weighed against the risks incurred. Ultimately, nothing should be more important to investors than the ability to sleep soundly at night." – Seth Klarman

“Credit is money of the mind.” – Jim Grant

"Value investing is literally a treasure hunt for value. Regardless of the economic, investment and political environment, we must be unshaken in our conviction. We must abide by our fundamental value disciplines to sniff out undiscovered opportunities. We must possess deep patience and have considerable stamina to withstand share price volatility and client criticism. We must be prepared to be temporarily wrong in the short-run and to withstand the "heat". We must stick to our value philosophy and remain committed no matter how tough the investment climate may become. From our clients' point of view, we want them to fully understand our value philosophy, investment style and deep commitment. We ask them to be patient in both good and difficult times. In return we will endeavour to give 100% of our abilities toward our common goal of investment excellence." – Irwin A. Michael

“The model I like to sort of simplify the notion of what goes on in a market for common stocks is the pari-mutuel system at the racetrack. If you stop to think about it, a pari-mutuel system is a market. Everybody goes there and bets and the odds change based on what's bet. That's what happens in the stock market.
—Charlie Munger, "Art of Stock Picking"

“With a profession such as investing, people see the 'doing' as the buying and selling. It is difficult to come home from work, and answer your spouse's question, 'what did you do today?' with 'well, I read a lot, and I talked a little.' If you're not buying or selling, you may feel you aren't doing anything." – David Abrams

Lou Simpson manages his portfolio according to five basic principles. He outlined these timeless principles in GEICO's 1986 annual report:

1. Think independently.
2. Invest in high-return businesses that are fun for the shareholders.
3. Pay only a reasonable price, even for an excellent business.
4. Invest for the long term
5. Do not diversify excessively.

1. “Think independently. We try to be skeptical of conventional wisdom, he says, and try to avoid the waves of irrational behavior and emotion that periodically engulf Wall Street. We don’t ignore unpopular companies. On the contrary, such situations often present the greatest opportunities.

2. “Invest in high-return businesses that are fun for the shareholders. Over the long run, he explains, appreciation in share prices is most directly related to the return the company earns on its shareholders’ investment. Cash flow, which is more difficult to manipulate than reported earnings, is a useful additional yardstick. We ask the following questions in evaluating management: Does management have a substantial

stake in the stock of the company? Is management straightforward in dealings with the owners? Is management willing to divest unprofitable operations? Does management use excess cash to repurchase shares? The last may be the most important. Managers who run a profitable business often use excess cash to expand into less profitable endeavors. Repurchase of shares is in many cases a much more advantageous use of surplus resources.

3. “Pay only a reasonable price, even for an excellent business. We try to be disciplined in the price we pay for ownership even in a demonstrably superior business. Even the world’s greatest business is not a good investment, he concludes, if the price is too high. The ratio of price to earnings and its inverse, the earnings yield, are useful gauges in valuing a company, as is the ratio of price to free cash flow. A helpful comparison is the earnings yield of a company versus the return on a risk-free long-term United States Government obligation.

4. “Invest for the long term. Attempting to guess short-term swings in individual stocks, the stock market, or the economy, he argues, is not likely to produce consistently good results. Short-term developments are too unpredictable. On the other hand, shares of quality companies run for the shareholders stand an excellent chance of providing above-average returns to investors over the long term. Furthermore, moving in and out of stocks frequently has two major disadvantages that will substantially diminish results: transaction costs and taxes. Capital will grow more rapidly if earnings compound with as few interruptions for commissions and tax bites as possible.

5. “Do not diversify excessively. An investor is not likely to obtain superior results by buying a broad cross-section of the market, he believes. The more diversification, the more performance is likely to be average, at best. We concentrate our holdings in a few companies that meet our investment criteria. Good investment ideas--that is, companies that meet our criteria--are difficult to find. When we think we have found one, we make a large commitment. The five largest holdings at GEICO account for more than 50 percent of the stock portfolio.

On talking to companies: “That’s a good discipline – you should spend your day talking to operators, not to Wall Street.” – Jeffrey Ubben

"In the fall of 1974 I was in graduate school at USC taking a portfolio-management investment course. The financial markets were in difficulty, and I didn't understand how securities were being sold at such depressed levels. I had only recently discovered Security Analysis by Graham and Dodd when we had a guest lecturer come in named Charlie Munger, who went on about this idea of value investing. After the class was over, I walked up to Charlie and asked him if there was one thing that I could do that would make me a better investment professional. His answer was, 'Read history, read history, read history.' And so I became a good historian, reading both economic and financial history as well as general history. What I learned is that people relate to the crises they have experienced. So when the crisis of 2008 came, it felt like an old friend to me because it had so many similarities to the banking crisis of 1907. Asking Charlie's advice and then reading history allowed me to put those things in context." – Bob Rodriguez[81]

[81] Interview in February 6, 2012 issue of Fortune

"My students sometimes ask, "What do you do for a company that is in a competitive industry, or technology is causing major changes, or new products are coming out, or some other circumstance makes it very difficult to estimate what future earnings might be?" I tell them to just skip that company and find a company that they can analyze. It is very important to know what you don't know." – Joel Greenblatt, *Hedge Fund Market Wizards* chanticleer

"Most of our investments are a product of what we've learned from working with and investing behind really great management teams. We're very isolated. We'd rather spend our time learning from successful operators and investors. CEO's making strategic decisions every day -- they are essentially investors themselves -- allocating capital in the most shareholder-friendly way. This approach keeps us independent and it keeps our portfolio unique." – Cara Goldenberg

"We have a network and investor base that is totally different from most hedge funds. Our reference list is our management teams. People say, 'can you give me your list of references?' And we send a list of CEO's. And they say, 'No, we'd like to speak with your investors.' We say, 'Those are our investors.'" – Cara Goldenberg

"My job is not to ignore the current and potential macroeconomic environment nor is it to forecast it. It is to choose a select number of companies that have the right combination of characteristics that will allow it to survive and thrive in nearly any scenario." – Peter Kinney[82]

"The only way to test a hypothesis is to look for all the information that disagrees with it." – Karl Popper

"Having spent 15 years…doing nothing but short selling, I can argue with some authority that, as an investment strategy, shorting suffers from each one of these characteristics of a bad business." – Joe Feshbach

"Costs and liabilities are rarely overstated." – Seth Klarman

"Crooks are exposed when they run out of money." – Chris Browne

> "We are in a zero-sum game, so by definition you can't be with the consensus and add value because the consensus is reflected in the price. You have to be able to think independently. And independent thinking is something I worry about in terms of the industry. There are some fantastic people in the industry. I don't actually know what a hedge fund is. A hedge fund is a bouillabaisse of all different people doing all different things. But hedge funds on average (this is a great concern) are not doing enough independent thinking. The beauty of being in the hedge fund business is that it's the only business in the world that I know of that is really not cyclically dependent. Your environment is not your determinant. You're free to do whatever you want. There's no such thing as a bad environment. You can go short. You can go long. You can take spreads. You can do anything you want, just as long as you do it prudently. You have that sort of freedom. So there's no reason for us, for the industry as a whole, to perform this way.
>
> "The average correlation between the hedge fund index and the average portfolio of stocks and bonds is 76 percent. Why is that? There's no good reason anybody lost money last year (2009). You can go short, you can go long, you can take spreads. If we as an industry are going to be able to make a contribution

[82] Acacia Capital letter to partners (October 8, 2010)

> to the rest of the world in terms of the investment community, we have to do independent thinking to be able to take uncorrelated positions. That's our responsibility. Too many people in the hedge fund industry in my opinion are just basically carrying their beta through, replicating certain return patterns.
>
> "What we do is we've replicated almost every style–we've taken 14 different styles of hedge funds–and we've taken their return series. The average correlation is between 50 and 60 percent of a manager with that return style. And we've been able to replicate that return style by just creating a passive mix. For example, emerging market managers… you could just be long the emerging markets and whether you are up or down would drive their returns. Trend following strategies in terms of commodities are strategies that could be replicated by simply trading off moving averages. So you need to have more of an independent point of view in order to create uncorrelated alphas." -- Ray Dalio

"It is usually agreed that casinos should, in the public interest, be inaccessible and expensive. And perhaps the same is true of stock exchanges." – John Maynard Keynes

"As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one knows something about... It is a mistake to think that one limits risk by spreading too much between enterprises about which one knows little and has no reason for special confidence..." - John Maynard Keynes

"An investor who proposes to ignore near-term market fluctuations needs greater resources for safety and must not operate on so large a scale, if at all, with borrowed money." – J.M. Keynes

"It's not bringing in the new ideas that's so hard; it's getting rid of the old ones." – John Maynard Keynes

"In the long run, we are all dead." – John Maynard Keynes

"Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally." – John Maynard Keynes

"The businessman is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society." – John Maynard Keynes

"I believe in market economics. But to paraphrase Churchill – who said this about democracy and political regimes – a market economy might be the worst economic regime available, apart from the alternatives. I believe that people react to incentives, that incentives matter, and that prices reflect the way things should be allocated. But I also believe that market economies sometimes have market failures, and when these occur, there's a role for prudential – not excessive – regulation of the financial system." – Nouriel Roubini

"But in the financial markets, without proper institutional rules, there's the law of the jungle – because there's greed! There's nothing wrong with greed, per se. It's not that people are more greedy now than they were 20 years ago. But greed has to be tempered, first, by fear of losses. So if you bail people out, there's less fear. And second, b prudential regulation and supervision to avoid certain excesses." – Nouriel Roubini

"THERE ARE IDIOTS. Look around." – Larry Summers

"We don't go in much for titles at our firm, [but] if we did, my business card would read 'Bill Ruane, Research Analyst.'" – Bill Ruane[83]

"I don't believe all this nonsense about market timing. Just buy good value and when the market is ready that value will be recognized." – Henry Singleton

John Kenneth Galbraith:

- We all agree that pessimism is a mark of superior intellect.
- Meetings are indispensable when you don't want to do anything.
- The only function of economic forecasting is to make astrology look respectable.
- Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof.
- In any great organization it is far, far safer to be wrong with the majority than to be right alone.
- We have two classes of forecasters: Those who don't know, and those who don't know they don't know.

"To model correctly one tranche of one CDO took about three hours on one of the fastest computers in the United States. There is no chance that pretty much anybody understood what they were doing with these securities. Creating things that you don't understand is really not a good idea no matter who owns it." – John Thain

- "If there is one common theme to the vast range of crises...it is that excessive debt accumulation, whether it be by the government, banks, corporations, or consumers, often poses greater systemic risks than it seems during a boom." – Rogoff and Reinhart, <u>This Time is Different: Eight Centuries of Financial Folly</u>
- "Perhaps more than anything else, failure to recognize the precariousness and fickleness of confidence -- especially in cases in which large short-term debts need to be rolled over continuously -- is the key factor that gives rise to the this-time-is-different syndrome. Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when *bang!* -- confidence collapses, lenders disappear, and a crisis hits." – Rogoff and Reinhart, <u>This Time is Different: Eight Centuries of Financial Folly</u>
- "The essence of the this-time-is-different syndrome is...rooted in the firmly held belief that financial crises are things that happen to other people in other countries at other times; crises do not happen to us, here and now. We are doing things better, we are smarter, we have learned from past mistakes. The old rules of valuation no longer apply. Unfortunately, a highly leveraged economy can unwittingly be sitting with its back at the edge of a financial cliff for many years before chance and circumstance provoke a crisis of confidence that pushes it off." – Rogoff and Reinhart, <u>This Time is Different: Eight Centuries of Financial Folly</u>
- "Broadly speaking, financial crises are protracted affairs. More often than not, the aftermath of severe financial crises share three characteristics:
    - "First, asset market collapses are deep and prolonged. Declines in real housing prices average 35 percent stretched out over six years, whereas equity price collapses average 56 percent over a downturn of about three and a half years.

[83] "The Warren Buffett Portfolio" by Robert Hagstrom, p. 48

  - "Second, the aftermath of banking crises is associated with profound declines in output and unemployment. The unemployment rate rises and average of 7 percentage points during the down phase of the cycle, which lasts on average more than four years. Output falls (from peak to trough) more than 9 percent on average, although the duration of the downturn, averaging roughly two years, is considerably shorter than that of unemployment.
- Third, the value of government of debt tends to explode." – Rogoff and Reinhart, This Time is Different: Eight Centuries of Financial Folly

"The world of finance hails the invention of the wheel over and over again, often in a slightly more unstable version." – JK Galbraith

"Successful investors must temper the arrogance of taking a stand with a large dose of humility, accepting that despite their efforts and care, they may in fact be wrong." – Seth Klarman

"Short-term performance envy causes many of the shortcomings that lock most investors into a perpetual cycle of underachievement. Watch your competitors not out of jealousy but out of respect and focus your efforts not on replicating others' portfolios but on looking for opportunities where they are not. The only way for investors to significantly outperform is to periodically stand far apart from the crowd, something few are willing, or able, to do." – Seth Klarman

"What you really want to do in investments is figure out what's important and knowable. If it's unimportant or unknowable you forget about it." – Warren Buffett

"If you study the root causes of business disasters, over and over you'll find this predisposition toward endeavors that offer immediate gratification." – Clayton Christensen

"Can anyone remember when the times were not hard, and the money not scarce?" – Ralph Waldo Emerson

"Performance isn't what beats a path to your door," says Robert Nichols, founder of Windward Capital Management Co., a Los Angeles-based firm with $250 million in assets. "It's sales and marketing."

"Being a value investor means you look at the downside before looking at the upside." – Li Lu

In the oil & gas business, the cure for high prices is high prices, and the cure for low prices is low prices. – unknown

"We worry top-down, but we invest bottom-up." – Seth Klarman

"I know a lot of people have very strong and definite plans that they've worked out on all kinds of things, but we're subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible. My only plan is to keep coming to work every day. I like to steer the boat each day rather than plan ahead way into the future." – Henry Singleton

“I don’t believe all this nonsense about market timing. Just buy very good value and when the market is ready that value will be recognized.” – Henry Singleton[84]

“Singleton has an almost uncanny ability to resist being caught up in the fads and fancies of the moment. Like most great innovators [and investors! – Ed.], Henry Singleton is supremely indifferent to criticism.” – Robert Flaherty writing in Forbes, 9 July 1979[85]

“In October 1972 we tendered for 1 million shares and 8.9 million came in. We took them all at $20 and figured that was a fluke and that we couldn’t do it again. But instead of going up, our stock went down. So we kept tendering, first at $14 and then doing two bonds-for-stock swaps. Every time one tender was over the stock would go down and we’d tender again and we’d get a new deluge. Then two more tenders at $18 and $40.” – Henry Singleton[86]; a few years later, the stock sold for $130

“Our attitude toward cash generation and asset management came out of our own thought process. After we acquired a number of businesses we reflected on aspects of business. Our own conclusion was that the key was cash flow.” – Henry Singleton [87]

“It’s good to buy a large company with fine businesses when the price is beaten down over worry about one problem.” – Henry Singleton[88]

“I do not define my job in any rigid terms but in terms of having the flexibility to what seems to me to be in the best interests of the company at any times.” – Henry Singleton[89]

“I believe in maximum flexibility, so I reserve the right to change my position on any subject when the external environment relating to any topic changes too.” – Henry Singleton[90]

“I know a lot of people have very strong and definite plans they they’ve worked out on all kinds of things, but we’re subject to a tremendous number of outside influences and the vast majority of them cannot be predicted. So my idea is to stay flexible.” – Henry Singleton[91]

"We invest in undervalued companies that exhibit strong fundamentals, above-market dividend yields and historic earnings growth, which our analysis indicates will persist. Our strategy is to own strong, fundamentally sound companies and to avoid speculative stocks or potential bankruptcies.” – David Dreman

> CHARLIE ROSE: What is it you like about what you do, because you didn’t set out to do this?
> DAVID EINHORN: “No. What I like is solving the puzzles. I think that what you are dealing with here is incomplete information. You’ve got little bits of things. You have facts. You have analysis. You have

[84] Forbes, July 9, 1979
[85] Ibid
[86] Ibid
[87] Ibid
[88] Ibid
[89] Ibid
[90] Ibid
[91] Grant’s Interest Rate Observer, Feb. 2003

numbers. You have people's motivations. And you try to put this together into a puzzle -- or decode the puzzle in a way that allows you to have a way better than average opportunity to do well if you solve on the puzzle correctly, and that's the best part of the business."

"[Buffett} said three things:

1. A stock is not a piece of paper, it is a piece of ownership in a company.
2. You need a margin of safety so if you are wrong you don't lose much.
3. In the market, most people are in it for the short term. It allows you a framework for dealing with the day to day volatility."

-- Li Lu on what he learned from Warren Buffett

"Ultimately, [value investing] needs to fit your character. If you are predisposed to be patient, disciplined and psychologically appreciate the idea of buying bargains, then you're likely to be good at it. If you have a need for action, if you want to be involved in the new and exciting technological breakthroughs of our time, that's great, but you're not a value investor, and you shouldn't be one." – Seth Klarman[92]

"The pure administration of Graham-and-Doddery really needs a long-term lock-up like Warren Buffett has, or it will have occasional quite dreadful client problems." Jeremy Grantham[93]

"Although value is a weak force in any single year, it becomes a monster over several years. Like gravity, it slowly wears down the opposition." – Jeremy Grantham[94]

"I believe the only things that really matter in investing are the bubbles and the busts" – Jeremy Grantham[95]

"So many people broadcast what they buy or sell and it works against them. I'm in favor of people not knowing what we're doing until the last possible time." – Lou Simpson[96]

"Investing is the process of calculating the economic return of an asset over the life of the asset. The process has two parts. The first seeks to determine the fundamental return that the asset will yield, based on its underlying economics; the second adds to or subtracts from this return based on the price paid for the asset." – Robert Hagstrom

"Buy to the sound of cannons and sell to the sound of trumpets." – attributed to Nathan Mayer Rothschild

"Buy when there's blood in the streets, even if the blood is your own." – attributed to Nathan Mayer Rothschild

"The idea that you try to time purchases based on what you think business is going to do in the next year or two, I think that's the greatest mistake investors make because it's always uncertain. People say it's a time of uncertainty. It was uncertain on September 10th, 2001, people just didn't know it. It's uncertain every single day. So take uncertainty as part of being involved in investment at all. But uncertainty can be your friend. I

[92] Absolute Return, May 2010
[93] April 2010 letter
[94] Pavlov's Bulls (Jan 2011)
[95] Pavlov's Bulls (Jan 2011)
[96] August 22, 2010 article/interview in Chicago Tribune

mean, when people are scared they pay less for things. We try to price. We don't try to time at all." – Warren Buffett[97]

"We find that whole communities suddenly fix their minds upon one object, and go mad in its pursuit; that millions o people become simultaneously impressed with one delusion, and run after it… Money, again, has often been a cause of the delusion of multitudes. Sober nations have all at once become desperate gamblers, and risked almost their existence upon the turn of a piece of paper." – Charles Mackay[98]

"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, one by one." – Charles Mackay

"A crowd thinks in images, and the image itself calls up a series of other images, having no logical connection with the first…A crowd scarcely distinguishes between the subjective and the objective. It accepts as real the images invoked in its mind, though they most often have only a very distant relation with the observed facts….Crowds being only capable of thinking in images are only to be impressed by images." – Gustave Le Bon, The Crowd

"Successful gamblers – and successful forecasters of any kind – do not think of the future in terms of no-lose best, unimpeachable theories, and infinitely precise measurements. These are the illusions of the sucker, the sirens of his over-confidence. Successful gamblers, instead, think of the future as speckles of probability, flickering upward and downward like a stock market ticker to every new jolt of information. When their estimates of these probabilities diverge by a sufficient margin from the odds on offer, they may place a bet." – Nate Silver, *The Signal and The Noise*

> "Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.
>
> "Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.
>
> "Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

[97] Interview on CNBC, 1-20-10
[98] Extraordinary Popular Delusions and the Madness of Crowds, 1852

> "But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, you're the patsy."" – Warren Buffett, 1987 letter to shareholders

"Our ideas and philosophies are simple, yet effective. The reason they are not more broadly adopted is because industry dynamics make it nearly impossible to implement. Non-activity in the face of short-term underperformance is simply not tolerated, even though realistic assumptions (you can't outsmart other smart people all the time) and basic math (lower frictional costs) confirm its worth. Most fund managers' capital would not stick around long enough so they simply comply with more standard methods of operation in the spirit of keeping their jobs." – Allan Mecham

> "Q: How do you counteract the natural tendency to become emotional in your decision-making?
> "A: Be a contrarian. This is my nature. When someone tells me something, I immediately ask them what makes them think so or I tell them that they are probably wrong. You can call it contempt and arrogance, I suppose, but I like to challenge what people say because they say things for bad reasons. I did not talk today about "inside information" in horse racing. Like "They", inside information does not really exist. Every once in awhile, people can keep a horse a secret who is making his first start, and there is a tendency towards larceny in the hearts of horseplayers. But this doesn't happen very often and this is a pretty well-regulated sport. Nevertheless, participants in racing (owners, trainers, etc.) would rather steal a nickel than earn a dime. They all think that they've got big secret information. Just for the sport of it, I once kept track of a year's worth of tips that I received - the ROI was horrendous, less than 50 percent. I worked at the tracks in New York for several years. They had betting windows on the back stretch just for the help and the trainers. Out of morbid curiosity, I looked to see how well those windows did - the take was much higher there than anywhere else at the track. I am personally skeptical of pronouncements by people who claim to have specialized knowledge because most of the time, they are saying it for reasons of ego - they want to look important, and I am immediately skeptical. It pays to be skeptical." – Steven Crist

"The pendulum swings back and forth between economic liberty and constraint." – Edward Chancellor[99]

"[It is] very important to understand that diversification is only a surrogate, and usually a poor surrogate, for knowledge, control, and price consciousness. As a non-control investor you have to have a moderate amount of diversification, which is not true as much for control investors. It is very hard to make guarantees. A margin of safety usually comes from buying high quality securities at a discount. Secondarily, if you are a passive investor you need a moderate amount of diversification. This is really a probability business, not a certainty business. As an outside passive investor, you can be wrong about anything." – Marty Whitman[100]

"If only one word is to be used to describe what Baupost does, that word should be: 'Mispricing'. We look for mispricing due to over-reaction." -Seth Klarman

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[99] Devil Take the Hindmost p. 349
[100] Graham & Doddsvile, Issue XIII Fall 2011

"The central idea in *The Black Swan* is that: rare events cannot be estimated from empirical observation *since they are rare*. We need an *a priori* model representation for that; the rarer the event, the higher the error in estimation from a standard frequency sampling, hence the higher the dependence on an *a priori* representation that extrapolates into the tails. Further, we do not care about simple, raw probability (if an event happens or does not happen); we worry about consequences (the size of the event; how much total destruction of lives, wealth or other losses will come from it). Given that the less frequent the vent, the more severe the consequence (just consider that the 100 y ear flood is more severe, and less frequent, than the 10 year flood), our estimation of the *contribution* of the rare event is going to be massively faulty (contribution is probability times effect; multiply that by estimation error); and nothing can remedy it. So the rarer the event, the less we know about its role – and the more we need to make up such deficiency with an extrapolative, generalizing theory. It will lack in rigor in proportion to claims about the rarity of the event. Hence model error is more consequential in the tails and *some representations are more fragile than others*." – N.N. Taleb[101]

"Probability is not a mere computation of odds on the dice or more complicated variants; it is the acceptance of the lack of certainty in our knowledge and the development of methods for dealing with our ignorance. Outside of textbooks and casinos, probability almost never presents itself as a mathematical problem or a brain teaser. Mother nature does not tell you how many holes there are on the roulette table, nor does she deliver problems in a textbook way (in the real world one has to guess the problem more than the solution). In this book, considering that alternative outcomes could have taken place, that the world could have been different, is the core of probabilistic thinking." –Nassim Taleb, Fooled by Randomness

"If you don't know who you are, the market is an expensive place to find out." – Adam Smith

> "Finding an edge really only comes from a right frame of mind and years of continuous study. But when you find those insights along the road of study, you need to have the guts and courage to back up the truck and ignore the opinions of everyone else. To be a better investor, you have to stand on your own. You just can't copy other people's insights. Sooner or later, the position turns against you. If you don't have any insights into the business, when it goes from $100 to $50 you aren't going to know if it will back to $100 or $200.
>
> "So this is really difficult, but on the other hand, the rewards are huge. Warren says that if you only come up with 10 good investments in your 40 year career, you will be extraordinarily rich. That's really what it is. This shows how different value investing is than any other subject.
>
> "So how do you really understand and gain that great insight? Pick one business. Any business. And truly understand it. I tell my interns to work through this exercise – imagine a distant relative passes away and you find out that you have inherited 100% of a business they owned. What are you going to do about it? That is the mentality to take when looking at any business. I strongly encourage you to start and understand one business, inside out. That is better than any training possible. It does not have to be a great business, it could be any business. You need to be able to get a feel for how you would do as a 100% owner. If you can do that, you will have a tremendous leg up against the competition. Most people don't take that first concept correctly and it is quite sad. People view it as a piece of paper and just trade

[101] "Common Errors in Interpreting the Ideas of *The Black Swan* and Associated Papers," N.N. Taleb, NYU Poly Institute, 10-18-09 (emphasis in the original)

because it is easy to trade. But if it was a business you inherited, you would not be trading. You would really seek out knowledge on how it should be run, how it works. If you start with that, you will eventually know how much that business is worth."

-- Li Lu

"The great story in my investing lifetime has been and will continue to be the increasing affluence of billions of people around the world and how that translates into increasing demand for goods and services. A central aspect of the long-term thesis for almost every company we'll talk about it how they will benefit from that rising affluence. Compared to that, hand-wringing about whether Greece is going to default or what happens after QE2 ends is really just noise." – Tom Gayner

"The one area where I will not compromise is in the area of integrity. I may not make every judgment correctly when I'm trying to make sure I'm dealing with people of integrity but I will never knowingly entrust money to people when I am concerned about their integrity. Even if you get everythign else right, the integrity factor can kill you. You can't do a good deal with a bad person." – Tom Gayner, as quoted in The Manual of Ideas

"If you feel confident, you are probably overconfident." – James Montier as quoted in The Manual of Ideas

"Most businessmen imagine that they are in business make money, and that this is their chief reason for being in business, but more often than not they are gently kidding themselves. There are so many other things which are actually more attractive. Some of them are: to make a fine product or to render a remarkable service, to give employment, to revolutionize an industry, to make oneself famous, or at least to supply oneself with material for conversation in the evening. I have observed businessmen whose chief preoccupation was to try to prove conclusively to their competitors that they themselves were smart and that their competitors were damn fools – an effort which gives a certain amount of mental satisfaction but no money at all. I have even seen some whose chief interest lay in proving this point to their partners." – Fred Schwed Jr.

"When people ask us about Baupost's risk controls, we have no glib answer. We have no risk control group we can trot out with a PowerPoint presentation. Risk control to us is a careful aligning of interests, a proper balance in our investing between greed and fear, experienced and collaborative senior management and investment teams that have worked together for quite some time, a consistent and disciplined investment approach where every opportunity is individually and meticulously evaluated on its fundamentals, a strict sell discipline, a willingness to hold cash when opportunity is scarce, a complete avoidance of recourse leverage, and a healthy level of fear." – Seth Klarman[102]

On leverage: "the only way a smart person can go broke." – Warren Buffett[103]

On leverage: "if you're smart you don't need it, and if you're dumb you shouldn't be using it." – Warren Buffett[104]

"If you own a wonderful business…the best thing to do is keep it. All you're going to do is trade your wonderful business for a whole bunch of cash, which isn't as good as the business, and you got the problem of

[102] Baupost 2006 annual letter
[103] Testimony to the FCIC
[104] Testimony to the FCIC

investing in other businesses, and you probably paid a tax in between. So my advice to anybody who owns a wonderful business is keep it." – Warren Buffett[105]

Paraphrasing: The first few hundred million dollars for Buffett and Berkshire came from running a Geiger counter over everything, but the subsequent tens of billions have come from waiting for the no-brainers. – Charlie Munger

"Time is a precious resource and if you make it your task to not 'miss' anything, you set yourself up for failure. There are too many opportunities out there and, by definition, you will miss many of them." – Oliver Kratz

"Investing is not a natural science but rather a social science. So, it's never purely empirical; what you are trying to do is everything you possibly can to enhance your probabilities of being right more often than being wrong." – William Browne[106]

"Make a clear distinction when selling between 'compounders' and cigar butt stocks. Once the cigar butts come back, you know to get out because they're just going to go down again. With something like Johnson & Johnson, though, you make a judgment call when it hits intrinsic value, based on your confidence in its ability to compound returns and what your alternatives are." – Christopher Browne

"The key to being successful as a value investor is this willingness to accept the near-term randomness that goes on in our markets. And to be able to emotionally deal with that and accept that that is something that goes along with investing." – Bob Wyckoff[107]

"In looking for someone to hire, you look for three qualities: integrity, intelligence and energy. Without the first the other two will [kill] you." – Warren Buffett

"You must buy on the way down. There is far more volume on the way down than on the way back up, and far less competition among buyers. It is almost always better to be too early than too late, but you must be prepared for price markdowns on what you buy." – Seth Klarman[108]

"In forty years of Wall Street experience and study I have never seen dependable calculations made about common stock values, or related investment policies, that went beyond simple arithmetic or the most elementary algebra. Whenever calculus is brought in, or higher algebra, you could take it as a warning signal that the operator was trying to substitute theory for experience, and usually also to give to speculation the deceptive guise of investment." – Ben Graham

On the definition of *reflexivity:* "The generally accepted theory is that markets tend toward equilibrium, and on the whole, discount the future correctly. I operated using a different theory, according to which financial markets cannot possibly discount the future correctly because they do not merely discount the future; they also help to shape it. In certain circumstances, financial markets can affect the so-called fundamentals which they are supposed to reflect. When that happens, markets enter into a state of dynamic disequilibrium and behave quite differently from what would be considered normal by the theory of efficient markets. Such boom/bust

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[105] CNBC, March 2, 2011
[106] Graham and Doddsville, Winter 2010
[107] Ibid
[108] 2009 Baupost letter

sequences do not arise very often, but when they do, they can be very disruptive, exactly because they affect the fundamentals of the economy." – George Soros[109]

Benjamin Graham

- "An investment operation is one which, upon thorough analysis, promises safety of principal and adequate return. Operations not meeting these requirements are speculative."
- "Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble."
- "Stocks will fluctuate substantially in value. For a true investor, the only significant meaning of price fluctuations is that they offer … an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal."
- "You are neither right nor wrong because the crowd disagrees with you. You are right (or wrong) because your data and reasoning are right (or wrong)."
- "The one principle that applies to nearly all these so-called 'technical approaches' is that one should buy because a stock or the market has gone up and one should sell because it has declined. This is the exact opposite of sound business sense everywhere else, and it is most unlikely that it can lead to lasting success in Wall Street. In our own stock market experience and observation, extending over 50 years, we have not known a single person who has consistently or lastingly made money by thus 'following the market'. We do not hesitate to declare that this approach is as fallacious as it is popular."
- "While enthusiasm may be necessary for great accomplishments elsewhere, on Wall Street it almost invariably leads to disaster."
- "To have a true investment, there must be a true margin of safety. And a true margin of safety is one that can be demonstrated by figures, by persuasive reasoning, and by reference to a body of actual experience."

"A large advance in the stock market is basically a sign for caution and not a reason for confidence." – Ben Graham[110]

"**In my nearly fifty years of experience in Wall Street I've found that I know less and less about what the stock market is doing to do but I know more and more about what investors ought to do**; and that's a pretty vital change in attitude. **The first point is that the investor is required** by the very insecurity ruling in the world of today **to maintain at all times some division of his funds between bonds and stocks** (cash and various types of interest-bearing deposits may be viewed as bond-equivalents). **My suggestion is that the minimum position of this portfolio held in common stocks should be 25% and the maximum should be 75%.** Consequently the maximum holding of bonds would be 75% and the minimum 25% - the figures being reversed. Any variations made in his portfolio mix should be held within these 25% and 75% figures. **Any such variations should be clearly based on value considerations, which would lead him to own more common stocks when the market *seems low in relation to value* and less common stocks when the market *seems high*** in relation to value." – Ben Graham[111] [emphasis added]

[109] MIT Dept. of Economics World Economy Laboratory Conference, Washington D.C., April 26, 1994
[110] "Security in an Insecure World"
[111] Ibid

"If you believe that the value approach is inherently sound then devote yourself to that principle. Stick to it, and don't be led astray by Wall Street's fashions, illusions and its constant chase after the fast dollar. Let me emphasize that it does not take genius to be a successful value analyst, what it needs is, first, reasonably good intelligence; second, sound principles of operation; and third, and most important, firmness of character." – Ben Graham[112]

"The extraordinary thing about the securities market, if you judge it over a long period of years, is the fact that it does not go off on tangents permanently, but it remains in continuous orbit. When I say that it doesn't go off on tangents, I mean the simple point that after the stock market goes up a great deal it not only comes down a great deal but it comes down to levels to which we had previously been accustomed. Thus we have never found the stock market has a whole going off into new areas and staying there permanently because there has been a permanent change in the basic conditions." – Ben Graham[113]

"I am more and more impressed with the possibilities of history's repeating itself on many different counts. You don't get very far in Wall Street with the simple, convenient conclusion that a given level of prices is not too high. It may be that a great deal of water will have to go over the dam before a conclusion of that kind works itself out in terms of a satisfactory experience. That is why in this course we have tried to emphasize as much as possible the obtaining of specific insurance against adverse developments by trying to buy securities that are *not* only *not too high* but that, on the basis of analysis, appear to be very much *too low*. If you do that, you always have the right to say to yourself that you are out of the security market, and you are an owner of part of a company on attractive terms." – Ben Graham[114]

"Investors do not make mistakes, or bad mistakes, in buying good stocks as fair prices. They make their most serious mistakes by buying poor stocks, particularly the ones that are pushed for various reasons. And sometimes – in fact, very frequently – they make mistakes by buying good stocks in the upper reaches of a bull market." – Ben Graham[115]

"The thing that you would be naturally led into, if you are value-minded, would be the purchase of individual securities that are undervalued at all stages of the security market. That can be done successfully, and should be done – with one proviso, which is that it is not wise to buy undervalued securities when the general market seems *very high.* That is a particularly difficult point to get across: For superficially it would seem that a high market is just the time to buy the undervalued securities, because their undervaluation seems most apparent then. Peculiarly enough, experience shows that is not true. In all probability the [undervalued] stock will also decline sharply in a price break. Don't forget that if some [undervalued] company sells at less than your idea of value, it sells so because it is not popular; and it is not going to get more popular during periods when the market is declining considerably. Its popularity tends to decrease along with the popularity of stocks generally. If you are pretty sure that the market is too high, it is a better policy to keep your money in cash or government bonds than it is to put it in bargain stocks. However, at other times – and that is most of the time, of course – the field of undervalued securities is profitable and suitable for analysts' activities." – Ben Graham[116]

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[112] The Rediscovered Benjamin Graham by Janet Lowe
[113] The Rediscovered Benjamin Graham by Janet Lowe
[114] The Rediscovered Benjamin Graham by Janet Lowe: Lecture Number Six
[115] The Rediscovered Benjamin Graham by Janet Lowe: Lecture Number Seven
[116] The Rediscovered Benjamin Graham by Janet Lowe: Lecture Number Seven

> "The older and more experienced I get the less confidence I have in judgmental choice as distinct from the figures themselves." – Ben Graham[117]

"…investment in such bargain issues [i.e., net-nets] needs to be carried on with some regard to general market conditions at the time. Strangely enough, this is at type of operation that fares best, relatively speaking, when price levels are neither extremely high nor extremely low." – Ben Graham[118]

Warren Buffett

"The roads of business are riddled with potholes; a plan that requires dodging them all is a plan for disaster." Warren Buffett

- "The chains of habit are too light to be felt until they are too heavy to be broken."
- "I don't look to jump over 7-foot bars: I look around for 1-foot bars that I can step over."
- "If a business does well, the stock eventually follows."
- "I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."
- "If past history was all there was to the game, the richest people would be librarians."
- "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."
- "The investor of today does not profit from yesterday's growth."
- "We believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a 'romantic.'"
- "We're still in a recession. We're not gonna be out of it for a while, but we will get out."
- "Risk comes from not knowing what you're doing."
- "Forecasts usually tell us more of the forecaster than the future."
- "We try to buy businesses with good-to-superb underlying economics run by honest and able people and buy them at sensible prices. That's all I'm trying to do."
- "Though the mathematical calculations required to evaluate equities are not difficult, an analyst - even one who is experienced and intelligent - can easily go wrong in estimating future "coupons." At Berkshire, we attempt to deal with this problem in two ways. First, we try to stick to businesses we believe we understand. That means they must be relatively simple and stable in character. If a business is complex or subject to constant change, we're not smart enough to predict future cash flows. Incidentally, that shortcoming doesn't bother us. What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know." (1992)
- "If we have a strength, it is in recognizing when we are operating well within our circle of competence and when we are approaching the perimeter." (1999)
- "Intelligent investing is not complex, though that is far from saying that it is easy. What an investor needs is the ability to correctly evaluate selected businesses. Note that word "selected": You don't have to be an expert on every company, or even many. You only have to be able to evaluate companies within

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[117] The Rediscovered Benjamin Graham by Janet Lowe
[118] Security Analysis, 6th Ed., p. 571

your circle of competence. The size of that circle is not very important; knowing its boundaries, however, is vital." (1996)

"The heads of many companies are not skilled in capital allocation. Their inadequacy is not surprising. Most bosses rise to the op because they have excelled in an area such as marketing, production, engineering, administration, or sometimes, institutional politics. Once they become CEOs, they now must make capital allocation decisions, a critical job that they may have never tackled and that is not easily mastered. To stretch the point, it's as if they final step for a highly talent musician was not to perform at Carnegie Hall but instead to be named Chairman of the Federal Reserve." – Warren Buffett

Buffett's Top 15[119]

"Rule No. 1: never lose money; rule No. 2: don't forget rule No. 1"
Source: The Tao of Warren Buffett, by Mary Buffett and David Clark

"I am a better investor because I am a businessman, and a better businessman because I am no investor."
Source: Forbes.com - Thoughts On The Business Life

"You can sell it to Berkshire, and we'll put it in the Metropolitan Museum; it'll have a wing all by itself; it'll be there forever. Or you can sell it to some porn shop operator, and he'll take the painting and he'll make the boobs a little bigger and he'll stick it up in the window, and some other guy will come along in a raincoat, and he'll buy it." - On what makes people sell to him
Source: Bloomberg

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."
Source: Letter to shareholders, 1989

"You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ."
Source: Warren Buffet Speaks, By Janet Lowe, via msnbc.msn

Ultimately, the key to success is emotional stability. You don't need a high IQ to get rich.
"Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." —Warren Buffett

"Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, "I can calculate the movement of the stars, but not the madness of men." If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: For investors as a whole, returns decrease as motion increases."
Source: Letters to shareholders, 2005

"Time is the friend of the wonderful business, the enemy of the mediocre."

119 http://www.businessinsider.com/warren-buffett-quotes-2011-4?op=1

Source: Letters to shareholders 1989

"After all, you only find out who is swimming naked when the tide goes out."
Source: Letter to shareholders, 2001

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy only when others are fearful."
Source: Letter to shareholders, 2004

"When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever."
Source: Letter to shareholders, 1988

"The stock market is a no-called-strike game. You don't have to swing at everything--you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'Swing, you bum!'"
Source: The Tao of Warren Buffett, by Mary Buffett and David Clark, via Engineeringnews.com

"Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get.' Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."
Source: Letter to shareholders, 2008

" Our approach is very much profiting from lack of change rather than from change. With Wrigley chewing gum, it's the lack of change that appeals to me. I don't think it is going to be hurt by the Internet. That's the kind of business I like."
Source: Businessweek, 1999

"The best thing that happens to us is when a great company gets into temporary trouble...We want to buy them when they're on the operating table."
Source: Businessweek, 1999

" I have pledged – to you, the rating agencies and myself – to always run Berkshire with more than ample cash. We never want to count on the kindness of strangers in order to meet tomorrow's obligations. When forced to choose, I will not trade even a night's sleep for the chance of extra profits."
Source: Letter to shareholders, 2008

Top 25 Buffett Quotes[120]

1. "Rule No.1: Never lose money. Rule No.2: Never forget rule No.1"

2. "In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-

[120] http://www.marketfolly.com/2009/09/top-25-warren-buffett-quotes.html

thinking duck would instead compare its position after the downpour to that of the other ducks on the pond."

3. "The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable."

4. "Be fearful when others are greedy. Be greedy when others are fearful."

5. "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

6. "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is usually the reputation of the business that remains intact."

7. “You only find out who is swimming naked when the tide goes out.”

8. "Risk comes from not knowing what you're doing."

9. "If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that."

10. "Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down."

11. "I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."

12. "Price is what you pay. Value is what you get."

13. "I don’t look to jump over 7-foot bars: I look around for 1-foot bars that I can step over."

14. "If a business does well, the stock eventually follows."

15. "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

16. "Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can’t buy what is popular and do well."

17. "The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative

to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands."

18. "Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

19. "Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results."

20. "Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid."

21. "I like to go for cinches. I like to shoot fish in a barrel. But I like to do it after the water has run out."

22. "We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely."

23. "In the business world, the rearview mirror is always clearer than the windshield."

24. "The investor of today does not profit from yesterday's growth."

25. "Someone's sitting in the shade today because someone planted a tree a long time ago."

On selecting investment managers: "It's easy to identify many investment managers with great recent records. But past results, though important, do not suffice when prospective performance is being judged. How the record has been achieved is crucial…" – Warren Buffett, 2010 shareholder letter

A free association reaction to a single word: "buy." Here's his response:

"I say, basically, 'hold.' The idea that the European news or slowdown in this or that or anything like that, that would not cause you to, if you owned a good farm and had it run by a good tenant, you wouldn't sell it because somebody says, 'Here's a news item,' you know, 'This is happening in Greece' or something of the sort.

"If you owned an apartment house and you got to raise the rents a little and it was well located and you had a good manager, you wouldn't dream of selling it.

"If you had a good business personally, a local McDonald's franchise, you wouldn't think of buying or selling it every day.

"Now, when you own stocks, you own pieces of businesses, and they're wonderful businesses. You can pick the best businesses in the world.

"And to buy or sell on current news is just crazy. You're in a wonderful business. You've got people running it for you. You know you're going to do well over five to ten years. And to think news events should cause you to dance in or out of something that's a wonderful game is a terrible mistake.

"So, get into a bunch of wonderful businesses and stay with them...

"I've been buying all my life. I bought my first stock when I was 11-years old and it was about three months after Pearl Harbor, and Corregidor was falling, and they had the Death March at Bataan and all the news was terrible. It was a great time to buy stocks. And I should have held that stock forever, and I've been buying stocks ever since."

On Investing

1. "Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."
2. "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."
3. "Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."
4. "We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."
5. "Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful"."

On Success

1. "Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars."
2. "The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective."
3. "You do things when the opportunities come along. I've had periods in my life when I've had a bundle of ideas come along, and I've had long dry spells. If I get an idea next week, I'll do something. If not, I won't do a damn thing."
4. "Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value."
5. "You only have to do a very few things right in your life so long as you don't do too many things wrong."

On Helping Others

1. "If you're in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent."
2. "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."
3. "I don't have a problem with guilt about money. The way I see it is that my money represents an enormous number of claim checks on society. It's like I have these little pieces of paper that I can turn into consumption. If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GNP would go up. But the utility of the product would be

zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching, or nursing. I don't do that though. I don't use very many of those claim checks. There's nothing material I want very much. And I'm going to give virtually all of those claim checks to charity when my wife and I die."

4. "It's class warfare, my class is winning, but they shouldn't be."
5. "My family won't receive huge amounts of my net worth. That doesn't mean they'll get nothing. My children have already received some money from me and Susie and will receive more. I still believe in the philosophy - FORTUNE quoted me saying this 20 years ago - that a very rich person should leave his kids enough to do anything but not enough to do nothing."

On Life

1. "Chains of habit are too light to be felt until they are too heavy to be broken."
2. "We enjoy the process far more than the proceeds."
3. "You only find out who is swimming naked when the tide goes out."
4. "Someone's sitting in the shade today because someone planted a tree a long time ago."
5. "A public-opinion poll is no substitute for thought."

1. "A girl in a convertible is worth five in the phonebook."
2. "When they open that envelope, the first instruction is to take my pulse again."
3. "We believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a 'romantic.'"
4. "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact."
5. "In the insurance business, there is no statute of limitation on stupidity."

- Imagine a lifetime "punch card" for investing decisions
- Closed his partnership and did not actively invest in public markets from 1970 to 1974
- Did not buy a single new equity position for Berkshire from 1984-1987

11 Warren Buffett Quotes You've Never Heard Before (Plus 2 From Charlie Munger)

Twenty years ago, a small circle of investors and academics gathered in New York to listen to Berkshire Hathaway's Warren Buffett and Charlie Munger. Here are 11 of the best Warren Buffett quotes (plus two from Charlie!) from the transcript.

On the role of the board

"As a stockholder, I'm really only interested in the board accomplishing two ends. One is to get a first class manager and the second is to intervene in some way when even that first class manager will have interests that are contrary to the interests of the owner."

On what to do with an average CEO

"If you get that first class chief executive -- which is a top priority -- he doesn't have to the best in the world, just a first class one. ... [Y]ou may be able to turn a '5' into a '5 ½' or something by having him consult with lots of other CEOs and get a lot of advice from the board. But my experience is that you don't turn a '5' into an '8.' I think you're better off getting rid of the '5' and going out and acquiring an '8.'"

On the relative impact of excessive compensation

"The compensation question where the first class executive could be in conflict with the owners, I think it gets abused some but don't think that it amounts to that much when compared with the other two questions -- getting the right one and also the question of acquisitions."

On the relative impact of bad acquisitions

"[I]n the end, the big, dumb acquisitions are going to cost shareholders far, far more money than all of the other stuff."

On the ultimate justification for bad acquisitions

"I would say that more dumb acquisitions are made in the name of strategic plans than any other."

On the intractability of the rubber stamp

"I have seen board after board approve deals that afterwards the board members say, 'You know, I really didn't think it was a very good idea but what could we do about it?' And there should be a better mechanism. But I'm not sure what it is."

Charlie Munger on opportunity cost

"Everything should be done in terms of opportunity cost. Opportunity cost is so simple. If you're gonna make a new investment, your opportunity cost of the new investment is whatever the next best choice you have available is. Now, you go through life like that instead of with this gibberish, all I can say is it works better."

On Berkshire Hathaway's unique shareholder base

"Close to 90% of our shares are held by people with a tax basis of under $100 a share."

This was in 1996, but almost a decade later, at the 2006 Annual Meeting, Mr. Buffett showed his audience a slide with the percentage of shares that had turned over in the previous year, for Berkshire and a number of its large-capitalization peers:

Company	Percent of Shares Outstanding Traded in a Year
General Motors	487.14%
Wal-Mart Stores	79.33%
ExxonMobil	76.32%
General Electric	47.93%
Berkshire Hathaway	14.05%

Source: Whitney Tilson's notes from the 2006 Berkshire Hathaway annual meeting.

He then observed:

"I think Berkshire has lower turnover by some margin than any major company in the U.S. I put Wal-Mart up there because the Walton family owns more of Wal-Mart than I do of Berkshire, so [our low share turnover is] not just because of that. Our shareholders are long-term and loyal owners. We have the most honest-to-god attitude of ownership of any public company. People buy it to *own* it."

On liquidity

"In fact, the day we listed [Berkshire Hathaway on the New York Stock Exchange] I said to Jimmy McGuire, the specialist, 'I will consider you an enormous success if the next trade in this stock is about two years from now.' And they didn't seem to get enthused about that."

On the use of GAAP accounting data

"[T]he numbers as given to us by GAAP accounting are of sufficient utility to us so that we can make a judgment about buying a business without ever seeing whether a plant exists. We do it every day. We have spent billions of dollars utilizing public financials. But there are lots of financials we wouldn't utilize."

Charlie Munger on bankers' approach to accounting

"If you are disgusted with conventional accounting, you ought to see investment banking accounting: EBDA -- earnings before deducting anything."

On the potential for misuse of accounting data

"There is no question the leeway I have to report earnings as CEO of Berkshire is enormous. ... In an insurance company, the long-tail business in particular, you can paint any picture you want [with reserves], for a period that probably encompasses enough time to either buy out the public or to effect a major public offering."

On economic goodwill

"In most cases I would say the premium we pay above the net assets recorded on the books of the predecessor company overwhelmingly is for what we call economic goodwill. We don't even look at the plants. ... I have never seen the plants of [shoe company] H.H. Brown. We don't think in terms of appraising physical assets. We think in terms of economic goodwill. ... We only buy if we think [economic goodwill] is going to appreciate."

Incidentally, to prepare for the conference, the organizer, Lawrence Cunningham, carefully compiled Buffett's best writing from his Berkshire shareholder letters -- the centerpiece of the event. That work resulted in *The Essays of Warren Buffett: Lessons for Corporate America*. If you're even a semi-serious investor, you'll be doing yourself a great favor by reading it.

35 Years of Buffett's Greatest Investing Wisdom[121]

[121] http://www.fool.com/investing/general/2012/03/01/35-years-of-buffetts-greatest-investing-wisdom.aspx

Matt Koppenheffer
March 1, 2012

Last weekend, **Berkshire Hathaway** (NYSE: BRK-A) (NYSE: BRK-B) released Warren Buffett's annual letter to the company's shareholders. As always, Buffett delivered with a combination of ever-quotable folksy wisdom and an easy-to-digest view of the year that Berkshire Hathaway had.

The ritual of the annual letter is far from new. In fact, this most recent letter was the 35th edition that Berkshire has posted online for investors to peruse. Most of those letters' contents are dated in terms of when Buffett put pen to paper, but to show just how enduring his wisdom is, I thought I'd take a look back at some of Buffett's best quips over the past three-and-a-half decades.

1977: "Most companies define 'record' earnings as a new high in earnings per share. Since businesses customarily add from year to year to their equity base, we find nothing particularly noteworthy in a management performance combining, say, a 10% increase in equity capital and a 5% increase in earnings per share. After all, even a totally dormant savings account will produce steadily rising interest earnings each year because of compounding. ... we believe a more appropriate measure of managerial economic performance to be return on equity capital."

1978: "We make no attempt to predict how security markets will behave; successfully forecasting short term stock price movements is something we think neither we nor anyone else can do."

1979: "Both our operating and investment experience cause us to conclude that "turnarounds" seldom turn, and that the same energies and talent are much better employed in a good business purchased at a fair price than in a poor business purchased at a bargain price."

1980: "[O]nly gains in purchasing power represent real earnings on investment. If you (a) forgo ten hamburgers to purchase an investment; (b) receive dividends which, after tax, buy two hamburgers; and (c) receive, upon sale of your holdings, after-tax proceeds that will buy eight hamburgers, then (d) you have had no real income from your investment, no matter how much it appreciated in dollars."

1981: "While market values track business values quite well over long periods, in any given year the relationship can gyrate capriciously."

1982: "The market, like the Lord, helps those who help themselves. But, unlike the Lord, the market does not forgive those who know not what they do. For the investor, a too-high purchase price for the stock of an excellent company can undo the effects of a subsequent decade of favorable business developments."

1983: "We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. ... We also believe candor benefits us as managers: the CEO who misleads others in public may eventually mislead himself in private."

1984: "[M]ajor repurchases at prices well below per-share intrinsic business value immediately increase, in a highly significant way, that value. ... Corporate acquisition programs almost never do as well and, in a discouragingly large number of cases, fail to get anything close to $1 of value for each $1 expended."

1985: "[A] good managerial record ... is far more a function of what business boat you get into than it is of how effectively you row ... Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

1986: "We intend to continue our practice of working only with people whom we like and admire. ... On the other hand, working with people who cause your stomach to churn seems much like marrying for money -- probably a bad idea under any circumstances, but absolute madness if you are already rich."

1987: "The value of market esoterica to the consumer of investment advice is a different story. In my opinion, investment success will not be produced by arcane formulae, computer programs or signals flashed by the price behavior of stocks and markets. Rather an investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace."

1988: "To evaluate arbitrage situations you must answer four questions: (1) How likely is it that the promised event will indeed occur? (2) How long will your money be tied up? (3) What chance is there that something still better will transpire -- a competing takeover bid, for example? and (4) What will happen if the event does not take place because of antitrust action, financing glitches, etc.?"

1989: "Because of the way the tax law works, the Rip Van Winkle style of investing that we favor -- if successful -- has an important mathematical edge over a more frenzied approach."

1990: "Because leverage of 20:1 magnifies the effects of managerial strengths and weaknesses, we have no interest in purchasing shares of a poorly managed bank at a 'cheap' price. Instead, our only interest is in buying into well-managed banks at fair prices." (He wrote this in reference to Berkshire's purchase of **Wells Fargo** (NYSE: WFC) , a bank he continues to laud today).

1991: " An economic franchise arises from a product or service that: (1) is needed or desired; (2) is thought by its customers to have no close substitute and; (3) is not subject to price regulation."

1992: "[W]e think the very term 'value investing' is redundant. What is 'investing' if it is not the act of seeking value at least sufficient to justify the amount paid? Consciously paying more for a stock than its calculated value -- in the hope that it can soon be sold for a still-higher price -- should be labeled speculation (which is neither illegal, immoral nor -- in our view -- financially fattening)."

1993: "The worst of these [arguments for selling a stock] is perhaps, 'You can't go broke taking a profit.' Can you imagine a CEO using this line to urge his board to sell a star subsidiary?"

1994: "We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen. ... Indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist."

1995: "Any company's level of profitability is determined by three items: (1) what its assets earn; (2) what its liabilities cost; and (3) its utilization of 'leverage' -- that is, the degree to which its assets are funded by liabilities rather than by equity."

1996: "In the end, however, no sensible observer -- not even these companies' most vigorous competitors, assuming they are assessing the matter honestly -- questions that [**Coca-Cola** (NYSE: KO)] and Gillette will dominate their fields worldwide for an investment lifetime." (A decade and a half later, and he's yet to be proven wrong, though Gillette is now dominating as a **Procter & Gamble** (NYSE: PG) subsidiary, making Berkshire P&G's fourth-biggest shareholder and Coke's largest.)

1997: "Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices."

1998: "[W]e give each [of our company managers] a simple mission: Just run your business as if: 1) you own 100% of it; 2) it is the only asset in the world that you and your family have or will ever have; and 3) you can't sell or merge it for at least a century. As a corollary, we tell them they should not let any of their decisions be affected even slightly by accounting considerations. We want our managers to think about what counts, not how it will be counted."

1999: "Our lack of tech insights, we should add, does not distress us. After all, there are a great many business areas in which Charlie and I have no special capital-allocation expertise. For instance, we bring nothing to the table when it comes to evaluating patents, manufacturing processes or geological prospects. So we simply don't get into judgments in those fields."

2000: "But a pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learns some very old lessons: First, many in Wall Street -- a community in which quality control is not prized -- will sell investors anything they will buy. Second, speculation is most dangerous when it looks easiest."

2001: "Some people disagree with our focus on relative figures, arguing that 'you can't eat relative performance.' But if you expect as Charlie Munger, Berkshire's Vice Chairman, and I do -- that owning the S&P 500 will produce reasonably satisfactory results over time, it follows that, for long-term investors, gaining small advantages annually over that index *must* prove rewarding."

2002: "Many people argue that derivatives reduce systemic problems, in that participants who can't bear certain risks are able to transfer them to stronger hands. These people believe that derivatives act to stabilize the economy, facilitate trade, and eliminate bumps for individual participants. And, on a micro level, what they say is often true. ...

"Charlie and I believe, however, that the macro picture is dangerous and getting more so. Large amounts of risk, particularly credit risk, have become concentrated in the hands of relatively few derivatives dealers, who in addition trade extensively with one other. The troubles of one could quickly infect the others. On top of that, these dealers are owed huge amounts by non-dealer counterparties. Some of these counterparties, as I've mentioned, are linked in ways that could cause them to contemporaneously run into a problem because of a single event (such as the implosion of the telecom industry or the precipitous decline in the value of merchant power projects). Linkage, when it suddenly surfaces, can trigger serious systemic problems."

2003: "True independence -- meaning the willingness to challenge a forceful CEO when something is wrong or foolish -- is an enormously valuable trait in a director. It is also rare. The place to look for it is among high-grade people whose interests are in line with those of rank-and-file shareholders -- *and are in line in a very big way*."

2004: "Over the 35 years [ending in 2004], American business has delivered terrific results. It should therefore have been easy for investors to earn juicy returns... Instead many investors have had experiences ranging from mediocre to disastrous.

"There have been three primary causes: first, high costs, usually because investors traded excessively or spent far too much on investment management; second, portfolio decisions based on tips and fads rather than on thoughtful, quantified evaluation of businesses; and third, a start-and-stop approach to the market marked by untimely entries (after an advance has been long under way) and exits (after periods of stagnation or decline). Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy only when others are fearful."

2005: "[For CEOs] huge severance payments, lavish perks and outsized payments for ho-hum performance often occur because comp committees have become slaves to comparative data. The drill is simple: Three or so directors -- not chosen by chance -- are bombarded for a few hours before a board meeting with pay statistics that perpetually ratchet upwards. Additionally, the committee is told about new perks that other managers are receiving. In this manner, outlandish "goodies" are showered upon CEOs simply because of a corporate version of the argument we all used when children: 'But, Mom, all the other kids have one.' "

2006: "Corporate bigwigs often complain about government spending, criticizing bureaucrats who they say spend taxpayers' money differently from how they would if it were their own. But sometimes the financial behavior of executives will also vary based on whose wallet is getting depleted. Here's an illustrative tale from my days at Salomon. In the 1980s the company had a barber, Jimmy by name, who came in weekly to give free haircuts to the top brass. A manicurist was also on tap. Then, because of a cost-cutting drive, patrons were told to pay their own way. One top executive (not the CEO) who had previously visited Jimmy weekly went immediately to a once-every-three-weeks schedule."

2007: "A truly great business must have an enduring 'moat' that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business 'castle' that is earning high returns. Therefore a formidable barrier such as a company's being the lowcost producer (GEICO, [**Costco**]) or possessing a powerful worldwide brand (Coca-Cola, Gillette, [**American Express**]) is essential for sustained success."

2008: (Recall that the financial crisis was raging) "Amid this bad news, however, never forget that our country has faced far worse travails in the past. In the 20th Century alone, we dealt with two great wars (one of which we initially appeared to be losing); a dozen or so panics and recessions; virulent inflation that led to a 21 1⁄2% prime rate in 1980; and the Great Depression of the 1930s, when unemployment ranged between 15% and 25% for many years. America has had no shortage of challenges.

"Without fail, however, we've overcome them. In the face of those obstacles -- and many others -- the real standard of living for Americans improved nearly seven-fold during the 1900s, while the Dow Jones Industrials rose from 66 to 11,497."

2009: "We've put a lot of money to work during the chaos of the last two years. It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts in investing is what you pay for a business -- through the purchase of a small piece of it in the stock market -- and what that business earns in the succeeding decade or two."

2010: "Money will always flow toward opportunity, and there is an abundance of that in America. Commentators today often talk of 'great uncertainty.' But think back, for example, to December 6, 1941, October 18, 1987 and September 10, 2001. No matter how serene today may be, tomorrow is always uncertain."

2011: "The logic is simple: If you are going to be a net buyer of stocks in the future, either directly with your own money or indirectly (through your ownership of a company that is repurchasing shares), you are hurt when stocks rise. You benefit when stocks swoon. Emotions, however, too often complicate the matter: Most people, including those who will be net buyers in the future, take comfort in seeing stock prices advance."

"I made my first investment at age eleven. I was wasting my life up until then." - Warren Buffett

"My idea of a group decision is to look in the mirror." - Warren Buffett

"It takes twenty years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." - Warren Buffett

"You're lucky in life if you have the right heroes. I advise all of you, to the extent that you can, pick out a few heroes. There's nothing like the right ones." - Warren Buffett

"I'm the luckiest guy in the world in terms of what I do for a living. No one can tell me to do things I don't believe in or things I think are stupid." - Warren Buffett

"I choose to work with every single person that I work with. That ends up being the most important factor. I don't interact with people I don't like or admire. That's the key. It's like marrying." - Warren Buffett

"I don't want to be on the other side of the table from the customer. I was never selling anything that I didn't believe in myself or use myself." - Warren Buffett [Other than MCO… -- Ed.]

"Investment must be rational; if you can't understand it, don't do it." - Warren Buffett

"We simply attempt to be fearful when others are greedy, and to be greedy only when others are fearful." - Warren Buffett

"We believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a romantic." - Warren Buffett

"Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars." - Warren Buffett

"We rarely use much debt and, when we do, we attempt to structure it on a long-term fixed rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, depositors, lenders and the many equity holders who have committed unusually large portions of their net worth to our care."

"In the end, alchemy, whether it is metallurgical or financial, fails. A base business can not be transformed into a golden business by tricks of accounting or capital structure. The man claiming to be a financial alchemist may become rich. But gullible investors rather than business achievements will usually be the source of his wealth." – Warren Buffett

"You really don't need leverage in this world much. If you're smart, you're going to make a lot of money without borrowing. I've never borrowed a significant amount of money in my life. Never. Never will. I've got no interest in it. The other reason is I never thought I would be way happier when I had 2X instead of X. You ought to have a good time all the time as you go along." – Warren Buffett

"The financial calculus that Charlie and I employ would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my friends and family have and need in order to pursue what they don't have and don't need." – Warren Buffett

"In our view, though, investment students need only two well-taught courses-How to Value a Business, and How to Think about Market Prices. Your goal as an investor should simply be to purchase, at a rational price, a part interest in an easily-understandable business who's earnings are virtually certain to be materially higher five, ten and twenty years from now." -Warren Buffett

"The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it." -Warren Buffett

"An argument is made that there are just too many question marks about the near future; wouldn't it be better to wait until things clear up a bit? You know the prose: "Maintain buying reserves until current uncertainties are resolved," etc. Before reaching for that crutch, face up to two unpleasant facts: The future is never clear and you pay a very high price for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values." -Warren Buffett

"The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces." -Warren Buffett

"In economics, you always want to ask, 'And then what?'" - Warren Buffett

Buffett and Munger on intellectual curiosity:

- “Cultivate curiosity and strive to become a little wiser every day.”
- “Continually challenge and be willing to amend your best loved ideas.”
- “You need a lot of curiosity for a long, long time.”
- “Warren and I are very good at changing our prior conclusions. We work at developing that facility because without it, disaster often comes.”

Accounting:

“Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable.”

“Managers thinking about accounting issues should never forget one of Abraham Lincoln’s favorite riddles: `How many legs does a dog have if you call his tail a leg?’ The answer: `Four, because calling a tail a leg does not make it a leg’.”

Arbitrage:

“Berkshire’s arbitrage activities differ from those of many arbitrageurs. First, we participate in only a few, and usually very large, transactions each year. Most practitioners buy into a great many deals perhaps 50 or more per year. With that many irons in the fire, they must spend most of their time monitoring both the progress of deals and the market movements of the related stocks. This is not how Charlie nor I wish to spend our lives. (What’s the sense in getting rich just to stare at a ticker tape all day?)”

Billionaires:

“Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars.”

Brand:

“Your premium brand had better be delivering something special, or it’s not going to get the business.”

Bridge

“It’s got to be the best intellectual exercise out there. You’re seeing through new situations every ten minutes…In the stock market you don’t base your decisions on what the market is doing, but on what you think is rational….Bridge is about weighing gain/loss ratios. You’re doing calculations all the time.” Forbes. June 2, 1997. http://www.buffettcup.com/Default.aspx?tabid=69

“The approach and strategies are very similar in that you gather all the information you can and then keep adding to that base of information as things develop. You do whatever the probabilities indicated based on the knowledge that you have at that time, but you are always willing to modify your behaviour or your approach as you get new information. In bridge, you behave in a way that gets the best from your partner. And in business, you behave in the way that gets the best from your managers and your employees." Buffett on Bridge

"I wouldn't mind going to jail if I had three cellmates who played bridge" http://www.buffettcup.com/Default.aspx?tabid=69

"I spend twelve hours a week – a little over 10% of my waking hours – playing the game. Now I am trying to figure out how to get by on less sleep in order to fit in a few more hands."

http://www.buffettcup.com/Default.aspx?tabid=69

Investing is not as tough as being a top-notch bridge player. All it takes is the ability to see things as they really are.

Bubbles:

"Unfortunately, the hangover may prove to be proportional to the binge."- March 2003

"Like most trends, at the beginning it's driven by fundamentals, at some point speculation takes over. What the wise man does in the beginning, the fool does in the end." 2006 Berkshire Hathaway annual meeting

"The world went mad. What we learn from history is that people don't learn from history."

Bull Markets
"In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond." Letter to Berkshire Hathaway shareholders, 1997

Business:

"Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks."

If a business does well, the stock eventually follows."

Business School:

"The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective."

Circle of Competence

"There are all kinds of businesses that Charlie and I don't understand, but that doesn't cause us to stay up at night. It just means we go on to the next one, and that's what the individual investor should do."

Compensation:

"The .350 hitter expects, and also deserves, a big payoff for his performance – even if he plays for a cellar-dwelling team. And a .150 hitter should get no reward – even if he plays for a pennant winner."

"Too often, executive compensation in the U.S. is ridiculously out of line with performance. That won't change, moreover, because the deck is stacked against investors when it comes to the CEO's pay."
- Warren Buffett; 2005 Letter to Shareholders

Complexity:

"There seems to be some perverse human characteristic that likes to make easy things difficult."

Crowds:

"You can't buy what is popular and do well."

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is."

"You're neither right nor wrong because other people agree with you. You're right because your facts are right and your reasoning is right—and that's the only thing that makes you right. And if your facts and reasoning are right, you don't have to worry about anybody else."

"A public-opinion poll is no substitute for thought."

"The most common cause of low prices is pessimism-some times pervasive, some times specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer." – 1990 Chairman's Letter

"If you expect to be a net saver during the next 5 years, should you hope for a higher or lower stock market during that period?"Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall."This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices."- 1997 Chairman's Letter to Shareholders

Debt:

"We will reject interesting opportunities rather than over-leverage our balance sheet." Berkshire Hathaway Owners Manual

Decisions

"Charlie and I decided long ago that in an investment lifetime it's too hard to make hundreds of smart decisions. That judgement became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart – and not too smart at that – only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)"

Diversification

"The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it."- 1993 Chairman's Letter to Shareholders

"Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing." 1993 Chairman's Letter to Shareholders.

"Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful".

Efficient Market Hypothesis

"I'd be a bum on the street with a tin cup if the markets were always efficient." Fortune April 3, 1995

"Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising 'Take two aspirins'?"- 1987 Chairman's Letter to Shareholders

Emotions

"The most important quality for an investor is temperament, not intellect… You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."

Ethics:

"I won't close down a business of subnormal profitability merely to add a fraction of a point to our corporate returns. I also feel it inappropriate for even an exceptionally profitable company to fund an operation once it appears to have unending losses in prospect. Adam Smith would disagree with my first proposition and Karl Marx would disagree with my second; the middle ground is the only position that leaves me comfortable. "

Experience

“Can you really explain to a fish what it’s like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value.” The Essential **Buffett**: Timeless Principles for the New Economy Robert Hagstrom 2002

Fun:

“We enjoy the process far more than the proceeds.”

Habit:

“Chains of habit are too light to be felt until they are too heavy to be broken.”

Inactivity:

“You do things when the opportunities come along. I’ve had periods in my life when I’ve had a bundle of ideas come along, and I’ve had long dry spells. If I get an idea next week, I’ll do something. If not, I won’t do a damn thing.”

“We don’t get paid for activity, just for being right. As to how long we’ll wait, we’ll wait indefinitely.” – 1998 Berkshire Hathaway Annual Meeting

“I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There’s no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it.”

“The stock market is a no-called-strike game. You don’t have to swing at everything–you can wait for your pitch. The problem when you’re a money manager is that your fans keep yelling, ‘Swing, you bum!’” – 1999 Berkshire Hathaway Annual Meeting

“Our favorite holding period is forever.” Letter to Berkshire Hathaway shareholders, 1988

“I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is all wrong, bound to lead to trouble, and so on. On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large, and apparently easy, profits to embrace an approach which I don’t fully understand, have not practiced successfully, and which possibly could lead to substantial permanent loss of capital.”
1969.

“One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as `marketability’ and `liquidity,” sing the praises of companies with high share turnover… but investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pick pocket of enterprise.”

Inheritance

"When they open that envelope, the first instruction is to take my pulse again." – 2001 Annual Meeting

"[The perfect amount of money to leave children is] enough money so that they would feel they could do anything, but not so much that they could do nothing." Richard I. Kirkland Jr., "Should You Leave It All to the Children?" Fortune, 29 September 1986.

Intelligence:

"Success in investing doesn't correlate with I.Q. once you're above the level of 25. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." – BusinessWeek Interview June 25 1999

Insurance:

"In the insurance business, there is no statute of limitation on stupidity."

Investing:

"You ought to be able to explain why you're taking the job you're taking, why you're making the investment you're making, or whatever it may be. And if it can't stand applying pencil to paper, you'd better think it through some more. And if you can't write an intelligent answer to those questions, don't do it."

Forbes: "How do you feel?
"Like an oversexed guy in a whorehouse. Now is the time to invest and get rich."

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage." July 1999 Sun Valley

"The important thing is to keep playing, to play against weak opponents and to play for big stakes."- Nov. 2002 talking with students at Gaston Hall

"I never buy anything unless I can fill out on a piece of paper my reasons. I may be wrong, but I would know the answer to that. "I'm paying $32 billion today for the Coca Cola Company because…" If you can't answer that question, you shouldn't buy it. If you can answer that question, and you do it a few times, you'll make a lot of money."

"Someone's sitting in the shade today because someone planted a tree a long time ago."

Investment banks:

"…Wall Street – a community in which quality control is not prized – will sell investors anything they will buy." – 2000 Letter to Shareholders

"Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway."

Journalism:

"The smarter the journalists are, the better off society is.

Love:

"The only way to be loved is to be loveable, which really irritates me."
CityClub Seattle (July 21, 2001)

Luck:

I'm just lucky to have been in the right place at the right time. Another place, another time, I wouldn't have been as successful. Society enabled me to make my money and my money should go to society."
http://cotellese.wordpress.com/feed/

"I just don't see anything available that gives any reasonable hope of delivering such a good year and I have no desire to grope around, hoping to 'get lucky' with other people's money. I am not attuned to this market environment, and I don't want to spoil a decent record by trying to play a game I don't understand just so I can go out a hero."

Management:

"When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is usually the reputation of the business that remains intact."

"If you don't know jewelry, know the jeweller."

"When returns on capital are ordinary, an earn-more-by-putting-up-more record is no great managerial achievement. You can get the same result personally while operating from your rocking chair. just quadruple the capital you commit to a savings account and you will quadruple your earnings. You would hardly expect hosannas for that particular accomplishment. Yet, retirement announcements regularly sing the praises of CEOs who have, say, quadrupled earnings of their widget company during their reign – with no one examining whether this gain was attributable simply to many years of retained earnings and the workings of compound interest." 1985 Chairman's Letter to Shareholders

"Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds… any business craving of the leader, however foolish, will be quickly supported by detailed rate-of-return and strategic studies prepared by his troops"

"The managers at fault periodically report on the lesson they have learned from the latest disappointment. They then usually seek out future lessons."

"Of one thing be certain: if a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked."

Margin of Safety

"If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety…"- 1997 Berkshire Hathaway Annual Meeting

"You leave yourself an enormous margin of safety. You build a bridge that 30,000-pound trucks can go across and then you drive 10,000-pound trucks across it. That is the way I like to go across bridges." – Financial World, June 13, 1984.

"Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results."- 1974 Letter to Shareholders

Market Timing

"Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful." Berkshire Hathaway 2004 Chairman's Letter

"Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: For investors as a whole, returns decrease as motion increases." Berkshire Hathaway 2005 Chairman's Letter

Math:

"There are three kinds of people in the world: those who can count, and those who can't"

Mistakes:

"Most business mistakes are irreversible setbacks, but you get another chance. There are two things in life that you don't get another chance at – marrying the wrong person and what you do with your children." http://cotellese.wordpress.com/feed/

You only have to do a very few things right in your life so long as you don't do too many things wrong.

Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.

Patience:

"Time is the enemy of the poor business and the friend of the great business. If you have a business that's earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business." – Warren Buffett, 1998 Berkshire Annual Meeting

"The Stock Market is designed to transfer money from the Active to the Patient."

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

People:

It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction.

I am quite serious when I say that I do not believe there are, on the whole earth besides, so many intensified bores as in these United States. No man can form an adequate idea of the real meaning of the word, without coming here.

Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without the first, you really want them to be dumb and lazy.
"Working with people who cause your stomach to churn seems much like marrying for money – probably a bad idea under any circumstances, but absolute madness if you are already rich."

Predictions

"You only find out who is swimming naked when the tide goes out." Berkshire Hathaway 2001 Chairman's Letter

"I violated the Noah rule: Predicting rain doesn't count; building arks does."

"We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."

"If past history was all there was to the game, the richest people would be librarians."

"In the business world, the rearview mirror is always clearer than the windshield.

"The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable." – Financial Review, 1985

"The future is never clear, and you pay a very high price in the stock market for a cheery consensus.

Price

“Price is what you pay. Value is what you get.”

“For some reason, people take their cues from price action rather than from values. What doesn’t work is when you start doing things that you don’t understand or because they worked last week for somebody else. The dumbest reason in the world to buy a stock is because it’s going up. “

“Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid.” – Berkshire Hathaway 1998 Annual Meeting

Problems:

“One’s objective should be to get it right, get it quick, get it out, and get it over… your problem won’t improve with age.”

Quality:

“We have tried occasionally to buy toads at bargain prices with results that have been chronicled in past reports. Clearly our kisses fell flat. We have done well with a couple of princes – but they were princes when purchased. At least our kisses didn’t turn them into toads. And, finally, we have occasionally been quite successful in purchasing fractional interests in easily-identifiable princes at toad-like prices.”- 1981 Chairman’s Letter

Reputation

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

Risk:

“I like to go for cinches. I like to shoot fish in a barrel. But I like to do it after the water has run out.”- Oct. 2003, Wharton talk with MBA students

“Risk is a part of God’s game, alike for men and nations.”

“I don’t look to jump over 7-foot bars: I look around for 1-foot bars that I can step over.”

“We’re perfectly willing to trade away a big payoff for a certain payoff.” – 1999 Berkshire Hathaway

“Risk comes from not knowing what you’re doing.”

“Uncertainty is the friend of the buyer of long-term values.”

Size vs. Performance

“If I was running $1 million today, or $10 million for that matter, I’d be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I’ve ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It’s a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.” “Homespun Wisdom from the ‘Oracle of Omaha’”, BusinessWeek, 5 July 1999.

“Our future rates of gain will fall far short of those achieved in the past. Berkshire’s capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can’t). ” – 1998 Chairman’s Letter to Shareholders

Speculation

“If you’re an investor, you’re looking on what the asset is going to do, if you’re a speculator, you’re commonly focusing on what the price of the object is going to do, and that’s not our game.”- 1997 Berkshire Hathaway

“The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There’s a problem, though: They are dancing in a room in which the clocks have no hands.” Berkshire Hathaway 2000 Chairman’s Letter

We believe that according the name ‘investors’ to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a ‘romantic.’

Taxes

“It’s class warfare, my class is winning, but they shouldn’t be.” – CNN Interview, May 25 2005
“There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.” – New York Times, November 26, 2006.

“If you’re in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent.” “Times Online, June 28, 2007.

Turn arounds:

“Turn-arounds” seldom turn”.

Valuation:

"The investor of today does not profit from yesterday's growth." 1961 partnership **letter**

"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

"The speed at which a business success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price."

On Wikiquote[122]

- [The perfect amount of money to leave children is] enough money so that they would feel they could do anything, but not so much that they could do nothing.
  - Richard I. Kirkland Jr., "Should You Leave It All to the Children?", *Fortune*, 29 September 1986.

- I don't have a problem with guilt about money. The way I see it is that my money represents an enormous number of claim checks on society. It's like I have these little pieces of paper that I can turn into consumption. If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GNP would go up. But the utility of the product would be zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching, or nursing. I don't do that though. I don't use very many of those claim checks. There's nothing material I want very much. And I'm going to give virtually all of those claim checks to charity when my wife and I die.
  - Quoted by Janet C. Lowe, in *Warren Buffett Speaks: Wit and Wisdom from the world's Greatest Investor*, (1997) John Wiley & Sons, Inc., pp. 165-166 (ISBN 0-471-16996-X).

- [Gold] gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.
  - Harvard, 1998[*citation needed*]

- If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.
  - "Homespun Wisdom from the 'Oracle of Omaha'", *BusinessWeek*, 5 July 1999.

- The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities -- that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future -- will eventually bring on pumpkins and mice. But they nevertheless hate to miss

[122] http://en.wikiquote.org/wiki/Warren_Buffett

a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.

 - Berkshire Hathaway 2000 Chairman's Letter

- You only find out who is swimming naked when the tide goes out.
  - Berkshire Hathaway 2001 Chairman's Letter

- Someone's sitting in the shade today because someone planted a tree a long time ago.
  - As quoted in *The Real Warren Buffett : Managing Capital, Leading People* (2002) by James O'Loughlin

- Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful.
  - Berkshire Hathaway 2004 Chairman's Letter

- Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: *For investors as a whole, returns decrease as motion increases*.
  - Berkshire Hathaway 2005 Chairman's Letter

- I've reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term 'thinking outside the box.'
  - Berkshire Hathaway 2007 Chairman's Letter

- If you're in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent.
  - "Buffett blasts system that lets him pay less tax than secretary", *Times Online*, 28 June, 2007.

- Take me as an example. I happen to have a talent for allocating capital. But my ability to use that talent is completely dependent on the society I was born into. If I'd been born into a tribe of hunters, this talent of mine would be pretty worthless. I can't run very fast. I'm not particularly strong. I'd probably end up as some wild animal's dinner.
  - To Barack Obama, quoted in *The Audacity of Hope*, page 191

- Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.
  - Berkshire Hathaway 2008 Chairman's Letter

- Putting people into homes, though a desirable goal, shouldn't be our country's primary objective. Keeping them in their homes should be the ambition.
  - Berkshire Hathaway 2008 Chairman's Letter

- We never want to count on the kindness of strangers in order to meet tomorrow's obligations. When forced to choose, I will not trade even a night's sleep for the chance of extra profits.
    - Berkshire Hathaway 2008 Chairman's Letter

- Upon leaving [the derivatives business], our feelings about the business mirrored a line in a country song: "I liked you better before I got to know you so well."
    - Berkshire Hathaway 2008 Chairman's Letter

Chains of habit are too light to be felt until they are too heavy to be broken.

Habit

- Chains of habit are too light to be felt until they are too heavy to be broken.[citation needed]

Confidence

- I always knew I was going to be rich. I don't think I ever doubted it for a minute.[citation needed]

Experience

- Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value.[citation needed]

On Benjamin Graham:

- A story that was passed down from Ben Graham illustrates the lemminglike behavior of the crowd: "Let me tell you the story of the oil prospector who met St. Peter at the Pearly Gates. When told his occupation, St. Peter said, "Oh, I'm really sorry. You seem to meet all the tests to get into heaven. But we've got a terrible problem. See that pen over there? That's where we keep the oil prospectors waiting to get into heaven. And it's filled—we haven't got room for even one more." The oil prospector thought for a minute and said, "Would you mind if I just said four words to those folks?" "I can't see any harm in that," said St. Pete. So the old-timer cupped his hands and yelled out, "Oil discovered in hell!" Immediately, the oil prospectors wrenched the lock off the door of the pen and out they flew, flapping their wings as hard as they could for the lower regions. "You know, that's a pretty good trick," St. Pete said. "Move in. The place is yours. You've got plenty of room." The old fellow scratched his head and said, "No. If you don't mind, I think I'll go along with the rest of 'em. There may be some truth to that rumor after all."[citation needed]

Price Conscious

- Price is what you pay. Value is what you get.[citation needed]

- For some reason, people take their cues from price action rather than from values. What doesn't work is when you start doing things that you don't understand or because they worked last week for somebody else. The dumbest reason in the world to buy a stock is because it's going up.[citation needed]

- Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well.[citation needed]

- We have tried occasionally to buy toads at bargain prices with results that have been chronicled in past reports. Clearly our kisses fell flat. We have done well with a couple of princes - but they were princes when purchased. At least our kisses didn't turn them into toads. And, finally, we have occasionally been quite successful in purchasing fractional interests in easily-identifiable princes at toad-like prices.
  - 1981 Chairman's Letters to Shareholders

- Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results.
  - 1974 Letter to Shareholders

- Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid.
  - Berkshire Hathaway 1998 Annual Meeting

- If you're an investor, you're looking on what the asset is going to do, if you're a speculator, you're commonly focusing on what the price of the object is going to do, and that's not our game.
  - 1997 Berkshire Hathaway Annual Meeting

- Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.
  - March 2003[citation needed]

- On acquiring bad companies for cheap prices: "In my early days as a manager I, too, dated a few toads. They were cheap dates - I've never been much of a sport - but my results matched those of acquirers who courted higher-price toads. I kissed and they croaked."[citation needed]

- I like to go for cinches. I like to shoot fish in a barrel. But I like to do it after the water has run out.
  - October 2003 talking with Wharton MBA students[specific citation needed]

- The important thing is to keep playing, to play against weak opponents and to play for big stakes.
  - November 2002 talking with students at Gaston Hall[specific citation needed]

Circle of Competency

- Sometimes you're outside your core competency. Level 3 is one of those times but I've made a bet on the people and I feel I understand the people. There was a time when people made a bet on me.
  - Oct. 2002 when questioned about his investment in Level 3[specific citation needed]

- See also wikipedia on Level 3 Communications.

- There are all kinds of businesses that Charlie and I don't understand, but that doesn't cause us to stay up at night. It just means we go on to the next one, and that's what the individual investor should do.
  - Morningstar Interview[citation needed]

Sense of Humour

- Berkshire's arbitrage activities differ from those of many arbitrageurs. First, we participate in only a few, and usually very large, transactions each year. Most practitioners buy into a great many deals perhaps 50 or more per year. With that many irons in the fire, they must spend most of their time monitoring both the progress of deals and the market movements of the related stocks. This is not how Charlie nor I wish to spend our lives. (What's the sense in getting rich just to stare at a ticker tape all day?)[citation needed]

- When they open that envelope, the first instruction is to take my pulse again.
  - 2001 Annual Meeting after mentioning that the instructions of his succession are sealed in an envelope at headquarters.[specific citation needed]

- It is only when the tide goes out, that you know who was swimming naked.[citation needed]

- Those who attended (the annual meeting) last year saw your Chairman pitch to Ernie Banks. This encounter proved to be the titanic duel that the sports world had long awaited. After the first few pitches...I fired a brushback at Ernie just to let him know who was in command. Ernie charged the mound, and I charged the plate. But a clash was avoided because we became exhausted before reaching each other.
  - 1999 Letter to Shareholders

- We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.Template:1992 Berkshire Hathaway Chairman's Letter

- At the bottom of the bear market in October 1974 a Forbes article interviewed Buffett. Buffett, for the first time in his life, made public prediction about the stock market.
  - "How do you feel? Forbes asked.
  - "Like an oversexed guy in a whorehouse. Now is the time to invest and get rich."[citation needed]

- In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond.
  - Letter to Berkshire Hathaway shareholders, 1997

- A girl in a convertible is worth five in the phonebook.
  - Berkshire Hathaway 2000 Chairman's Letter.

Intelligent Decision Making

- Charlie and I decided long ago that in an investment lifetime it's too hard to make hundreds of smart decisions. That judgment became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart - and not too smart at that - only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)[citation needed]

- The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable.
    - Financial Review, 1985

- I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.
    - Lecturing to a group of students at Columbia U. He was 21 years old.[citation needed]

- We're more comfortable in that kind of business. It means we miss a lot of very big winners. But we wouldn't know how to pick them out anyway. It also means we have very few big losers - and that's quite helpful over time. We're perfectly willing to trade away a big payoff for a certain payoff.
    - 1999 Berkshire Hathaway Annual Meeting[specific citation needed]

- The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.
    - July 1999 at Herb Allen's Sun Valley, Idaho Retreat[citation needed]

- The most common cause of low prices is pessimism - some times pervasive, some times specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer.
    - 1990 Chairman's Letter to Shareholders

- Success in investing doesn't correlate with I.Q. once you're above the level of 125. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.
    - BusinessWeek Interview June 25 1999

- Our future rates of gain will fall far short of those achieved in the past. Berkshire's capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can't).
    - 1998 Chairman's Letter to Shareholders

- Time is the enemy of the poor business and the friend of the great business. If you have a business that's earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business.
    - 1998 Berkshire Annual Meeting[specific citation needed]

- Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in

such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising 'Take two aspirins'?
  - 1987 Chairman's Letter to Shareholders

- We will reject interesting opportunities rather than over-leverage our balance sheet.
  - Berkshire Hathaway Owners Manual[specific citation needed]

- "If you expect to be a net saver during the next 5 years, should you hope for a higher or lower stock market during that period?" Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall." This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.
  - 1997 Chairman's Letter to Shareholders

Career Decision

- "It's crazy to take little in between jobs just because they look good on your resume. That's like saving sex for your old age. Do what you love and work for whom you admire the most, and you've given yourself the best chance in life you can."
  - 2001? speech at Terry College of Business at the University of Georgia[citation needed]

- "I asked him what he wanted to do for his career, and he replied that he wanted to go into a particular field, but thought he should work for McKinsey for a few years first to add to his resume. To me that's like saving sex for your old age. It makes no sense."[citation needed]

Inactivity as Intelligent

- We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.
  - 1998 Berkshire Hathaway Annual Meeting[specific citation needed]

- I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There's no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it.[citation needed]

- The stock market is a no-called-strike game. You don't have to swing at everything--you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'Swing, you bum!'
  - 1999 Berkshire Hathaway Annual Meeting[specific citation needed]

On Diversification

- The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it.

  - 1993 Chairman's Letter to Shareholders

- Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing.[citation needed]
- Paraphrasing:
  - I have 2 views on diversification. If you are a professional and have confidence, then I would advocate lots of concentration. For everyone else, if it's not your game, participate in total diversification. The economy will do fine over time. Make sure you don't buy at the wrong price or the wrong time. That's what most people should do, buy a cheap index fund and slowly dollar cost average into it. If you try to be just a little bit smart, spending an hour a week investing, you're liable to be really dumb.
  - If it's your game, diversification doesn't make sense. It's crazy to put money into your 20th choice rather than your 1st choice. "Lebron James" analogy. If you have Lebron James on your team, don't take him out of the game just to make room for someone else. If you have a harem of 40 women, you never really get to know any of them well.
  - Charlie and I operated mostly with 5 positions. If I were running 50, 100, 200 million, I would have 80% in 5 positions, with 25% for the largest. In 1964 I found a position I was willing to go heavier into, up to 40%. I told investors they could pull their money out. None did. The position was American Express after the Salad Oil Scandal. In 1951 I put the bulk of my net worth into GEICO. Later in 1998, LTCM was in trouble. With the spread between the on-the-run versus off-the-run 30 year Treasury bonds, I would have been willing to put 75% of my portfolio into it. There were various times I would have gone up to 75%, even in the past few years. If it's your game and you really know your business, you can load up.

On Margin of Safety

- If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety...
  - 1997 Berkshire Hathaway Annual Meeting[specific citation needed]

- You leave yourself an enormous margin of safety. You build a bridge that 30,000-pound trucks can go across and then you drive 10,000-pound trucks across it. That is the way I like to go across bridges.
  - Financial World, June 13, 1984.

Efficient Market Hypothesis

- I'd be a bum on the street with a tin cup if the markets were always efficient.[citation needed]

General Rules

- Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.[citation needed]
- It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.[citation needed]
- You're neither right nor wrong because other people agree with you. You're right because your facts are right and your reasoning is right—and that's the only thing that makes you right. And if your facts and reasoning are right, you don't have to worry about anybody else.[citation needed] – Ben Graham
- Our favorite holding period is forever.
    - Letter to Berkshire Hathaway shareholders, 1988
- When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is usually the reputation of the business that remains intact.[citation needed]
- Risk comes from not knowing what you're doing.[citation needed]
- If you don't know jewelry, know the jeweler.[citation needed]
- If you don't feel comfortable owning something for 10 years, then don't own it for 10 minutes.[citation needed]
- There seems to be some perverse human characteristic that likes to make easy things difficult.[citation needed]
- One's objective should be to get it right, get it quick, get it out, and get it over... your problem won't improve with age.[citation needed]
- A public-opinion poll is no substitute for thought.[citation needed]
- In the insurance business, there is no statute of limitation on stupidity.[citation needed]
- If a business does well, the stock eventually follows.[citation needed]
- The most important quality for an investor is temperament, not intellect... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.[citation needed]
- The future is *never* clear, and you pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values.[citation needed]
- We will only do with your money what we would do with our own.[citation needed]
- Occasionally, a man must rise above principles.[citation needed]
- It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.[citation needed]

- Of one thing be certain: if a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked.[citation needed]

- When asked how he became so successful in investing, Buffett answered: we read hundreds and hundreds of annual reports every year.[citation needed]

- "I never buy anything unless I can fill out on a piece of paper my reasons. I may be wrong, but I would know the answer to that. "I'm paying $32 billion today for the Coca Cola Company because..." If you can't answer that question, you shouldn't buy it. If you can answer that question, and you do it a few times, you'll make a lot of money."[citation needed]

- You ought to be able to explain why you're taking the job you're taking, why you're making the investment you're making, or whatever it may be. And if it can't stand applying pencil to paper, you'd better think it through some more. And if you can't write an intelligent answer to those questions, don't do it.[citation needed]

- I really like my life. I've *arranged* my life so that I can do what I want.[citation needed]

- If you gave me the choice of being CEO of General Electric or IBM or General Motors, you name it, or delivering papers, I would deliver papers. I would. I enjoyed doing that. I can think about what I want to think. I don't have to do anything I don't want to do.[citation needed]

Views of Government and Wall Street

- This time Congress should listen to the slim accountants. The logic behind their thinking is simple:

1. If options aren't a form of compensation, what are they?
2. If compensation isn't an expense, what is it?
3. And if expenses shouldn't go into the calculation of earnings, where in the world should they go?[citation needed]

- First, many in Wall Street - a community in which quality control is not prized - will sell investors anything they will buy.
    - 2000 Letter to Shareholders

- An irresistible footnote: in 1971, pension fund managers invested a record 122% of net funds available in equities - at full prices they couldn't buy enough of them. In 1974, after the bottom had fallen out, they committed a then record low of 21% to stocks.
    - 1978 Chairman's Letter to Shareholders

- When returns on capital are ordinary, an earn-more-by-putting-up-more record is no great managerial achievement. You can get the same result personally while operating from your rocking chair. just quadruple the capital you commit to a savings account and you will quadruple your earnings. You would hardly expect hosannas for that particular accomplishment. Yet, retirement announcements regularly sing the praises of CEOs who have, say, quadrupled earnings of their widget company during their reign

- with no one examining whether this gain was attributable simply to many years of retained earnings and the workings of compound interest.
    - 1985 Chairman's Letter to Shareholders

- Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway.[citation needed]

- The Stock Market is designed to transfer money from the Active to the Patient.[citation needed]

- Managers thinking about accounting issues should never forget one of Abraham Lincoln's favorite riddles: `How many legs does a dog have if you call his tail a leg?' The answer: `Four, because calling a tail a leg does not make it a leg'.[citation needed]

- Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds... any business craving of the leader, however foolish, will be quickly supported by detailed rate-of-return and strategic studies prepared by his troops[citation needed]

- Working with people who cause your stomach to churn seems much like marrying for money - probably a bad idea under any circumstances, but absolute madness if you are already rich.[citation needed]

- One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as "marketability" and "liquidity," sing the praises of companies with high share turnover... but investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pick pocket of enterprise.[citation needed]

- The speed at which a business success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.[citation needed]

- The managers at fault periodically report on the lesson they have learned from the latest disappointment. They then usually seek out future lessons.[citation needed]

Walking Away

- I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is all wrong, bound to lead to trouble, and so on. On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large, and apparently easy, profits to embrace an approach which I don't fully understand, have not practiced successfully, and which possibly could lead to substantial permanent loss of capital.
    - in a letter to his partners in the stock market frenzy of 1969.Template:Cite fix

- I just don't see anything available that gives any reasonable hope of delivering such a good year and I have no desire to grope around, hoping to 'get lucky' with other people's money. I am not attuned to this market environment, and I don't want to spoil a decent record by trying to play a game I don't understand just so I can go out a hero.[citation needed]

Class War

- It's class warfare, my class is winning, but they shouldn't be.
    - CNN Interview, May 25 2005, in arguing the need to raise taxes on the rich.

- There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning.
    - New York Times, November 26, 2006.

Bridge

- It's got to be the best intellectual exercise out there. You're seeing through new situations every ten minutes…In the stock market you don't base your decisions on what the market is doing, but on what you think is rational….Bridge is about weighing gain/loss ratios. You're doing calculations all the time.
    - Forbes. June 2, 1997.[1]

- The approach and strategies are very similar in that you gather all the information you can and then keep adding to that base of information as things develop. You do whatever the probabilities indicated based on the knowledge that you have at that time, but you are always willing to modify your behavior or your approach as you get new information. In bridge, you behave in a way that gets the best from your partner. And in business, you behave in the way that gets the best from your managers and your employees.
    - Buffett on Bridge

- I wouldn't mind going to jail if I had three cellmates who played bridge.
    - Buffett on Bridge

Investment

- I'll tell you why I like the cigarette business. It costs a penny to make. Sell it for a dollar. It's addictive. And there's fantastic brand loyalty.
    - Where should I invest my savings?

1. A public-opinion poll is no substitute for thought.
2. Chains of habit are too light to be felt until they are too heavy to be broken.
3. I always knew I was going to be rich. I don’t think I ever doubted it for a minute.
4. I am quite serious when I say that I do not believe there are, on the whole earth besides, so many intensified bores as in these United States. No man can form an adequate idea of the real meaning of the word, without coming here.
5. I buy expensive suits. They just look cheap on me.
6. I don’t have a problem with guilt about money. The way I see it is that my money represents an enormous number **of claim checks on society. It’s like I have these little pieces of paper that I can turn into consumption.** If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GNP would go up. **But the utility of the product would be zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching, or**

nursing. I don't do that though. I don't use very many of those claim checks. There's nothing material I want very much. And I'm going to give virtually all of those claim checks to charity when my wife and I die.

7. I don't look to jump over 7-foot bars: I look around for 1-foot bars that I can step over.
8. I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years.
9. If a business does well, the stock eventually follows.
10. If past history was all there was to the game, the richest people would be librarians.
11. If you're in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent.
12. In the business world, the rear view mirror is always clearer than the windshield.
13. Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid.
14. It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.
15. It's better to hang out with people better than you. Pick out associates whose behavior is better than yours and you'll drift in that direction.
16. It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.
17. I've reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term 'thinking outside the box.'
18. Let blockheads read what blockheads wrote.
19. Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.
20. Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: *For investors as a whole, returns decrease as motion increases*
21. Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well.
22. Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results.
23. Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars.
24. Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.
25. Only when the tide goes out do you discover who's been swimming naked.
26. Our favorite holding period is forever.
27. Price is what you pay. Value is what you get.
28. Risk comes from not knowing what you're doing.
29. Risk is a part of God's game, alike for men and nations.
30. Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.
31. Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway.
32. The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective.
33. The investor of today does not profit from yesterday's growth.

34. The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.
35. The only time to buy these is on a day with no "y" in it.
36. The smarter the journalists are, the better off society is. For to a degree, people read the press to inform themselves-and the better the teacher, the better the student body.
37. There are all kinds of businesses that Charlie and I don't understand, but that doesn't cause us to stay up at night. It just means we go on to the next one, and that's what the individual investor should do.
38. There seems to be some perverse human characteristic that likes to make easy things difficult.
39. Time is the friend of the wonderful company, the enemy of the mediocre.
40. Value is what you get.
41. We believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a 'romantic.'
42. We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.
43. We enjoy the process far more than the proceeds.
44. We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.
45. We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.
46. When a management team with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.
47. Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.
48. Why not invest your assets in the companies you really like? As Mae West said, "Too much of a good thing can be wonderful".
49. Wide diversification is only required when investors do not understand what they are doing.
50. You do things when the opportunities come along. I've had periods in my life when I've had a bundle of ideas come along, and I've had long dry spells. If I get an idea next week, I'll do something. If not, I won't do a damn thing.
51. You only have to do a very few things right in your life so long as you don't do too many things wrong.
52. Your premium brand had better be delivering something special, or it's not going to get the business

"Becoming a Portfolio Manager Who Hits .400"[123]

- Think of stocks as [fractional shares of] businesses
- Increase the size of your investment
- Reduce portfolio turnover

[123] The Warren Buffett Portfolio, p.189

- Develop alternative performance benchmarks
- Learn to think in probabilities
- Recognize the psychology of misjudgment
- Ignore market forecasts
- Wait for the fat pitch

"The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities -- that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future -- will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands."
Berkshire Hathaway 2000 Chairman's Letter

WARREN BUFFETT

- [The perfect amount of money to leave children is] enough money so that they would feel they could do anything, but not so much that they could do nothing. [124]

- I don't have a problem with guilt about money. The way I see it is that my money represents an enormous number of claim checks on society. It's like I have these little pieces of paper that I can turn into consumption. If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GNP would go up. But the utility of the product would be zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching, or nursing. I don't do that though. I don't use very many of those claim checks. There's nothing material I want very much. And I'm going to give virtually all of those claim checks to charity when my wife and I die.[125]

- [Gold] gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.

- If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's

[124] Richard I. Kirkland Jr., "Should You Leave It All to the Children?", *Fortune*, 29 September 1986.
[125] Quoted by Janet C. Lowe, in Warren Buffett Speaks: Wit and Wisdom from the world's Greatest Investor, (1997) John Wiley & Sons, Inc., pp. 165-166 (ISBN 0-471-16996-X).

a huge structural advantage not to have a lot of money. I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.[126]

- The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities -- that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future -- will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.[127]

- You only find out who is swimming naked when the tide goes out.[128]

- Someone's sitting in the shade today because someone planted a tree a long time ago.[129]

- Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful.[130]

- Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: He lost a bundle in the South Sea Bubble, explaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatized by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: *For investors as a whole, returns decrease as motion increases*.[131]

- I've reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term 'thinking outside the box.'[132]

- If you're in the luckiest 1 per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent.[133]

- Take me as an example. I happen to have a talent for allocating capital. But my ability to use that talent is completely dependent on the society I was born into. If I'd been born into a tribe of hunters, this talent

[126] "Homespun Wisdom from the 'Oracle of Omaha'", *BusinessWeek*, 5 July 1999.
[127] Berkshire Hathaway 2000 Chairman's Letter
[128] Berkshire Hathaway 2001 Chairman's Letter
[129] As quoted in The Real Warren Buffett : Managing Capital, Leading People (2002) by James O'Loughlin
[130] Berkshire Hathaway 2004 Chairman's Letter
[131] Berkshire Hathaway 2005 Chairman's Letter
[132] Berkshire Hathaway 2007 Chairman's Letter
[133] "Buffett blasts system that lets him pay less tax than secretary", *Times Online*, 28 June, 2007

of mine would be pretty worthless. I can't run very fast. I'm not particularly strong. I'd probably end up as some wild animal's dinner.[134]

- Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.[135]

- Putting people into homes, though a desirable goal, shouldn't be our country's primary objective. Keeping them in their homes should be the ambition.[136]

- We never want to count on the kindness of strangers in order to meet tomorrow's obligations. When forced to choose, I will not trade even a night's sleep for the chance of extra profits.[137]

- Upon leaving [the derivatives business], our feelings about the business mirrored a line in a country song: "I liked you better before I got to know you so well."[138]

- I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will.[139]

- If you have a great manager, you want to pay him very well.[140]

Chains of habit are too light to be felt until they are too heavy to be broken.

Habit

- Chains of habit are too light to be felt until they are too heavy to be broken.[*citation needed*]

Confidence

- I always knew I was going to be rich. I don't think I ever doubted it for a minute.[*citation needed*]

Experience

- Can you really explain to a fish what it's like to walk on land? One day on land is worth a thousand years of talking about it, and one day running a business has exactly the same kind of value.[*citation needed*]

On Benjamin Graham

- A story that was passed down from Ben Graham illustrates the lemminglike behavior of the crowd: "Let me tell you the story of the oil prospector who met St. Peter at the Pearly Gates. When told his

134 To Barack Obama, quoted in The Audacity of Hope, page 191
135 Berkshire Hathaway 2008 Chairman's Letter
136 Berkshire Hathaway 2008 Chairman's Letter
137 Berkshire Hathaway 2008 Chairman's Letter
138 Berkshire Hathaway 2008 Chairman's Letter
139 In a panel discussion after the premier of the 2008 documentary I.O.U.S.A.
140 • BRK Annual Meeting 04

occupation, St. Peter said, "Oh, I'm really sorry. You seem to meet all the tests to get into heaven. But we've got a terrible problem. See that pen over there? That's where we keep the oil prospectors waiting to get into heaven. And it's filled—we haven't got room for even one more." The oil prospector thought for a minute and said, "Would you mind if I just said four words to those folks?" "I can't see any harm in that," said St. Pete. So the old-timer cupped his hands and yelled out, "Oil discovered in hell!" Immediately, the oil prospectors wrenched the lock off the door of the pen and out they flew, flapping their wings as hard as they could for the lower regions. "You know, that's a pretty good trick," St. Pete said. "Move in. The place is yours. You've got plenty of room." The old fellow scratched his head and said, "No. If you don't mind, I think I'll go along with the rest of 'em. There may be some truth to that rumor after all."[citation needed]

Price conscious

- Price is what you pay. Value is what you get.[citation needed]

- For some reason, people take their cues from price action rather than from values. What doesn't work is when you start doing things that you don't understand or because they worked last week for somebody else. The dumbest reason in the world to buy a stock is because it's going up.[citation needed]

- Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well.[citation needed]

- We have tried occasionally to buy toads at bargain prices with results that have been chronicled in past reports. Clearly our kisses fell flat. We have done well with a couple of princes - but they were princes when purchased. At least our kisses didn't turn them into toads. And, finally, we have occasionally been quite successful in purchasing fractional interests in easily-identifiable princes at toad-like prices.
    - 1981 Chairman's Letters to Shareholders

- Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results.
    - 1974 Letter to Shareholders

- Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid.
    - Berkshire Hathaway 1998 Annual Meeting

- If you're an investor, you're looking on what the asset is going to do, if you're a speculator, you're commonly focusing on what the price of the object is going to do, and that's not our game.
    - 1997 Berkshire Hathaway Annual Meeting

- Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.
    - March 2003[citation needed]

- On acquiring bad companies for cheap prices: "In my early days as a manager I, too, dated a few toads. They were cheap dates - I've never been much of a sport - but my results matched those of acquirers who courted higher-price toads. I kissed and they croaked."[citation needed]

- I like to go for cinches. I like to shoot fish in a barrel. But I like to do it after the water has run out.
  - October 2003 talking with Wharton MBA students[specific citation needed]

- The important thing is to keep playing, to play against weak opponents and to play for big stakes.
  - November 2002 talking with students at Gaston Hall[specific citation needed]

Circle of competency

- Sometimes you're outside your core competency. Level 3 is one of those times but I've made a bet on the people and I feel I understand the people. There was a time when people made a bet on me.
  - Oct. 2002 when questioned about his investment in Level 3[specific citation needed]
  - See also wikipedia on Level 3 Communications.

- There are all kinds of businesses that Charlie and I don't understand, but that doesn't cause us to stay up at night. It just means we go on to the next one, and that's what the individual investor should do.
  - Morningstar Interview[citation needed]

Sense of humour

- Berkshire's arbitrage activities differ from those of many arbitrageurs. First, we participate in only a few, and usually very large, transactions each year. Most practitioners buy into a great many deals perhaps 50 or more per year. With that many irons in the fire, they must spend most of their time monitoring both the progress of deals and the market movements of the related stocks. This is not how Charlie nor I wish to spend our lives. (What's the sense in getting rich just to stare at a ticker tape all day?)[citation needed]

- When they open that envelope, the first instruction is to take my pulse again.
  - 2001 Annual Meeting after mentioning that the instructions of his succession are sealed in an envelope at headquarters.[specific citation needed]

- Those who attended (the annual meeting) last year saw your Chairman pitch to Ernie Banks. This encounter proved to be the titanic duel that the sports world had long awaited. After the first few pitches...I fired a brushback at Ernie just to let him know who was in command. Ernie charged the mound, and I charged the plate. But a clash was avoided because we became exhausted before reaching each other.
  - 1999 Letter to Shareholders

- We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children.Template:1992 Berkshire Hathaway Chairman's Letter

- At the bottom of the bear market in October 1974 a Forbes article interviewed Buffett. Buffett, for the first time in his life, made public prediction about the stock market.
    - "How do you feel? Forbes asked.
    - "Like an oversexed guy in a whorehouse. Now is the time to invest and get rich."[citation needed]

- In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond.
    - Letter to Berkshire Hathaway shareholders, 1997

- A girl in a convertible is worth five in the phonebook.
    - Berkshire Hathaway 2000 Chairman's Letter.

Intelligent decision making

- Charlie and I decided long ago that in an investment lifetime it's too hard to make hundreds of smart decisions. That judgement became ever more compelling as Berkshire's capital mushroomed and the universe of investments that could significantly affect our results shrank dramatically. Therefore, we adopted a strategy that required our being smart - and not too smart at that - only a very few times. Indeed, we'll now settle for one good idea a year. (Charlie says it's my turn.)[citation needed]

- The fact that people will be full of greed, fear or folly is predictable. The sequence is not predictable.
    - Financial Review, 1985

- I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.
    - Lecturing to a group of students at Columbia U. He was 21 years old.[citation needed]

- We're more comfortable in that kind of business. It means we miss a lot of very big winners. But we wouldn't know how to pick them out anyway. It also means we have very few big losers - and that's quite helpful over time. We're perfectly willing to trade away a big payoff for a certain payoff.
    - 1999 Berkshire Hathaway Annual Meeting[specific citation needed]

- The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.
    - July 1999 at Herb Allen's Sun Valley, Idaho Retreat[citation needed]

- The most common cause of low prices is pessimism - some times pervasive, some times specific to a company or industry. We want to do business in such an environment, not because we like pessimism but because we like the prices it produces. It's optimism that is the enemy of the rational buyer.
    - 1990 Chairman's Letter to Shareholders

- Success in investing doesn't correlate with I.Q. once you're above the level of 125. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.

- BusinessWeek Interview June 25 1999

- Our future rates of gain will fall far short of those achieved in the past. Berkshire's capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can't).
  - 1998 Chairman's Letter to Shareholders

- Time is the enemy of the poor business and the friend of the great business. If you have a business that's earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business.
  - 1998 Berkshire Annual Meeting[specific citation needed]

- Ben's Mr. Market allegory may seem out-of-date in today's investment world, in which most professionals and academicians talk of efficient markets, dynamic hedging and betas. Their interest in such matters is understandable, since techniques shrouded in mystery clearly have value to the purveyor of investment advice. After all, what witch doctor has ever achieved fame and fortune by simply advising 'Take two aspirins'?
  - 1987 Chairman's Letter to Shareholders

- We will reject interesting opportunities rather than over-leverage our balance sheet.
  - Berkshire Hathaway Owners Manual[specific citation needed]

- "If you expect to be a net saver during the next 5 years, should you hope for a higher or lower stock market during that period?"Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall."This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.
  - 1997 Chairman's Letter to Shareholders

Career decision

- "It's crazy to take little in between jobs just because they look good on your resume. That's like saving sex for your old age. Do what you love and work for whom you admire the most, and you've given yourself the best chance in life you can."
  - 2001? speech at Terry College of Business at the University of Georgia[citation needed]

- "I asked him what he wanted to do for his career, and he replied that he wanted to go into a particular field, but thought he should work for McKinsey for a few years first to add to his resume. To me that's like saving sex for your old age. It makes no sense."[citation needed]

Inactivity as intelligent

- We don't get paid for activity, just for being right. As to how long we'll wait, we'll wait indefinitely.
  - 1998 Berkshire Hathaway Annual Meeting[specific citation needed]

- I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There's no penalty except opportunity lost. All day you wait for the pitch you like; then when the fielders are asleep, you step up and hit it.[citation needed]

- The stock market is a no-called-strike game. You don't have to swing at everything--you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, 'Swing, you bum!'
  - 1999 Berkshire Hathaway Annual Meeting[specific citation needed]

On diversification

- The strategy we've adopted precludes our following standard diversification dogma. Many pundits would therefore say the strategy must be riskier than that employed by more conventional investors. We disagree. We believe that a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it.
  - 1993 Chairman's Letter to Shareholders

- Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing.[citation needed]

On margin of safety

- If you understood a business perfectly and the future of the business, you would need very little in the way of a margin of safety. So, the more vulnerable the business is, assuming you still want to invest in it, the larger margin of safety you'd need. If you're driving a truck across a bridge that says it holds 10,000 pounds and you've got a 9,800 pound vehicle, if the bridge is 6 inches above the crevice it covers, you may feel okay, but if it's over the Grand Canyon, you may feel you want a little larger margin of safety...
  - 1997 Berkshire Hathaway Annual Meeting[specific citation needed]

- You leave yourself an enormous margin of safety. You build a bridge that 30,000-pound trucks can go across and then you drive 10,000-pound trucks across it. That is the way I like to go across bridges.
  - Financial World, June 13, 1984.

Efficient market hypothesis

- I'd be a bum on the street with a tin cup if the markets were always efficient.[citation needed]

General rules

- Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.[citation needed]

- It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.[citation needed]

- You're neither right nor wrong because other people agree with you. You're right because your facts are right and your reasoning is right—and that's the only thing that makes you right. And if your facts and reasoning are right, you don't have to worry about anybody else.[citation needed]

- Our favourite holding period is forever.
  - Letter to Berkshire Hathaway shareholders, 1988

- When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is usually the reputation of the business that remains intact.[citation needed]

- Risk comes from not knowing what you're doing.[citation needed]

- If you don't know jewelry, know the jeweler.[citation needed]

- If you don't feel comfortable owning something for 10 years, then don't own it for 10 minutes.[citation needed]

- There seems to be some perverse human characteristic that likes to make easy things difficult.[citation needed]

- One's objective should be to get it right, get it quick, get it out, and get it over... your problem won't improve with age.[citation needed]

- A public-opinion poll is no substitute for thought.[citation needed]

- In the insurance business, there is no statute of limitation on stupidity.[citation needed]

- If a business does well, the stock eventually follows.[citation needed]

- The most important quality for an investor is temperament, not intellect... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.[citation needed]

- The future is *never* clear, and you pay a very high price in the stock market for a cheery consensus. Uncertainty is the friend of the buyer of long-term values.[citation needed]

- We will only do with your money what we would do with our own.[citation needed]

- Occasionally, a man must rise above principles.[citation needed]

- It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.[citation needed]

- Of one thing be certain: if a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked.[citation needed]

- When asked how he became so successful in investing, Buffett answered: we read hundreds and hundreds of annual reports every year.[citation needed]

- "I never buy anything unless I can fill out on a piece of paper my reasons. I may be wrong, but I would know the answer to that. "I'm paying $32 billion today for the Coca Cola Company because..." If you can't answer that question, you shouldn't buy it. If you can answer that question, and you do it a few times, you'll make a lot of money."[citation needed]

- You ought to be able to explain why you're taking the job you're taking, why you're making the investment you're making, or whatever it may be. And if it can't stand applying pencil to paper, you'd better think it through some more. And if you can't write an intelligent answer to those questions, don't do it.[citation needed]

- I really like my life. I've *arranged* my life so that I can do what I want.[citation needed]

- If you gave me the choice of being CEO of General Electric or IBM or General Motors, you name it, or delivering papers, I would deliver papers. I would. I enjoyed doing that. I can think about what I want to think. I don't have to do anything I don't want to do.[citation needed]

Views of government and Wall Street

- This time Congress should listen to the slim accountants. The logic behind their thinking is simple:

1. If options aren't a form of compensation, what are they?
2. If compensation isn't an expense, what is it?
3. And if expenses shouldn't go into the calculation of earnings, where in the world should they go?[citation needed]

- First, many in Wall Street - a community in which quality control is not prized - will sell investors anything they will buy.
    - 2000 Letter to Shareholders

- An irresistable footnote: in 1971, pension fund managers invested a record 122% of net funds available in equities - at full prices they couldn't buy enough of them. In 1974, after the bottom had fallen out, they committed a then record low of 21% to stocks.
    - 1978 Chairman's Letter to Shareholders

- When returns on capital are ordinary, an earn-more-by-putting-up-more record is no great managerial achievement. You can get the same result personally while operating from your rocking chair. just quadruple the capital you commit to a savings account and you will quadruple your earnings. You would hardly expect hosannas for that particular accomplishment. Yet, retirement announcements regularly sing the praises of CEOs who have, say, quadrupled earnings of their widget company during their reign - with no one examining whether this gain was attributable simply to many years of retained earnings and the workings of compound interest.
    - 1985 Chairman's Letter to Shareholders

- Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway.[citation needed]

- The Stock Market is designed to transfer money from the Active to the Patient.[citation needed]

- Managers thinking about accounting issues should never forget one of Abraham Lincoln's favorite riddles: `How many legs does a dog have if you call his tail a leg?' The answer: `Four, because calling a tail a leg does not make it a leg'.[citation needed]

- Just as work expands to fill available time, corporate projects or acquisitions will materialize to soak up available funds... any business craving of the leader, however foolish, will be quickly supported by detailed rate-of-return and strategic studies prepared by his troops.
  - "Chairman's letter - 1989"

- Working with people who cause your stomach to churn seems much like marrying for money - probably a bad idea under any circumstances, but absolute madness if you are already rich.[citation needed]

- One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as "marketability" and "liquidity," sing the praises of companies with high share turnover... but investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pick pocket of enterprise.[citation needed]

- The speed at which a business success is recognized, furthermore, is not that important as long as the company's intrinsic value is increasing at a satisfactory rate. In fact, delayed recognition can be an advantage: It may give us the chance to buy more of a good thing at a bargain price.[citation needed]

- The managers at fault periodically report on the lesson they have learned from the latest disappointment. They then usually seek out future lessons.[citation needed]

Walking away

- I am out of step with present conditions. When the game is no longer played your way, it is only human to say the new approach is all wrong, bound to lead to trouble, and so on. On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large, and apparently easy, profits to embrace an approach which I don't fully understand, have not practiced successfully, and which possibly could lead to substantial permanent loss of capital.
  - in a letter to his partners in the stock market frenzy of 1969.Template:Cite fix

- I just don't see anything available that gives any reasonable hope of delivering such a good year and I have no desire to grope around, hoping to 'get lucky' with other people's money. I am not attuned to this market environment, and I don't want to spoil a decent record by trying to play a game I don't understand just so I can go out a hero.[citation needed]

Class war

- It's class warfare, my class is winning, but they shouldn't be.
    - CNN Interview, May 25 2005, in arguing the need to raise taxes on the rich.

- There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning.
    - New York Times, November 26, 2006.

Bridge

- It's got to be the best intellectual exercise out there. You're seeing through new situations every ten minutes…In the stock market you don't base your decisions on what the market is doing, but on what you think is rational….Bridge is about weighing gain/loss ratios. You're doing calculations all the time.
    - Forbes. June 2, 1997.[1]

- The approach and strategies are very similar in that you gather all the information you can and then keep adding to that base of information as things develop. You do whatever the probabilities indicated based on the knowledge that you have at that time, but you are always willing to modify your behaviour or your approach as you get new information. In bridge, you behave in a way that gets the best from your partner. And in business, you behave in the way that gets the best from your managers and your employees.
    - Buffett on Bridge

- I wouldn't mind going to jail if I had three cellmates who played bridge.
    - Buffett on Bridge

Investment

- I'll tell you why I like the cigarette business. It costs a penny to make. Sell it for a dollar. It's addictive. And there's fantastic brand loyalty.
    - Where should I invest my savings?

*Below is the fourth installment of our "***Quotes on Intelligent Investing***" series. This edition focuses on* ***investor psychology****.*[141]

- "Investing requires qualities of temperament way more than it requires qualities of intellect." - Warren Buffett
- "The first principle is that you must not fool yourself, and you are the easiest person to fool." - Richard Feynman

[141] http://www.santangelsreview.com/

- "If you feel good about buying stocks you may not be buying bargains. If you have sweaty palms then you have bargains and its time to buy." - Arnold Van De Berg
- "If you just do what other people do, you will get the returns other people get." - Unknown
- "To be a value investor, you have to be willing to suffer pain." - Jean Marie Eveillard
- "The most important thing in this business is discipline. It isn't brains. There are so many smart, educated people in this business." - Arnold Van De Berg
- "If you aren't willing to look stupid in the short run, you are not likely to be a successful investor in the long run." - Unknown
- "The catch 22 of value investing is if you want to make an above average return, you have to be willing to buy stocks surrounded by short term pessimism and experience some pain." - Robert Olstein
- "My best ideas have usually been lonely ideas where people I respected disagreed with me." - Unknown
- "The hardest thing over the years has been having the courage to go against the dominant wisdom of the time to have a view that is at variance with the present consensus and bet that view. The hard part is that the investor must measure himself not by his own perceptions of his performance, but by the objective measure of the market. The market has its own reality. In an immediate emotional sense the market is always right so if you take a variant point of view you will always be bombarded for some time by conventional wisdom as expressed by the market." - Michael Steinhardt
- "When people give away stocks based on forced selling or fear that is usually a great opportunity." - Seth Klarman
- "Knowing what you don't know is as important as knowing what you know." - Unknown
- "It is always easiest to run with the herd; at times, it can take a deep reservoir of courage and conviction to stand apart from it. Yet distancing yourself from the crowd is an essential component of long-term investment success." - Seth Klarman

Seth Klarman

“Selling, in particular, can be a challenge; many investors are tempted to become more optimistic when a security is performing well. This temptation must be resisted; tax considerations aside, when a security reaches full valuation, there is no longer a reason to own it.” – Seth Klarman[142]

“Why should the immediate opportunity set be the only one considered, when tomorrow’s may well be considerably more fertile than today’s?” – Seth Klarman[143]

“If an asset has cash flow or the likelihood of cash flow in the near term and is not purely dependment on what a future buyer might pay, then it’s an investment. If an asset’s value is totally dependent on the amount a future buyer might pay, then its purchase is speculation.” – Seth Klarman

“To a value investor, investments come in three varieties: undervalued at one price, fairly valued at another price, and overvalued at still some higher price. The goal is to buy the first, avoid the second, and sell the third.” – Seth Klarman[144]

“Value investors will not invest in businesses that they cannot readily understand or ones they find excessively risky. Hence few value investors will own the shares of technology companies. Many also shun commercial banks, which they consider to have unanalyzable assets, as well as property and casualty insurance companies, which have both unanalyzable assets and liabilities.” – Seth Klarman, *Margin of Safety*

“The attraction of some value investments is simple and straightforward: ongoing, profitable, and growing businesses with share prices considerably below conservatively appraised underlying value. Ordinarily, however, the simpler the analysis and steeper the discount, the more obvious the bargain becomes to other investors. The securities of high-return businesses therefore reach compelling levels of undervaluation only infrequently. Usually investors have to work harder and dig deeper to find undervalued opportunities, either by ferreting out hidden value or by comprehending a complex situation.” – Seth Klarman, *Margin of Safety*

A Statement of Our Corporate Principles and Values[145]

“Since inception in 1982, Baupost's primary aim has been to be a responsible steward of client capital, safely growing the value of the assets entrusted to us. Through our opportunistic, fundamental-driven, value-oriented approach, we seek investment returns that are attractive on a risk-adjusted basis over the long term. Our typical time horizon when we make an investment is several years or longer. We are determined to earn returns that are more than commensurate with the risks that we incur. We continuously worry about what can go wrong with each of our investments and for the portfolio as a whole; avoiding and managing risk is a 24/7/365 obsession for us. We will never put our faith in computer "risk models;" instead, we apply sound judgment and common sense to our assessment of risk. We will never place debt on our investments that involves recourse to our partnerships; we will not leverage our portfolio. When we are unable to find compelling investment opportunities, we choose to hold cash which, at times, has reached as much as 50% of NAV. Since 2001, our weighted average cash balances across the Baupost investment partnerships have exceeded 33%.

[142] Baupost 2006 annual letter
[143] Baupost 2004 annual letter, “The Painful Decision to Hold Cash”
[144] 2006 Baupost annual letter
[145] 2011 Baupost annual letter

“We will always try to put the interests of our clients first, and will not gouge on fees or proliferate new investment products. We will never permit performance pressures to compromise our approach. We will strive to remain within our areas of core competence. To ensure congruity of interests, we invest substantially all of our own capital directly alongside client capital in Baupost entities.

“We work as a team at Baupost. Every employee matters. Our success is dependent on everyone at the firm pulling together to create the best possible outcome for our clients. The whole is truly greater than its parts. We structure compensation so that when the firm does well, everyone at Baupost is rewarded. Fifty-six of our employees are stockholders in the firm, and we hope this number will grow consistently over time. We seek to attract the best talent. Fit matters as much as skill, strong values as much as intelligence. We devote considerable time and resources to protect and enhance our culture.

“At Baupost, we pursue excellence in everything we do. Our mentality is "One Baupost," where all employees—both on the investment and operations sides of the firm-are valuable contributors to our success. We employ a team-oriented, collaborative approach, with mutual respect for people in all areas and at all levels of the firm. We strive to be industry leaders and follow best practices in everything we do. One of the responsibilities of Baupost's most senior executives is to mentor and train those working under them so that they, too, may rise to leadership positions in the firm. One of our most important goals is for Baupost to still be thriving far beyond the current generation of leadership, in order to serve the needs of clients for years to come and to continue to provide an extraordinary workplace for employees eager and able to grow. To achieve this goal, we are focused on progression and succession planning across the investment and operations teams.

“Business ethics are front and center in our day-to-day behavior. We strive not only to cross no ethical or legal lines in our actions, but to never come close. We follow two principles that govern our behavior. The first is the Wall Street Journal Test, whereby we imagine our contemplated action on the front page of the next day's Wall Street Journal. If we would not be pleased to read about it there, we don't do it. The second is the Football Field Test, whereby if you play near the sidelines, you might stray out of bounds or someone might think that you did. We strive to play in the center of the field. We regularly take the opportunity to remind employees-the newest as well as the longest tenured--of our corporate history and values.

“We do not contribute to "systemic risk" in the marketplace; indeed, through relentless shunning of leverage and the counter-cyclical behavior, characteristic of value investors, we hope to contribute to "systemic sanity."

“We consider some investments unacceptable because they take advantage of others or are anathema to our values or to the interests of the United States. They have no place in our portfolio.

“We know how fortunate we are to work in a business that offers the potential of high remuneration for our skills. People who do well in a society have a strong moral obligation to give back to society to help others less fortunate. Our values include embracing corporate and individual philanthropy at Baupost, both through support of our local community and through a substantial matching gift program for which all of our employees are eligible.

> "Investment organizations are inherently fragile. We are determined never to fall victim to the arrogance, hubris indifference, or complacency that sometimes brings firms down. We will tirelessly strive to improve, and to maintain our commitment to intellectual honesty in the service of building the best investment firm we possibly can for the long-term benefit of clients and employees. We intend to be around for a very long time."

"Recently, while at a business dinner, I was asked what has driven Baupost's solid long- term investment performance. My answer was that the investment business is full of really smart, hardworking people. We have no major edge there. But in a field where the vast majority of our competitors spend their time looking exclusively at equities to buy or sell short, we are truly fortunate to have a broad mandate and stable, long-term oriented client base that allows us to emphasize in our portfolio more complex, less liquid, and less widely analyzed investments, such as distressed debt--and the ability to concentrate our capital in the areas of greatest opportunity, which inevitably evolve over time." – Seth Klarman[146]

> "A follow-up question was asked: Why, if distressed debt is such an attractive arena, didn't many more funds sprout up to take advantage of the excess returns there? I replied that there were indeed very capable competitors in this space, but that opportunities in distressed debt ebb and flow with economic cycles. At the not infrequent moments when there is literally no distressed debt worth purchasing, these competitors (especially narrowly siloed ones) often stray (dangerously) into origination of new debt instruments at par. They are unable to sit on their hands, fearing that their businesses would wither and their people would depart. While the yield expectations for newly-issued debt may, at times, superficially appear similar to the returns on distressed debt, new origination occupies a very different place on the risk/return spectrum, and also requires an extraordinary underwriting discipline that few firms have. Sometimes, the competition moves into highly subordinated junk bonds, reaching for current yield while ramping up risk. Such diversions usually end badly, leaving these competitors wounded and mostly on the sidelines when the distressed opportunity set once again becomes compelling. I added that our ability to maintain a long-term, absolute performance discipline in a short-term oriented world obsessed with relative performance is crucial, as is our determination to concentrate capital in our best ideas. Finally, our willingness to hold cash at times when great opportunities are scarce allows us to take advantage of opportunity amidst turmoil that could handcuff a competitor who is always fully invested. One of our most insightful clients was part of this conversation. They offered their own explanation for why Baupost is unique, one that we had never heard articulated before. Their response was that Baupost is their only manager who doesn't care if we are their best performing manager next year." – Seth Klarman[147]

> "Upon reflection, I believe this perfectly sums up what we try to do at Baupost. We are always long-term oriented. We never attempt to gauge near-term market movements; we have no edge there. We strive to make long-term investments that have truly compelling risk-reward characteristics. We are never afraid to stand apart from the crowd. We stick to our game plan, and focus on areas where we are skilled and experienced. We are resolute in resisting the short-term performance pressures and herd behaviors that plague the investment business. We don't try to be anyone's best performing manager in a given year because such an attempt would almost certainly fail. It would distract us from our focus on

[146] 2011 Baupost annual letter
[147] 2011 Baupost annual letter

risk-aversion and the pursuit of excellent long-term results, while shifting our attention toward quick gains, short-term trades and market momentum. We doubt anyone with such a focus could excel, and are certain that attempting to do so would involve heightened risk and diminished long-term returns. In frothy markets, we would rather disappoint clients by being underinvested than try to keep up while incurring the risk of large losses.

"Why do others default to a shorter-term performance goal? We can only guess, but it seems likely that the fear of disappointing clients and getting fired figures prominently. Investment managers are typically measured quarterly or even monthly, and their results are assessed relative to how market indices, client-determined benchmarks, or other similarly-tasked managers are performing. Unintentionally and reflexively, the act of measuring performance can greatly impact it. While investment performance clearly must be measured, it must not be done in a way that skews time horizons and distorts investment judgment. From the day we started managing capital for clients in 1982, we have always focused singularly on one thing: what is the right thing to do with the capital we oversee. With the employees of Baupost being, collectively, the firm's largest client, we, too, are benefiting from this approach. There is a valuable investment lesson in knowing that by not trying to be a client's best manager in any given year, we have strengthened their confidence in us. Certainly, I left the conversation more determined than ever to maintain a long-term orientation, unafraid to stand apart from the crowd." – Seth Klarman[148]

Seth Klarman on the Painful Decision to Hold Cash

"It wouldn't be overstating the case to say that investors face a crisis of low returns: less than they want or expect, and less than many of them need. Investors must choose between two alternatives. One is to hold stocks and bonds at the historically high prices that prevail in today's markets, locking in what would traditionally have been sub-par returns. If prices never drop, causing returns to revert to more normal levels, this will have been the right decision. However, if prices decline, raising prospective returns on securities, investors will experience potentially substantial mark to market losses, thereby faring considerably worse than if they had been more patient.

"The alternative is to remain liquid, defy the steady drumbeat of performance pressures, and wait for the prices of at least some securities to drop. (One doesn't need the entire market to become inexpensive to put significant money to work, just a limited number of securities.) This path also involves risk in that there is no certainty whether or when this will occur; indeed, securities prices could rise further from today's lofty levels, making the decision to hold cash even more painful. Meanwhile, holding out for better returns involves a (potentially lengthy) period of very low (albeit certain) positive returns available from today's short-term U.S. Treasury instruments.

"While we have strong suspicions, it cannot be said with certainty which path will prove wisest. What is clear is that just about everyone will choose the former one. Those in the investment business compete on the basis of short-term, relative (not absolute) investment performance, and prefer to follow the herd (at the price of assured mediocrity) rather than stand apart (risking severe underperformance). From a business perspective, how much better to be actively deploying capital, even if the investments are

[148] 2011 Baupost annual letter

mediocre, than to be stalled in neutral; the employees keep busy, while the clients confuse decisions with diligence, activity with insight, and a fully invested posture with a worthwhile portfolio.

"Most investors would make the same choice. Human beings are only endowed with so much patience, after all. Few are able to look past near-term returns, and today anything appears to offer better returns than cash. Also, given their relative-performance-oriented, competitive nature, investors loathe the possibility of underperformance that comes from sitting on the sidelines; they find it better to be in the game (unless, of course, the market drops). Most significantly, they remain highly skewed toward the greed end (how much can you make?) and away from the fear end (how much can you lose?) of the spectrum of investor emotions. In short, investors remain the consummate yield gluttons, seeking high return without regard for the likelihood of actually achieving it or for the risk incurred in the process. Betting that the markets never revert to historical norms, that we are in a new era of higher securities prices and lower returns, involves the risk of significant capital impairment. Betting that prices will fall at some point involves opportunity cost of uncertain amount. By holding expensive securities with low prospective returns, people choose to risk actual loss. We prefer the risk of lost opportunity to that of lost capital, and agree wholeheartedly with the sentiment espoused by respected value investor Jean-Marie Eveillard, when he said, 'I would rather lose half our shareholders. . . than lose half of our shareholders' money….'

"Some argue that holding significant cash is gambling, that being less than fully invested is akin to market timing. But isn't a yes or no decision the crucial one in investing? Where does it say that investing means always buying something, even the best of a bad lot? An investor who can't or won't say no forgoes perhaps the most valuable tool available to investors. Charlie Munger, Warren Buffett's long-time partner, has counseled investors, "Look for more value in terms of discounted future cash flow than you're paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor." Investors expect corporate managements to make carefully reasoned decisions, such as whether or not to commit their capital to build new factories, hire additional staff or acquire a competitor. A corporate management that invested capital at low expected returns just because they had the funds at their disposal and nothing immediately better to do would inevitably arouse investor ire. Why, then, should any investor (hedge fund, mutual fund or individual) always deploy 100% of their capital into marketable securities, applying none of the analytical rigor or intellectual honesty they would demand of the underlying corporate managements? As we said last year, why should the immediate opportunity set be the only one considered, when tomorrow's may well be considerably more fertile than today's."

"Investors emotionally pile in on good news, and rush for the exits on bad, frequently causing prices to overshoot. Value investors know--although efficient market believers fail to comprehend--that the underlying value of a security is distinguishable from its daily market price, which is set by the whim of buyers and sellers, as are the prices of rare art and other collectibles. Investors must remember--although at the peak of emotion they sometimes forget--that securities are fractional interests in, or claims on, businesses that have their own assets and cash flows. They have (usually) ongoing business value and (at least hypothetically) a liquidation value. The herd can irrationally lose sight of the underlying assets or long-term prospects of a business when it focuses on price movements triggered by disappointing quarterly results or the latest overheated social networking IPO. Often, a company's share price fluctuates significantly even in the absence of fundamental developments, such as when a sizeable seller needs cash quickly." – Seth Klarman[149]

"Investing lies at the intersection of economics and psychology, the place where net present value meets greed and fear. It is important to know the numbers – but that is not sufficient. And it is important to know how people think – but that, too, is not enough. Both matter; it is, of course, good to buy investment bargains, but it is far better if you know why they are bargain-priced." – Seth Klarman[150]

"Interestingly, we have beaten the market quite handsomely over this time frame, although beating the market has never been our objective. Rather, we have consistently tried not to lose money and, in doing so, have not only protected on the downside but also outperformed on the upside." - Seth Klarman

"While some might mistakenly consider value investing a mechanical tool for identifying bargains, it is actually a comprehensive investment philosophy that emphasizes the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and resist crowd psychology." -Seth Klarman

"There is no timing element. You can never how big a bargain you will get offered tomorrow. Somebody comes along and wants to sell you a dollar for 50 cents, you can never know if they'll want to sell it for 40 cents tomorrow. So you need to buy it and leave a little room to buy more, and maybe someday spend your last dollar to buy the bargain, and maybe it goes down before it goes up. So you are always checking and rechecking your work. The critical thing, the thing that would cause you to lose your confidence when you're doing that, would be if you realized that a dollar wasn't a dollar. You thought it was worth a dollar, but Greece failed, or the euro fell or collapsed, and all of sudden your dollar is only 30 cents and now what you thought was a bargain is overvalued. So that's the dilemma. It's not so much figuring out what it's worth today, it's making sure it will still be worth that same thing, or approximately that same amount, tomorrow." – Seth Klarman[151]

"You need to balance arrogance and humility. When you buy anything, it's an arrogant act. You're saying, the markets are gyrating and somebody wants to sell this to me and I know more than everybody else so I'm going to stand here and buy it. I'm going to pay an eighth more than the next guy wants to pay and buy it. That's arrogant. And you need the humility to say, 'But I might be wrong.' And you have to do that on everything." – Seth Klarman[152]

Seth Klarman[153]:

- "The best protection against risk is knowing what you are doing."
- "Do not suffer interim losses, relish and appreciate them."
- "Be indifferent if you lose your short term clients, remember they are your own worst enemy."

[149] 2011 Baupost annual letter
[150] 2011 Baupost annual letter
[151] Interview with Charlie Rose, 11/1/11
[152] Inteview with Charlie Rose, 11/1/11
[153] www.santangelsreview.com

- "Be focused on process and not outcome."

- "One of the biggest challenges in investing is that the opportunity set available today is not the complete opportunity set that should be considered. Limiting your opportunity set to the one immediately at hand would be like limiting your spouse to the students you met in high school."

- "Investors frequently benefit from making decisions with less than perfect knowledge and are well rewarded for bearing the risk of uncertainty. The time other investors spend delving into the last unanswered detail may cost them the chance to buy into situations at prices so low they offer a margin of safety despite the incomplete information."

- "Right at the core, the mainstream has it backwards. Warren Buffett often quips that the first rule of investing is to not lose money, and the second rule is to not forget the first rule. Yet few investors approach the world with such a strict standard of risk avoidance."

- "Investors should always keep in mind that the most important metric is not the returns achieved but the returns weighed against the risks incurred. Ultimately, nothing should be more important to investors than the ability to sleep soundly at night."

- "The near absence of bargains works as a reverse indicator for us. When we find there is little worth buying, there is probably much worth selling."

- "When you buy bargains and they become better bargains, it is easy to start to question yourself, which can impair your judgment. Real or imagined concerns about client redemptions, employee defections can greatly influence behavior away from rational."

- "Pressure to produce over the short term - a gun to the head of everyone - encourages excessive risk taking which manifests itself in several ways - fully invested posture at all times, the use of leverage, and a market centric orientation that makes it difficult to stand apart from the crowd and take a long term perspective."

- "It sounds crazy but in times of turmoil in the market, I've felt serenity in knowing that if I checked and rechecked my work, one plus one still equals two regardless of where the stock trades after I bought it."

- "We are not so brazen as to believe that we can perfectly calibrate valuation; determining risk and return for any investment remains an art not an exact science."

“Courage is a function of process.” – Seth Klarman[154]

“Depressions aren’t good but the depression mentality is good.” – Seth Klarman[155]

[154] Interview with Jason Zweig, May 2010
[155] Ibid

"We buy expecting to hold a bond to maturity and a stock forever." – Seth Klarman[156]

"There's no such thing as a value company. Price is all that matters. At some price, an asset is a buy, at another it's a hold, and at another it's a sell." – Seth Klarman[157]

Seth Klarman from Margin of Safety

1. "The disciplined pursuit of bargains makes value investing very much a risk-averse approach. The greatest challenge for value investors is maintaining the required discipline. Being a value investor usually means standing apart from the crowd, challenging conventional wisdom, and opposing the prevailing investment winds. It can be a very lonely undertaking. A value investor may experience poor, even horrendous, performance compared with that of other investors or the market as a whole during prolonged periods of market overvaluation. Yet over the long run the value approach works so successfully that few, if any, advocates of the philosophy ever abandon it."

2. "To achieve long-term success over many financial market and economic cycles, observing a few rules is not enough. Too many things change too quickly in the investment world for that approach to succeed. It is necessary instead to understand the rationale behind the rules in order to appreciate why they work when they do and don't when they don't.

Investors should pay attention not only to whether but also to why current holdings are undervalued. It is critical to know why you have made an investment and to sell when the reason for owning it no longer applies. Look for investments with catalysts that may assist directly in the realization of underlying value. Give reference to companies having good managements with a personal financial stake in the business. Finally, diversify your holdings and hedge when it is financially attractive to do so."

(This perfectly sums up the theory of value traps. If something looks cheap but you can't figure out why it's cheap, odds are it's you, not the market, that's missing something.)

3. "The future is unpredictable. No one knows whether the economy will shrink or grow (or how fast), what the rate of inflation will be, and whether interest rates and share prices will rise or fall. Investors intent on avoiding loss consequently must position themselves to survey and even prosper under any circumstances. Bad luck can befall you; mistakes happen. The river may overflow its banks only once or twice in a century, but you still buy flood insurance on your house each year. Similarly we may only have one or two economic depressions or financial panics in a century and hyperinflation may never ruin the U.S. economy, but the prudent, farsighted investor manages his of her portfolio with the knowledge that financial catastrophes can and do occur. Investors must be willing to forego some near-term return, if necessary, as an insurance premium against unexpected and unpredictable adversity."

4. "To value investors the concept of indexing is at best silly and at worst quite hazardous. Warren Buffett has observed that "in any sort of a contest -- financial, mental or physical -- it's an enormous advantage to have opponents who have been taught that it's useless to even try." I believe that over time value investors will outperform the market and that choosing to match it is both lazy and shortsighted."

[156] Ibid
[157] Ibid

(I somewhat disagree with this. I think indexing is appropriate for most investors. What works for Warren Buffett, and what has worked for Berkshire Hathaway (NYSE: BRK-A) (NYSE: BRK-B), might not work for everyone else. He can do things most people can't. That's why he's a billionaire and you're not.)

5. "Warren Buffett likes to say that the first rule of investing is "Don't lose money," and the second rule is, "Never forget the first rule." I too believe that avoiding loss should be the primary goal of every investor. This does not mean that investors should never incur the risk of any loss at all. Rather "don't lose money" means that over several years an investment portfolio should not be exposed to appreciable loss of principal.

While no one wishes to incur losses, you couldn't prove it from an examination of the behavior of most investors and speculators. The speculative urge that lies within most of us is strong; the prospect of a free lunch can be compelling, especially when others have already seemingly partaken. It can be hard to concentrate on potential losses while others are greedily reaching for gains and your broker is on the phone offering shares in the latest "hot" initial public offering. Yet the avoidance of loss is the surest way to ensure a profitable outcome."

6. "It would be a serious mistake to think that all the facts that describe a particular investment are or could be known. Not only may questions remain unanswered; all the right questions may not even have been asked. Even if the present could somehow be perfectly understood, most investments are dependent on outcomes that cannot be accurately foreseen. Even if everything could be known about an investment, the complicating reality is that business values are not carved in stone. Investing would be much simpler if business values did remain constant while stock prices revolved predictably around them like the planets around the sun. If you cannot be certain of value, after all, then how can you be certain that are you buying at a discount? The truth is you cannot."

7. "Frequent comparative ranking can only reinforce a short-term investment perspective. It is understandably difficult to maintain a long-term view when, faced with the penalties for poor short-term performance, the long-term view may well be from the unemployment line ... Relative-performance-oriented investors really act as speculators. Rather than making sensible judgments about the attractiveness of specific stocks and bonds, they try to guess what others are going to do and then do it first."

8. "Value investing is simple to understand but difficult to implement. Value investors are not supersophisticated analytical wizards who create and apply intricate computer models to find attractive opportunities or assess underlying value. The hard part is discipline, patience, and judgment. Investors need discipline to avoid the many unattractive pitches that are thrown, patience to wait for the right pitch, and judgment to know when it is time to swing."

9. "Wall Street can be a dangerous place for investors. You have no choice but to do business there, but you must always be on your guard. The standard behavior of Wall Streeters is to pursue maximization of self-interest; the orientation is usually short term. This must be acknowledged, accepted, and dealt with. If you transact business with Wall Street with these caveats in mind, you can prosper. If you depend on Wall Street to help you, investment success may remain elusive."

10. "Avoiding where others go wrong is an important step in achieving investment success. In fact, it almost assures it."

Seth Klarman – Baupost 2009 annual meeting:

- Over the long run, the crowd is always wrong
- Hold cash when opportunities are not presenting themselves
- Great investments don't just knock on the door and say "buy me"
- What is their edge on a name?
  - Must have superior information
  - Ability to be long term
  - Well founded contrarian view
  - Complexity – limits competition
- Flexible approach – will look at ALL asset classes
- Like to have a catalyst – reduces dependence on the market: Distressed debt inherently has a catalyst – maturity.
- Excessive diversification dilutes returns
- Limit risk with:
  - Deep analysis
  - Bargain purchase
  - Sensitivity analysis
  - Don't use any recourse leverage on the portfolio
  - Need a catalyst
  - Great majority of personal assets in the fund
- It is crucial in a sound investment process to search a mile wide than a mile deep with they find something – also.. never stop digging for information.
- In employees, he values investment curiosity and intellectual honesty.
- Need to rigorously separate fact from fiction
- Team based collaborative culture
- Avoid organizing investment team into silos.
- Team of generalists
- Always look for forced urgent selling
- Don't short many stocks. Instead they hedge for tail risk with CDS and options.
- They are happy to incur illiquidity
- Illiquidity risk is a risk they LOVE
- Comfortable holding cash for tomorrow's opportunity
- They find it is hard to un-train people so they try to hire young.
- Learning organization
- Can't let client pressures or market pressures distract them.
- An understanding that their clients expect certain times of underperformance

<u>Klarman's Twenty Investment Lessons of 2008</u>

1. **Things that have never happened before are bound to occur with some regularity**. You must **always be prepared** for the unexpected, including sudden, sharp downward swings in markets and the economy. Whatever adverse scenario you can contemplate, reality can be far worse.
2. When excesses such as lax lending standards become widespread and persist for some time, people are lulled into a false sense of security, creating an even more dangerous situation. In some cases, excesses migrate beyond regional or national borders, raising the ante for investors and governments. These excesses will eventually end, triggering a crisis at least in proportion to the degree of the excesses. Correlations between asset classes may be surprisingly high when leverage rapidly unwinds.
3. Nowhere does it say that investors should strive to make every last dollar of potential profit; **consideration of risk must never take a backseat to return**. Conservative positioning entering a crisis is crucial: it enables one to maintain long-term oriented, clear thinking, and to focus on new opportunities while others are distracted or even forced to sell. Portfolio hedges must be in place before a crisis hits. One cannot reliably or affordably increase or replace hedges that are rolling off during a financial crisis.
4. Risk is not inherent in an investment; it is always relative to the price paid. **Uncertainty is not the same as risk**. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments.
5. Do not trust financial market risk models. Reality is always too complex to be accurately modeled. Attention to risk must be a 24/7/365 obsession, with people – not computers – assessing and reassessing the risk environment in real time. Despite the predilection of some analysts to model the financial markets using sophisticated mathematics, the markets are governed by behavioral science, not physical science.
6. **Do not accept principal risk while investing short-term cash**: the greedy effort to earn a few extra basis points of yield inevitably leads to the incurrence of greater risk, which increases the likelihood of losses and severe illiquidity at precisely the moment when cash is needed to cover expenses, to meet commitments, or to make compelling long-term investments.
7. The latest trade of a security creates a dangerous illusion that its market price approximates its true value. This mirage is especially dangerous during periods of market exuberance. The concept of "private market value" as an anchor to the proper valuation of a business can also be greatly skewed during ebullient times and should always be considered with a healthy degree of skepticism.
8. A broad and flexible investment approach is essential during a crisis. Opportunities can be vast, ephemeral, and dispersed through various sectors and markets. Rigid silos can be an enormous disadvantage at such times.
9. **You must buy on the way down**. There is far more volume on the way down than on the way back up, and far less competition among buyers. It is almost always better to be too early than too late, but you must be prepared for price markdowns on what you buy.
10. Financial innovation can be highly dangerous, though almost no one will tell you this. New financial products are typically created for sunny days and are almost never stress-tested for stormy weather. Securitization is an area that almost perfectly fits this description; markets for securitized assets such as subprime mortgages completely collapsed in 2008 and have not fully recovered. Ironically, the government is eager to restore the securitization markets back to their pre-collapse stature.
11. Ratings agencies are highly conflicted, unimaginative dupes. They are blissfully unaware of adverse selection and moral hazard. Investors should never trust them.

12. **Be sure that you are well compensated for illiquidity** – especially illiquidity without control – because it can create particularly high opportunity costs.
13. At equal returns, public investments are generally superior to private investments not only because they are more liquid but also because amidst distress, public markets are more likely than private ones to offer attractive opportunities to average down.
14. **Beware leverage in all its forms.** Borrowers – individual, corporate, or government – should always match fund their liabilities against the duration of their assets. Borrowers must always remember that capital markets can be extremely fickle, and that it is never safe to assume a maturing loan can be rolled over. Even if you are unleveraged, the leverage employed by others can drive dramatic price and valuation swings; sudden unavailability of leverage in the economy may trigger an economic downturn.
15. Many LBOs are man-made disasters. When the price paid is excessive, the equity portion of an LBO is really an out-of-the-money call option. Many fiduciaries placed large amounts of the capital under their stewardship into such options in 2006 and 2007.
16. **Financial stocks are particularly risky**. Banking, in particular, is a highly leveraged, extremely competitive, and challenging business. A major European bank recently announced the goal of achieving a 20% return on equity (ROE) within several years. Unfortunately, ROE is highly dependent on absolute yields, yield spreads, maintaining adequate loan loss reserves, and the amount of leverage used. What is the bank's management to do if it cannot readily get to 20%? Leverage up? Hold riskier assets? Ignore the risk of loss? In some ways, for a major financial institution even to have a ROE goal is to court disaster.
17. Having clients with a long-term orientation is crucial. Nothing else is as important to the success of an investment firm.
18. **When a government official says a problem has been "contained," pay no attention**.
19. The government – the ultimate short-term-oriented player – cannot withstand much pain in the economy or the financial markets. Bailouts and rescues are likely to occur, though not with sufficient predictability for investors to comfortably take advantage. The government will take enormous risks in such interventions, especially if the expenses can be conveniently deferred to the future. Some of the price-tag is in the form of back- stops and guarantees, whose cost is almost impossible to determine.
20. Almost no one will accept responsibility for his or her role in precipitating a crisis: not leveraged speculators, not willfully blind leaders of financial institutions, and certainly not regulators, government officials, ratings agencies or politicians.

Below, we itemize some of the quite different lessons investors seem to have learned as of late 2009 – false lessons, we believe. To not only learn but also effectively implement investment lessons requires a disciplined, often contrary, and long-term-oriented investment approach. It requires a resolute focus on risk aversion rather than maximizing immediate returns, as well as an understanding of history, a sense of financial market cycles, and, at times, extraordinary patience.

False Lessons

1. There are no long-term lessons – ever.
2. Bad things happen, but really bad things do not. Do buy the dips, especially the lowest quality securities when they come under pressure, because declines will quickly be reversed.

3. There is no amount of bad news that the markets cannot see past.
4. If you've just stared into the abyss, quickly forget it: the lessons of history can only hold you back.
5. Excess capacity in people, machines, or property will be quickly absorbed.
6. Markets need not be in sync with one another. Simultaneously, the bond market can be priced for sustained tough times, the equity market for a strong recovery, and gold for high inflation. Such an apparent disconnect is indefinitely sustainable.
7. In a crisis, stocks of financial companies are great investments, because the tide is bound to turn. Massive losses on bad loans and soured investments are irrelevant to value; improving trends and future prospects are what matter, regardless of whether profits will have to be used to cover loan losses and equity shortfalls for years to come.
8. The government can reasonably rely on debt ratings when it forms programs to lend money to buyers of otherwise unattractive debt instruments.
9. The government can indefinitely control both short-term and long-term interest rates.
10. The government can always rescue the markets or interfere with contract law whenever it deems convenient with little or no apparent cost. (Investors believe this now and, worse still, the government believes it as well. We are probably doomed to a lasting legacy of government tampering with financial markets and the economy, which is likely to create the mother of all moral hazards. The government is blissfully unaware of the wisdom of Friedrich Hayek: "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.")

Seth Klarman[158]

One must understand the importance of an endless drive to get information and seek value.

Literally draw a detailed map—like an organization chart—of interlocking ownership and affiliates, many of which were also publicly traded. So, identifying one stock led him to a dozen other potential investments. To tirelessly pull threads is the lesson that I learned from Mike Price.

Value investing works over a long period of time, outperforming the market by 1 or 2 percent a year, on average—a slender margin in a year, but not slender over the course of time, given the power of compounding.

The inability to hold cash and the pressure to be fully invested at all times meant that when the plug was pulled out of the tub, all boats dropped as the water rushed down the drain.

[158] http://searchofvalue.blogspot.com/2010/09/wisdom-of-seth-klarman.html

At the worst possible moment, when your fund is down because cheap things have gotten cheaper, you need to have capital, to have clients who will actually love the phone call and—most of the time, if not all the time—add, rather than subtract, capital.

When managers are afraid of redemptions, they get liquid. We all saw how many managers went from leveraged long in 2007 to huge net cash in 2008, when the right thing to do in terms of value would have been to do the opposite.

We spend a lot of our time focusing on where the misguided selling is, where the redemptions are happening, where the over leverage is being liquidated—and so we are able to see a flow of instruments and securities that are more likely to be mispriced, and that lets us be nimble.

Benjamin Graham wrote, "Those with enterprise haven't the money, and those with money haven't the enterprise, to buy stocks when they are cheap."

Graham's wonderful sentence as, an investor needs only two things: cash and courage. Having only one of them is not enough.

The prevailing view has been that the market will earn a high rate of return if the holding period is long enough, but entry point is what really matters.

It's awful to have a depression, but it's a great thing to have a depression mentality because it means that we are not speculating, we are not living beyond our means, we don't quit our job to take a big risk because we know we might not get another job. There is something stable about a country, a society built on those values.

A tipping point is invisible, as we just saw in Greece. In most situations, everything appears fine until it's not fine, until, for example, no one shows up at a Treasury auction.

There is an old saying, "How did you go bankrupt?" And the answer is, "Gradually, and then suddenly." The impending fiscal crisis in the United States will make its appearance in the same way.

A commodity doesn't have the same characteristics as a security, characteristics that allow for analysis. Other than a recent sale or appreciation due to inflation, analyzing the current or future worth of a commodity is nearly impossible.

> If an asset has cash flow or the likelihood of cash flow in the near term and is not purely dependent on what a future buyer might pay, then it's an investment. If an asset's value is totally dependent on the amount a future buyer might pay, then its purchase is speculation.

> Investors need to pick their poison: Either make more money when times are good and have a really ugly year every so often, or protect on the downside and don't be at the party so long when things are good.

> My experience is that short sellers do far better analysis than long buyers because they have to. The market is biased upward over time—as the saying goes, stocks are for the long run.

> Typically, we make money when we buy things. We count the profits later, but we know we have captured them when we buy the bargain.

> Never stop reading. History doesn't repeat, but it does rhyme.

> Jim Grant has a wonderful expression: In science, progress is cumulative, and in finance, progress is cyclical. Fads will come and go, and people will think we are on to a new thing in finance or investing; but the reality is that it is probably not really new, and if we have seen the movie or read the book, maybe we know how it turns out.

"The speculative urge that lies within us is strong; the prospect of a free lunch can be compelling, especially when others have already seemingly partaken. It can be hard to concentrate on potential losses while others are greedily reaching for gains and your broker is on the phone offering shares in the latest "hot" initial public offering. Yet the avoidance of loss is the surest way to ensure a profitable outcome. A loss-avoidance strategy is at odds with recent conventional market wisdom. Today many people believe that the risk comes, not from owning stocks, but from not owning them." – Seth Klarman, Margin of Safety

"All investors must come to terms with the relentless continuity of the investment process." – Seth Klarman, Margin of Safety

"Sometimes being early is indistinguishable from being wrong." – Seth Klarman[159]

"Value investing is at its core the marriage of a contrarian streak and a calculator." – Seth Klarman[160]

"The strategy of buying what's in favor is a fool's errand, ensuring long-term underperformance. Only by standing against the prevailing winds – selectively, but resolutely – can an investor prosper over time. But for a while, a value investor typically underperforms." – Seth Klarman[161]

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[159] *Outstanding Investor Digest* March 17, 2009
[160] Ibid
[161] Ibid

"The way to maximize outcome is to focus on the process." – Seth Klarman[162]

"It is important to remember that value investing is not a perfect science. It is an, with an ongoing need for judgment, refinement, patience, and reflection. It requires endless curiosity, the relentless pursuit of additional information, the raising of questions, and the search for answers. It necessitates dealing with imperfect information – knowing you will never know everything and that that must not prevent you from acting. It requires a precarious balance between conviction, steadfastness in the face of adversity, and doubt – keeping in mind the possibility that you could be wrong." – Seth Klarman[163]

"It's incredibly important to note that when you don't allow failure, you get more failure." – Seth Klarman[164]

Charlie Munger

> "Another thing I think should be avoided is extremely intense ideology because it cabbages up one's mind. You see it a lot with T.V. preachers (many have minds made of cabbage) but it can also happen with political ideology. When 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 of this ideology. It's a big danger.
>
> "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 that I'm not entitled to have an opinion on this subject unless I can state the arguments against my position better than the people who support it. I think only when I've reached that state am I qualified to speak. This business of not drifting into extreme ideology is a very, very important thing in life
>
> "Of course the self-serving bias is something 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 this subconscious tendency to serve one's self is a terribly inaccurate way to think.
>
> "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 going to 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.
>
> "Darwin paid particular attention to disconfirming evidence. Objectivity maintenance routines are totally required in life if you're going to be a great thinker." -- Charlie Munger, USC Law Commencement 2007

[162] Ibid
[163] Ibid
[164] Ibid

"A friendly broker called and offered me 300 shares of ridiculously underpriced, very thinly traded Belridge Oil at $115 per share, which I purchased using cash I had on hand. The next day, he offered me 1,500 more shares at the same price, which I declined to buy, partly because I could only have made the purchase had I sold something or borrowed the required $173,000. This was a very irrational decision. I was a well-to-do man with no debt; there was no risk of loss; and similar no risk opportunities were not likely to come along. Within two years, Belridge Oil sold out to Shell at a price of about $3,700 per share, which made me about $5.4 million poorer than I would have been had I then been psychologically acute. As this tale demonstrates, psychological ignorance can be very expensive." - Charlie Munger

Charlie Munger, when someone asked him about how he goes about reading annual reports of various businesses.

> You have to have some idea of why you're looking for the information. Don't read annual reports the way Francis Bacon said you do science—which, by the way, is not the way that you do science—where you just collect endless (amounts of) data and then only later do you try to make sense of it. You have to start with some ideas about reality. And they you have to look to see whether what you're seeing fits in with that basic thought structure. Frequently, you'll look at a business having fabulous results. And the question is, "How long can this continue?" Well, there's only one way I know of to do that. And that's to think about why the results are occurring now – and then to figure out the forces that could cause those results to stop occurring.

> "I believe in…mastering the best that other people have figured out, [rather than] sitting down and trying to dream it up yourself…You won't find it that hard if you go at it Darwinlike, step by step with curious persistence. You'll be amazed at how good you can get…It's a huge mistake not to absorb elementary worldly wisdom…Your life will be enriched – not only financially but in host of other ways – if you do." – Charlie Munger[165]

Charlie Munger's 30 Best Zingers of All Time[166]

On derivatives: "The world of derivatives is full of holes that very few people are really aware of. It's like hydrogen and oxygen sitting on the corner waiting for a little flame."

On gold: "I don't have the slightest interest in gold. I like understanding what works and what doesn't in human systems. To me that's not optional; that's a moral obligation. If you're capable of understanding the world, you have a moral obligation to become rational. And I don't see how you become rational hoarding gold. Even if it works, you're a jerk."

On health-care spending: "In an aging affluent civilization where GDP rises at 2 or 3 percent per year per capita, I don't think it matters at all if we spent 20% of GDP on health care. I don't think it matters that much if 20% of the health care is no damn good. You know, like Botox for women for whom intervention is hopeless. I don't think it's our main problem at all."

[165] Latticework by Robert Hagstrom, p. 176
[166] http://www.fool.com/server/printarticle.aspx?file=/investing/general/2012/06/14/charlie-mungers-30-best-zingers-of-all-time.aspx

On free-market financial systems: "People really thought that giving a predatory class of people the ability to do whatever they wanted was free-market enterprise. It wasn't. It was legalized armed robbery. And it was incredibly stupid."

On patience: "Almost all good businesses engage in 'pain today, gain tomorrow' activities."

Life advice: "Don't do cocaine. Don't race trains. And avoid all AIDS situations."

On how inflation will affect investing: "I remember the $0.05 hamburger and a $0.40-per-hour minimum wage, so I've seen a tremendous amount of inflation in my lifetime. Did it ruin the investment climate? I think not."

On Wall Street pay: "A man does not deserve huge amounts of pay for creating tiny spreads on huge amounts of money. Any idiot can do it. And, as a matter of fact, many idiots do do it."

On outside advice: "I would rather throw a viper down my shirt than hire a compensation consultant."

On reality: "I think that one should recognize reality even when one doesn't like it; indeed, especially when one doesn't like it."

On financial collapse: "The world learned what happened after World War I, when we demanded that Germany repay. It was chaos and hyperinflation. The result, of course, was the rise of Hitler. And Hitler could have been more successful than he was; his kids or family members could still be in power today, had things gone just a little differently. You don't ever want to do anything to push an economy to collapse. Terrible things result.

Now think about this. During World War II, Japan tortured our soldiers to death. They marched them around. The Germans put people in ovens. Just awful. And what did we do after the war? We gave them money to rebuild. We said, 'Let bygones be bygones.' The result was a magnificent global economic system and a win for human rights."

On envy: "There is nothing more counterproductive than envy. Someone in the world will always be better than you. Of all the sins, envy is easily the worst, because you can't even have any fun with it. It's a total net loss."

On trusting others: "If you don't allow for self-serving bias in the conduct of others, you are, again, a fool."

On legacy: "To the extent that all I've done is pick stocks that have gone up and sat on my [behind] as my family got richer, I haven't left much contribution to society. I guess it's a lot like Wall Street. The difference is, I feel ashamed of it. I try to make up for it with philanthropy and meetings like this one today. This meeting is not out of kindness. This is atonement."

On an easy life: "Assume life will be really tough, and then ask if you can handle it. If the answer is yes, you've won."

On investing in banks: "A friend of mine won't touch banks. His attitude is that sooner or later the bastards will go crazy. I think that's irrational. You have to be able to recognize the ones that stick out. Wells Fargo (NYSE: WFC) and US Bancorp (NYSE: USB) avoid stupidity better than most. And Wells admits that it had its head up its [behind] when it made some of its mortgage loans. They know it wasn't their finest moment. I'm comfortable with people like that."

On pundits: "People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts."

On regulation: "When Hitler was in his bunker before he shot himself, he said, 'This isn't my fault. The German people just don't appreciate me enough.' That's the attitude of a lot of bankers. They think their silliness is necessary. Banks will not rein themselves in voluntarily. You need adult supervision."

On simplicity: "In my life there are not that many questions I can't properly deal with using my $40 adding machine and dog-eared compound interest table."

On accounting: "To say accounting for derivatives in America is a sewer is an insult to sewage."

On competition: "Someone will always be getting richer faster than you. This is not a tragedy."

On bad mergers: "If you mix raisins and [excrement], they're still [excrement]."

On whom to blame for the financial crisis: "The academic elites failed us with their utterly asinine ideas of risk control. It was grounded on the idea that all risk took Gaussian distributions, which is just totally wrong. Very-high-IQ people can be completely useless. And many of them are.

Benjamin Graham used to say, 'It's not the bad investment ideas that fail; it's the good ideas that get pushed into excess.' And that's a lot of what happened here.

Some economic distortions come from the masses believing that other people are right. Others come from the need to make a living through behavior that may be less than socially desirable. I've always been skeptical of conventional wisdom. You have to be able to keep your head on when everyone else is losing theirs."

On intelligence: "In the corporate world, if you have analysts, due diligence, and no horse sense, you've just described hell."

On returns: "The net amount of money that's been made by the shareholders of airlines since Kitty Hawk is now a negative figure."

On math: "Mankind invented a system to cope with the fact that we are so intrinsically lousy at manipulating numbers. It's call the graph."

On finance as a career: "A big percentage of Cal-Tech grads are going into finance. I regard this as a regretfully bad outcome. They'll make a lot of money by clobbering customers who aren't as smart as them."

On being open: "If you get a lot of heavy ideology young -- and then you start expressing it -- you are really locking your brain into a very unfortunate pattern."

On humility: "I like people admitting they were complete stupid horses' [behinds]. I know I'll perform better if I rub my nose in my mistakes. This is a wonderful trick to learn."

Munger's rule of investing: "When any guy offers you a chance to earn lots of money without risk, don't listen to the rest of his sentence. Follow this, and you'll save yourself a lot of misery."

Munger on Financial Innovation:

It all started with an asinine bubble. The cause was a combination of megalomania, stupidity, insanity, and I would say evil on the part of bankers and mortgage brokers.

And it was widespread. Alan Greenspan was a smart guy, but he totally overdosed on Ayn Rand when he was young. You can’t give bankers the freedom to create gambling games.

Clever derivatives broke dozens of companies. It killed them. Bankrupt. We don’t need these kinds of innovation in finance. It’s OK to be boring in finance. What we want is innovation in widgets.

I bet Richard Fuld doesn’t have an ounce of contrition. It’s just megalomania. When it’s like that, you need rules to prevent catastrophe. When banks are borrowing the government’s credit rating, you need rules to prevent stupid things.

I don’t want to sell credit to people who are going to hurt themselves with it. You should only sell products that are good for the people who use them. Some disagree with this, but I know I’m right. That is to say, you’re talking to a Republican who admires Elizabeth Warren.

Fancy computers are engaging in legalized front-running. The profits are clearly coming from the rest of us — our college endowments and our pensions. Why is this legal? What the hell is the government thinking? It’s like letting rats into a restaurant.

None of us should fall for the idea that this was constructive capitalism. In the 1920s they called it bucket shops – just the name tells you it’s bad – and they eventually made it illegal, and rightly so. They should do the same this time.

- The more hard lessons you can learn vicariously, instead of from your own terrible experiences, the better off you will be…So the game is to keep learning.
- What is elementary, worldly wisdom? Well, the first rule is that you can't really know anything if you just remember isolated facts and try and bang 'em back. If the facts don't hang together on a latticework of theory, you don't have them in a usable form. You've got to have models in your head. And you've got to array your experience – both vicarious and direct – on this latticework of models.

- Most people are trained in one model and try to solve all problems in one way. You know the old saying: To the man with a hammer, the world looks like a nail. This is a dumb way of handling problems.
- Our experience tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale, in doing some simple and logical thing, will often dramatically improve the financial results of that lifetime. If you took our top 15 decisions out, we'd have a pretty average record.
- As Jesse Livermore said, "The big money is not in the buying and selling…but in the waiting."
- There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts.
- All I want to know is where I'm going to die, so I'll never go there.
- No wise pilot, no matter how great his talent and experience, fails to use his checklist.
- In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time – none, zero.
- We have never given a damn whether any quarter's earnings were up or down. We prefer profits to losses, obviously, but we're not willing to manipulate in any way just to make some quarter look a little better.
- To say accounting for derivatives in America is a sewer is an insult to sewage.
- We think there should be a huge area between what you're willing to do and what you can do without significant risk of suffering criminal penalty or causing losses. We believe you shouldn't go anywhere near that line.
- Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts. Slug it out one inch at a time, day by day. At the end of the day, if you live long enough, most people get what they deserve.

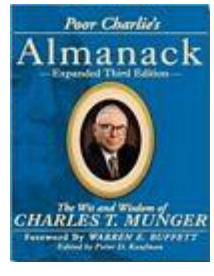
Mungerisms: Charlie Munger's 100 Best Zingers of All Time

1. "I don't spend much time regretting the past, once I've taken my lesson from it. I don't dwell on it."

2. "Opportunity cost is a huge filter in life. If you've got two suitors who are really eager to have you and one is way the hell better than the other, you do not have to spend much time with the other. And that's the way we filter out buying opportunities."

3. "In my whole life, nobody has ever accused me of being humble. Although humility is a trait I much admire, I don't think I quite got my full share."

4. " The investment game always involves considering both quality and price, and the trick is to get more quality than you pay for in price. It's just that simple."



5. “Determine value apart from price; progress apart from activity; wealth apart from size.”

6. “Someone will always be getting richer faster than you. This is not a tragedy.”

7. “We’re the tortoise that has outrun the hare because it chose the easy predictions.”

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

9. “Our ideas are so simple that people keep asking us for mysteries when all we have are the most elementary ideas.”

10. “For society, the Internet is wonderful, but for capitalists, it will be a net negative. It will increase efficiency, but lots of things increase efficiency without increasing profits. It is way more likely to make American businesses less profitable than more profitable. This is perfectly obvious, but very little understood.”

11. “People always underestimate the ability of earth to increase its carrying capacity.”

12. “I’m not entitled to have an opinion unless I can state the arguments against my position better than the people who are in opposition. I think that I am qualified to speak only when I’ve reached that state.”

13. “Over the very long term, history shows that the chances of any business surviving in a manner agreeable to a company’s owners are slim at best.”

14. “We try more to profit from always remembering the obvious than from grasping the esoteric.”

15. “We have a history when things are really horrible of wading in when no one else will.”

16. “In the corporate world, if you have analysts, due diligence, and no horse sense, you’ve just described hell.”

17. “Forgetting your mistakes is a terrible error if you are trying to improve your cognition.”

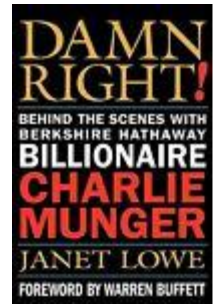
18. “Whenever you think something or some person is ruining your life, it’s you. A victimization mentality is so debilitating.”

19. “Virtually every investment expert’s public assessment is that he is above average, no matter what is the evidence to the contrary.”

20. “People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There’s always been a market for people who pretend to know the future. Listening to today’s forecasters is just as crazy as when the king hired the guy to look at the sheep guts.”

21. “Intelligent people make decisions based on opportunity costs.”

22. ” Today, it seems to be regarded as the duty of CEOs to make the stock go up. This leads to all sorts of foolish behavior. We want to tell it like it is.”



23. “Fixable but unfixed bad performance is bad character and tends to create more of itself, causing more damage to the excuse giver with each tolerated instance.”

24. “We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side. If you can’t state arguments against what you believe better than your detractors, you don’t know enough.”

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

26. “In my whole life, I have known no wise people (over a broad subject matter area) who didn’t read all the time – none, zero.”

27. “The best armor of old age is a well-spent life preceding it.”

28. “There are always people who will be better at something than you are. You have to learn to be a follower before you become a leader.”

29. “The number one idea is to view a stock as an ownership of the business and to judge the staying quality of the business in terms of its competitive advantage. Look for more value in terms of discounted future cash-flow than you are paying for. Move only when you have an advantage.”

30. “If you buy something because it’s undervalued, then you have to think about selling it when it approaches your calculation of its intrinsic value. That’s hard. But if you buy a few great companies, then you can sit on your ass. That’s a good thing.”

31. “We get these questions a lot from the enterprising young. It’s a very intelligent question: You look at some old guy who’s rich and you ask, ‘How can I become like you, except faster?”

32. “The more hard lessons you can learn vicariously rather than through your own hard experience, the better.”

33. “Over the long term, it’s hard for a stock to earn a much better return that the business which underlies it earns. If the business earns six percent on capital over forty years and you hold it for that forty years, you’re not going to make much different than a six percent return – even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you’ll end up with one hell of a result.”

34. “A lot of people with high IQs are terrible investors because they’ve got terrible temperaments. And that is why we say that having a certain kind of temperament is more important than brains. You need to keep raw

irrational emotion under control. You need patience and discipline and an ability to take losses and adversity without going crazy. You need an ability to not be driven crazy by extreme success."

35. "Almost all good businesses engage in 'pain today, gain tomorrow' activities."

36. "Three rules for a career: 1) Don't sell anything you wouldn't buy yourself; 2) Don't work for anyone you don't respect and admire; and 3) Work only with people you enjoy."

37. "There is nothing more counterproductive than envy. Someone in the world will always be better than you. Of all the sins, envy is easily the worst, because you can't even have any fun with it. It's a total net loss."

38. "A lot of success in life and business comes from knowing what you want to avoid: early death, a bad marriage, etc."

39. "Acquire worldly wisdom and adjust your behavior accordingly. If your new behavior gives you a little temporary unpopularity with your peer group then to hell with them."

40. "The ethos of not fooling yourself is one of the best you could possibly have. It's powerful because it's so rare."

41. "If you always tell people why, they'll understand it better, they'll consider it more important, and they'll be more likely to comply."

42. "Acknowledging what you don't know is the dawning of wisdom."

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

44. "Understanding how to be a good investor makes you a better business manager and vice versa."

45. "Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts. Slug it out one inch at a time, day by day. At the end of the day – if you live long enough – most people get what they deserve."

46. "I agree with Peter Drucker that the culture and legal systems of the United States are especially favorable to shareholder interests, compared to other interests and compared to most other countries. Indeed, there are many other countries where any good going to public shareholders has a very low priority and almost every other constituency stands higher in line."

47. "Everywhere there is a large commission, there is a high probability of a rip-off."

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

49. “You must know the big ideas in the big disciplines, and use them routinely — all of them, not just a few. Most people are trained in one model — economics, for example — and try to solve all problems in one way. You know the old saying: to the man with a hammer, the world looks like a nail. This is a dumb way of handling problems.”

50. “There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn’t awash in cash — and I don’t want to go back.”

51. “No CEO examining books today understands what the hell is going on.”

52. “Never, ever, think about something else when you should be thinking about the power of incentives.”

53. “There are some things you should pay up for, like quality businesses and people.”

54. “Avoid working directly under somebody you don’t admire and don’t want to be like.”

55. “The best thing a human being can do is to help another human being know more.”

56. “People calculate too much and think too little.”

57. “You’re looking for a mispriced gamble. That’s what investing is. And you have to know enough to know whether the gamble is mispriced. That’s value investing.”

58. “It’s not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it – who look and sift the world for a mispriced bet – that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time they don’t. It’s just that simple.”

59. “Everybody engaged in complex work needs colleagues. Just the discipline of having to put your thoughts in order with somebody else is a very useful thing.””

60. “We don’t care about quarterly earnings (though obviously we care about how the business is doing over time) and are unwilling to manipulate in any way to make some quarter look better.”

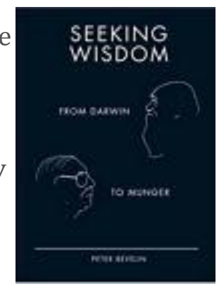
61. “One of the great defenses if you’re worried about inflation is not to have a lot of silly needs in your life — if you don’t need a lot of material goods.”

62. “There are a lot of things we pass on. We have three baskets: in, out, and too tough…We have to have a special insight, or we’ll put it in the ‘too tough’ basket. All of you have to look for a special area of competency and focus on that.”

63. “You can progress only when you learn the method of learning.”

64. “We’ve really made the money out of high quality businesses. In some cases, we bought the whole business. And in some cases, we just bought a big block of stock. But when you analyze what happened, the big money’s been made in the high quality businesses. And most of the other people who’ve made a lot of money have done so in high quality businesses.”

65. “Experience tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale, in doing some simple and logical thing, will often dramatically improve the financial results of that lifetime. A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind that loves diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past.”



66. ” I know someone who lives next door to what you would actually call a fairly modest house that just sold for $17 million. There are some very extreme housing price bubbles going on.”

67. “You must have the confidence to override people with more credentials than you whose cognition is impaired by incentive-caused bias or some similar psychological force that is obviously present. But there are also cases where you have to recognize that you have no wisdom to add — and that your best course is to trust some expert.”

68. “If you get a lot of heavy ideology young — and then you start expressing it — you are really locking your brain into a very unfortunate pattern.”

69. “We just throw some decisions into the ‘too hard’ file and go onto the others.”

70. “Intense interest in any subject is indispensable if you’re really going to excel in it.”

71. “Understanding both the power of compound return and the difficulty of getting it is the heart and soul of understanding a lot of things.””

72. “Recognize reality even when you don’t like it – especially when you don’t like it.”

73. “I believe in the discipline of mastering the best that other people have ever figured out. I don’t believe in just sitting down and trying to dream it all up yourself. Nobody’s that smart…”

74. “All intelligent investing is value investing – acquiring more than you are paying for. You must value the business in order to value the stock.”

75. “In my life there are not that many questions I can’t properly deal with using my $40 adding machine and dog-eared compound interest table.”

76. “Don’t confuse correlation and causation. Almost all great records eventually dwindle.”

77. “Most people are too fretful, they worry too much. Success means being very patient, but aggressive when it’s time.”

78. “The safest way to try to get what you want is to try to deserve what you want. It’s such a simple idea. It’s the golden rule. You want to deliver to the world what you would buy if you were on the other end.”

79. “Assume life will be really tough, and then ask if you can handle it. If the answer is yes, you’ve won.”

80. “I find it quite useful to think of a free-market economy – or partly free market economy – as sort of the equivalent of an ecosystem. Just as animals flourish in niches, people who specialize in some narrow niche can do very well.”

81. “I would rather throw a viper down my shirt than hire a compensation consultant.”

82. “Thinking that what’s good for you is good for the wider civilization, and rationalizing foolish or evil conduct, based on your subconscious tendency to serve yourself, is a terrible way to think.”

83. “There has never been a master plan. Anyone who wanted to do it, we fired because it takes on a life of its own and doesn’t cover new reality. We want people taking into account new information.”

84. “You need a different checklist and mental models for different companies. I can never make it easy by saying, ‘Here are three things.’ You have to derive it yourself to ingrain it in your head for the rest of your life.”

85. “Just as a man working with his tools should know its limitations, a man working with his cognitive apparatus must know its limitations.”

86. “If you don’t allow for self-serving bias in the conduct of others, you are, again, a fool.”

87. “It’s a good habit to trumpet your failures and be quiet about your successes.”

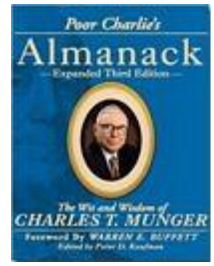
88. “Those who will not face improvements because they are changes, will face changes that are not improvements.”

89. “Smart people aren’t exempt from professional disasters from overconfidence. Often, they just run aground in the more difficult voyages they choose, relying on their self-appraisals that they have superior talents and methods.”

90. “I’m right, and you’re smart, and sooner or later you’ll see I’m right.”

91. “Mimicking the herd invites regression to the mean.”

92. “I think track records are very important. If you start early trying to have a perfect one in some simple thing like honesty, you’re well on your way to success in this world.”



93. ” A lot of opportunities in life tend to last a short while, due to some temporary inefficiency… For each of us, really good investment opportunities aren’t going to come along too often and won’t last too long, so you’ve got to be ready to act and have a prepared mind.”

94. “Warren spends 70 hours a week thinking about investing.”

95. “If all you succeed in doing in life is getting rich by buying little pieces of paper, it’s a failed life. Life is more than being shrewd in wealth accumulation.”

96. “Well, some of our success we predicted and some of it was fortuitous.”

97. “What’s the best way to get a good spouse? The best single way is to deserve a good spouse because a good spouse is by definition not nuts.”

98. “Spend less than you make; always be saving something. Put it into a tax-deferred account. Over time, it will begin to amount to something. This is such a no-brainer.”

99. “You want to be very careful with intense ideology. It presents a big danger for the only mind you’re ever going to get.”

100. “I try to get rid of people who always confidently answer questions about which they don’t have any real knowledge.”

Insightful books about Charlie Munger include Poor Charlie’s Almanack,Seeking Wisdom: From Darwin to Munger, and Damn Right: Behind the Scenes with Berkshire Hathaway Billionaire Charlie Munger.

A Dozen Things Charlie Munger has said about Reading[167]

1. **“In my whole life, I have known no wise people (over a broad subject matter area) who didn’t read all the time – none, zero.”**

2. **“You’d be amazed at how much Warren reads – at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.”**

[167] https://25iq.com/2015/07/26/a-dozen-things-charlie-munger-has-said-about-reading/

3. **“As long as I have a book in my hand, I don’t feel like I’m wasting time.”**

4. **“I’ve gotten paid a lot over the years for reading through the newspapers.”**

5. **“I don’t think you can get to be a really good investor over a broad range without doing a massive amount of reading. I don’t think any one book will do it for you.”**

6. **“For years I have read the morning paper and harrumphed. There’s a lot to harrumph about now.”**

7. **“We read a lot. I don’t know anyone who’s wise who doesn’t read a lot. But that’s not enough: You have to have a temperament to grab ideas and do sensible things. Most people don’t grab the right ideas or don’t know what to do with them.”**

8. **“By regularly reading business newspaper and magazines I am exposed to an enormous amount of material at the micro level. I find that what I see going on there pretty much informs me about what’s happening at the macro level.”**

9. **“Warren and I do more reading and thinking and less doing than most people in business. We do that because we like that kind of a life. But we’ve turned that quirk into a positive outcome for ourselves. We both insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think.”**

10. **“If you get into the mental habit of relating what you’re reading to the basic structure of the underlying ideas being demonstrated, you gradually accumulate some wisdom.”**

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

12. **“I met the towering intellectuals in books, not in the classroom, which is natural. I can’t remember when I first read Ben Franklin. I had Thomas Jefferson over my bed at seven or eight. My family was into all that stuff, getting ahead through discipline, knowledge, and self-control.”**

p.s., “Obviously the more hard lessons you can learn vicariously, instead of from your own terrible experiences, the better off you will be. I don’t know anyone who did it with great rapidity. Warren Buffett has become one hell of a lot better investor since the day I met him, and so have I. If we had been frozen at any given stage, with the knowledge we had, the record would have been much worse than it is. So the game is to keep learning.”

30 of Charlie Munger's best quotes[168]

[168] http://www.gurufocus.com/news/119820/30-of-charlie-mungers-best-quotes

Spend each day trying to be a little wiser than you were when you woke up.

In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time — none, zero.

Choose clients as you would friends.

The best armor of old age is a well-spent life preceding it.

When you borrow a man's car, always return it with a tank of gas.

If only I had the influence with my wife and children that I have in some other quarters!

Take a simple idea and take it seriously.

In business we often find that the winning system goes almost ridiculously far in maximizing and or minimizing one or a few variables — like the discount warehouses of Costco.

Don't do cocaine. Don't race trains. And avoid AIDS situations.

We look for a horse with one chance in two of winning and which pays you three to one.

You're looking for a mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. That's value investing.

It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities.

A great business at a fair price is superior to a fair business at a great price.

All intelligent investing is value investing — acquiring more than you are paying for.

You must value the business in order to value you the stock.

No wise pilot, no matter how great his talent and experience, fails to use his checklist.

There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn't awash in cash — and I don't want to go back.

…it never ceases to amaze me to see how much territory can be grasped if one merely masters and consistently uses all the obvious and easily learned principles.

Once you get into debt, it's hell to get out. Don't let credit card debt carry over. You can't get ahead paying eighteen percent.

> If you always tell people why, they'll understand it better, they'll consider it more important, and they'll be more likely to comply.
>
> Spend less than you make; always be saving something. Put it into a tax-deferred account. Over time, it will begin to amount to something. This is such a no-brainer.
>
> You don't have to be brilliant, only a little bit wiser than the other guys, on average, for a long, long time.
>
> Three rules for a career: 1) Don't sell anything you wouldn't buy yourself; 2) Don't work for anyone you don't respect and admire; and 3) Work only with people you enjoy.
>
> I won't bet $100 against house odds between now and the grave.
>
> I try to get rid of people who always confidently answer questions about which they don't have any real knowledge.
>
> …being an effective teacher is a high calling.
>
> I believe in the discipline of mastering the best that other people have ever figured out. I don't believe in just sitting down and trying to dream it all up yourself. Nobody's that smart…
>
> Without numerical fluency, in the part of life most of us inhibit, you are like a one-legged man in an ass-kicking contest.
>
> In my life there are not that many questions I can't properly deal with using my $40 adding machine and dog-eared compound interest table.

"I remember the $0.05 hamburger and a $0.40-per-hour minimum wage, so I've seen a tremendous amount of inflation in my lifetime. Did it ruin the investment climate? I think not." – Charlie Munger

<u>Munger on investing and trading frequencies:</u>

"And the one thing that all those winning betters in the whole history of people who've beaten the pari-mutuel system have is quite simple. They bet very seldom. It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it who look and sift the world for a mispriced be that they can occasionally find one.

And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple. That is a very simple concept. And to me it's obviously right based on experience not only from the pari-mutuel system, but everywhere else.

So you can get very remarkable investment results if you think more like a winning pari-mutuel player. Just think of it as a heavy odds against game full of craziness with an occasional mispriced something or other. And you're probably not going to be smart enough to find thousands in a lifetime. And when you get a few, you really load up. It's just that simple.

When Warren lectures at business schools, he says, "I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it so that you had 20 punches, representing all the investments that you got to make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all."

A Dozen Things Charlie Munger has said about Reading

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<u>Charlie Munger in “Poor Charlie’s Almanac”</u>

Pg 6 - "Read all the time"

Pg 45 - The Lollapalooza Effect - Charlie coined this phrase as a way of describing an idea, concept or business strategy that literally grows exponentially due to favorable coinciding events.

Pg. 40 -"Be prepared, act promptly, in scale, on a few major opportunities."

Pg 48- Jessy Livermore, "Big money is made in the waiting"
Charlie then goes on to explain that he would sit on 10-20 million at a time in T-Bills just waiting.

Pg 49 - "It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities"

- "It's like looking for a horse that pays 50/50 and has a 3-to-1 chance of winning."

Pg 60 - "The man who doesn't read good books has no advantage over the man who can't" - Mark Twain

On Coumpound Interest:

"Compound interest is the eighth wonder of the world" - Einstein
"Never interrupt it unnecessarily" - Munger

"...'tis the stone that will turn all your lead into gold...Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more" - Benjamin Franklin

"If you took our top fifteen decisions out, we'd have a pretty average record. It wasn't hyperactivity, but a hell of a lot of patience. You stuck to your principles and when opportunities came along you pounced on them with vigor." - Munger

On page 61 - 64 there is an investment checklist that is a must read!

"There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn't awash in cash and I don't want to go back. - Munger

"The wisdom of the wise, and the experience of ages, may be preserved by quotations" - Isaac Disraeli

“The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function.” – F. Scott Fitzgerald

"It is a good thing for an uneducated man to read a good book of quotations" - Sir Winston Churchill

Pg. 88 - "You need to have a passionate interest in why thing are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don't have that cast of mind your destined for failure even if you have a high I.Q." - Munger

"Our game is to recognize a big idea when it comes along, when it doesn't come along very often. Opportunity comes to the prepared mind." - Munger

A good portion of the book is focused on the importance of multiple mental models and the lack of them in academia.

Another hot topic that shows up more than once is the importance of reading.

"In my whole life, I have known no wise people who didn't read all the time-none, zero. You'd be amazed at how much Warren reads-and at how much I read. My children laugh at me, they think I'm a book with a couple of legs sticking out" Munger

"Take a simple idea and take it seriously." -- Munger

"Our experience tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale, in doing some simple and logical thing, will often dramatically improve the financial results of that lifetime. A few major opportunities, clearly recognizable as such, will usually come to one who cotinuously searches and waits, with a curious mind that loves diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past." -- Munger

"Look at those hedge funds -- you think they can wait? They don't know how to wait! I have sat for years at a time with $10 to $12 million in treasuries or municipals, just waiting, waiting...As Jesse Livermore said, 'The big money is not in the buying and selling...but in the waiting.'" -- Munger

"It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities." -- Munger

"Spend each day trying to be a little wiser than you were when you woke up." - Charlie Munger

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time — none, zero." - Charlie Munger

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"It takes character to sit there with all that cash and do nothing. I didn't get to where I am by going after mediocre opportunities." - Charlie Munger

"No wise pilot, no matter how great his talent and experience, fails to use his checklist." - Charlie Munger

"There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn't awash in cash — and I don't want to go back." - Charlie Munger

"Once you get into debt, it's hell to get out. Don't let credit card debt carry over. You can't get ahead paying eighteen percent." - Charlie Munger

"Just keep your head down and do your best." – Charlie Munger

"Easy money corrupts." – Charlie Munger

"Spend less than you make; always be saving something. Put it into a tax-deferred account. Over time, it will begin to amount to something. This is such a no-brainer." - Charlie Munger

"Three rules for a career: 1) Don't sell anything you wouldn't buy yourself; 2) Don't work for anyone you don't respect and admire; and 3) Work only with people you enjoy." - Charlie Munger

"I won't bet $100 against house odds between now and the grave." - Charlie Munger

"I believe in the discipline of mastering the best that other people have ever figured out. I don't believe in just sitting down and trying to dream it all up yourself. Nobody's that smart." - Charlie Munger

"All intelligent investing is value investing -- acquiring more that you are paying for. You must value the business in order to value the stock." - Charlie Munger

"We believe that almost all really good investment records will involve relatively little diversification. The basic idea that it was hard to find good investments and that you wanted to be in good investments, and therefore, you'd just find a few of them that you knew a lot about and concentrate on those seemed to me such an obviously good idea. And indeed, it's proven to be an obviously good idea. Yet 98% of the investing world doesn't follow it. That's been good for us." - Charlie Munger

“Your life must focus on the maximization of objectivity." -Charlie Munger

“A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past.” -Charlie Munger

“You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don’t have that cast of mind, you’re destined for failure even if you have a high I.Q.” -Charlie Munger

"Here's one truth that perhaps your typical investment counselor would disagree with: if you're comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, so what?! Someone will always be getting richer faster than you. This is not a tragedy.” -Charlie Munger

“You’ve got to have models in your head and you’ve got to array you experience – both vicarious and direct – onto this latticework of mental models.” -Charlie Munger

“Acquire worldly wisdom and adjust your behavior accordingly. If your new behavior gives you a little temporary unpopularity with your peer group… then to hell with them.” -Charlie Munger

“If it is wisdom you’re after, you’re going to spend a lot of time on your ass reading.” -Charlie Munger

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time -- none, zero... You'd be amazed at how much Warren reads -- at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." -Charlie Munger

"Warren and I insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think. So Warren and I do more reading and thinking and less doing than most people in business." -Charlie Munger

“Finance properly taught should be taught from cases where the investment decisions are easy,” said Munger. “And the one that I always cite is the early history of National Cash Reigster Company. It was created by a very intelligent man who bought all the patents, had the best sales force, and the best production plants. He was very intelligent man and a fanatic, all of whose passions were dedicated to the cash register business. And of course, the invention of the cash register was a godsend to retailing. You might even say that cash registers were the pharmaceuticals industry of a former age. If you read an annual report when Patterson was the CEO of National Cash Register, an idiot could tell that here was talented fanatic – very favorably located. Therefore, the investment decision was easy.” – Charlie Munger[169]

“It’s a finite and very competitive world. All large aggregations of capital eventually find it hell on earth to grow and thus find a lower rate of return.” – Charlie Munger

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[169] “Damn Right” p. 234

“You need a different checklist and different mental models for different companies. I can never make it easy by saying, ‘Here are three things.’ You have to derive it yourself to ingrain it in your head for the rest of your life.” – Charlie Munger

“The beauty of a financial institution is that there are a lot of ways to go to hell in a bucket. You can push credit too far, do a dumb acquisition, leverage yourself excessively – it’s not just derivatives [that can bring about your downfall].” – Charlie Munger

"Generally, stocks are valued in two ways. One is the way that wheat is valued -- in terms of its perceived practical utility to the user of the wheat. The second way is the way that Rembrandts are valued. And to some extent, Rembrandts are valued highly because they've gone up in price in the past...To us, investing is the equivalent of going out and betting against the pari-mutuel system. We look for a horse with one chance in two of winning and which pays you three to one. You're looking for a mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. That's value investing." – Munger

“The model I like – to sort of simplify the notion of what goes on in a market for common stocks – is the pari-mutuel system at the racetrack. If you stop to think about it, a pari-mutuel system is a market. Everybody goes there and bets and the odds are changed based on what’s bet. That’s what happens in the stock market.”[170] – Munger

“And the one thing that all those winning betters in the whole history of people who’ve beaten the pari-mutuel system have is quite simple. They bet very seldom… And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don’t. It’s just that simple. That is a very simple concept. And to me it’s obviously right—based on experience not only from the pari-mutuel system, but everywhere else. And yet, in investment management, practically nobody operates that way.” – Charlie Munger, ibid

"If you have competence, you pretty much know its boundaries already. To ask the question [of whether you are past the boundary] is to answer it." -- Munger

Munger's Three Great Lessons of Investing:

1. "A great business at a fair price is superior to a fair business at a great price."
2. "A great business at a fair price is superior to a fair business at a great price."
3. "A great business at a fair price is superior to a fair business at a great price."

"You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don't have the cast of mind, you're destined for failure even if you have a high I.Q." -- Munger

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[170] “The Warren Buffett Portfolio” by Robert Hagstrom, p. 133

"How do some people get wiser than other people? Partly is is inborn temperament. Some people do not have a good temperament fo invesitng. They're too fretful; the worry too much. But if you've got a good temperatment, which basically means being very patient, yet combine that with a vast aggression when you know enough to do something, then you just gradually learn the game, partly by doing, partly by sutdying. Obviously, the more hard lessons you can learn vicariously, instead of from your own terrible experiences, the better off you will be. I don't know anyone who did it with great rapidity. Warren Buffett has become one hell of a lot better investor since the day I met him, and so have I. If we had been frozen at any given stage, with the knowledge we had, the record would have bene much worse than it is. So the game is to keep learning, and I don't think people are going to keep learning who don't like the learning process." --- Munger

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time -- none, zero." -- Munger

"Most people will see declining returns [due to inflation]. One of the great defenses if you're worried about inflation is not to have a lot of silly needs in your life -- you don't need a lot of material goods." – Munger

"We try to think like Fermat and Pascal [would] if they'd never heard of modern finance theory."[171] – Charlie Munger

Munger: Extreme success is likely to be caused by some combination of the following factors:

- Extreme maximization or minimization of one or two variables (e.g., Costco, NFM, Wal-Mart)
- Adding success factors so that a bigger combination drives success, often in nonliner fashion, as one is reminded by the concept of breakpoint and the concept of critical mass in physics. Often results are not linear. You get a little more mass, and you get a lollapalooza result.
- An extreme of good performance over many factors (e.g., Toyota or Schwab)
- Catching and riding some sort of big wave (e.g. Oracle)

Charlie Munger's Psychology of Human Misjudgment

1. Reward and punishment supperresponse tendency: incentives; Federal Express workers paid by shift instead of by hour; "If you would persuade, appeal to interest and not to reason." Interest tends to drive behavior to the extremes.
2. Liking/loving tendency: acts as a condition device that makes the liker or lover tend (1) to ignore the faults of, and comply with the wishes of, the object of his affection, (2) to favor people, products, and actions merely associated with the object of his affection, and (3) to distort other facts to facilitate love.
3. Disliking/hating tendency: e.g., war, sibling rivalry; man also likes being liked, and so strives for the approval and favor of those around him;
4. Doubt-avoidance tendency: brain wants a decision, any decision; flight-or-fight response removes thinking and debating instincts;

[171] "The Warren Buffett Portfolio" by Robert Hagstrom, p. 111

5. Inconsistency-avoidance tendency: man tends to avoid all forms of change; leads to habits, both good and bad; avoiding bad habits – an ounce of prevention is worth a pound of cure; saving face; ground breaking discoveries made by the new generation;
6. Curiosity tendency:
7. Kantian Fairness tendency: golden rule -- follow behaviors that, if followed by all others, would make the surrounding human system work best for everybody
8. Envy/jealousy tendency: "It is not greed that drives the world, but envy." – Buffett; Munger argues that the origins of envy are the result of a desire for man to acquire scarce resources, and then the feelings of conflict associated with seeing those resources in the hands of others. Munger also notes that jealousy is fiercest among siblings, particularly at younger ages
9. Reciprocation tendency: humans tend to reciprocate both favors and disfavors; leads to both positive and negative feedback loops; humans seems ill programmed to turn the other cheek; most likely to occur when spending other people's money (e.g., favors from vendors/salesmen)
10. Influence-from-mere-association tendency: premium branding/advertising; misweighting of past successes/failures;
11. Simple, pain-avoiding psychological denial: "It is not necessary to hope in order to persevere."
12. Excessive self-regard tendency: narcissism; thinking too highly of one's own children; endowment effect; prefer people like oneself; self-picked lottery numbers are more popular than random ones
13. Overoptimism tendency: "What a man wishes, that also will he believe." -- Demosthenes; use trained, habitual practice of simple probability math of Fermat and Pascal to overcome
14. Deprival-superreaction tendency: pain of loss > pleasure of gain; leads to misprioritization of problems/issues; wage dispute → strike → company goes out of business; leads gamblers to ruin as they seek to recover losses; don't throw good money after bad
15. Social-proof tendency: man often does what he observes to be thought and done by those around him; often results in a feedback loop, either positive or negative; teenagers' friends are more important than their parents' urgings; "Learn how to ignore the examples from others when they are wrong, because few skills are more worth having."
16. Contrast-misreaction tendency: appearances often seem relatively in/significant or positive/negative when compared to other actions, when in reality that is not the case; e.g., buying a wildly overpriced $1000 dashboard because it's attached to a $50,000 car; "a small leak will sink a great ship."
17. Stress-influence tendency: makes Social Proof tendency even stronger; light stress can be good, heavy stress very bad; driving force behind cults and gangs;
18. Availability-misweighting tendency: recency bias; use checklists to counteract; seek disconfirming evidence; note that this kind of information can certainly be useful – it's just often *misweighted* in relative importance
19. Use-it-or-lose-it tendency:
20. Drug-misinfluence tendency:
21. Senescence-misinfluence tendency:
22. Authority-misinfluence tendency: man mostly follows his leaders, with only a few people doing the leading; leads to dominance heirarchies; but man thus suffers greatly when the leaders are poor or the leader's ideas are misunderstood;
23. Twaddle tendency: to talk in a trivial, feeble, silly, or tedious manner; prate; As a social animal, however, man is prone to twaddle even when serious work is being attempted. But some humans are more prone than others to twaddle, and those are the ones Munger believes should be kept far away.
24. Reason-respecting tendency: man likes to solve puzzles and have order and reason; also, any reason often accepted as valid – be skeptical;

25. Lollapalooza Tendency: The tendency to get extreme consequences from confluences of psychological tendencies acting in favor of a particular outcome

"Charlie Munger is truly the broadest thinker I have ever encountered," Bill Gates
http://www.poorcharliesalmanack.com/recommendations.html

More people would benefit from Charlie if his thoughts were more accessible and if he was as prolific a writer as he is a reader. The best way by far to know Charlie is to read: http://www.poorcharliesalmanack.com/index.html.

Academia:

"Warren once said to me, "I'm probably misjudging academia generally [in thinking so poorly of it] because the people that interact with me have bonkers theories." … We're trying to buy businesses with sustainable competitive advantages at a low – or even a fair price. [The reason the professors teach such nonsense is that if they didn't], what would they teach the rest of the semester? [Laughter] Teaching people formulas that don't really work in real life is a disaster for the world."
http://www.tilsonfunds.com/wscmtg04notes.doc

> "There's a lot wrong [with American universities]. I'd remove 3/4 of the faculty — everything but the hard sciences. But nobody's going to do that, so we'll have to live with the defects. It's amazing how wrongheaded [the teaching is]. There is fatal disconnectedness. You have these squirrelly people in each department who don't see the big picture."
> http://www.fool.com/news/foth/2002/foth020515.htm

"a different set of incentives from rising in an economic establishment where the rewards system, again, the reinforcement, comes from being a truffle hound. That's what Jacob Viner, the great economist called it: the truffle hound — an animal so bred and trained for one narrow purpose that he wasn't much good at anything else, and that is the reward system in a lot of academic departments."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

> "I think liberal art faculties at major universities have views that are not very sound, at least on public policy issues — they may know a lot of French [however]." http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

Accounting

> "Proper accounting is like engineering. You need a margin of safety. Thank God we don't design bridges and airplanes the way we do accounting." http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf
>
> "'F.A.S.B'" … 'Financial Accounts Still Bogus'". http://www.bluechipinvestorfund.com/munger.html
>
> "I talked to one accountant, a very nice fellow who I would have been glad to have his family marry into mine. He said, "What these other accounting firms have done is very unethical. The [tax avoidance scheme] works best if it's not found out [by the IRS], so we only give it to our best clients, not the rest, so it's unlikely to be discovered. So my firm is better than the others." [Laughter] I'm not kidding. And he was a perfectly nice man. People just follow the crowd…Their mind just drifts off in a ghastly way…" http://www.tilsonfunds.com/wscmtg04notes.doc
>
> "…accounting [is] the language of practical business life. It was a *very* useful thing to deliver to civilization. I've heard it came to civilization through Venice which of course was once the great commercial power in the Mediterranean. However, double-entry bookkeeping was a hell of an invention. And it's not that hard to understand. But you have to know enough about it to

understand its limitations - because although accounting is the starting place, it's only a crude approximation. And it's not very hard to understand its limitations. For example, everyone can see that you have to more or less just guess at the useful life of a jet airplane or anything like that. Just because you express the depreciation rate in neat numbers doesn't make it anything you really know http://www.thinkfn.com/en/content/view/52/?id=124

You'll better understand the evil when top audit firms started selling fraudulent tax shelters when I tell you that one told me that they're better [than the others] because they only sold [the schemes] to their top-20 clients, so no-one would notice. http://www.tilsonfunds.com/brkmtg04notes.doc

"Creative accounting is an absolute curse to a civilization. One could argue that double-entry bookkeeping was one of history's great advances. Using accounting for fraud and folly is a disgrace. In a democracy, it often takes a scandal to trigger reform. Enron was the most obvious example of a business culture gone wrong in a long, long time." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

I also want to raise the possibility that there are, in the very long term, "virtue effects" in economics— for instance that widespread corrupt accounting will eventually create bad long term consequences as a sort of obverse effect from the virtue-based boost double-entry book-keeping gave to the heyday of Venice. I suggest that when the financial scene starts reminding you of Sodom and Gomorrah, you should fear practical consequences even if you like to participate in what is going on. http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Acquisitions:

"Two thirds of acquisitions don't work. Ours work because we don't try to do acquisitions — we wait for no-brainers." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

At most corporations if you make an acquisition and it turns out to be a disaster, all the paperwork and presentations that caused the dumb acquisition to be made are quickly forgotten. You've got denial, you've got everything in the world. You've got Pavlovian association tendency. Nobody even wants to even be associated with the damned thing or even mention it. At Johnson & Johnson, they make everybody revisit their old acquisitions and wade through the presentations. That is a very smart thing to do. And by the way, I do the same thing routinely.
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"We tend to buy things — a lot of things — where we don't know exactly what will happen, but the outcome will be decent." http://www.fool.com/news/foth/2002/foth020515.htm
"We've bought business after business because we admire the founders and what they've done with their lives. In almost all cases, they've stayed on and our expectations have not been disappointed." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Advertising:

"if you were Proctor & Gamble, you could afford to use this new method of advertising. You could afford the very expensive cost of network television because you were selling so many cans and bottles. Some little guy couldn't. And there was no way of buying it in part. Therefore, he couldn't use it. In effect, if you didn't have a big volume, you couldn't use network TV advertising which was the most effective technique. So when TV came in, the branded companies that were already big got a huge tail wind. Indeed, they prospered and prospered and prospered until some of them got fat and foolish, which happens with prosperity - at least to some people…." http://www.thinkfn.com/en/content/view/52/?id=124

"I'd say 3/4 of advertising works on pure Pavlov. Think how association, pure association, works. Take Coca-Cola company (we're the biggest share-holder). They want to be associated with every wonderful image: heroics in the Olympics, wonderful music, you name it. They don't want to be associated with presidents' funerals and so-forth." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Advice

"Just avoid things like racing trains to the crossing, doing cocaine, etc. Develop good mental habits."
http://www.tilsonfunds.com/brkmtg04notes.doc

"A lot of success in life and business comes from knowing what you want to avoid: early death, a bad marriage, etc."
http://www.fool.com/BoringPort/2000/boringport00051501.htm

If you have only a little capital and are young today, there are fewer opportunities than when I was young. Back then, we had just come out of a depression. Capitalism was a bad word. There had been abuses in the 1920s. A joke going around then was the guy who said, 'I bought stock for my old age and it worked — in six months, I feel like an old man!' "It's tougher for you, but that doesn't mean you won't do well — it just may take more time. But what the heck, you may live longer."
http://www.fool.com/BoringPort/2000/boringport00051501.htm

> Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts. But you build discipline by preparing for fast spurts… Slug it out one inch at a time, day by day, at the end of the day — if you live long enough — most people get what they deserve."
> http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Advisers:

you can hire your advisor and then just apply a windage factor, like I used to do when I was a rifle shooter. I'd just adjust for so many miles an hour wind. Or you can learn the basic elements of your advisor's trade. You don't have to learn very much, by the way, because if you learn just a little then you can make him explain why he's right.
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Age

> "Warren has gotten to be one hell of a lot better investor over the period I've known him, so have I. So the game is to keep learning. You gotta like the learning process…. there's an apocryphal story about Mozart. A 14-year-old came to him and said, "I want to learn to be a great composer." And Mozart said, "You're too young." The young man replied, "But I'm 14 years old and you were only eight or nine when you started composing." To which Mozart replied, "Yes, but I wasn't running around asking other people how to do it." http://www.tilsonfunds.com/wscmtg04notes.doc
>
> "We're not following the examples of any 40-year-old investors."
> http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22
>
> "We get these questions a lot from the enterprising young. It's a very intelligent question: You look at some old guy who's rich and you ask, 'How can I become like you, except faster?'"
> http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Allocation of capital

> "We're partial to putting out large amounts of money where we won't have to make another decision."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3
>
> I don't think our successors will be as good as Warren at capital allocation."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3
>
> **American Express:**
>
> "It would be easier to screw up American Express than Coke or Gillette, but it's an immensely strong business.
> http://www.fool.com/boringport/2000/boringport000501a.htm

Annual Meetings:

A lot of [corporations' annual] meetings are set up to avoid groups like you – they're in inconvenient locations and at inconvenient times – and they hope people like you won't come. http://www.tilsonfunds.com/wscmtg04notes.doc

Auctions:

"Well the open-outcry auction is just made to turn the brain into mush: you've got social proof, the other guy is bidding, you get reciprocation tendency, you get deprival super-reaction syndrome, the thing is going away… I mean it just absolutely is designed to manipulate people into idiotic behavior. http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"The problem with closed bid auctions is that they are frequently won by people making a technical mistake, as in the case with Shell paying double for Belridge Oil. You can't pay double the losing bid in an open outcry auction.." http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

Banks:

"banking has turned out to be better than we thought. We made a few billion [dollars] from Amex while we misappraisal it. My only prediction is that we will continue to make mistakes like that." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"Financial institutions make us nervous when they're trying to do well." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

"What's fascinating . . .is that you could now have a business that might have been selling for $10 billion where the business itself could probably not have borrowed even $100 million. But the owners of that business, because its public, could borrow many billions of dollars on their little pieces of paper- because they had these market valuations. But as a private business, the company itself couldn't borrow even 1/20th of what the individuals could borrow." http://fundooprofessor.blogspot.com/2005/11/one-valuation-rule-two-paradoxes.html

Bankruptcy:

"I think much of [how bankruptcy is handled] is pretty horrible. It's a situation were courts themselves have gone into the business of bidding to attract bankruptcy proceedings…."http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Behavior:

"How you behave in one place, will help in surprising ways later." http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

"If you rise in life, you have to behave in a certain way. You can go to a strip club if you're a beer-swilling sand shoveler, but if you're the Bishop of Boston, you shouldn't go." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Behavioral Economics:

"How could economics not be behavioral? If it isn't behavioral, what the hell is it?" http://www.vinvesting.com/docs/munger/human_misjudgement.html

"How should the best parts of psychology and economics interrelate in an enlightened economist's mind?… I think that these behavioral economics…or economists are probably the ones that are bending them in the correct direction. I don't think it's going to be that hard to bend economics a little to accommodate what's right in psychology." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Ben Franklin:

"There is the sheer amount of Franklin's wisdom. "And the talent. Franklin played four instruments. He was the nation's leading scientist and inventor, plus a leading author, statesman, and philanthropist. There has never been anyone like him." http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

Ben Graham:

"The idea of a margin of safety, a Graham precept, will never be obsolete. The idea of making the market your servant will never be obsolete. The idea of being objective and dispassionate will never be obsolete. So Graham had a lot of wonderful ideas." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

"Ben Graham could run his Geiger counter over this detritus from the collapse of the 1930s and find things selling below their working capital per share and so on…. But he was, by and large, operating when the world was in shell shock from the 1930s—which was the worst contraction in the English-speaking world in about 600 years. Wheat in Liverpool, I believe, got down to something like a 600-year low, adjusted for inflation. the classic Ben Graham concept is that gradually the world wised up and those real obvious bargains disappeared. You could run your Geiger counter over the rubble and it wouldn't click. … Ben Graham followers responded by changing the calibration on their Geiger counters. In effect, they started defining a bargain in a different way. And they kept changing the definition so that they could keep doing what they'd always done. And it still worked pretty well." http://ycombinator.com/munger.html

Berkshire:

"I'm a bull on Berkshire Hathaway. There may be some considerable waiting, but I think there are some good days ahead." http://www.tilsonfunds.com/wscmtg05notes.pdf

"Personally, I think Berkshire will be a lot bigger and stronger than it is. Whether the stock will be a good investment from today's price is another question. The one thing we've always guaranteed is that the future will be a lot worse than the past." http://www.fool.com/news/foth/2002/foth020515.htm

"We stumbled into this two-person format. It would not work if it was just one person. You could have the wittiest, wisest person on earth up there, and people would find it very tiresome. It takes a little interplay of personalities to handle the extreme length of the festival." http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

"I don't think it would work well to have a half-and-half management. We don't need an operating guy; we have people running the businesses, and the main thing is not to destroy or damage the spirit they have." http://www.fool.com/news/commentary/2006/commentary06053101.htm

"Berkshire has the lowest turnover of any major company in the U.S. The Walton family owns more of Wal-Mart than Buffett owns ofBerkshire, so it isn't because of large holdings. It's because we have a really unusual shareholder body that thinks of itself as owners and not holders of little pieces of paper. " http://www.fool.com/news/commentary/2006/commentary06053004.htm

"The future returns of Berkshire and Wesco won't be as good in the future as they have been in the past. The only difference is that we'll tell you. Today, it seems to be regarded as the duty of CEOs to make the stock go up. This leads to all sorts of foolish behavior. We want to tell it like it is. I'm happy having 90% of my net worth in Berkshire stock. We're going to try to compound it at a reasonable rate without taking unreasonable risk or using leverage. If we can't do this, then that's just too damn bad. The businesses that Berkshire has acquired will return 13% pre-tax on what we paid for them, maybe more. With a cost of capital of 3% — generated via other peoples' money in the form of float — that's a hell of a business. That's the reason. Berkshire shareholders needn't totally despair.

Berkshire is not as good as it was in terms of percentage compounding [going forward], but it's still a hell of a business."

http://www.fool.com/news/foth/2001/foth010508.htm

Beta

"Beta and modern portfolio theory and the like – none of it makes any sense to me."
http://www.fool.com/news/commentary/2004/commentary040507wt.htm

Biology:

"Common stock investors can make money by predicting the outcomes of practice evolution. You can't derive this by fundamental analysis — you must think biologically. http://www.fool.com/BoringPort/2000/boringport00051501.htm

"I find it quite useful to think of a free market economy—or partly free market economy—as sort of the equivalent of an ecosystem…. " http://ycombinator.com/munger.html

Black-Scholes

"Black-Scholes is a know-nothing system. If you know nothing about value — only price — then Black-Scholes is a pretty good guess at what a 90-day option might be worth. But the minute you get into longer periods of time, it's crazy to get into Black-Scholes. For example, at Costco we issued stock options with strike prices of $30 and $60, and Black-Scholes valued the $60 ones higher. This is insane. "http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"Black-Scholes works for short-term options, but if it's a long-term option and you think you know something [about the underlying asset], it's insane to use Black-Scholes." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Boards of Directors:

"A board member should be perfectly willing to leave at any time and willing to make the tough calls."
http://seekingalpha.com/article/14333

"the institution of the board of directors of the major American company. Well, the top guy is sitting there, he's an authority figure. He's doing asinine things, you look around the board, nobody else is objecting, social proof, it's okay? Reciprocation tendency, he's raising the directors fees every year, he's flying you around in the corporate airplane to look at interesting plants, or whatever in hell they do, and you go and you really get extreme dysfunction as a corrective decision-making body in the typical American board of directors. They only act, again the power of incentives, they only act when it gets so bad it starts making them look foolish, or threatening legal liability to them. That's Munger's rule. I mean there are occasional things that don't follow Munger's rule, but by and large the board of directors is a very ineffective corrector if the top guy is a little nuts, which, of course, frequently happens. "
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Brain:

"I think it is undeniably true that the human brain must work in models. The trick is to have your brain work better than the other person's brain because it understands the most fundamental models- ones that will do most work per unit." LatticeWork, The new Investing quoting OID

"The basic neural network of the brain is there through broad genetic and cultural evolution. And it's not Fermat/Pascal.It uses a very crude, shortcut - type of approximation. It's got elements of Fermat/Pascal in it. However, it's not good. So you have to learn in a very usable way this very elementary math and use it routinely in life - just the way if you want to become a golfer, you can't use the natural swing that broad evolution gave you. You have to *learn* to have a certain grip and swing in a different way to realize your full potential as a golfer." http://www.thinkfn.com/en/content/view/52/?id=

"Man's imperfect, limited-capacity brain easily drifts into working with what's easily available to it. And the brain can't use what it can't remember or when it's blocked from recognizing because it is heavily influenced by one or more psychological tendencies bearing strongly on it. . ." 'the Deep structure of the human mind requires that the way to full scope competency of virtually any kind is learn it all to fluency – like it or not." Charlie's Al

Brands:

"It's hard to predict what will happen with two brands in a market. Sometimes they will behave in a gentlemanly way, and sometimes they'll pound each other. I know of no way to predict whether they'll compete moderately or to the death. If you could figure it out, you could make a lot of money." http://www.tilsonfunds.com/wscmtg04notes.doc

Bridge:

"the right way to think is the way Zeckhauser plays bridge. It's just that simple" http://www.ksgcitizen.org/home/index.cfm?event=displayArticlePrinterFriendly&uStory_id=a47cfb0b-8c7d-4f0e-9984-8ba20794da06

> "And your brain doesn't naturally know how to think the way Zeckhauser knows how to play bridge. "for example," people do not react symmetrically to loss and gain. Well maybe a great bridge player like Zeckhauser does, but that's a trained response. Ordinary people, subconsciously affected by their inborn tendencies… " http://72.14.203.104/search?q=cache:3sSZnXLbvQEJ:www.loschmanagement.com/Berkshire%2520Hathaway/Charlie%2520munger/The%2520Psychology%2520of%2520Human%2520Misjudgement.htm+%22charlie+Munger%22+%22the+way+Zeckhauser+plays+bridge%22&hl=en&gl=us&ct=clnk&cd=1

Bubbles:

"[The Internet bubble circa 2000 is] the most extreme in modern capitalism. In the 1930s, we had the worst depression in 600 years. Today is almost as extreme in the opposite way." http://www.fool.com/boringport/2000/boringport000501.htm One of the first big bubbles, of course, was the huge and horrible South Sea Bubble in England. And the aftermath was interesting. Many of you probably don't remember what happened after the South Sea Bubble, which caused an enormous financial contraction, and a lot of pain. They banned publicly traded stock in England for decades. http://www.originaldissent.com/forums/archive/index.php/t-14214.html

Bull Markets:

"Bull markets go to people's heads. If you're a duck on a pond, and it's rising due to a downpour, you start going up in the world. But you think it's you, not the pond."

Bureaucracy

"The great defect of scale, of course, which makes the game interesting—so that the big people don't always win—is that as you get big, you get the bureaucracy. And with the bureaucracy comes the territoriality—which is again grounded in human nature. And the incentives are perverse. For example, if you worked for AT&T in my day, it was a great bureaucracy. Who in the hell was really thinking about the shareholder or anything else? And in a bureaucracy, you think the work is done when it goes out of your in-basket into somebody else's in-basket. But, of course, it isn't. It's not done until AT&T delivers what it's supposed to deliver. So you get big, fat, dumb, unmotivated bureaucracies…. The constant curse of scale is that it leads to big, dumb bureaucracy—which, of course, reaches its highest and worst form in government where the incentives are really awful. That doesn't mean we don't need governments—because we do. But it's a terrible problem to get big bureaucracies to behave." http://ycombinator.com/munger.html

"Sears had layers and layers of people it didn't need. It was very bureaucratic. It was slow to think. And there was an established way of thinking. If you poked your head up with a new thought, the system kind of turned against you. It was everything in the way of a dysfunctional big bureaucracy that you would expect." http://ycombinator.com/munger.html

Businesses

"We've really made the money out of high quality businesses. In some cases, we bought the whole business. And in some cases, we just bought a big block of stock. But when you analyze what happened, the big money's been made in the high quality businesses. And most of the other people who've made a lot of money have done so in high quality businesses. http://ycombinator.com/munger.html

Business Schools:

"I was recently speaking with Jack McDonald, who teaches a course on investing rooted in our principles at Stanford Business

School. He said it's lonely — like he's the Maytag repairman.
http://www.fool.com/boringport/2000/boringport00051500.htm

Buying back shares:

"A lot of share-buying, not bargain-seeking, is designed to prop stock prices up. Thirty to 40 years ago, it was very profitable to look at companies that were aggressively buying their own shares. They were motivated simply to buy below what it was worth." http://www.fool.com/news/commentary/2006/commentary06053004.htm

Capital Allocation:

There are two kinds of businesses: The first earns 12%, and you can take it out at the end of the year. The second earns 12%, but all the excess cash must be reinvested — there's never any cash. It reminds me of the guy who looks at all of his equipment and says, "There's all of my profit." We hate that kind of business. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Capitalism

"When it gets into these spikes, with shortages and uproar and so forth, people go bananas, but that's capitalism."
http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger3.html

"I regard it as very unfair, but capitalism without failure is like religion without hell."
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"capitalism is a pretty brutal place." http://ycombinator.com/munger.html

Cash:

"Our cash is speaking for itself. If we had a lot of wonderful ideas, we wouldn't have so much cash."
http://www.tilsonfunds.com/wscmtg04notes.doc

"There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn't awash in cash —and I don 't want to go back." http://www.poorcharliesalmanack.com/pdf/page61.pdf

Change

"Those who will not face improvements because they are changes, will face changes that are not improvements"
http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799

Character

"It's hard to judge the combination of character and intelligence and other things. It's not at all simple, which explains why we have so many divorces. (Laughter) Think about how much people know about the person they marry, yet so many break up. It's not easy, it is in some cases. If people are splashing around with money like Dennis Kozlowski, with vodka at parties coming out of some body part, and if it looks like Sodom and Gomorrah, then maybe this isn't what you're looking for. (Laughter) But beyond that, it's hard. If you have some unfortunate experiences while getting that knowledge, well, welcome to the human race. (Laughter)
http://www.tilsonfunds.com/wscmtg05notes.pdf

Charlie Munger:

"I call myself the assistant cult leader," http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

China:

"At Berkshire Hathaway we do *not* like to compete against Chinese manufacturers." http://www.tilsonfunds.com/wscmtg05notes.pdf

Cialdini

"Cialdini does a magnificent job at this, and you're all going to be given a copy of Cialdini's book. And if you have half as much sense as I think you do, you will immediately order copies for all of your children and several of your friends. You will never make a better investment."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Cicero:

"As I continued through Cicero's pages, I found much more material celebrating my way of life … "

"Cicero's words also increased my personal satisfaction by supporting my long-standing rejection of a conventional point of view." http://www.fool.com/News/mft/2006/mft06072637.htm

Circle of Competence:

"There are a lot of things we pass on. We have three baskets: in, out, and too tough…We have to have a special insight, or we'll put it in the 'too tough' basket. All of you have to look for a special area of competency and focus on that." http://www.fool.com/news/foth/2002/foth020515.htm "If you have competence, you pretty much know its boundaries already. To ask the question [of whether you are past the boundary] is to answer it." http://www.poorcharliesalmanack.com/pdf/page53.pdf

"We know the edge of our competency better than most." That's a very worthwhile thing."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"Warren and I avoid doing anything that someone else at Berkshire can do better. You don't really have a competency if you don't know the edge of it." http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

Warren and I don't feel like we have any great advantage in the high-tech sector. In fact, we feel like we're at a big disadvantage in trying to understand the nature of technical developments in software, computer chips or what have you. So we tend to avoid that stuff, based on our personal inadequacies. Again, that is a very, very powerful idea. Every person is going to have a circle of competence. And it's going to be very hard to advance that circle. If I had to make my living as a musician…. I can't even think of a level low enough to describe where I would be sorted out to if music were the measuring standard of the civilization. So you have to figure out what your own aptitudes are. If you play games where other people have the aptitudes and you don't, you're going to lose. And that's as close to certain as any prediction that you can make. You have to figure out where you've got an edge. And you've got to play within your own circle of competence. If you want to be the best tennis player in the world, you may start out trying and soon find out that it's hopeless—that other people blow right by you. However, if you want to become the best plumbing contractor in

Bemidji, that is probably doable by two-thirds of you. It takes a will. It takes the intelligence. But after a while, you'd gradually know all about the plumbing business in
Bemidji and master the art. That is an attainable objective, given enough discipline. And people who could never win a chess tournament or stand in center court in a respectable tennis tournament can rise quite high in life by slowly developing a circle of competence—which results partly from what they were born with and partly from what they slowly develop through work."
http://ycombinator.com/munger.html

"Just as a man working with his tools should know its limitations, a man working with his cognitive apparatus must know its limitations" http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799

> "When I run into a paradox I think either I'm a total horse's ass to have gotten to this point, or I'm fruitfully near the edge of my discipline. It adds excitement to life to wonder which it is."
> http://www.cs.purdue.edu/news/images/STolopka.pdf#search=%22%22Charlie%20munger%22%20and%20quotations%22

Colleagues:

"You know the cliché that opposites attract? "Well, opposites don't attract. Everybody engaged in complicated work needs colleagues. Just the discipline of having to put your thoughts in order with somebody else is a very useful thing."
http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Committees:

Being controlling owners is key – it would be hard for a committee to make these kinds of decisions.
http://www.tilsonfunds.com/brkmtg04notes.doc

Commodities:

" [Sarcastically]: I think we've demonstrated our expertise in commodities, if you look at our activities in silver. [Laughter] …We didn't get where we are by owning non-interest-bearing commodities."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"… we've missed the biggest commodity boom in history – and we'll continue to miss things like this! "
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Common Sense

"Organized common (or uncommon) sense — very basic knowledge — is an enormously powerful tool. There are huge dangers with computers. People calculate too much and think too little." http://www.fool.com/news/foth/2002/foth020515.htm

"Part of [having uncommon sense] is being able to tune out folly, as opposed to recognizing wisdom. If you bat away many things, you don't clutter yourself." http://www.tilsonfunds.com/brkmtg04notes.doc

"In the corporate world, if you have analysts, due diligence, and no horse sense you've just described hell."
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Compensation:

"It isn't enough to buy the right business. You've also have to have compensationsystem that's satisfactory to the people running them. At Berkshire Hathaway, we haveno [single] system; we have different systems. They're very simple and we don't tend torevisit them very often. It's *amazing* how well it's worked. We wrote a one-page dealwith Chuck Huggins when we bought See's and it's never been touched. We have *never*hired a compensation consultant." http://www.tilsonfunds.com/wscmtg05notes.pdf

I'd rather throw a viper down my shirt front than hire a compensation consultant. http://www.tilsonfunds.com/brkmtg04notes.doc

Carnegie was always proud that he took very little salary. Rockefeller, Vanderbilt were the same. It was a common culture in a different era. All of these people thought of themselves as the founder. I was delighted to get rid of the pressure of getting fees based on performance. If you are highly conscientious and you hate to disappoint, you will feel the pressure to live up to your incentive fee. There was an enormous advantage [to switching away from taking a percentage of the profits to managing

Berkshire, in which their interests as shareholders are exactly aligned with other shareholders]. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"CEOs have a duty…to dampen envy and resentment by behaving way more nobly than other people, and way more generously. People should take way less than they are worthy when they are favored by life. People are willing to pay tens of millions of dollars to be U.S. senators. Most of these people would pay to be CEOs….There is a lot to be said for backing off and taking less than their worth." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/ " Everywhere there is a large commission, there is a high probability of a ripoff." http://www.fool.com/news/commentary/2006/commentary06062914.htm It is easy to have fair compensation systems, but about half of companies have grossly unfair systems in which the top people get paid too much. http://www.fool.com/news/commentary/2006/commentary06052706.htm

Competition

"We may well have a competitive advantage buying decent businesses at decent prices. But they won't be fabulous businesses and fabulous prices. There's too much competition and money out there, with many buyout specialists." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"Many markets get down to two or three big competitors—or five or six. And in some of those markets, nobody makes any money to speak of. But in others, everybody does very well. Over the years, we've tried to figure out why the competition in some markets gets sort of rational from the investor's point of view so that the shareholders do well, and in other markets, there's destructive competition that destroys shareholder wealth. If it's a pure commodity like airline seats, you can understand why no one makes any money. As we sit here, just think of what airlines have given to the world—safe travel, greater experience, time with your loved ones, you name it. Yet, the net amount of money that's been made by the shareholders of airlines since Kitty Hawk, is now a negative figure—a substantial negative figure. Competition was so intense that, once it was unleashed by deregulation, it ravaged shareholder wealth in the airline business. Yet, in other fields—like cereals, for example—almost all the big boys make out. If you're some kind of a medium grade cereal maker, you might make 15% on your capital. And if you're really good, you might make 40%. But why are cereals so profitable—despite the fact that it looks to me like they're competing like crazy with promotions, coupons and everything else? I don't fully understand it. Obviously, there's a brand identity factor in cereals that doesn't exist in airlines. That must be the main factor that accounts for it. And maybe the cereal makers by and large have learned to be less crazy about fighting for market share—because if you get even one person who's hell-bent on gaining market share…. For example, if I were Kellogg and I decided that I had to have 60% of the market, I think I could take most of the profit out of cereals. I'd ruin Kellogg in the process. But I think I could do it. http://ycombinator.com/munger.html

"Even bright people are going to have limited, really valuable insights in a very competitive world when they're fighting against other very bright, hardworking people. And it makes sense to load up on the very few good insights you have instead of pretending to know everything about everything at all times." http://ycombinator.com/munger.html

Complexity:

"A rough rule in life is that an organization foolish in one way in dealing with a complex system is all too likely to be foolish in another." http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Compounding

"Understanding both the power of compound return and the difficulty of getting it is the heart and soul of understanding a lot of things." **http://www.sandmansplace.com/Sandman_Favorite_Quotes.html**

> "Never interrupt it unnecessarily" http://72.14.203.104/search?q=cache:IuDIHXun74MJ:www.amazon.com/exec/obidos/tg/detail/-/1578643031%3Fv%3Dglance+%22Charlie+Munger%22+%22I+didn%27t+get+to+where+I+am%22&hl=en&gl=us&ct=clnk&cd=1

*"*Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things*"* *http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799*

> "We're not crying wolf at how hard it is to compound at the old rates—it can't be done. Look how tough it is to earn $100 million pretax doing anything; few ever accomplish it. Then $1 billion, the $5 billion, then $10 billion…." Poor Charlie's at 77 http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

> **Confidence**

"I have a black belt in chutzpah. I was born with it. Some people, like some of the women I know, have a black belt in spending. They were born with that. But what they gave me was a black belt in chutzpah." http://www.tilsonfunds.com/MungerUCSBspeech.pdf

Confirmation bias:

"Most people early achieve and later intensify a tendency to process new and disconfirming information so that any original conclusion remains intact. They become people of whom Philip Wylie observed: "You couldn't 't squeeze a dime between what they already know and what they will never learn."http://www.poorcharliesalmanack.com/pdf/page146.pdf

"The great example of Charles Darwin is he avoided confirmation bias. Darwin probably changed my life because I'm a biography nut, and when I found out the way he always paid extra attention to the disconfirming evidence and all these little psychological tricks. I also found out that he wasn't very smart by the ordinary standards of human acuity, yet there he is buried in Westminster Abbey. That's not where I'm going, I'll tell you." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"The human mind is a lot like the human egg, and the human egg has a shut-off device. When one sperm gets in, it shuts down so the next one can't get in. … And of course, if you make a public disclosure of your conclusion, you're pounding it into your own head. http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"This is why organizations solicit public pledges. Hell, it's the reason for the marriage ceremony." Talk at Cal Tech, "Bad Judgments, Common Causes, cited in Lowenstein at 169

Consultants:

"I have never seen a management consultant's report in my long life that didn't end with the following paragraph: "What this situation really needs is more management consulting." Never once. I always turn to the last page. Of course Berkshire doesn't hire them, so I only do this on sort of a voyeuristic basis. Sometimes I'm at a non-profit where some idiot hires one. [Laughter] " http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Contrarian:

"We have a history when things are really horrible of wading in when no one else will." http://www.fool.com/news/foth/2002/foth020515.htm

Corporate Governance:

"The system has deteriorated, and the reputation of the system has deteriorated even more than the system," he said, noting that "a lot of people are mad at corporate governance," including the kind of white-bread Republicans who should be the system's biggest supporters. "When even they are mad at Corporate America, "Corporate America has a serious problem." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

Costco:

> "I admired the place so much," Munger says, "that I violated my rules (against sitting on outside boards). It's hard to think of people who've done more in my lifetime to change the world of retailing for good, for added human happiness to the customer." http://www.sandiegometro.com/1998/nov/money.html

Costs

"We don't have an isolated group [of senior managers] surrounded by servants. Berkshire's headquarters is a tiny little suite. We just came back from Berkshire's board meeting; it had moved up to the board room of the Kiewit company and [it was so large and luxurious that] I felt uncomfortable ." http://www.tilsonfunds.com/wscmtg04notes.doc

Cost of capital:

> "Obviously, consideration of costs is key, including opportunity costs. Of course capital isn't free. It's easy to figure out your cost of borrowing, but theorists went bonkers on the cost of equity capital. They say that if you're generating a 100% return on capital, then you shouldn't invest in something that generates an 80% return on capital. It's crazy."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Crime:

"A few public hangings will really change behavior. One of our Presidents said if he could execute three people each year for no cause, it would make it a lot easier to govern. When someone said that's not enough, he said, "Oh yes it is, because I'd publish the list of people under consideration." (Laughter) http://www.tilsonfunds.com/wscmtg05notes.pdf

Crowd Folly:

> "'Crowd folly', the tendency of humans, under some circumstances, to resemble lemmings, explains much foolish thinking of brilliant men and much foolish behavior — like investment management practices of many foundations represented here today. It is sad that today each institutional investor apparently fears most of all that its investment practices will be different from practices of the rest of the crowd."
> http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Culture:

"For many of our shareholders, our stock is all they own, and we're acutely aware of that. Our culture [of conservatism] runs pretty deep." http://www.fool.com/news/foth/2002/foth020515.htm

"I think the foundation at Berkshire [Buffett's stake in Berkshire will pass to the Buffett Foundation upon his death] will be a plus because there will be a continuation of the culture. We'd still take in fine businesses run by people who love them."
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Our culture is very old-fashioned, like Ben Franklin or Andrew Carnegie. Can you imagine Andrew Carnegie hiring consultants?! It's amazing how well this approach still works. A lot of the businesses we buy are kind of cranky and old-fashioned like us."
http://www.fool.com/boringport/2000/boringport000501.htm

"If Warren has kept the faith until he's 75 years old, do you really think he'll blow the job of passing that culture along? What could be more important? You all have a lot more things to worry about than the candle at Berkshire going out because some people eventually die."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Debt

"We have monetized houses in this country in a way that's never occurred before. Ask Joe how he bought a new Cadillac [and he'll say] from borrowing on his house. We are awash in capital. [Being] awash is leading to very terrible behavior by credit cards and subprime lenders -a very dirty business, luring people into a disadvantageous position. It's a new way of getting serfs, and it's a dirty business. We have financial institutions, including those with big names, extending high-cost credit to the least able people. I find a lot of it revolting. Just because it's a free market doesn't mean it's honorable." http://www.tilsonfunds.com/wscmtg05notes.pdf

> "Of course I'm troubled by huge consumer debt levels – we've pushed consumer credit very hard in the US. Eventually, if it keeps growing, it will stop growing. As Herb Stein said, "If something cannot go on forever, it will stop." When it stops, it may be unpleasant. Other than Herb Stein's quote, I have no comment. But the things that trouble you are troubling me. http://www.tilsonfunds.com/wscmtg04notes.doc

Decisions:

> "If you took out our 15 best ideas, most of you wouldn't be here." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Declining Prices:

> "Over many decades, our usual practice is that if [the stock of] something we like goes down, we buy more and more. Sometimes something happens, you realize you're wrong, and you get out. But if you develop correct confidence in your judgment, buy more and take advantage of stock prices." http://www.fool.com/news/foth/2002/foth020515.htm

Denial:

> "If people tell you what you really don't want to hear what's unpleasant—there's an almost automatic reaction of antipathy. You have to train yourself out of it." http://ycombinator.com/munger.html

Disasters:

> "We don't think because it's never happened that it won't. There's no actuarial science, it's rough judgment. We just try to be conservative." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Deficits:

> "Generally speaking, it can't be good to be running a big current account deficit and a big fiscal deficit and have them both growing. You would be thinking the end there would be a comeuppance." "[But] it isn't as though all the other options look wonderful compared to the US. It gives me some feeling that what I regard as fiscal misbehavior on our part could go on some time without paying the price." http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

"We started from such a strong position. It's not as if the alternatives are all so great. I can understand why people would rather invest in the U.S. Do you want to be in Europe, where 12-13% of people are unemployed and most 28-year-olds are living at home and being paid by state to do it? Or be in Brazil or Venezuela with the political instability that you fear? It's not totally irrational that people still like the U.S., despite its faults. Whatever misbehavior there is could go on quite a long time without a price being paid. "
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Deferred Gratification

"Almost all good businesses engage in 'pain today, gain tomorrow' activities."
http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Denial:

"If you turn on the television, you'll find the mothers of the most obvious criminals that man could ever diagnose, and they all think their sons are innocent. That's simple psychological denial. The reality is too painful to bear, so you just distort it until it's bearable. We all do that to some extent, and it's a common psychological misjudgment that causes terrible problems."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Derivatives

"Everyone caved, adopted loose [accounting] standards, and created exotic derivatives linked to theoretical models. As a result, all kinds of earnings, blessed by accountants, are not really being earned. When you reach for the money, it melts away. It was never there. It [accounting for derivatives] is just disgusting. It is a sewer, and if I'm right, there will be hell to pay in due course. All of you will have to prepare to deal with a blow-up of derivative books.
http://www.fool.com/news/foth/2002/foth020515.htm

"No CEO examining books today understands what the hell is going on."
http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

The stupid and dishonest accountants allowed the genie of totally inappropriate accounting to descend on derivatives books. And once this has happened – people get status, etc. – it's impossible to get it back into the bottle.
http://www.tilsonfunds.com/brkmtg05notes.pdf

People don't think about the consequences of the consequences. People start by trying to hedge against interest rate changes, which is very difficult and complicated. Then, the hedges made the results [reported profits] lumpy. So then they use new derivatives to smooth this. Well, now you've morphed into lying. This turns into a Mad Hatter's Party. This happens to vast, sophisticated corporations. Somebody has to step in and say, "We're not going to do it — it's just too hard… Derivatives are full of clauses that say if one party's credit gets downgraded, then they have to put up collateral. It's like margin – you can go broke. In attempting to protect themselves, they've introduced instability. Nobody seems to have recognition of what a disaster of a system they've created. It's a demented system. http://www.tilsonfunds.com/brkmtg04notes.doc

To say accounting for derivatives is America is a sewer is an insult to sewage."
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Directors:

"Generally speaking, if you're counting on outside directors to act [forcefully to protect your interests as a shareholder, then you're crazy]. As a general rule in America, boards act only if there's been a severe disgrace. My friend Joe was asked to be on the board of Northwestern Bell and he jokes that "it was the last thing they ever asked me." [Laughter] I think you get better directors when you get directors who don't need the money. When it's half your income and all your retirement, you're not likely to be very independent. But when you have money and an existing reputation that you don't want to lose, then you'll act more independently. http://www.tilsonfunds.com/wscmtg04notes.doc

If mutual fund directors are independent, then I'm the lead character in the Bolshoi Ballet. [Laughter] http://www.tilsonfunds.com/wscmtg04notes.doc

A director who gets $150,000 per year from a company and needs the money is *not* independent. http://www.tilsonfunds.com/brkmtg05notes.pdf

I think it would be a great improvement if there were no D&O insurance . The counter-argument is that no-one with any money would serve on a board. But I think net net you'd be better off. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Disasters:

"Years ago, portfolio insurance was popular. People were selling it as a highly sophisticated way for large institutions to manage money and mitigate risk, and they earned a lot selling it. Then on Oct. 19, 1987, a relatively small amount of money that had been invested in portfolio insurance led to a one-day 22% drop. Each of the individuals who invested in portfolio insurance was intelligent, but in aggregate, they created a doomsday machine. I think the odds of something like this are magnified today compared to the 1980s. I don't know who will yell "fire," but when it happens, I'm sure the currency markets will play a role in the race for the door. "http://www.fool.com/news/commentary/2006/commentary06053101.htm

Discipline

"We have this investment discipline of waiting for a fat pitch. If I was offered the chance to go into business where people would measure me against benchmarks, force me to be fully invested, crawl around looking over my shoulder, etc., I would hate it. I would regard it as putting me into shackles." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Discounted Cash Flow

"Warren talks about these discounted cash flows. I've never seen him do one." *["It's true," replied Buffett. "If (the value of a company) doesn't just scream out at you, it's too close."] 1996 Berkshire Hathaway annual meeting http://www.ndir.com/SI/email/q403.shtml*

Diversification

The Berkshire-style investors tend to be less diversified than other people. The academics have done a terrible disservice to intelligent investors by glorifying the idea of diversification. Because I just think the whole concept is literally almost insane. It emphasizes feeling good about not having your investment results depart very much from average investment results. But why would you get on the bandwagon like that if somebody didn't make you with a whip and a gun? http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html

"The idea of excessive diversification is madness." http://www.tilsonfunds.com/brkmtg04notes.doc

Dividends

"The total amount paid out in dividends is roughly equal to the amount lost in trading and investment advice, so net dividends to shareholders are zero. This is a very peculiar way to run a republic." http://www.tilsonfunds.com/brkmtg04notes.doc

Downturns:

"If you, like me, lived through 1973-74 or even the early 1990s… There was a waiting list to get OUT of the country club — that's when you know things are tough. If you live long enough, you'll see it." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"It is an unfortunate fact that great and foolish excess can come into prices of common stocks in the aggregate. They are valued partly like bonds, based on roughly rational projections of use value in producing future cash. But they are also valued partly like Rembrandt paintings, purchased mostly because their prices have gone up, so far." http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Earnings

"We don't care about quarterly earnings (though obviously we care about how the business is doing over time) and are unwilling to manipulate in any way to make some quarter look better." http://www.tilsonfunds.com/wscmtg04notes.doc

"What we don't like in modern capitalism is the expectations game. It's not the kissing cousin of evil; it's the blood brother." http://www.tilsonfunds.com/brkmtg05notes.pdf

"We don't give a damn about lumpy results. Everyone else is trying to please Wall Street. This is not a small advantage." http://www.fool.com/boringport/2000/boringport00051500.htm

EBITDA:

"I think that, every time you saw the word EBITDA [earnings], you should substitute the word "bullshit" earnings." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Economics

"Gigantic macroeconomic predictions are something I've never made any money on, and neither has Warren " http://www.tilsonfunds.com/wscmtg04notes.doc

"Economics is in many respects the queen of the soft sciences. It's expected to be better than the rest. It's my view that economics is better at the multi-disciplinary stuff than the rest of the soft science. And it's also my view that it's still lousy." http://www.tilsonfunds.com/MungerUCSBspeech.pdf

"…Max Planck the great Nobel laureate who found Planck's Constant, tried once to do economics. He gave it up. Now why did Max Planck, one of the smartest people who ever lived, give up economics? The answer is, he said, "It's too hard. The best solution you can get is messy and uncertain. "http://www.tilsonfunds.com/MungerUCSBspeech.pdf

"economics should emulate physics' basic ethos, but its search for precision in physics–like formulas is almost always wrong in economics." http://www.smalla.net/tidbits/quotations/index.shtml

"Economists get very uncomfortable when you talk about virtue and vice. It doesn't lend itself to a lot of columns with numbers. But I would argue that there are big virtue effects in economics. I would say that the spreading of double-entry bookkeeping by the Monk, Fra Luce de Pacioli, was a big virtue effect in economics. It made business more controllable, and it made it more honest. http://www.originaldissent.com/forums/archive/index.php/t-14214.html

"If you try and talk like this to an economics professor, and I've done this three times, they shrink in horror and offense because they don't like this kind of talk. It really gums up this nice discipline of theirs, which is so much simpler when you ignore second- and third-order consequences." http://72.14.203.104/search?q=cache:eO7qYBw3X78J:www.fool.com/news/commentary/2004/commentary040604wt.htm+%22Charlie+munger%22+transcript&hl=en&gl=us&ct=clnk&cd=1

Economies of Scale

"On the subject of economies of scale, I find chain stores quite interesting. Just think about it. The concept of a chain store was a fascinating invention. You get this huge purchasing power — which means that you have lower merchandise costs. You get a whole bunch of little laboratories out there in which you can conduct experiments. And you get specialization. If one little guy is trying to buy across 27 different merchandise categories influenced by traveling salesmen, he's going to make a lot of dumb decisions. But if your buying is done in headquarters for a huge bunch of stores, you can get very bright people that know a lot about refrigerators and so forth to do the buying. The reverse is demonstrated by the little store where one guy is doing all the buying. It's like the old story about the little store with salt all over its walls. And a stranger comes in and says to the store owner, 'You must sell a lot of salt.' And he replies, 'No, *I* don't. But you should see the guy that *sells* me salt.' So there are huge purchasing advantages…." 1995 lecture at the University of Southern California entitled "A Lesson on Elementary, Worldly Wisdom as it Relates to Investment Management & Business." Outstanding Investors Digest. http://www.fool.com/boringport/1999/boringport991020.htm?ref=yhoolnk

"in terms of which businesses succeed and which businesses fail, advantages of scale are ungodly important. … In some businesses, the very nature of things is to sort of cascade toward the overwhelming dominance of one firm. And these advantages of scale are so great, for example, that when Jack Welch came into General Electric, he just said, "To hell with it. We're either going to be # 1 or #2 in every field we're in or we're going to be out." http://ycombinator.com/munger.html

Economy

"I think the main figure that matters to all of us, including people in the media, is: How does GDP per capita grow? And those figures have been very good. There is a huge flux both up and down, so it isn't like we're all static in status. What's important is that pie grows. " http://www.fool.com/news/commentary/2006/commentary06052706.htm

Education

"I get flack for saying [when I visit a college and give a speech], "This is a nice college, but the really great educator is McDonald's." They hate me for saying this and think I'm a slimy creature. But McDonald's hires people with bad work habits, trains them, and teaches them to come to work on time and have good work habits. I think a lot of what goes on there is better than at Harvard." http://www.tilsonfunds.com/wscmtg05notes.pdf

"You could argue that [the decline of public schools] is one of the major disasters in our lifetimes. We took one of the greatest successes in the history of the earth and turned it into one of the greatest disasters in the history of the earth." http://www.fool.com/news/foth/2001/foth010508.htm

"The theory of modern education is that you need a *general* education before you *specialize.* And I think to some extent, before you're going to be a great stock picker, you need some general education." http://www.thinkfn.com/en/content/view/52/?id=124

"If you don't keep learning, other people will pass you by. Temperament alone won't do it – you need a lot of curiosity for a long, long time. "http://www.tilsonfunds.com/brkmtg04notes.doc

"To finish first you have to first finish. Don't get in a position where you go back to go. What's interesting is that some guy whose grandfather was a lawyer and a judge—hurriedly going to Harvard Law with a wave of veterans—I was willing to go into so many different businesses. I was constantly going right into the other fellow's business and doing better than the other fellow did. The reason it was possible? Self-education— developing mental discipline, big ideas that really work." http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Efficient Market Theory

"We don't believe that markets are totally efficient and we don't believe that widespread diversification will yield a good result. We believe almost all good investments will involve relatively low diversification. Maybe 2% of people will come into our corner of the tent and the rest of the 98% will believe what they've been told." http://www.tilsonfunds.com/wscmtg04notes.doc

"Berkshire's whole record has been achieved without paying one ounce of attention to the efficient market theory in its hard form. And not one ounce of attention to the descendants of that idea, which came out of academic economics and went into corporate finance and morphed into such obscenities as the capital asset pricing model, which we also paid no attention to. I think you'd have to believe in the tooth fairy to believe that you could easily outperform the market by seven-percentage points per annum just by investing in high volatility stocks."
http://www.tilsonfunds.com/MungerUCSBspeech.pdf

> "I think it is roughly right that the market is efficient, which makes it very hard to beat merely by being an intelligent investor. But I don't think it's totally efficient at all. And the difference between being totally efficient and somewhat efficient leaves an enormous opportunity for people like us to get these unusual records. It's efficient enough, so it's hard to have a great investment record. But it's by no means impossible. Nor is it something that only a very few people can do. The top three or four percent of the investment management world will do fine."
> http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html

> "I have a name for people who went to the extreme efficient market theory—which is "bonkers". It was an intellectually consistent theory that enabled them to do pretty mathematics. So I understand its seductiveness to people with large mathematical gifts. It just had a difficulty in that the fundamental assumption did not tie properly to reality."
> http://ycombinator.com/munger.html

> "The possibility that stock value in aggregate can become irrationally high is contrary to the hard-form "efficient market" theory that many of you once learned as gospel from your mistaken professors of yore. Your mistaken professors were too much influenced by "rational man" models of human behavior from economics and too little by "foolish man" models from psychology and real-world experience."
> http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

"Efficient market theory [is] a wonderful economic doctrine that had a long vogue in spite of the experience of Berkshire Hathaway. In fact one of the economists who won — he shared a Nobel Prize — and as he looked at Berkshire Hathaway year after year, which people would throw in his face as saying maybe the market isn't quite as efficient as you think, he said, "Well, it's a two-sigma event." And then he said we were a three-sigma event. And then he said we were a four-sigma event. And he finally got up to six sigmas — better to add a sigma than change a theory, just because the evidence comes in differently. [Laughter] And, of course, when this share of a Nobel Prize went into money management himself, he sank like a stone."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Energy:

> "I know just enough about thermodynamics to understand that if it takes too much fossil-fuel energy to create ethanol, that's a very stupid way to solve an energy problem.
> [Laughter] "http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

> "The interesting thing is the field is so big — it's enormous. One thing a modern civilization needs is energy."
> http://72.14.203.104/search?q=cache:U59Ns6D8WZcJ:www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3+%22charlie+munger%22+%22this+is+a+good+lesson+for+anyone%22&hl=en&gl=us&ct=clnk&cd=1

Environment:

> "People always underestimate the ability of earth to increase its carrying capacity."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

> "The laws of thermodynamic s are such that if the water is getting warmer – and I believe it is – the energy of the weather is going to go up. "

http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Envy:

"…Missing out on some opportunity never bothers us. What's wrong with someone getting a little richer than you? It's crazy to worry about this…." http://www.tilsonfunds.com/wscmtg05notes.pdf

"Here's one truth that perhaps your typical investment counselor would disagree with: if you're comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, *so what*?! Someone will *always* be getting richer faster than you. This is not a tragedy. http://www.fool.com/BoringPort/2000/boringport00051501.htm

"We have a higher percentage of the intelligentsia engaged in buying and selling pieces of paper and promoting trading activity than in any past era. A lot of what I see now reminds me of Sodom and Gomorrah. You get activity feeding on itself, envy and imitation. It has happened in the past that there came bad consequences." http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

"Well envy/jealousy made, what, two out of the ten commandments? Those of you who have raised siblings you know about envy, or tried to run a law firm or investment bank or even a faculty? I've heard Warren say a half a dozen times, "It's not greed that drives the world, but envy."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"Suppose, any one of you knew of a wonderful thing right now that you were overwhelmingly confident- and correctly so- would produce about 12% per annum compounded as far as you could see. Now, if you actually had that available, and by going into it you were forfeiting all opportunities to make money faster- there're a lot of you who wouldn't like that. But a lot of you would think, "What the hell do I care if somebody else makes money faster?" There's always going to be somebody who is making money faster, running the mile faster or what have you. So in a human sense, once you get something that works fine in your life, the idea of caring terribly that somebody else is making money faster strikes me as insane."

> "The idea of caring that someone is making money faster [than you are] is one of the deadly sins. Envy is a really stupid sin because it's the only one you could never possibly have any fun at. There's a lot of pain and no fun. Why would you want to get on that trolley?" http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Estate Tax:

"Personally, I'm against the estate tax at its current rate, with its rapid rise to 55%. It hits owners of auto dealers, plumbers, etc. I think the exemption should be raised. "I have no problem with this rate [for estates] in the hundreds of millions of dollars. I have no problem personally with the estate tax." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Ethics:

"I think you'll make more money in the end with good ethics than bad. Even though there are some people who do very well, like Marc Rich–who plainly has never had any decent ethics, or seldom anyway. But in the end, Warren Buffett has done better than Marc Rich–in money–not just in reputation." http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

"I think the best single way to teach ethics is by example: take in people who demonstrate in all their daily conduct a good ethical framework. But if your ethics slip and people are rewarded [nevertheless, then] it cascades downward. Ethics are terribly important, but best taught indirectly by example. If you just learn a few rules [by having ethics taught in school] so they can pass the test, it doesn't do much. But if you see people you respect behaving in a certain way, especially under stress, [that has a real impact]. [ ] "The ethics of Wall Street will always average out to mediocre at best…. This doesn't mean there aren't some wonderful, intelligent people on Wall Street — there are, like those in this room — but everyone I know has to fight their own firm [to do the right thing]."
http://www.fool.com/news/foth/2002/foth020515.htm

EVA:

"I think there's an awful lot of twaddle and bull$%#* on EVA. The whole game is to turn retained earnings into more earnings. EVA has ideas about cost of capital that make no sense. Of course, if a company generates high returns on capital and can maintain this over time, it will do well. But the mental system as a whole does not work." http://www.fool.com/boringport/2000/boringport000501a.htm

Executives

> "Today, it seems to be regarded as the duty of CEOs to make the stock go up. This leads to all sorts of foolish behavior. We want to tell it like it is." http://netscape.fool.com/news/foth/2001/foth010508.htm?ref=foolwatch

Expectations

"…People need to ask, "How do I play the hand that has been dealt me?" The world is not going to give you extra return just because you want it. You have to be very shrewd and hard working to get a little extra. It's so much easier to reduce your wants. There are a lot of smart people and a lot of them cheat, so it's not easy to win. (Nervous laughter)…" http://www.tilsonfunds.com/wscmtg05notes.pdf

"One of the smartest things a person can do is dampen investment expectations, especially with Berkshire. That would be mature and responsible. I like our model and we should do nicely." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"I've heard that one-half of the students at elite schools want to go into private equity or hedge funds. They want to keep up with their age cohorts at Goldman. This can't possibly end well in terms of meeting these expectations. "
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Experience

> "If you're going to be an investor, you're going to make some investments where you don't have all the experience you need. But if you keep trying to get a little better over time, you'll start to make investments that are virtually certain to have a good outcome. The keys are discipline, hard work, and practice. It's like playing golf — you have to work on it."
> http://www.fool.com/news/foth/2002/foth020515.htm

Experts:

"… some important factor doesn't lose its "share of force" just because some "expert" can better measure other types of force."
http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

Extraordinary Charges

> "If it happens every year like clockwork, what's so extraordinary about it?"
> http://www.fool.com/news/foth/2001/foth010508.htm

Evil:

"Avoid evil, particularly if they're attractive members of the opposite sex." http://www.tilsonfunds.com/brkmtg04notes.doc

Facts

"Tthe first rule is that you can't really know anything if you just remember isolated facts and try and bang 'em back. If the facts don't hang together on a latticework of theory, you don't have them in a usable form…. You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and in life." http://ycombinator.com/munger.html

"An idea or a fact is not worth more merely because it's more available to you."

Failure

It's a good habit to trumpet your failures and be quiet about your successes.
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

You don't want to be like the motion picture exec who had so many people at his funeral, but they were there just make sure he was dead. Or how about the guy who, at his funeral, the priest said, "Won't anyone stand up and say anything nice for the deceased?" and finally someone said, "Well, his brother was worse." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Float:

"Growing float at a sizeable rate at low cost is almost impossible — but we intend to do it anyway."
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"I've been amazed by the growth and cost of our float. It's wonderful to generate billions of dollars of float at a cost way below Treasury notes." http://www.fool.com/boringport/2000/boringport000501.htm

Focus Investing:

> "Our investment style has been given a name — focus investing — which implies 10 holdings, not 100 or 400. Focus investing is growing somewhat, but what's really growing is the unlimited use of consultants to advise on asset allocation, to analyze other consultants, etc. http://www.fool.com/boringport/2000/boringport00051500.htm

Food:

> "My idea of a good place to shop is Costco – it has these heavily marbled fillet steaks. The idea of eating some wheat thing and washing it down with carrot juice has never appealed to me." http://www.tilsonfunds.com/brkmtg04notes.doc

Forecasts:

> "People have always had this craving to have someone tell them the future. Long ago, kings would hire people to read sheep guts. There's always been a market for people who pretend to know the future. Listening to today's forecasters is just as crazy as when the king hired the guy to look at the sheep guts. It happens over and over and over."
> http://www.tilsonfunds.com/brkmtg04notes.doc
>
> "It's human nature to extrapolate the recent past into the future, but it's terrible that managements go along with this."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3
>
> "We have the same problem as everyone else: It's very hard to predict the future…"
> http://www.fool.com/news/foth/2002/foth020515.htm

Foreign Currencies:

> "In effect about half our spare cash was stashed in currencies other than the dollar. I consider that a non-event. As it happens it¹s been a very profitable non-event." http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

Foreign Investing:

"As for what we like least, we don't want kleptocracies. We need a rule of law. If people are stealing from the companies, we don't need that." http://www.fool.com/news/commentary/2006/commentary06062914.htm

"We have a problem outside the U.S. because we aren't well known. The reason we could buy Iscar is because [Iscar was] so smart. We weren't smart enough to find them; they were smart enough to find us." http://www.fool.com/news/commentary/2006/commentary06062914.htm

"I agree with Peter Drucker that the culture and legal systems of the United States are especially favorable to shareholder interests, compared to other interests and compared to most other countries. Indeed, there are many other countries where any good going to public shareholders has a very low priority and almost every other constituency stands higher in line. "http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Franchises

"You'll find many markets where bottlers of Pepsi and Coke both make a lot of money and many others where they destroy most of the profitability of the two franchises. That must get down to the peculiarities of individual adjustment to market capitalism. I think you 'd have to know the people involved to fully understand what was happening. http://www.poorcharliesalmanack.com/pdf/page173.pdf

Fraud:

"If we mix only a moderate minority share of turds with the raisins each year, probably no one will recognize what will ultimately become a very large collection of turds." http://www.bluechipinvestorfund.com/munger.html

"Where you have complexity, by nature you can have fraud and mistakes. You'll have more of that than in a company that shovels sand from a river and sells it. This will always be true of financial companies, including ones run by governments. If you want accurate numbers from financial companies, you're in the wrong world." http://www.tilsonfunds.com/brkmtg05notes.pdf

Future:

"It's a rare business that doesn't have a way worse future than it has a past." http://www.fool.com/news/commentary/2006/commentary06053101.htm

Gambling:

"I knew a guy who had $5 million and owned his house free and clear. But he wanted to make a bit more money to support his spending, so at the peak of the internet bubble he was selling puts on internet stocks. He lost all of his money and his house and now works in a restaurant. It's not a smart thing for the country to legalize gambling [in the stock market] and make it very accessible." http://www.tilsonfunds.com/brkmtg05notes.pdf

"Berkshire in its history has made money betting on sure things. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"You have a lottery where you get your number by lot, and then somebody draws a number by lot, it gets lousy play. You have a lottery where people get to pick their number, you get big play. …People think if they have committed to it, it has to be good. The minute they've picked it themselves it gets an extra validity. After all, they thought it and they acted on it. Then if you take the slot machines, you get bar, bar, walnut. And it happens again and again and again. You get all these near misses. Well that's deprival super-reaction syndrome, and boy do the people who create the machines understand human psychology. And for the high-IQ crowd they've got poker machines where you make choices. So you can play blackjack, so to speak, with the machine. It's wonderful what we've done with our computers to ruin the civilization. But at any rate, mis-gambling compulsion is a very, very powerful and important thing. Look at what's

happening to our country: every Indian has a reservation, every river town, and look at the people who are ruined by it with the aid of their stock brokers and others."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm "To me, it's obvious that the winner has to bet very selectively. It's been obvious to me since very early in life. I don't know why it's not obvious to very many other people." http://www.ndir.com/SI/articles/quotes.shtml

GM:

"I have a greater sin to confess to. I once thought GM was a bulletproof franchise. But we have a method of coping: We just put it in the "too hard" basket. If something is too hard, we move on to something that's not too hard. What would be more simple?"
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22
Gold:
If you have the opportunities of Berkshire, an investment in gold is dumb. http://www.tilsonfunds.com/brkmtg05notes.pdf

Government

"We're here at an institution [Stanford] founded by a man [Leland Stanford] who bribed Congress to get his railroad franchises…I'm not constantly bewailing the failures of government — it's not our main problem at all."
http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Greed

"It's amazing the way people have sold out. It's insane." http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

"…all man's desired geometric progressions, if a high rate of growth is chosen, at last come to grief on a finite earth. And the social system for man on earth is fair enough, eventually, that almost all massive cheating ends in disgrace."
http://www.bluechipinvestorfund.com/munger.html

Guilt

"Economic systems work better when there's an extreme reliability ethos. And the traditional way to get a reliability ethos, at least in past generations in America, was through religion. The religions instilled guilt. … And this guilt, derived from religion, has been a huge driver of a reliability ethos, which has been very helpful to economic outcomes for man."
http://www.tilsonfunds.com/MungerUCSBspeech.pdf

Healthcare:

> "I think that if you have a single payer system and an opt-out for people who want to pay more [for better service, etc.], I think it would be better – and I think we'll eventually get there. It wouldn't be better at the top – [our current system] is the best in the world at the top. But the waste in the present system is awesome and we do get some very perverse incentives."
> http://www.tilsonfunds.com/wscmtg04notes.doc
>
> "The quality of the medical care delivered, including the pharmaceutical industry, has improved a lot. I don't think it's crazy for a rich country like the US to spend 15% of GDP on healthcare, and if it rose to 16-17%, it's not a big worry."
> http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Hedge Funds:

"It's amazing the brainpower being drawn into the hedge fund industry. When I was young, guys in the investment business were mediocre at best – they had eastern [East Coast] tailoring and didn't know very much. Now, it's a cascade of brainpower. Collectively, they add nothing to the GNP. Indeed, they're adding costs, collectively. If you take the money invested in common stocks, and then subtract the 2% per year that goes out in investment management costs and frictional trading costs, that's more than companies pay in dividends. It's more than the twin deficits. This would fit very well into Alice in Wonderland: pay dividends of X and pay the same amount to investment managers and advisors." http://www.tilsonfunds.com/wscmtg04notes.doc

"I don't think there's any business that we've bought that would have sold itself to a hedge fund. There's a class of businesses that doesn't want to deal with private-equity and hedge funds…thank God." http://www.tilsonfunds.com/brkmtg05notes.pdf

"You ask a heard hedge fund operator why the charge 2 and 20, and they say because I can't get 3 and 30, he says. "[For hedge funds], it's not about thinking what is fair and right — but merely how much can I get. It's a ghastly culture … there will be terrible scandal in due course" http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Hiring:

"This is a good life lesson: getting the right people into your system is the most important thing you can do." http://www.tilsonfunds.com/brkmtg05notes.pdf

Honesty

"I think track records are very important. If you start early trying to have a perfect one in some simple thing like honesty, you're well on your way to success in this world." Poor Charlie's **http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155**

"Bernie Ebbers and Ken Lay were caricatures – they were easy to spot. They were almost psychopaths. But it's much harder to spot problems at companies like Royal Dutch [Shell]." **http://www.tilsonfunds.com/brkmtg04notes.doc**

> "Well in the history of the See's Candy Company they always say, "I never did it before, and I'm never going to do it again." And we cashier them. It would be evil not to, because terrible behavior spreads. "http://72.14.203.104/search?q=cache:3sSZnXLbvQEJ:www.loschmanagement.com/Berkshire%2520Hathaway/Charlie%2520munger/The%2520Psychology%2520of%2520Human%2520Misjudgement.htm+%22charlie+Munger%22+%22the+way+Zeckhauser+plays+bridge%22&hl=en&gl=us&ct=clnk&cd=1

Hurdle rates:

"We're guessing at our future opportunity cost. Warren is guessing that he'll have the opportunity to put capital out at high rates of return, so he's not willing to put it out at less than 10% now. But if we knew interest rates would stay at 1%, we'd change. Our hurdles reflect our estimate of future opportunity costs." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Ideas:

> "It's not the bad ideas that do you in, but the good ones." http://www.fool.com/news/foth/2000/foth000907.htm
> "Our ideas are so simple that people keep asking us for mysteries when all we have are the most elementary ideas" http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799

Independence:

"Like Warren, I had a considerable passion to get rich. "Not because I wanted Ferraris– I wanted the independence. I desperately wanted it. I thought it was undignified to have to send invoices to other people. I don't know where I got that notion from, but I had it.' From Buffett , The making of an American Capitalist, Roger Lowenstein at page 75. "I wanted to get rich so I could be independent, like Lord John Maynard Keynes." **ttp://www.poorcharliesalmanack.com/intro3.html**

Insurance:

"I'm glad we have insurance, though it's not a no-brainer, I'm warning you. We have to be smart to make this work." http://www.fool.com/news/foth/2002/foth020515.htm

Immigration:

"…I'm very pleased when the smartest people come [to theU.S.] and almost never pleased when the very bottom of the mental barrel comes in…." http://www.tilsonfunds.com/brkmtg04notes.doc

"We have never had the will to enforce the immigration laws. What you see is what you'll continue to get." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Incentives:

"His bread I eat, his song I sing." http://www.bluechipinvestorfund.com/munger.html

"Expect hogs to eat a lot more in the presence of a lot of hog wash." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

"If you want good behavior, don't pay on a commission basis. Our judges aren't paid so much a case. We keep them pretty well isolated with a fixed salary. Judges in this whole thing have come out pretty well – there have been relatively few scandals. " http://www.tilsonfunds.com/wscmtg05notes.pdf

"I think I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I've underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther. " http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Index Funds

"Our standard prescription for the know-nothing investor with a long-term time horizon is a no-load index fund. I think that works better than relying on your stock broker. The people who are telling you to do something else are all being paid by commissions or fees. The result is that while index fund investing is becoming more and more popular, by and large it's not the individual investors that are doing it. It's the institutions." http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html

"[With] closet indexing….you're paying a manager a fortune and he has 85% of his assets invested parallel to the indexes. If you have such a system, you're being played for a sucker." http://www.tilsonfunds.com/wscmtg05notes.pdf

"stock brokers, in toto, will do so poorly that the index fund will do better." http://www.tilsonfunds.com/brkmtg04notes.doc

"One could imagine a period like Japan 13 years ago, however, in which indexing over time wouldn't work." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Inflation:

"One of the great defenses if you're worried about inflation is not to have a lot of silly needs in your life – if you don't need a lot of material goods." http://www.tilsonfunds.com/brkmtg04notes.doc

"I think democracies are prone to inflation because politicians will naturally spend [excessively] – they have the power to print money and will use money to get votes. If you look at inflation under the Roman Empire, with absolute rulers, they had much greater inflation, so we don't set the record. It happens over the long-term under *any* form of government." http://www.tilsonfunds.com/wscmtg04notes.doc

"I see almost no change in the price of the composite product that flows through Costco I don't feel sorry for the people who pay $27 million for an 8,000-square-foot condo in Manhattan. So inflation comes in places." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Interest Rates:

"Neither Warren nor I have any record of making large profits from interest rate bets. That being said, all intelligent citizens of this republic think a bit about this. In my lifetime, I've seen interest rates range from 1% to 20%. We try to operate so that really extreme interest rates in either direction wouldn't be too bad for us. When interest rates are in a middle range, as they are now, we're agnostic." http://www.fool.com/BoringPort/2000/boringport00051501.htm

Intrinsic Value:

"If you buy something because it's undervalued, then you have to think about selling it when it approaches your calculation of its intrinsic value. That's hard. But if you buy a few great companies, then you can sit on your $%@. That's a good thing." http://www.fool.com/boringport/2000/boringport000501.htm

"The basic concept of value to a private owner and being motivated when you're buying and selling securities by reference to intrinsic value instead of price momentum - I don't think that will ever be outdated." http://72.14.203.104/search?q=cache:7GV1CjDlhk8J:www.capitalideasonline.com/forum/read.php%3Ff%3D3%26i%3D300%26t%3D105+%22Charlie+Munger%22+%22a+great+business+at+a+fair+price%22&hl=en&gl=us&ct=clnk&cd=6

"like the stocks of both Berkshire and Wesco to trade within hailing distance of what we think of as intrinsic value. When it runs up, we try to talk it down. That's not at all common in Corporate America, but that's the way we act." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Investing:

"Investing is where you find a few great companies and then sit on your ass." Berkshire Hathaway's 2000 Shareholder Meeting http://www.ticonline.com/archives_quotes.html

"The investment game is getting more and more competitive." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

"An investment decision in the common stock of a company frequently involves a whole lot of factors interacting … the one thing that causes the most trouble is when you combine a bunch of these together, you get this lollapalooza effect." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"It's not given to human beings to have such talent that they can just know everything all the time. But it is given to human beings who work hard at it – who look and sift the world for a mispriced bet – that they can occasionally find one. And the wise ones bet keenly when the world offers that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple." **OID**, May 5, 1995

"If (investing) weren't a little difficult, everybody would be rich." Damn Right! Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe John Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

To us, investing is the equivalent of going out and betting against the pari-mutuel system. We look for a horse with one chance in two of winning, and that pays three to one. In other words, we're looking for a mispriced gamble. That's what investing is, and you have to know enough to know whether the gamble is mispriced." http://72.14.203.104/search?q=cache:sVtHPKWG-bwJ:www.wedgecapital.com/documents/WW2Q05.pdf+%22Charlie+Munger%22+%22to+us,+investing+is+the+equivalent+of%22&hl=en&gl=us&ct=clnk&cd=1

Investment Banks:

"The general culture of investment banking has deteriorated over the years. We did a $6 million deal years ago for Diversified Retailing and we were rigorously and intelligently screened. They bankers cared and wanted to protect their clients. The culture now is that anything that can be sold for a profit will be. 'Can you sell it?' is the moral test, and that's not an adequate test." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"The interesting thing about it to me is the mindset. With all these "helpers" running around, they talk about doing deals. We talk about welcoming partners. The guy doing deals, he wants to do a deal and then unwind it in the near future. It's totally opposite for us. We like to build lasting relationships. I think our system will work better in the long term than flipping deals. I think there are so many of them [helpers] that they'll get in ea h other's way. I don't think they'll make enough money to meet their expectations, by flipping, flipping, flipping." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"Warren talked to guy at an investment bank and asked how they made their money. He said, "Off the top, off the bottom, off both sides and in the middle." " http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

IPOs

"It is entirely possible that you could use our mental models to find good IPOs to buy. There are countless IPOs every year, and I'm sure that there are a few cinches that you could jump on. But the average person is going to get creamed. So if you're talented, good luck. IPOs are too small for us, or too high tech, so we won't understand them. So, if Warren's looking at them, I don't know about it." http://www.tilsonfunds.com/brkmtg04notes.doc

IQ:

"A lot of people with high IQs are terrible investors because they've got terrible temperaments. And that is why we say that having a certain kind of temperament is more important than brains. You need to keep raw irrational emotion under control. You need patience and discipline and an ability to take losses and adversity without going crazy. You need an ability to not be driven crazy by extreme success." http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html

"A money manager with an IQ of 160 and thinks it's 180 will kill you," he said. "Going with a money manager with an IQ of 130 who thinks its 125 could serve you well." http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html

"The hedge fund known as "Long Term Capital Management" collapsed last fall through overconfidence in its highly leveraged methods, despite I.Q.'s of its principals that must have averaged 160. Smart people aren't exempt from professional disasters from overconfidence. Often, they just run aground in the more difficult voyages they choose, relying on their self-appraisals that they have superior talents and methods." http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

"You need to have a passionate interest in why things are happening. That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don't have the cast of mind, you're destined for failure even if you have a high IQ." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"A foreign correspondent, after talking to me for a while, once said: "You don't seem smart enough to be so good at what you're doing. Do you have an explanation?" http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"When we were young, there weren't very many smart people in the investment world. You should have seen the people in the bank trust departments. Now, there are armies of smart people at private investment funds, etc . If there were a crisis now, there would be a lot more people with a lot of money ready to take advantage." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"It is remarkable how much long-term advantage people like [Warren Buffett and myself] have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe John Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

Judgment

"Although I am very interested in the subject of human misjudgment — and lord knows I've created a good bit of it — I don't think I've created my full statistical share, and I think that one of the reasons was I tried to do something about this terrible ignorance I left the Harvard Law School with." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Korea:

"I live surrounded by Koreans in L.A. I would regard Korean culture and what they've created as one of the most remarkable in the history of capitalism. We don't think it's an accident that Iscar discovered Korea. If you try to find 10 countries better than Korea … you won't get through one hand. We are huge admirers of Korea."http://www.fool.com/news/commentary/2006/commentary06062914.htm

Lawyers:

"…With Congress and the S.E.C. so heavily peopled by lawyers, and with lawyers having been so heavily involved in drafting financial disclosure documents now seen as bogus, there was a new "lawyer" joke every week. One such was: "The butcher says 'the reputation of lawyers has fallen dramatically', and the check-out clerk replies: "How do you fall dramatically off a pancake?…'" http://www.bluechipinvestorfund.com/munger.html

"The lawyers have escaped most criticism [and undeservedly so]. The tax shelters [were approved by lawyers, who got paid huge commissions to do so] and every miscreant had a high-falutin' lawyer at his side. Why don't more law firms vote with their feet and not take clients who have signs on them that say, "I'm a skunk and will be hard to handle?" I've noticed that firms that avoid trouble over long periods of time have an institutional process that tunes bad clients out. Boy, if I were running a law firm, I'd want a system like that because a lot of firms have a lot of bad clients. "http://www.tilsonfunds.com/wscmtg04notes.doc

"[Lawyers who file class-action securities suits] is not a group you would want to marry into your family. "That said, more than half the time the people being sued by the Lerach firm are guilty of outrageous conduct. The problem is, they don't mind (suing) the other half. They are an equal opportunity litigator." http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2004/06/22/BUGRK79OT81.DTL

"Accounting incomes were reduced by discrepancy [but] "the net amount paid by lawyers for lawyerly discrepancy is close to zippo. In this case, the goddess of justice was blind." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

Legal System:

"The definition of hell in the legal system is: endless due process and no justice; (in the corporate world) it would be: endless due diligence and no horse sense." - 2002 Berkshire Hathaway Shareholder Meeting http://www.ticonline.com/archives_quotes.html

Leadership

"There are always people who will be better at some thing than you are.
You have to learn to be a follower before you become a leader." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe John Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html
"We want very good leaders who have a lot of power," he said, "and we want to delegate a lot of power to those leaders….It's crazy not to distribute power to people with the most capacity and diligence…Every time I see an opportunity to choose somebody, the second best guy is just awful compared to the guy we hire. Usually the decision is a no-brainer. We have to give power to the people who can wield it efficiently in serious game of survival."
http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

Learning
"We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side. If you can't state arguments against what you believe better than your detractors, you don't know enough."
http://news.morningstar.com/article/article.asp?id=169398

"The game is to keep learning, and I don't think people are going to keep learning who don't like the learning process." http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%22life%20is%20just%20one%20damn%22%22

"The name of the game is continuing to learn. Even if you're very well trained and have some natural aptitude, you still need to keep learning*"* *http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799*

Leverage: (see also debt)

"Berkshire's past record has been almost ridiculous. If Berkshire had used even half the leverage of, say, Rupert Murdoch, it would be five times its current size." http://www.fool.com/news/foth/2001/foth010508.htm

Leveraged Buy Outs:

"In the LBO field there is a buried "covariance" with marketable equities, toward disaster in generally bad business conditions, and competition is now extremely intense."
http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

Lies

"Lou Vincenti [former Chairman of Wesco], who used to sit here, said, "If you tell the truth, you don't have to remember your lies." http://www.tilsonfunds.com/wscmtg04notes.doc

Life:

"You have to realize the truth of biologist Julian Huxley's idea that 'Life is just one damn relatedness after another' "So you must have the models, and you must see the relatedness and the effects from the relatedness."
http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%22life%20is%20just%20one%20damn%22%22

Liquidity:

"I think the notion that liquidity of tradable common stock is a great contributor to capitalism is mostly twaddle. The liquidity gives us these crazy booms, so it has as many problems as virtues." http://www.tilsonfunds.com/brkmtg04notes.doc

Litigation:

"Litigation is notoriously time-consuming, inefficient, costly and unpredictable." Lowenstein at 217

Loyalty:

"There are exceptional loyalties and there are old fashion ideas about how you get loyalties, and after all the auditorium is full of people who have co-owned shares with the managers for many decades, and in many cases they co-invested when everyone was young and obscure. Also when you come back to a place like that you are celebrating old loyalties, and of course the basic idea behind so much of Berkshire is the old fashioned idea that the best way to get loyalty is to deserve loyalty."

Luck

"Well, some of our success we predicted and some of it was fortuitous. [Regardless,] like most human beings, we took a bow. (Laughter)" http://www.tilsonfunds.com/wscmtg05notes.pdf

Management

"I think corporate managers should learn to be better investors because it would make them better managers." http://www.tilsonfunds.com/brkmtg05notes.pdf

> "Understanding how to be a good investor makes you a better business manager and vice versa." http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html
>
> "We don't train executives, we find them. If a mountain stands up like Everest, you don't have to be a genius to figure out that it's a high mountain." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22
>
> "Our success has come from the *lack* of oversight we've provided, and our success will continue to be from a lack of oversight. (Laughter) But if you're going to provide minimal oversight, you have to buy carefully. It's a different model from GE's. GE's works – it's just very different from ours." http://www.tilsonfunds.com/brkmtg05notes.pdf
>
> " …management matters…. I do not think it takes a genius to understand that Jack Welch was a more insightful person and a better manager than his peers in other companies….you do get an occasional opportunity to get into a wonderful business that's being run by a wonderful manager. And, of course, that's hog heaven day. If you don't load up when you get those opportunities, it's a big mistake." averaged out, betting on the quality of a business is better than betting on the quality of management. In other words, if you have to choose one, bet on the business momentum, not the brilliance of the manager. But, very rarely, you find a manager who's so good that you're wise to follow him into what looks like a mediocre business." http://ycombinator.com/munger.html
>
> "Good businesses can survive a little bad management." http://www.fool.com/news/foth/2000/foth000907.htm

Management Fees

"All the equity investors, in total, will surely bear a performance disadvantage per annum equal to the total croupiers' costs they have jointly elected to bear. This is an inescapable fact of life. And it is also inescapable that exactly half of the investors will get a result below the median result after the croupiers' take, which median result may well be somewhere between unexciting and lousy." http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Master%27s+Class:+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing+-+By+Charles+Munger+(Philanthropy+Magazine+March+1999)&hl=en&gl=us&ct=clnk&cd=1

> "Why would you want to invest with a guy whose thought process says, "If a second layer of fees is good, then let's add a third layer." http://www.tilsonfunds.com/brkmtg04notes.doc
>
> "If a foundation, or other investor, wastes 3% of assets per year in unnecessary, nonproductive investment costs in managing a strongly rising stock portfolio, it still feels richer, despite the waste, while the people getting the wasted 3%, "febezzelers" though they are, think they are virtuously earning income. The situation is functioning like undisclosed embezzlement without being self-limited. Indeed, the process can expand for a long while by feeding on itself. And all the while what looks like spending from earned income of the receivers of the wasted 3% is, in substance, spending from a disguised "wealth effect"

from rising stock prices. ”
http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Margin of Safety

“In engineering, people have a big margin of safety. But in the financial world, people don’t give a damn about safety. They let it balloon and balloon and balloon. It’s aided by false accounting.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Marriage:

What’s the best way to get a good spouse? The best single way is to *deserve* a good spouse because a good spouse is by definition not nuts.” http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Math:

“If you want to understand science, you have to understand math. In business, if you’re enumerate, you’re going to be a klutz. The good thing about business is that you don’t have to know any higher math….”
http://www.tilsonfunds.com/brkmtg04notes.doc

“There is bound to be a regression toward the mean.”
http://money.cnn.com/magazines/moneymag/moneymag_archive/1997/07/01/228497/index.htm

Even in pure mathematics they can’t remove all paradox, and the rest of us should also recognize we are going to have to endure a lot of paradox, like it or not.
http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22
Without numerical fluency, in the part of life most of us inhabit, you are like a one-legged man in an ass-kicking contest.” **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe john Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html and
http://www.economist.com/media/globalexecutive/damn_right_e_02.pdf#search=%22%20%22charlie%20Munger%22%20army%20and%20playing%20poker%22

Mental Models:

“You need a different checklist and different mental models for different companies. I can never make it easy by saying, ‘Here are three things.’ You have to derive it yourself to ingrain it in your head for the rest of your life.”
http://www.fool.com/news/foth/2002/foth020515.htm

For some odd reason, I had an early and extreme multidisciplinary cast of mind. I couldn’t stand reaching for a small idea in my own discipline when there was a big idea right over the fence in somebody else’s discipline. So I just grabbed in all directions for the big ideas that would really work. Nobody taught me to do that; I was just born with that yen.
http://www.tilsonfunds.com/MungerUCSBspeech.pdf

“You must know the big ideas in the big disciplines, and use them routinely — all of them, not just a few. Most people are trained in one model — economics, for example — and try to solve all problems in one way. You know the old saying: to the man with a hammer, the world looks like a nail. This is a dumb way of handling problems.” http://www.fool.com/BoringPort/2000/boringport00051501.htm

"If you skillfully follow the multidisciplinary path, you will never wish to come back. It would be like cutting off your hands" http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799

Microsoft:

Every business tries to turn this year's success into next year's greater success. It's hard for me to see why Microsoft is sinful to do this. If it's a sin, then I hope all of Berkshire Hathaway's subsidiaries are sinners. …Someone whose salary is paid by U.S. taxpayers is happy to dramatically weaken the one place where we're winning big?!" http://www.fool.com/boringport/2000/boringport000501a.htm

Mispriced bets:

"… we came to this notion of finding a mispriced bet and loading up when we were very confident that we were right…." http://ycombinator.com/munger.html

Mistakes

The more hard lessons you can learn vicariously rather than through your own hard experience, the better. http://www.tilsonfunds.com/wscmtg04notes.doc

"Although I am very interested in the subject of human misjudgment — and lord knows I've created a good bit of it — I don't think I've created my full statistical share" http://www.vinvesting.com/docs/munger/human_misjudgement.html

Since mistakes of omission don't appear in the financial statements, most people don't pay attention to them. We rub our noses in mistakes of omission – as we just did. http://www.tilsonfunds.com/brkmtg04notes.doc

"The most extreme mistakes inBerkshire's history have been mistakes of omission. We saw it, but didn't act on it. They're huge mistakes — we've lost billions. And we keep doing it. We're getting better at it. We never get over it." There are two types of mistakes: 1) doing nothing; what Warren calls "sucking my thumb" and 2) buying with an eyedropper things we should be buying a lot of."

http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

After nearly making a terrible mistake not buying See's, we've made this mistake many times. We are apparently slow learners. These opportunity costs don't show up on financial statements, but have cost us many billions. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"Chris Davis [of the Davis funds] has a temple of shame. He celebrates the things they did that lost them a lot of money. What is also needed is a temple of shame squared for things you didn't do that would have made you rich. Forgetting your mistakes is a terrible error if you are trying to improve your cognition. Reality doesn't remind you. Why not celebrate stupidities in both categories?" http://news.morningstar.com/article/article.asp?id=169398

There 's no way that you can live an adequate life without [making] many mistakes. http://www.poorcharliesalmanack.com/pdf/page228.pdf

"Our biggest mistakes, were things we didn't do, companies we didn't buy." http://money.cnn.com/magazines/moneymag/moneymag_archive/1998/07/01/244582/index.htm

Moats

Kellogg's and Campbell's moats have also shrunk due to the increased buying power of supermarkets and companies like Wal-Mart. The muscle power of Wal-Mart and Costco has increased dramatically." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

"How do you compete against a true fanatic? You can only try to build the best possible moat and continuously attempt to widen it." Poor Charlie's at 59 http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

Money

There are a lot of things in life way more important than money. All that said, some people do get confused. I play golf with a man who says, " What good is health? You can't buy money with it." http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

Money Management:

It's my guess that something like 5% of GDP goes to money management and itsattendant friction. I define it broadly – annuities, incentive pay, all trading, etc. Nobody else has used figures that high, but that's my guess. Worst of all, the people doing this are among the best and the brightest. Hundreds and thousands of engineers, etc. are going into hedge funds and investment banking. That is *not* an intelligent allocation of the brainpower of the civilization. http://www.tilsonfunds.com/wscmtg05notes.pdf

I think money management is a low calling relative to being a surgeon. I don't like the percentage of our GDP and brainpower and professional effort that's in money management. I don't think it's a good thing for our country, and don't expect it to end well. The present era has no comparable precedent in the history of capitalism when so many people are trading pieces of paper. We have a higher proportion of the intelligent sections of society involved in buying and selling bits of paper and trying to make money doing it. There are more people doing thisthan at any time in history. A lot of this reminds me of Sodom and Gomorrah. http://www.tilsonfunds.com/brkmtg05notes.pdf

The general systems of money management [today] require people to pretend to do something they can't do and like something they don't. It's a terrible way to spend your life, but it's very well paid. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"It's natural that you'd have more brains going into money management. There are so many huge incomes in money management and investment banking — it's like ants to sugar. There are huge incentives for a man to take up money management as opposed to, say, physics, and it's a lot easier." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

I think the reason why we got into such idiocy in investment management is best illustrated by a story that I tell about the guy who sold fishing tackle. I asked him, "My God, they're purple and green. Do fish really take these lures?" And he said, "Mister, I don't sell to fish." Investment managers are in the position of that fishing tackle salesman. http://ycombinator.com/munger.html

In investment management today, everybody wants not only to win, but to have a yearly outcome path that never diverges very much from a standard path except on the upside. Well, that is a very artificial, crazy construct. That's the equivalent in investment management to the custom of binding the feet of Chinese women. http://ycombinator.com/munger.html

I think a select few—a small percentage of the investment managers—can deliver value added. But I don't think brilliance alone is enough to do it. I think that you have to have a little of this discipline of calling your shots and loading up—you want to maximize your chances of becoming one who provides above average real returns for clients over the long pull. But I'm just talking about investment managers engaged in common stock picking. I am agnostic elsewhere. I think there may well be people who are so shrewd about currencies and this, that and the other thing that they can achieve good long term records operating on a pretty big scale in that way. But that doesn't happen to be my milieu. I'm talking about stock picking in American stocks. http://ycombinator.com/munger.html The whole concept of the house advantage is an interesting one in modern money management. The terms of the managers of the private partnerships look a lot like the take of the croupier at

Monte Carlo, only greater. http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Morals

Once you start doing something bad, then it's easy to take the next step – and in the end, you're a moral sewer. http://www.tilsonfunds.com/wscmtg04notes.doc

We believe there should be a huge area between everything you should do and everything you can do without getting into legal trouble. I don't think you should come anywhere *near* that line. We don't deserve much credit for this. It helps us make more money. I'd like to believe that we'd behave well even if it didn't work. But more often, we've made extra money from doing the right thing. Ben Franklin said I'm not moral because of it's the right thing to do – but because it's the best policy. http://www.tilsonfunds.com/wscmtg04notes.doc

We don't claim to have perfect morals, but at least we have a huge area of things that, while legal, are beneath us. We won't do them. Currently, there's a culture in America that says that anything that won't send you to prison is OK. http://www.tilsonfunds.com/brkmtg04notes.doc

"With so much money riding on reported numbers, human nature is to manipulate them. And with so many doing it, you get Serpico effects, where everyone rationalizes that it's okay because everyone else is doing it. It is always thus." http://www.fool.com/BoringPort/2000/boringport00051501.htm

"The old culture had come out of poverty, out of English customs," he said. "People did not have the vast sense of entitlement, that they were entitled to be rich. People were damned glad to have a decent job where they might advance." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

It is not always recognized that, to function best, morality should sometimes appear unfair, like most worldly outcomes. The craving for perfect fairness causes a lot of terrible problems in system function. Some systems should be made deliberately unfair to individuals because they'll be fairer on average for all of us. I frequently cite the example of having your career over, in the Navy, if your ship goes aground, even if it wasn't your fault. I say the lack of justice for the one guy that wasn't at fault is way more than made up by a greater justice for everybody when every captain of a ship always sweats blood to make sure the ship doesn't go aground. Tolerating a little unfairness to some to get a greater fairness for all is a model I recommend to all of you. http://www.originaldissent.com/forums/archive/index.php/t-14214.html

The cash register did more for human morality than the Congregational Church. It was a really powerful phenomenon to make an economic system work better, just as, in reverse, a system that can be easily defrauded ruins a civilization. A system that's very hard to defraud, like a cash register, helped the economic performance of a civilization by reducing vice, but very few people within economics talk about it in those terms. http://www.originaldissent.com/forums/archive/index.php/t-14214.html

Mr. Market

> "Ben Graham [had] his concept of "Mr. Market". Instead of thinking the market was efficient, he treated it as a manic-depressive who comes by every day. And some days he says, "I'll sell you some of my interest for way less than you think it's worth." And other days, "Mr. Market" comes by and says, "I'll buy your interest at a price that's way higher than you think it's worth." And you get the option of deciding whether you want to buy more, sell part of what you already have or do nothing at all. To Graham, it was a blessing to be in business with a manic-depressive who gave you this series of options all the time. That was a very significant mental construct…." http://ycombinator.com/munger.html

Models:

the great economist Keynes,. "Better to be roughly right than precisely wrong." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Mutual Funds

> "Mutual funds charge 2% per year and then brokers switch people between funds, costing another 3-4 percentage points. The poor guy in the general public is getting a terrible product from the professionals. I think it's disgusting. It's much better to be part of a system that delivers value to the people who buy the product. But if it makes money, we tend to do it in this country." http://www.tilsonfunds.com/brkmtg04notes.doc

this mutual fund study is roughly right, it raises huge questions about foundation wisdom in changing investment managers all the time as mutual fund investors do. If the extra lag reported in the mutual fund study exists, it is probably caused in considerable measure by folly in constant removal of assets from lagging portfolio managers being forced to liquidate stockholdings, followed by placement of removed assets with new investment managers that have high-pressure, asset-gaining hoses in their mouths
http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Newspapers:

"For years I have read the morning paper and harrumphed. There's a lot to harrumph about now."
http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

It is way less certain to be a wonderful business in the future. The threat is alternative mediums of information. Every newspaper is scrambling to parlay their existing advantage into dominance on the Internet. But it is way less sure [that this will occur] than the certainty 20 years ago that the basic business would grow steadily, so there's more downside risk. The perfectly fabulous economics of this business could become grievously impaired."
http://www.fool.com/BoringPort/2000/boringport00051501.htm

Objectivity:

The life of Darwin demonstrates how a turtle may outrun a hare, aided by extreme objectivity, which helps the objective person end up like the only player without a blindfold in a game of Pin the Tail on the Donkey. http://www.poorcharliesalmanack.com/pdf/page146.pdf

Opportunities:

The general assumption is that it must be easy to sit behind a desk and people will bring in one good opportunity after another — this was the attitude in venture capital until a few years ago. This was not the case at all for us — we scrounged around for companies to buy. For 20 years, we didn't buy more than one or two per year. …It's fair to say that we were rooting around. There were no commissioned salesmen. Anytime you sit there waiting for a deal to come by, you're in a very dangerous seat.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Opportunity Costs:

If you take the best text in economics by Mankinaw, he says intelligent people make decisions based on opportunity costs — in other words, it's your alternatives that matter. That's how we make all of our decisions. The rest of the world has gone off on some kick — there's even a cost of equity capital. A perfectly amazing mental malfunction.
http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"There is this company in an emerging market that was presented to Warren. His response was, 'I don't feel more comfortable buying that than I do of adding to Wells Fargo.' He was using that as his opportunity cost. No one can tell me why I shouldn't buy more Wells Fargo.

Warren is scanning the world trying to get his opportunity cost as high as he can so that his individual decisions are better."
http://news.morningstar.com/article/article.asp?id=169398

Finding a single investment that will return 20% per year for 40 years tends to happen only in dreamland. In the real world, you uncover an opportunity, and then you compare other opportunities with that. And you only invest in the most attractive opportunities. That's your opportunity cost. That's what you learn in freshman economics. The game hasn't changed at all. That's why Modern Portfolio Theory is so asinine. http://www.fool.com/news/commentary/2006/commentary06060104.htm

Opportunity cost is a huge filter in life. If you've got two suitors who are really eager to have you and one is way the hell better than the other, you do not have to spend much time with the other. And that's the way we filter out buying opportunities*"* *http://www.feedblitz.com/f/f.fbz?PreviewFeed=7799*

Overconfidence:

Most people who try it don't do well at it. But the trouble is that if even 90% are no good, everyone looks around and says, "I'm the 10%." http://www.tilsonfunds.com/wscmtg04notes.doc

"..in the 5th century B. C. Demosthenes noted that: "What a man wishes, he will believe." And in self-appraisals of prospects and talents it is the norm, as Demosthenes predicted, for people to be ridiculously over-optimistic. For instance, a careful survey in Sweden showed that 90 percent of automobile drivers considered themselves above average. And people who are successfully selling something, as investment counselors do, make Swedish drivers sound like depressives. Virtually every investment expert's public assessment is that he is above average, no matter what is the evidence to the contrary." http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

"[GEICO] got to thinking that, because they were making a lot of money, they knew everything. And they suffered huge losses.

All they had to do was to cut out all the folly and go back to the perfectly wonderful business that was lying there. http://ycombinator.com/munger.html

Panic:

When you have a huge convulsion, like a fire in this auditorium right now, you do get a lot of weird behavior. If you can be wise [during such h times, you'll profit]. http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Passion:

What matters most: passion or competence that was born in? Berkshire is full of people who have a peculiar passion for their own business. I would argue passion is more important than brain power. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Patience:

most people are too fretful, they worry to much. Success means being very patient, but aggressive when it's time http://www.tilsonfunds.com/wscmtg04notes.doc

If you took the top 15 decisions out, we'd have a pretty average record. It wasn't hyperactivity, but a hell of a lot of patience. You stuck to your principles and when opportunities came along, you pounced on them with vigor. With all that vigor, you only made a decision every two years. We do more deals now, but it happened with a relatively few decisions and staying the course for decades and holding our fire until something came along worth doing. http://www.tilsonfunds.com/wscmtg04notes.doc

"We just keep our heads down and handle the headwinds and tailwinds as best we can, and take the result after a period of years." http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

We just throw some decisions into the "too hard" file and go onto others. http://www.tilsonfunds.com/brkmtg05notes.pdf

We don't feel some compulsion to swing. We're perfectly willing to wait for something decent to come along." "We're rich in relation to the business that we're doing. "In certain periods, we have a hell of a time finding places to invest our money. We are in such a period." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"Patience:

The art of waiting without tiring of waiting." http://72.14.203.104/search?q=cache:sVtHPKWG-bwJ:www.wedgecapital.com/documents/WW2Q05.pdf+%22Charlie+Munger%22+%22to+us,+investing+is+the+equivalent+of%22&hl=en&gl=us&ct=clnk&cd=1

> "It is occasionally possible for a tortoise, content to assimilate proven insights of his best predecessors, to out run hares which seek originality or don't wish to be left out of some crowd folly which ignores the best work of the past. This hap pens as the tortoise stumbles on some particularly effective way to apply the best previous work, or simply avoids standard calamities. We try more to profit by always remembering the obvious than from grasping the esoteric. It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."

People:

> "When you have doubts about a person, you can pass," he said. "There's enough nice people to interface with." http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html

> "You know the cliché' that opposites attract? Well, opposites don't attract. Psychological experiments prove that's it's people who are alike that are attracted to each other. Our minds [his and Buffett's] work in very much the same way." http://www.metnews.com/opinion/persp-munger.htm

> "It's amazing how few times over the decades we've have to remove a person — far less than other companies. It's not that we're soft or foolish, it's that we're wiser and luckier. Most people would look back and say their worst mistake was not firing someone soon enough. http://www.fool.com/boringport/2000/boringport00051500.htm

Performance:

> "Don't confuse correlation and causation. Almost all great records eventually dwindle…" http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Pessimism

> "Is there such thing as a cheerful pessimist? That's what I am." http://www.fool.com/news/foth/2001/foth010508.htm

Phil Fisher:

> I always like it when someone attractive to me agrees with me, so I have fond memories of Phil Fisher. The idea that it was hard to find good investments, so concentrate in a few, seems to me to be an obviously good idea. But 98% of the investment world doesn't think this way. http://www.tilsonfunds.com/brkmtg04notes.doc

Philanthropy:

> those of us who have been very fortunate have a duty to give back. Whether one gives a lot as one goes along as I do or a little and then a lot [when one dies] as Warren does is a matter of personal preference. I would hate to have people ask me for money all day long. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

> "Is anyone really surprised that Warren, who is the ultimate embodiment of concentrated decision-making power, picked somebody [Bill and Melinda Gates] who he thinks is like him in many important ways? It was a noble and sensible decision." http://paul.kedrosky.com/archives/2006/06/26/the_wit_and_wis.html

Physics:

> "The tradition of always looking for the answer in the most fundamental way available — that is a great tradition, and it saves a lot of time in this world." Damn Right, page 34 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

Planning:

"There has never been a master plan. Anyone who wanted to do it, we fired because it takes on a life of its own and doesn't cover new reality. We want people taking into account new information." http://www.tilsonfunds.com/wscmtg04notes.doc

"Strategic plans cause more dumb decisions than anything else in America." http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html

Poker:

"Life in part is like a poker game, wherein you have to learn to quit sometimes when holding a much loved hand." http://www.poorcharliesalmanack.com/pdf/page228.pdf

> "Playing poker in the **Army** and as a young lawyer honed my business skills … What you have to learn is to fold early when the odds are against you, or if you have a big edge, back it heavily because you don't get a big edge often." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe john Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html
> **Poor Charlie's Almanack**

"This book was a crazy thing to have done, and not everyone will like it, but what the hell." http://www.poorcharliesalmanack.com/recommendations.html

Price

> "We bought a doomed textile mill [Berkshire Hathaway] and a California S&L [Wesco] just before a calamity. Both were bought at a discount to liquidation value." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3
>
> "Wrigley is a great business, but that doesn't solve the problem. Buying great businesses at advantageous prices is very tough." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3
>
> "If you can buy the best companies, over time the pricing takes care of itself." – (**OID**)
>
> "The investment game always involves considering both quality and price, and the trick is to get more quality than you pay for in price. It's just that simple. **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe john Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

Pricing Power:

> "There are actually businesses, that you will find a few times in a lifetime, where any manager could raise the return enormously just by raising prices—and yet they haven't done it. So they have huge untapped pricing power that they're not using. That is the ultimate no-brainer. … Disney found that it could raise those prices a lot and the attendance stayed right up. So a lot of the great record of Eisner and Wells … came from just raising prices at Disneyland and Disneyworld and through video cassette sales of classic animated movies… At Berkshire Hathaway, Warren and I raised the prices of See's Candy a little faster than others might have. And, of course, we invested in Coca-Cola—which had some untapped pricing power. And it also had brilliant management. So a Goizueta and Keough could do much more than raise prices. It was perfect." http://ycombinator.com/munger.html

Priorities:

"Trying to prioritize among things we're unlikely to do is pretty fruitless." http://www.tilsonfunds.com/brkmtg04notes.doc

Predictions:

Berkshire is in the business of making easy predictions If a deal looks too hard, the partners simply shelve it." http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm
"We're the tortoise that has outrun the hare because it chose the easy predictions.
http://www.fool.com/news/commentary/2006/commentary06062914.htm

Preparation:

"Opportunity comes to the prepared mind." http://72.14.203.104/search?q=cache:IuDIHXun74MJ:www.amazon.com/exec/obidos/tg/detail/-/1578643031%3Fv%3Dglance+%22Charlie+Munger%22+%22I+didn%27t+get+to+where+I+am%22&hl=en&gl=us&ct=clnk&cd=1

"a lot of opportunities in life tend to last a short while, due to some temporary inefficiency… For each of us, really good investment opportunities aren't going to come along too often and won't last too long, so you've got to be ready to act and have a prepared mind." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Private Equity:

"In the 1930s, there as a stretch here you could borrow more against the real estate than you could sell it for. I think that's hat's going on in today's private-equity world."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Problems

"Some people seem to think there's no trouble just because it hasn't happened yet. If you jump out the window at the 42nd floor and you're still doing fine as you pass the 27th floor, that doesn't mean you don't have a serious problem."
http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

"Let me know what your problem is, and I will try to make it more difficult for you."
http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

Prospect Theory:

"I mean people are really crazy about minor decrements down. And then, if you act on them, then you get into reciprocation tendency, because you don't just reciprocate affection, you reciprocate animosity, and the whole thing can escalate. And so huge insanities can come from just subconsciously over-weighing the importance of what you're losing or almost getting and not getting."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Prospectus

"Any time anybody offers you anything with a big commission and a 200-page prospectus, don't buy it. Occasionally, you'll be wrong if you adopt "Munger's Rule". However, over a lifetime, you'll be a long way ahead—and you will miss a lot of unhappy experiences ."http://ycombinator.com/munger.html

Psychology:

"The elementary part of psychology - the psychology of misjudgment, as I call it - is a terribly important thing to learn. There are about 20 little principles. And they interact, so it gets slightly complicated. But the guts of it is unbelievably important. Terribly smart people make totally bonkers mistakes by failing to pay heed to it. In fact, I've done it several times during the last two or three years in a very important way. You never get totally over making silly mistakes. There's another saying that

comes from Pascal which I've always considered one of the really accurate observations in the history of thought. Pascal said in essence, "The mind of man at one and the same time is both the glory and the shame of the universe."
http://www.thinkfn.com/en/content/view/52/?id=124

Public Company:

"…the cost of being a publicly traded stock has gone way, way up. It doesn't make sense for a little company to be public anymore. A lot of little companies are going private to be rid of these burdensome requirements…." http://www.tilsonfunds.com/wscmtg05notes.pdf

Purpose:

"That I've profited from being shrewd with money is not by itself satisfying to me. To atone, I teach and try to set an example. I would hate it if the example of my life caused people to pursue the passive ownership of pieces of paper. I think lives so spent are disastrous lives. I think it's a better career if you help build something. I wish I'd built more, but I was cursed at being so good at stock picking. 'The man is the prisoner of his talents.' You can laugh, but I'll bet this room is full of people who are prisoners of their talents. It tends to be the human condition."
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Rationality

"Rationality is not just something you do so that you can make more money, it is a binding principle. Rationality is a really good idea. You must avoid the nonsense that is conventional in one's own time. It requires developing systems of thought that improve your batting average over time." http://news.morningstar.com/article/article.asp?id=169398

"We have a high moral responsibility to be rational."
http://money.cnn.com/magazines/fortune/fortune_archive/2006/05/29/8378052/index.htm

"The manipulation still works even though you know you're doing it. And I've seen that done by one person to another. I drew this beautiful woman as my dinner partner a few years ago, and I'd never seen her before. Well, she's married to prominent Angelino, and she sat down next to me and she turned her beautiful face up and she said, "Charlie," she said, "What one word accounts for your remarkable success in life?" And I knew I was being manipulated and that she'd done this before, and I just loved it. I mean I never see this woman without a little lift in my spirits. And by the way I told her I was rational."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Reading

"We read a lot. I don't know anyone who's wise who doesn't read a lot. But that's not enough: You have to have a temperament to grab ideas and do sensible things. Most people don't grab the right ideas or don't know what to do with them."
http://www.tilsonfunds.com/brkmtg04notes.doc

"In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time – none, zero. You'd be amazed at how much Warren reads – at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

"…by regularly reading business newspaper and magazines I am exposed to an enormous amount of material at the micro level.. I find that what I see going on there pretty much informs me about what's happening at the macro level."
http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

Real Estate:

"We don't have big advantages — no special competence — so we spend almost no time on it." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"REITs are way more suitabl e for individual shareholders than for corporate shareholders. And Warren has enough residue from his old cigar-butt personality that when people became disenchanted with the REITs and the market price went down to maybe a 20% discount from what the companies could be liquidated for, he bought a few shares with his personal money. So it's nice that Warren has a few private assets with which to pick up cigar butts in memory of old times – if that's what keeps him amused." - 1999 Wesco Annual Meeting http://www.ticonline.com/archives_quotes.html

Regulation

In our early days, we tended to overestimate the difficulties of regulation. We refrained by buying the stocks of television stations because we thought it was peculiar that someone could ask to have the government pull your license any year – and the government could do it. http://www.tilsonfunds.com/brkmtg04notes.doc

"How often does it happen that someone who was an intimate member of an industry is really the right person to clean it up?" "Will anybody be as tough as I'd like to see? The answer is no."

Regret:

> "I don't spend much time regretting the past, once I've taken my lesson from it. I don't dwell on it." **Damn Right!** Behind the Scenes with Berkshire Hathaway Billionaire Cha lie Munger, Janet Lowe john Wiley &Sons, 2003 http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

Reinsurance:

"Reinsurance is not as much of a commodity business as it might appear. There's such a huge time lag between when the policy is written and when it is paid that the customer has to evaluate the insurer's future willingness and ability to pay. We have a reputational advantage, though it's not as big as it should be." http://www.fool.com/boringport/2000/boringport000501.htm

"Our record in the past if you average it out has been quite respectable. Why shouldn¹t we use our capital strength?" "We'd be out of our minds if we wrote weather insurance on the opinion global warming would have no effect at all." http://us.ft.com/ftgateway/superpage.ft?news_id=fto050720060912107064&page=2

Responsibility

"But if you rise high in a corporation or elsewhere in life, you have a duty to be anexemplar – you have a duty to take less than you deserve, to set an example. This goes all the way back to Athens. " http://www.tilsonfunds.com/wscmtg05notes.pdf

Returns:

> "If I'm wrong (about future stock market returns being in the mid-single digits), it could be for a bad reason. Stocks partly sell like bonds, based on expectations of future cash streams, and partly like Rembrandts, based on the fact that they've gone up in the past and are fashionable," Munger said. "If they trade more like Rembrandts in the future, then stocks will rise (at double digits), but they will have no anchors. In this case, it's hard to predict how far, how high and how long it will last." http://www.findarticles.com/p/articles/mi_m5072/is_22_23/ai_75455080
>
> "Well, the questioner came from Singapore which has perhaps the best economic record in the history of developing an economy and therefore he referred to 15% per annum as modest. It's not modest–it's arrogant. Only someone from Singapore would call it modest. " 1997 Berkshire Hathaway Annual Meeting

http://www.ticonline.com/archives_quotes.html

"Warren said [at the Berkshire annual meeting] that he hoped to do modestly better than the market. 15% would be a hell of a number, so the target is the 6-15% range. You're in the same boat we are." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"The normal expectancy of the average investor — for example, the pension funds of AT&T or IBM — is 6% for a long time." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"The average result has to be the average result. By definition, everybody can't beat the market. As I always say, the iron rule of life is that only 20% of the people can be in the top fifth. That's just the way it is." http://ycombinator.com/munger.html

Revenge:

"I don't think vengeance is much good." http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

Risk

"Using [a stock's] volatility as a measure of risk is nuts. Risk to us is 1) the risk of permanent loss of capital, or 2) the risk of inadequate return. Some great businesses have very volatile returns – for example, See's [a candy company owned by Berkshire] usually loses money in two quarters of each year – and some terrible businesses can have steady results"

"I know a man named John Arriaga. After he graduated from Stanford, he started to develop properties around Stanford. There was no better time to do it then when he did. Rents have gone up and up. Normal developers would borrow and borrow. What John did was gradually pay off his debt, so when the crash came and 3 million of his 15 million square feet of buildings went vacant, he didn't bat an eyebrow. The man deliberately took risk out of his life, and he was glad not to have leverage. There is a lot to be said that when the world is going crazy, to put yourself in a position where you take risk off the table. We might all consider imitating John." http://news.morningstar.com/article/article.asp?id=169398

"This is an amazingly sound place. We are more disaster-resistant than most other places. We haven't pushed it as hard as other people would have pushed it. I don't want to go back to Go. I've been to Go. A lot of our shareholders have a majority of their net worth in Berkshire, and they don't want to go back to Go either." http://www.fool.com/news/foth/2001/foth010508.htm

Role Model:

"Early Charlie Munger is a horrible career model for the young because not enough was delivered to civilization in return for what was wrested from capitalism. And other similar career models are even worse." http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

"I feel that by getting rich in the way I did, I think my own example has hurt my own country." http://www.tilsonfunds.com/wscmtg05notes.pdf

"Ben Franklin and Samuel Johnson, he credits their wisdom for his success. "They were both utterly brilliant men. And powerful communicators. Both have helped me all the way through life. Their lessons are easy to assimilate." http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

"Whoever makes you smarter a little earlier in life makes you better," http://seekingalpha.com/article/14114

Sales

"…If you take sales presentations and brokers of commercial real estate and businesses… I'm 70 years old, I've never seen one I thought was even within hailing distance of objective truth…. 'incentive-caused bias,' causes this terrible abuse. And many of the people who are doing it you would be glad to have married into your family compared to what you're otherwise going to get…."

http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

SEC:

"The SEC does way more good than harm – the last thing I would do is get rid of the SEC…if accounting were thoroughly fixed, a lot of other sins would go away. We're paying a huge price for deterioration of accounting." http://blogs.barrons.com/techtraderdaily/2006/06/26/the-wit-and-wisdom-of-charlie-munger/

See's Candy:

"See's candy company was the first high-quality business we ever bought," http://sanfrancisco.bizjournals.com/sanfrancisco/stories/1996/10/21/newscolumn6.html If

See's Candy had asked $100,000 more [in the purchase price; Buffett chimed in, "$10,000 more"], Warren and I would have walked — that's how dumb we were. Ira Marshall said you guys are crazy — there are some things you should pay up for, like quality businesses and people. You are underestimating quality. We listened to the criticism and changed our mind. This is a good lesson for anyone: the ability to take criticism constructively and learn from it. If you take the indirect lessons we learned from See's, you could say Berkshire was built on constructive criticism. Now we don't want any more today. http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"It takes almost no capital to open a new See's candy store. We're drowning in capital of our own that has almost no cost. It would be crazy to franchise stores like some capital-starved pancake house. We like owning our own stores as a matter of quality control." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Science

"It's very useful to have a good grasp of all the big ideas in hard and soft science. A, it gives perspective. B, it gives a way for you to organize and file away experience in your head, so to speak." http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html

Shareholders:

"We like our current shareholders and don't want to entice anyone to become one. It would help current shareholders to hear our CEOs [of the Berkshire operating subsidiaries], but we promised them they could spend 100% of their time on their business. We place no impediments on them running their businesses. Many have expressed to me how happy they are that they don't have to spend 25% of time on activities they didn't like." http://www.tilsonfunds.com/brkmtg04notes.doc

Short Sale

"It's dangerous to short stocks." http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

"Being short and seeing a promoter take the stock up is very irritating. It's not worth it to have that much irritation in your life." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

"It would be one of the most irritating experiences in the world to do a lot of work to uncover a fraud and then at have it go from X to 3X and at h the crooks happily partying with your money while you're meeting margin calls. Why would you want to go within hailing distance of that? [Laughter]" http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Size:
"size will hurt returns. Look at Berkshire Hathaway – the last five things Warren has done have generated returns that are splendid by historical standards, but now give him $100 billion in assets and measure outcomes across all of it, it doesn't look so good. We can only buy big positions, and the only time we can get big positions is during a horrible period of decline or stasis. That really doesn't happen very often." http://www.tilsonfunds.com/wscmtg05notes.pdf

"All large aggregations of capital eventually find it hell on earth to grow and thus find a lower rate of return." http://www.fool.com/news/foth/2002/foth020515.htm

" It took us months of buying all the Coke stock we could to accumulate $1 billion worth — equal to 7% of the company. It's very hard to accumulate major positions." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Social Mobility:

"if the same family were always on the bottom, then you'd have big resentments. But if DuPonts go down and Pampered Chef up, [that's good]. That much churn makes people think the system is fairer. Buffett: We don't like churn now, but we liked it more 30-40 years ago." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

Social Security:

"…Social Security is amazing how we've run it. It's inflation protected. It's easy to sneer at it, but it's one of the most successful government programs ever. It's low cost and encourages work. People say if you never change the revenue base, it'll run out of money. But if 10 years from now, the country is 30-40% richer, why not use a higher percentage of GDP to pay people? Young people benefit too – the money is paid to people who might be moving in with them. (Laughter) Everybody's going to get older, but also richer, so why wouldn't you spend a higher percentage of GDP on them? Why is that so unthinkable? I'll tell you what's unthinkable: that so many people are that stupid! (Laughter)…" http://www.tilsonfunds.com/wscmtg05notes.pdf

"Regarding the demographic trend called Baby Boomers, it's peanuts compared to the trend of economic growth. Over the last century, [our] GNP is up seven times. This was not caused by Baby Boomers, but by the general success of capitalism and the march of technology. Those trends were so favorable that little blips in the birth rate were not that significant. We can keep social peace as long as GNP rises 3% annually – this can pay for spending by politicians. If we ever got to stasis [no growth], then with all the promises, you'd get real tensions between the generations. The Baby Boomers would exacerbate it, but the real cause would be lack of growth. http://www.tilsonfunds.com/wscmtg04notes.doc

I think the Republicans are out of their cotton-pickin' minds to be taking on this issue at thistime. The thought that more of our GDP will be going to the elderly over time is not anathema to me. Social Security is very successful. Apart from disability – a small part – there's almost no fraud; it's hard to fake being dead. (Laughter) It rewards work, it's low cost. It's one of the most successful government programs ever. For the current administration, which needs to face down North Korea and Iran, deal with Iraq, etc., to waste political capital on this twaddle… http://www.tilsonfunds.com/brkmtg05notes.pdf

"Of course if we don't change anything, Social Security will run low on funds. But if we grow, then it's child's play to [deal with this problem]. And it's crazy to think we'd freeze the amount we'd pay to the elderly. Social Security is a low -overhead, efficient program." http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Statistics

"[What was] … worked out in the course of about one year between Pascal and Fermat… is not that hard to learn. What is hard is to get so you use it routinely almost everyday of your life. The Fermat/Pascal system is dramatically consonant with the way that the world works. And it's fundamental truth. So you simply have to have the technique….At Harvard Business School, the great quantitative thing that bonds the first - year class together is what they call decision tree theory. All they do is take high school algebra and apply it to real life problems. And the students love it. They're amazed to find that high school algebra works in life….By and large, as it works out, people can't naturally and automatically do this. If you understand elementary psychology, the reason they can't is really quite simple: The basic neural network of the brain is there through broad genetic and cultural evolution. And it's not Fermat/Pascal. It uses a very crude, shortcut - type of approximation. It's got elements of Fermat/Pascal in it. However, it's not good.So you have to learn in a very usable way this very elementary math and use it routinely in life - just the way if you want to become a golfer, you can't use the natural swing that broad evolution gave you. You have to *learn* to have a certain grip and swing in a different way to realize your full potential as a golfer. If you don't get this elementary, but mildly unnatural, mathematics of elementary probability into your repertoire, then you go

through a long life like a one-legged man in an ass-kicking contest. You're giving a *huge* advantage to everybody else."
http://www.thinkfn.com/en/content/view/52/?id=124

"I'm not sure that I can even pronounce the Poisson distribution. But I know what a Gaussian or normal distribution looks like and I know that events and huge aspects of reality end up distributed that way. So I can do a rough calculation. But if you ask me to work out something involving a Gaussian distribution to ten decimal points, I can't sit down and do the math. I'm like a poker player who's learned to play pretty well without mastering Pascal. And by the way, that works well enough. But you have to understand that bell shaped curve at least roughly as well as I do." http://ycombinator.com/munger.html

"Practically everybody (1) overweighs the stuff that can be numbered, because it yields to the statistical techniques they're taught in academia, and (2) doesn't mix in the hard-to-measure stuff that may be more important. That is a mistake I've tried all my life to avoid, and I have no regrets for having done that."

Stock Exchanges:

"I think we have lost our way when people like the [board of] governors and the CEO of the NYSE fail to realize they have a duty to the rest of us to act as exemplars. You do not want your first-grade school teacher to be fornicating on the floor or drinking alcohol in the closet and, similarly, you do not want your stock exchange to be setting the wrong moral example."
http://money.cnn.com/2005/05/01/news/fortune500/buffett_talks/index.htm

Stock Markets:

"The model I like—to sort of simplify the notion of what goes on in a market for common stocks—is the pari-mutuel system at the racetrack. If you stop to think about it, a pari-mutuel system is a market. Everybody goes there and bets and the odds change based on what's bet. That's what happens in the stock market. "

Stock Picking:

"It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it—who look and sift the world for a mispriced be—that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple." http://ycombinator.com/munger.html

"Stock-picking is like gambling: those who win well, seldom bet, but when they do, they bet heavily."

Stock Options:

"Quoting Demosthenes, 'For what each man wishes, that he also believes to be true.' I would rather make money playing a piano in a whorehouse than arguing that no cost is incurred when employees are paid in stock options instead of cash. I am not kidding."
http://www.law.stanford.edu/publications/stanford_lawyer/issues/64/sl64.pdf

Stocks

"You must value the business in order to value the stock." http://www.amazon.com/gp/product/1578643031/104-7644521-2497538?v=glance&n=283155

"[In picking stocks] You really have to know a lot about business. You have to know a lot about competitive advantage. You have to know a lot about the maintainability of competitive advantage. You have to have a mind that quantifies things in terms of value. And you have to be able to compare those values with other values available in the stock market."
http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger2.html

"The number one idea, is to view a stock as an ownership of the business [and] to judge the staying quality of the business in terms of its competitive advantage. Look for more value in terms of discounted future cash flow than you're paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor." http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html

"It would be nice if this [finding really cheap stocks] happened all the time. Unfortunately, it doesn't." http://www.tilsonfunds.com/brkmtg05notes.pdf

"To some extent, stocks are like Rembrandts. They sell based on what they've sold in the past. Bonds are much more rational. No-one thinks a bond's value will soar to the moon." "Imagine if every pension fund in America bought Rembrandts. Their value would go up and they would create their own constituency." http://www.tilsonfunds.com/motley_berkshire_brkmtg01notes.php3

Sunk costs:

"Failure to handle psychological denial is a common way for people to go broke. You've made an enormous commitment to something.You've poured effort and money in. And the more you put in, the more that the whole consistency principle makes you think," Now it has to work. If I put in just a little more, then it 'all work…. People go broke that way —because they can 't stop,rethink,and say," I can afford to write this one off and live to fight again. I don't have to pursue this thing as an obsession —in a way that will break me." http://www.poorcharliesalmanack.com/pdf/page228.pdf

Synergies:

"The reason we avoid the word 'synergy' is because people generally claim more synergistic benefits than will come. Yes, it exists, but there are so many false promises.Berkshire is full of synergies — we don't avoid synergies, just claims of synergies."
http://www.fool.com/news/foth/2001/foth010508.htm

Talent:

"I think we have some special talents. That being said, I think it's dangerous to rely on special talents — it's better to own lots of monopolistic businesses with unregulated prices. But that's not the world today. We have made money exercising our talents and will continue to do so." http://www.fool.com/news/foth/2002/foth020515.htm

Taxes:

"The tax code gives you an enormous advantage if you can find some things you can just sit with." http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html

"We don't have any miraculous way of avoiding taxes at Wesco and Berkshire." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"My attitude toward taxes is that if I were running the world, we'd have a very substantial consumption tax, and the tax on earned income would be 40% at the top and taxes on long-term capital gains would be 20%. And by the accident of history, we're not that far away from where we ought to be. I love consumption taxes – they're so effective. That that's why conservatives hate them – they work and the government gets a lot of money to spend. In New Zealand, there's a national 10% consumption tax. Is it so bad to have to pay 10% extra if you go out for a nice meal or charter a plane? I don't worry about the miser who accumulates money and dies with it. What harm is he doing? A 50% corporate tax rate would be too high. …I'm not in favor of doing away with the 50% estate tax on people like me, but there should be a big exemption. Someone who builds a small business shouldn't be whacked, but there's nothing wrong with saying give 50% to society when you die if you've done really well." http://www.tilsonfunds.com/wscmtg04notes.doc

"Even if you assume that the whole economy would work better had we never had double taxation, having the envy and resentment of the richest paying low or no taxes screams of injustice. You have to have a fair system." http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

"If you're going to buy something which compounds for 30 years at 15% per annum and you pay one 35% tax at the very end, the way that works out is that after taxes, you keep 13.3% per annum. In contrast, if you bought the same investment, but had to pay taxes every year of 35% out of the 15% that you earned, then your return would be 15% minus 35% of 15%—or only

9.75% per year compounded. So the difference there is over 3.5%. And what 3.5% does to the numbers over long holding periods like 30 years is truly eye-opening….” http://ycombinator.com/munger.html

"…in terms of business mistakes that I've seen over a long lifetime, I would say that trying to minimize taxes too much is one of the great standard causes of really dumb mistakes. I see terrible mistakes from people being overly motivated by tax considerations. Warren and I personally don't drill oil wells. We pay our taxes. And we've done pretty well, so far. Anytime somebody offers you a tax shelter from here on in life, my advice would be don't buy it." http://ycombinator.com/munger.html

Teaching:

"To atone, I teach and try to set an example…I love spreading this stuff around. Just because it's trite doesn't mean it isn't right. In fact, I like to say, 'If it's trite, it's right.'" http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"I don't have too much interest in teaching other people how to get rich. And that isn't because I fear the competition or anything like that — Warren has always been very open about what he's learned, and I share that ethos. My personal behavior model is Lord Keynes: I wanted to get rich so I could be independent, and so I could do other things like give talks on the intersection of psychology and economics. I didn't want to turn it into a total obsession."
http://www.loschmanagement.com/Berkshire%20Hathaway/Charlie%20munger/The%20Psychology%20of%20Human%20Misjudgement.htm

"We only want what success we can get despite encouraging others to share our general views about reality."
http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Technology

"For society, the Internet is wonderful, but for capitalists, it will be a net negative. It will increase efficiency, but lots of things increase efficiency without increasing profits. It is way more likely to make American businesses less profitable than more profitable. This is perfectly obvious, but very little understood." http://www.fool.com/boringport/2000/boringport000501.htm

"Soros couldn't bear to see others make money in the technology sector without him, and he got killed. It doesn't bother us at all." http://www.fool.com/boringport/2000/boringport000501a.htm

"In Gillette's case, they keep surfing along new technology which is fairly simple by the standards of microchips. But it's hard for competitors to do. So they've been able to stay constantly near the edge of improvements in shaving."
http://ycombinator.com/munger.html

"If the technology hadn't changed, [newspapers would] still be great businesses. Network TV [in its heyday,] anyone could run and do well. If Tom Murphy as running it, you'd do very well, but even your idiot nephew could do well. Fortunately, carbide cutting tools [such as those made by Iscar] don't have these types of substitutes."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

The great lesson in microeconomics is to discriminate between when technology is going to help you and when it's going to kill you. And most people do not get this straight in their heads. But a fellow like Buffett does. For example, when we were in the textile business, which is a terrible commodity business, we were making low-end textiles—which are a real commodity product. And one day, the people came to Warren and said, "They've invented a new loom that we think will do twice as much work as our old ones." And

Warren said, "Gee, I hope this doesn't work because if it does, I'm going to close the mill." And he meant it. What was he thinking? He was thinking, "It's a lousy business. We're earning substandard returns and keeping it open just to be nice to the elderly workers. But we're not going to put huge amounts of new capital into a lousy business."
And he knew that the huge productivity increases that would come from a better machine introduced

into the production of a commodity product would all go to the benefit of the buyers of the textiles. Nothing was going to stick to our ribs as owners. That's such an obvious concept—that there are all kinds of wonderful new inventions that give you nothing as owners except the opportunity to spend a lot more money in a business that's still going to be lousy. The money still won't come to you. All of the advantages from great improvements are going to flow through to the customers. Conversely, if you own the only newspaper in Oshkosh and they were to invent more efficient ways of composing the whole newspaper, then when you got rid of the old technology and got new fancy computers and so forth, all of the savings would come right through to the bottom line. In all cases, the people who sell the machinery—and, by and large, even the internal bureaucrats urging you to buy the equipment—show you projections with the amount you'll save at current prices with the new technology. However, they don't do the second step of the analysis which is to determine how much is going stay home and how much is just going to flow through to the customer. I've never seen a single projection incorporating that second step in my life. And I see them all the time. Rather, they always read: "This capital outlay will save you so much money that it will pay for itself in three years." So you keep buying things that will pay for themselves in three years. And after 20 years of doing it, somehow you've earned a return of only about 4% per annum. That's the textile business. And it isn't that the machines weren't better. It's just that the savings didn't go to you. The cost reductions came through all right. But the benefit of the cost reductions didn't go to the guy who bought the equipment. It's such a simple idea. It's so basic. And yet it's so often forgotten. Then there's another model from microeconomics which I find very interesting. When technology moves as fast as it does in a civilization like ours, you get a phenomenon which I call competitive destruction. You know, you have the finest buggy whip factory and all of a sudden in comes this little horseless carriage. And before too many years go by, your buggy whip business is dead. You either get into a different business or you're dead—you're destroyed. It happens again and again and again. And when these new businesses come in, there are huge advantages for the early birds. And when you're an early bird, there's a model that I call "surfing"—when a surfer gets up and catches the wave and just stays there, he can go a long, long time. But if he gets off the wave, he becomes mired in shallows….
http://ycombinator.com/munger.html

"there are all kinds of wonderful new inventions that give you nothing as owners except the opportunity to spend a lot more money in a business that's still going to be lousy. The money still won't come to you. All of the advantages from great improvements are going to flow through to the customers."

Thinking

"Any year that passes in which you don't destroy one of your best loved ideas is a wasted year."
http://www.tilsonfunds.com/wscmtg04notes.doc

"The ethos of not fooling yourself is one of the best you could possibly have. It's powerful because it's so rare."
http://www.fool.com/news/foth/2002/foth020515.htm

"We both insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think. So Warren and I do more reading and thinking and less doing than most people in business. We do that because we like that kind of a life. But we've turned that quirk into a positive outcome for ourselves.
http://www.kiplinger.com/personalfinance/features/archives/2005/11/munger.html

"It is, of course, irritating that extra care in thinking is not all good but actually introduces extra error. But most good things have undesired "side effects," and thinking is no exception. The best defense is that of the best physicists, who systematically criticize themselves to an extreme degree, using a mindset described by Nobel laureate Richard Feynman as follows: "The first principle is that

you must not fool yourself and you're the easiest person to fool."
http://72.14.203.104/search?q=cache:mgSaxC3O1IoJ:www.philanthropyroundtable.org/magazines/1999/march/munger.html+Berkshire+Hathaway%27s+vice+chairman+shreds+the+conventional+wisdom+on+foundation+investing&hl=en&gl=us&ct=clnk&cd=1

"Warren spends 70 hours a week thinking about investing http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"Invert, always invert." http://www.poorcharliesalmanack.com/intro3.html

"People calculate too much and think too little."
http://money.cnn.com/magazines/moneymag/moneymag_archive/2002/07/01/324974/index.htm

> "The ethical rule is from Samuel Johnson who believed that maintenance of easily removable ignorance by a responsible office holder was treacherous malfeasance in meeting moral obligation. The prudential rule is that underlying the old Warner & Swasey advertisement for machine tools: "The man who needs a new machine tool, and hasn't bought it, is already paying for it". The Warner & Swasey rule also applies, I believe, to thinking tools. If you don't have the right thinking tools, you, and the people you seek to help, are already suffering from your easily removable ignorance."
> http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Thrift:

> "This room contains many people pretty well stricken by expired years — in my generation or the one following. We tend to believe in thrift and avoiding waste as good things, a process that has worked well for us. It is paradoxical and disturbing to us that economists have long praised foolish spending as a necessary ingredient of a successful economy.
> http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Trust

"…Everybody likes being appreciated and treated fairly, and dominant personalities who are capable of running a business like being trusted. A kid trusted with the key to thecomputer room said, "It's wonderful to be trusted." That's how we operate Berkshire – a seamless web of deserved trust. We get rid of the craziness, of people checking to make sure it's done right. When you get a seamless web of deserved trust, you get enormous efficiencies. … Every once in a while, it doesn't work, not because someone's evil but because somebody drifts to inappropriate behavior and then rationalizes it…." http://www.tilsonfunds.com/wscmtg05notes.pdf

United States:

"…Over the long term, the eclipse rate of great civilizations being overtaken is 100%. So you know how it's going to end. (Laughter) I'm more optimistic about the staying power of what's good in this country. But just because you have a wonderful spouse doesn't mean you should treat her badly. You have the feeling that some of the old virtues [that made this country great] are lessening. But there's so much good and so much strength left that I would not expect this country to suddenly founder…"
http://www.tilsonfunds.com/wscmtg05notes.pdf

"I still prefer this country, and so does Warren. But we're both troubled deeply by the twin deficits [trade and budget]. [Bad] Things can go on for a long time, starting from our [wealthy] base and especially if other counties have things wrong with them, so it's a very complex subject." http://www.tilsonfunds.com/wscmtg04notes.doc

"I believe that we are at or near the apex of a great civilization….In 50-100 years, if we're a poor third to some countries in

Asia, I wouldn't be surprised. If I had to bet, the part of the world that will do best will be

Asia." http://www.tilsonfunds.com/brkmtg05notes.pdf
"It's crazy to assume that what's happening in Argentina and Japan is inconceivable here. It's not."
http://www.tilsonfunds.com/motley_berkshire_brkmtg02notes.php3

Values:

"While no real money came down, my family gave me a good education and a marvelous example of how people should behave, and in the end that was more valuable than money. Being surrounded by the right values from the beginning is an immense treasure.

Warren had that. It even has a financial advantage." Damn Right at 5
http://www.wiley.com/WileyCDA/WileyTitle/productCd-0471446912,descCd-tableOfContents.html

Value Investing:

"The whole concept of dividing it up into 'value' and 'growth' strikes me as twaddle. It's convenient for a bunch of pension fund consultants to get fees prattling about and a way for one advisor to distinguish himself from another. But, to me, all intelligent investing is value investing." **http://www.ticonline.com/archives_quotes.html**

"All intelligent investing is value investing." http://www.fool.com/news/foth/2000/foth001107.htm

Venture Capital:

"Harvard and Yale concentrated with venture capitalists that got the best calls and brainpower. Very few firms made most of the money, and they made it in just a few periods. Everyone else returned between mediocre and lousy. When returns happened, envy rippled through institutional money management. The amount invested in venture capital went up 10 times post-1999. That later money was lost very quickly. It will happen again. I don't know anyone who successfully resists this stuff. It becomes a new orthodoxy."
http://news.morningstar.com/article/article.asp?id=169398

Victimization:

"Whenever you think something or some person is ruining your life, it's you. A victimization mentality is so debilitating."
http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

Warren Buffett:

"It is true that Warren had a touch of brain block from working under Ben Graham and making a ton of money – it's hard to switch from something that's worked so well. But if Charlie Munger had never lived, the Buffett record would still be pretty much what it is."
http://www.tilsonfunds.com/wscmtg04notes.doc

"I think the top guy won't be as smart as Warren. But it's silly to complain: "What kind of world is this that gives me Warren Buffett for 40 years and then some bastard comes along who's worse?" [Laughter]" http://www.tilsonfunds.com/wscmtg04notes.doc

"Speaking for the Munger heirs, I hope they continue to ring the last drop of good out of Warren."
http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

"I've been associated with Warren (Buffett) so long, I thought I'd be just a footnote."
http://media.wiley.com/product_data/excerpt/32/04712447/0471244732-1.pdf#search=%22munger%20you%20know%20the%20cliche%20that%20opposites%20attract%22

> "I think there's some mythology in this idea that I've been this great enlightener of Warren. He hasn't needed much enlightenment. But we know more now than five years ago."

http://72.14.203.104/search?q=cache:U59Ns6D8WZcJ:www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3+%22charlie+munger%22+%22this+is+a+good+lesson+for+anyone%22&hl=en&gl=us&ct=clnk&cd=1

"It's hard to believe that he's getting better with each passing year. It won't go on forever, but Warren is actually improving. It's remarkable: Most almost-72-year-old men are not improving, but Warren is." http://www.fool.com/news/commentary/2003/commentary030509wt.htm

"The most common concern investors seem to have about Berkshire is, "What happens when Buffett dies?" Munger acknowledged that "if he were gone, we couldn't invest the money as well as Warren," but noted that "the place is drowning in money — we have great business pounding out money. If the stock went down, Berkshire could buy it back. There's no reason to think it will go to hell in a bucket, and I think there's reason to believe it could go on quite well. I'd be horrified if it isn't bigger and better over time, even after

Warren dies."

http://www.fool.com/news/commentary/2003/commentary030509wt.htm

Wealth

"We've had the most massive creation of wealth for people a lot younger than those who formerly got wealth in the history of the world. The world is full of young people who really want to get rich, and {when I left school] nobody thought it was a reasonable possibility." *http://www.law.harvard.edu/alumni/bulletin/2001/summer/feature_1-1.html*

"I have concluded that most PhD economists under appraise the power of the common-stock-based "wealth effect", under current extreme conditions.. "wealth effects" involve mathematical puzzles that are not nearly so well worked out as physics theories and never can be. …what has happened inJapan … has shaken up academic economics, as it obviously should, creating strong worries about recession from "wealth effects" in reverse." http://www.tilsonfunds.com/Mungerwritings2001.pdf#search=%22%20%22charlie%20Munger%22%20Outstanding%20investor%20digest%22

Wesco:

"Wesco had a market capitalization of $40 million when we bought it [in the early 1970s]. It's $2 billion now. It's been a long slog to a perfectly respectable outcome — not as good as Berkshire Hathaway or Microsoft, but there's always someone in life who's done better." http://www.tilsonfunds.com/motley_berkshire_wscmtg01notes.php3

"Our approach has worked for us. Look at the fun we, our managers, and our shareholders are having. More people *should* copy us. It's not difficult, but it looks difficult because it's unconventional — it isn't the way things are normally done. We have low overhead, don't have quarterly goals and budgets or a standard personnel system, and our investing is much more concentrated than average. It's simple and common sense." http://www.fool.com/boringport/2000/boringport00051500.htm

"You shouldn't buy Wesco stock instead of Berkshire's." http://www.fool.com/news/foth/2001/foth010508.htm

Wisdom:

"You don't have to have perfect wisdom to get very rich – just a bit better than average over a longperiod of time." http://www.tilsonfunds.com/brkmtg05notes.pdf

"If you get into the mental habit of relating what you're reading to the basic structure of the underlying ideas being demonstrated, you gradually accumulate some wisdom." http://www.jolconsulting.com/updocuments/details_2.pdf#search=%22%22Charlie%20Munger%22%20%20%22life%20is%20just%20one%20damn%22%22

World Book Encyclopedias

“It’s simplicity itself that its future will be way worse than its past.” http://www.designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Tilson_2006_BRK_Meeting_Notes.pdf#search=%22Charlie%20munger%20and%20foundation%20and%20croupier%22

Worldly Wisdom

“What is elementary, worldly wisdom? Well, the first rule is that you can’t really know anything if you just remember isolated facts and try and bang ‘em back.If the facts don’t hang together on a latticework of theory, you don’t have them in a usable form. You’ve got to have *models* in your head. And you’ve got to array your experience - both vicarious and direct - on this latticework of models. You may have noticed students who just try to remember and pound back what is remembered. Well, they fail in school and in life. You’ve got to hang experience on a latticework of models in your head. What are the models? Well, the first rule is that you’ve got to have *multiple* models - because if you just have one or two that you’re using, the nature of human psychology is such that you’ll *torture* reality so that it fits your models, or at least you’ll think it does. You become the equivalent of a chiropractor who, of course, is the great boob in medicine. It’s like the old saying, “To the man with only a hammer, every problem looks like a nail.” And of course, that’s the way the chiropractor goes about practicing medicine. But that’s a perfectly disastrous way to think and a perfectly disastrous way to operate in the world. So you’ve got to have multiple models.And the models have to come from multiple disciplines - because all the wisdom of the world is not to be found in one little academic department. That’s why poetry professors, by and large, are so unwise in a worldly sense. They don’t have enough models in their heads. So you’ve got to have models across a fair array of disciplines. You may say, “My God, this is already getting way too tough.” But, fortunately, it *isn’t* that tough - because 80 or 90 important models will carry about 90% of the freight in making you a worldly - wise person. And, of those, only a mere handful really carry very heavy freight. http://www.thinkfn.com/en/content/view/52/?id=124

> “Acquire worldly wisdom and adjust your behavior accordingly. If your new behavior gives you a little temporary unpopularity with your peer group … then to hell with them.” http://www.amazon.com/exec/obidos/ASIN/1578643031/consciousinve-20/104-7644521-2497538

Work

“The way to win is to work, work, work, work and hope to have a few insights…. And you’re probably not going to be smart enough to find thousands in a lifetime. And when you get a few, you really load up. It’s just that simple.” http://ycombinator.com/munger.html

“Why should it be easy to do something that, if done well, two or three times, will make your family rich for life?” http://www.steadygains.com/makingof.cfm Buffett: The Making of an American Capitalist Roger Lowenstein citing the Economist, “December 5, 1992, Beating the Market; Yes it can be done.”

Worry

“I think there’s something to be said for developing the disposition to own stocks without fretting.” http://www.tilsonfunds.com/motley_berkshire_brkmtg03notes.php3

> “We fret way earlier than other people. We left a lot of money on the table through early fretting. It’s the way we are — you’ll just have to live with it.” http://www.fool.com/news/foth/2001/foth010508.htm

P.s.,

http://www.businessday.co.za/articles/markets.aspx?ID=BD4A251640

Munger: You say there is some vaguely established view in economics as to what is an optimal dividend policy or an optimal investment? Professor William Bratton of the Rutgers-Newark School of Law: I think we all know what an optimal investment is. Munger: No, I do not. At least not as these people use the term. Bratton: I don’t know it when I see it but in theory, if I knew it when I saw it this conference would be about me and not about Warren Buffett. Munger: What is the break point where a business becomes sub-optimal or when an investment becomes sub-optimal? Bratton: When the return on the investment is lower than the cost of capital. Munger: And what is the cost of capital? Bratton: Well, that’s a nice one and I would… Munger: Well, it’s only fair, if you’re going to use the cost of capital, to say what it is. Bratton: I would be interested in knowing, we’re talking theoretically. Munger: No, I want to know what the cost of capital is in the model. Bratton: In the model? It will just be stated. Munger: Where? Out of the forehead of Job or something? Bratton: That is correct. Munger: Well, some of us don't find this too satisfactory. Bratton: I said, you'd be a fool to use it as a template for real world investment decision making. We're only trying to use a particular perspective on human behavior to try to explain things. Munger: But if you explain things in terms of unexplainable sub-concepts, what kind of an explanation is that?Bratton: It's a social science explanation. You take for what it's worth. Munger: Do you consider it understandable for some people to regard this as gibberish? Bratton: Perfectly understandable, although I do my best to teach it. Munger: Why? Why do you do this? Bratton: It's in my job description. Munger: Because other people are teaching it, is what you're telling me.

Miscellaneous

"It's frightening to think that you might not know something, but more frightening to think that…the world is run by people who have faith that they know exactly what's going on." – Amos Tversky

"If I had to single out one element in my life that has made a difference for me it would be a passion to compete." - Sam Walton

"The deepest sin against the human mind is to believe things without evidence." TH Huxley

"That's why people freeze in the midst of a crisis. People freeze because they were not intellectually honest before. They never quite distinguished certain issues or questions and put them into the appropriate basket. If you make an overall judgment, for example, of the U.S. is going to perform over time though ups and downs, and you go into it knowing there is a possibility something much worse could happen. Maybe it's small, but when it happens, it happens. At that time, the question becomes "It is an unknown unknown" or do you know that you don't have to know? You absolutely will asked that question." – Li Lu

"How much time he gains who does not look to see what his neighbor says or does or thinks." – Marcus Aurelius Antoninus

"I would sooner fail than not be among the greatest." – John Keats

The less evidence someone has this his ideas are right, "the more vehemently he asserts that there is no doubt whatsoever that he is exactly right." – Bertrand Russell

"Genius is nothing but a greater aptitude for patience." – Georges-Louis Buffon

"Patience is the greatest of all virtues." -- Marcus Porcius Cato

"Continuous effort — not strength or intelligence — is the key to unlocking our potential." – Winston Churchill

"Decide what you want, decide what you are willing to exchange for it. Establish your priorities and go to work." – H. L. Hunt

"Nullius in verba." (*"Take nobody's word for it.")* – Motto of the Royal Society

"God is in the details." – Mies van der Rohe

"Details create success." – John Wooden

"Value is a relative concept: the value of each action is determined by comparing it with other possible actions." – Garrett Hardin[172]

"Every measured thing is part of a web of variables more richly interconnected than we know." – Garrett Hardin[173]

"Every plausible policy must be followed by the question 'And then what?'" – Garrett Hardin[174]

"The greatest folly is to accept expert statements uncritically. At the very least, we should always seek another opinion." – Garrett Hardin[175]

"The three filters [against folly] operate through these particular questions:

> Literacy: *What are the words?*
> Numeracy: *What are the numbers?*
> Ecolacy: *And then what?"* -- Garrett Hardin[176]

"Numeracy: 1. The art of putting numbers to things, that is, assigning amounts to variables in order that practical decisions may be reach. 2. That aspect of education (beyond mere literacy) which takes account of quantitative aspects of reality." – Garrett Hardin[177]

"(Technology reliability) x (Human reliability) = (System reliability)" – Garrett Hardin[178]

"The only thing we can really count on in this uncertain world is human unreliability itself." – Garrett Hardin[179]

"Unless you have read and absorbed the best that can be read and absorbed, you will not think clearly or well." – Harold Bloom

"We have always sold speed and certainty for price. If you want to sell something, I'll sit across the table from you and tell you I'll close next Thursday. The price, though, is X instead of Y. In business, we're capable of making a decision much more rapidly than most." – Sam Zell[180]

"I'm also the fastest 'no' in the west. There've been people who've worked for me who will spend an inordinate amount of time before they conclude not to do something. One of the skills I have is the ability to look at something and rapidly make a risk-reward analysis as to whether it's worth doing." – Sam Zell[181]

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172 Filters Against Folly, p. 220
173 Filters Against Folly, p.220
174 Filters Against Folly, p.220
175 Filters Against Folly, p. 11
176 Filters Against Folly, p.25
177 Filters Against Folly, p. 38
178 Filters Against Folly, p. 46
179 Filters Against Folly, p. 51
180 Interview with FT dated July 8, 2012
181 Interview with FT dated July 8, 2012

Disasters teach more than successes. – Anonymous

“We are what we repeatedly do.” – Aristotle

“Nothing great in the world has been accomplished without passion.” – Georg Wilhelm Friedrich Hegel

“The reasonable man adapts himself to the world. The unreasonable man persists in trying to adapt the world to himself. All progress, therefore, depends upon the unreasonable man.” – George Bernard Shaw

“Statistical figures…tell us what happened in a nonrepeatable historical case.” – Ludgwig von Mises

"When we try to pick out anything by itself, we find it hitched to everything else in the universe." -- John Muir

“The most difficult subjects can be explained to the most slow-witted man if he has not formed an idea of them already; but the simplest thing cannot be made clear to the most intelligent man if he is firmly persuaded that he knows already, without a shadow of a doubt, what is laid before him.” – Leo Tolstoy

“Enemies parrot yes while friends say no.” – Russian proverb

“Nothing is easier than self-deceit. For what each man wishes, that he also believes to be true.” – Demosthenes

“No money is better spent than what is laid out for domestic satisfaction.” -- Samuel Johnson

“To be happy at home is the ultimate result of all ambition.” – epigram of Samuel Johnson

“All of humanity's problems stem from man's inability to sit quietly in a room alone.” – Blaise Pascal

“Distraction is the only thing that consoles us for our miseries, and yet it is itself the greatest of our miseries.” – Blaise Pascal

“Not everything that can be counted counts, and not everything that counts can be counted.” – Albert Einstein

“For an idea which, at first, does not seem absurd, there is no hope.” – Albert Einstein

"Everything should be made as simple as possible, but not simpler." -- Albert Einstein

“Chance favors only the prepared mind.” – Louis Pasteur

The 20 Smartest Things Jeff Bezos Has Ever Said

September 9, 2013

Amazon.com was once the poster child of what happens when excitement about a company detaches from reality. The headlines "Amazon founder named TIME magazine's Person of the Year," and "Analysts Fear Amazon Is Going Bankrupt" appeared within 14 months of each other around the year 2000. Short of fraud, there little precedent for this in business history.

But 13 years later, Amazon is thriving. It is dominating, in fact, including in lines of business having little to do with its original undertaking of selling books. Shares now trade for three times what they did at the peak of the dot-com bubble.

Thank Amazon's quirky CEO, Jeff Bezos, for this success. He created a culture that's not only different from, but often totally at odds with, how most business leaders think. He's also quite quotable. Here are 20 smart things Bezos has said over the years.

1. **"**All businesses need to be young forever. If your customer base ages with you, you're Woolworth's."
2. "There are two kinds of companies: Those that work to try to charge more and those that work to charge less. We will be the second."
3. "Your margin is my opportunity."
4. "If you only do things where you know the answer in advance, your company goes away."
5. "We've had three big ideas at Amazon that we've stuck with for 18 years, and they're the reason we're successful: Put the customer first. Invent. And be patient."
6. "I very frequently get the question: 'What's going to change in the next 10 years?' And that is a very interesting question; it's a very common one. I almost never get the question: 'What's not going to change in the next 10 years?' And I submit to you that that second question is actually the more important of the two -- because you can build a business strategy around the things that are stable in time. ... [I]n our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection. It's impossible to imagine a future 10 years from now where a customer comes up and says, 'Jeff I love Amazon; I just wish the prices were a little higher,' [or] 'I love Amazon; I just wish you'd deliver a little more slowly.' Impossible. And so the effort we put into those things, spinning those things up, we know the energy we put into it today will still be paying off dividends for our customers 10 years from now. When you have something that you know is true, even over the long term, you can afford to put a lot of energy into it."
7. "If you're not stubborn, you'll give up on experiments too soon. And if you're not flexible, you'll pound your head against the wall and you won't see a different solution to a problem you're trying to solve."
8. "Any business plan won't survive its first encounter with reality. The reality will always be different. It will never be the plan."
9. "In the old world, you devoted 30% of your time to building a great service and 70% of your time to shouting about it. In the new world, that inverts."

10. "We've done price elasticity studies, and the answer is always that we should raise prices. We don't do that, because we believe -- and we have to take this as an article of faith -- that by keeping our prices very, very low, we earn trust with customers over time, and that that actually does maximize free cash flow over the long term."
11. "The framework I found, which made the decision [to start Amazon in 1994] incredibly easy, was what I called a regret minimization framework. I wanted to project myself forward to age 80 and say, 'OK, I'm looking back on my life. I want to minimize the number of regrets I have.' And I knew that when I was 80, I was not going to regret having tried this. I was not going to regret trying to participate in this thing called the Internet that I thought was going to be a really big deal. I knew that if I failed, I wouldn't regret that. But I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day."
12. "We innovate by starting with the customer and working backwards. That becomes the touchstone for how we invent."
13. "When [competitors are] in the shower in the morning, they're thinking about how they're going to get ahead of one of their top competitors. Here in the shower, we're thinking about how we are going to invent something on behalf of a customer."
14. "A company shouldn't get addicted to being shiny, because shiny doesn't last."
15. "I think frugality drives innovation, just like other constraints do. One of the only ways to get out of a tight box is to invent your way out."
16. "If you double the number of experiments you do per year, you're going to double your inventiveness."
17. "If you never want to be criticized, for goodness' sake don't do anything new."
18. "If you're long-term oriented, customer interests and shareholder interests are aligned."
19. "Invention requires a long-term willingness to be misunderstood. You do something that you genuinely believe in, that you have conviction about, but for a long period of time, well-meaning people may criticize that effort. When you receive criticism from well-meaning people, it pays to ask, 'Are they right?' And if they are, you need to adapt what they're doing. If they're not right, if you really have conviction that they're not right, you need to have that long-term willingness to be misunderstood. It's a key part of invention."
20. "You want to look at what other companies are doing. It's very important not to be hermetically sealed. But you don't want to look at it as if, 'OK, we're going to copy that.' You want to look at it and say, 'That's very interesting. What can we be inspired to do as a result of that?' And then put your own unique twist on it."

http://www.fool.com/investing/general/2013/09/09/the-25-smartest-things-jeff-bezos-has-ever-said.aspx

"He who labors diligently need never despair, for all things are accomplished by diligence and labor." – Menander

Wisdom is "the art of knowing what to overlook." – William James

"I think, as a general rule, we're too inclined to tell the good vs. evil story. As a simple rule of thumb, just imagine every time you're telling a good vs. evil story, you're basically lowering your IQ by ten points or more. If you just adopt that as a kind of inner mental habit, it's, in my view, one way to get a lot smarter pretty quickly."—Tyler Cowen[182]

"Evidence shows that the most dangerous people are those that have been taught some financial literacy. They're the ones that go out and make the worst mistakes. It's the people that realize, 'I don't know anything at all" that end up doing pretty well." – Tyler Cowen[183]

"Beware of little expenses; a small leak will sink a great ship." – Benjamin Franklin

"If thou wilt make a man happy, add not unto his riches but take away from his desires." – Epicurus

"Trust, then verify." – Ronald Reagan

"We never really *know* and the very fact that there are such words in the language as disappointment, regret, etc., is testimony to the pervasiveness and persistence of this feature of the human condition." – Thomas Sowell

"[There are] three different kinds of problems in the world: the simple, the complicated, and the complex. Simple problems…are ones like baking a cake from a mix. There is a recipe. Sometimes there are a few basic techniques to learn. But once these are mastered, following the recipe brings a high likelihood of success. Complicated problems are ones like sending a rocket to the moon. They can sometimes be broken down into a series of simple problems. But there is no straightforward recipe. Success frequently requires multiple people, often multiple teams, and specialized expertise. Unanticipated difficulties are frequent. Timing and coordination become serious concerns. Complex problems are ones like raising a child. Once you learn how to send a rocket to the moon, you can repeat the process with other rockets and perfect it. One rocket is like another rocket. But no so with raising a child…Every child is unique. Although raising one child may provide experience, it does not guarantee success with the next child. Expertise is valuable but certainly not sufficient. Indeed, the child next child may require an entirely different approach from the previous one. And this brings up another feature of complex problems: their outcomes remain highly uncertain. Yet we all know that it is possible to raise a child. It's complex, that's all." – Atul Gawande[184]

"[Checklists] turn out…to be among the basic tools of the quality and productivity revolution in aviation, engineering, construction – in virtually every field combining high risk and complexity. Checklists seem lowly and simplistic, but they help fill in for the gaps in our brains and between our brains." – Atul Gawande[185]

"Humans have a strong desire to be part of a group. That desire makes us susceptible to fads, fashions, and idea contagions." – Michael Mauboussin

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[182] TEDxMidAtlantic 2011
[183] TEDxMidAtlantic 2011
[184] The Checklist Manifesto, p. 49
[185] "Cowboys and Pit Crews" – The New Yorker, 5/26/11

“Opportunity is missed by most people because it is dressed in overalls and looks like work.” – Thomas Edison

"The ability to deal with people is as purchasable commodity as sugar or coffee. And I will pay more for that ability than for any other under the sun." – John D. Rockefeller

"[The deepest urge in human nature is] "the desire to be important." – John Dewey

"One thing only I know, and that is that I know nothing." – Socrates

Benjamin Franklin:

- “We are all born ignorant, but one must work hard to remain stupid.”
- “Life’s tragedy is that we get old too soon and wise too late.”
- “To succeed, jump as quickly at opportunities as you do at conclusions.”
- “Keep your eyes wide open before marriage, and half-shut afterwards.”
- “Be at war with your vices, at peace with your neighbors, and let every new year find you a better man.”
- “Good sense is a thing all need, few have, and none think they want.”
- “Beer is living proof that God loves us and wants us to be happy.”
- “Well done is better than well said.”
- “Any fool can criticize, condemn and complain–and most fools do.”
- “Glass, china, and reputation are easily cracked and never mended well.”
- “Take time for all things; great haste makes great waste.”
- “Creditors have better memories than debtors.”
- “If a man empties his purse into his head, no man can take it away from him. An investment in knowledge always pays the best interest.”

"You cannot teach a man anything; you can only help him to find it within himself." – Galileo

"A person usually has to reasons for doing a thing: one that sounds good and a real one." -- J.P. Morgan

"I have never found that pay and pay alone would either bring together or hold good people. I think it was the game itself." – Harvey S. Firestone

"Pay every debt, as if God wrote the bill." -- Ralph Waldo Emerson

"It is easier to resist at the beginning than at the end." -- Leonardo da Vinci

"There is no expedient to which a man will not resort to avoid the real labor of thinking." -- Sir Joshua Reynolds

"Where all think alike, no one thinks very much." -- Walter Lippmann

"The joy is not in experiencing a scarce commodity but in possessing it." -- Cialdini

“Businesspeople in general shouldn’t have an overly narrow view of their industry,” he says, explaining his interest in Europe at a time when others see a cloudy future. Rather, they “need a 360-degree perspective and to look at everything from all possible angles.” – Li Ka-shing[186]

> “Set your goals high; make friends with different kinds of people; enjoy simple pleasures. Stand on high ground; sit on level ground; walk on expansive ground.” – Chinese proverbs

"Complex systems don't have causes. There are just patterns and at any point one's state of health can move randomly onto a new path. It is not the particular path that one should think about. You move over an ensemble of possible paths, conditional on how you live and the choices you make. All you can do is to try to influence the distribution of possibilities. You can never set the particular path or outcome that will be yours from this time forward. If you think you can look back and see some cause of events, you are probably suffering hindsight bias or what I call complexity blindness. Think of the freedom this view gives you. There is no possibility of failure because you only control your actions and they only influence the probable evolution of your life over stochastic future paths. There is no failure, only feedback." –Art De Vany

“Things may come to those who wait, but only the things left by those who hustle.” – Abraham Lincoln

The most powerful motivator in our lives isn’t money; it’s the opportunity to learn, grow in responsibilities, contribute to others, and be recognized for achievements. – paraphrasing Frederick Herzberg

“One moment of patience may ward off great disaster. One moment of impatience may ruin a whole life” – [Chinese Proverb]

“Whenever an individual or business decides that success has been attained, progress stops.” – Thomas Watson, Sr.

“Progress, far from consisting in change, depends on retentiveness. Those who cannot remember the past are condemned to repeat it.” – George Santayana

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[186] http://www.theglobeandmail.com/globe-investor/investment-ideas/where-asias-richest-man-is-putting-his-money-now/article2361681/print/

"Everyone is entitled to his own opinion, but not his own facts." – D.P. Moynihan

"The secret of success is to understand the viewpoint of others." – Henry Ford

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." – Mark Twain

"Determine never to be idle. No person will have occasion to complain of the want of time who never loses any. It is wonderful how much may be done if we are always doing." –Thomas Jefferson

"Skepticism is the chastity of the intellect, and it is shameful to surrender it too soon or to the first comer." – George Santanya

"Don't question authority. They don't know the answer either." – Anon.

"To contract new debts is not the way to pay old ones." – George Washington

"Those who have knowledge don't predict. Those who predict don't have knowledge." – Lao Tzu

"Over time I learned that there are two very different satisfactions that you can have in your life. One is the satisfaction of becoming skilled at something. It almost doesn't matter what the terrain is. There is a deep, soul-feeding resonance in mastery itself, whether in teaching, writing a complicated software program, coaching a baseball team, or marshalling a group of people to start a new business…

"Developing a skill is painful, though. It is difficult. And that's part of the satisfaction. You will only find meaning in what you struggle with. What you struggle to get good at next may not seem the exact right thing for you at first. With time and effort, however, you will discover new possibilities in yourself—an ability to solve problems, for instance, or to communicate, or to create beauty…

"I said there are at least two kinds of satisfaction, however, and the other has nothing to do with skill. It comes from human connection. It comes from making others happy, understanding them, loving them."

-- Atul Gawande

"The Heart has its reasons which Reason knows not of." – Blaise Pascal

Stability leads to instability. – Attributed to Hyman Minsky

"Stability is not the way of the world." – Paul Singer

"If you want to build a ship, don't drum up the men to gather wood, divide the work and give orders. Instead, teach them to yearn for the vast and endless sea." – Antoine de Saint-Exupéry

"The first rule of baseball is, get a good ball to hit." – Rogers Hornsby

"I'm not so much concerned about the return on my money as the return of my money." –Will Rogers

“Decisions, not results.” – Amarillo Slim

“The greatest obstacle to discovery is not ignorance, it is the illusion of knowledge.” – Daniel J. Boorstin

“If you would persuade, appeal to interest and not to reason.” – Ben Franklin

“To the man with only a hammer, every problem looks pretty much like a nail.” – Unknown

“If a thing can’t go on forever, it will eventually stop.” – Herb Stein

"I'm no genius. I'm smart in spots, and I stay around those spots." -- Thomas Watson Sr.

“It is better to be vaguely right than exactly wrong.” – Carveth Read

“Heavier than air flying machines are impossible.” —Lord Kelvin, 1895

“Everything that can be invented has been invented.” —Charles Duells, Patent Office Director, 1899
“It is an idle dream to imagine that...automobiles will take the place of railways in the long distance movement of people.” —American Railroad Congress 1913

“There is no likelihood that man can ever tap the power of the atom.” —Robert Millikan, Nobel Prize winner in physics, 1920

“Who the hell wants to hear actors talk?” —Harry Warner, 1927

“There is no reason for any individual to have a computer in their home” —Ken Olson, President of Digital Equipment Corp, 1977

"Regulation of derivatives transactions that are privately negotiated by professionals is unnecessary."
Alan Greenspan, July 30, 1998

“The hardest part for a lot of us on Wall Street who have taken traditional valuation measures, if you try to apply them today you’d probably never buy a stock. I’m a believer in the new paradigm. Traffic on the Internet is doubling every 100 days; if you think about that, you begin to understand the magnitude of this technology revolution and you can understand investors’ willingness to take the risk they’re taking.” – Matthew Johnson, chief Nasdaq trader for Lehman Bros., March 2000 (NY Times)

“When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance. And we’re still dancing.” – Chuck Prince[187]

“Many shall be restored that are now fallen, and many shall fall that are now in honor.” – Horace

“The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.” – William Arthur Ward

[187] Interview, July 9, 2007

“It is not greed that drives the world, but envy.” – Buffett

“I wear the chains I forged in life.” – Dickens

"My colleagues, they study artificial intelligence; me, I study natural stupidity." Amos Tversky

“Whose bread I eat, his song I sing."

“The greatest obstacle to discovery is not ignorance – it is the illusion of knowledge.” – Daniel J. Boorstin

“Genius is 1 percent inspiration and 99 percent perspiration.” – Thomas Edison

Max Planck, on giving up economics: "It is too hard. The best result you can get is messy and uncertain."

“The harder you work the luckier you get.” -Ben Franklin

"More important than the will to win is the will to prepare." -Charlie Munger

"Hard work, honesty, if you keep at it, will get you almost anything." -Charlie Munger

"Plans are only good intentions unless they immediately degenerate into hard work." -Peter Drucker

"Determine never to be idle. No person will have occasion to complain of the want of time who never loses any. It is wonderful how much may be done if we are always doing." -Thomas Jefferson
-
“The content of your character is your choice. Day by day, what you choose, what you think, and what you do is who you become. Your integrity is your destiny…it is the light that guides your way.” –Heraclitus

“It is true, there is much to be done, and perhaps, you are weak handed; but stick to it steadily, and you will see great effects; for Constant dropping wears away stones; and by diligence and patience the mouse ate in two the cable; and little strokes fell great oaks.” -Ben Franklin

“Acquire Riches by Industry and Frugality.” -Ben Franklin

“How convenient it is to be a reasonable creature, since it enables one to make or find a reason for whatever one has a mind to do.” – Ben Franklin

“The man who doesn’t read good books has no advantage over the man who can’t read them.” -Mark Twain

“Whenever you find yourself on the side of the majority, it is time to reform.” – Mark Twain

The key to happiness is not being rich; it’s doing something arduous and creating something of value and then being able to reflect on the fruits of your labor. – Arthur Brooks

“People think focus means saying yes to the thing you’ve got to focus on. But that’s not what it means at all. It means saying no to the hundred other good ideas that there are. You have to pick carefully.” – Steve Jobs

"When I was 17 I read a quote that went something like, ‘If you live each day as if it was your last, someday you'll most certainly be right.’ It made an impression on me, and since then, for the past 33 years, I have looked in the mirror every morning and asked myself, ‘If today were the last day of my life, would I want to do what I am about to do today?’ And whenever the answer has been ‘no’ for too many days in a row, I know I need to change something. Remembering that I'll be dead soon is the most important thing I've ever encountered to help me make the big choices in life, because almost everything – all external expectations, all pride, all fear of embarrassment or failure – these things just fall away in the face of death, leaving only what is truly important. Remembering that you are going to die is the best way I know to avoid the trap of thinking you have something to lose. You are already naked. There is no reason not to follow your heart." – Steve Jobs

"Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma — which is living with the results of other people's thinking. Don't let the noise of others' opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary." – Steve Jobs

The idea that our understanding of the structure and order of the world is an illusion is extremely hard for people to accept. Most can’t, preferring quite rightly to live in a fog of forgetfulness rather than accepting the brutal role of chance in our lives. Yet if you want to be truly successful at the investing game recognising that trying to predict the future from the past is nearly always futile is a necessary, if not a sufficient, condition for success. – Unattributed (anon. “The Psy-Fi Blog”)

<u>John Wooden</u>

> "Things turn out best for the people who make the best of the way things turn out."
>
> "Never mistake activity for achievement."
>
> "Adversity is the state in which man mostly easily becomes acquainted with himself, being especially free of admirers then."
>
> "Be more concerned with your character than your reputation, because your character is what you really are, while your reputation is merely what others think you are."
>
> "Be prepared and be honest."
>
> "Be quick, but don't hurry."
>
> "You can't let praise or criticism get to you. It's a weakness to get caught up in either one."
>
> "You can't live a perfect day without doing something for someone who will never be able to repay you."

"What you are as a person is far more important than what you are as a basketball player."

"Winning takes talent; to repeat takes character."

"A coach is someone who can give correction without causing resentment."

"I'd rather have a lot of talent and a little experience than a lot of experience and a little talent."

"If you don't have time to do it right, when will you have time to do it over?"

"If you're not making mistakes, then you're not doing anything. I'm positive that a doer makes mistakes."

"It isn't what you do, but how you do it."

"Ability is a poor man's wealth."

"Failure is not fatal, but failure to change might be."

"Consider the rights of others before your own feelings and the feelings of others before your own rights."

"Do not let what you cannot do interfere with what you can do."

"Don't measure yourself by what you have accomplished, but by what you should have accomplished with your ability."

"It's not so important who starts the game but who finishes it."

"It's what you learn after you know it all that counts."

"It's the little details that are vital. Little things make big things happen."

"Talent is God-given. Be humble. Fame is man-given. Be grateful. Conceit is self-given. Be careful."

"The main ingredient of stardom is the rest of the team."

"Success comes from knowing that you did your best to become the best that you are capable of becoming."

"Success is never final; failure is never fatal. It's courage that counts."

Third-party summary of Jason Zweig's "Your Money and Your Brain":

> There are only three kinds of investors – those who think they are geniuses, those who think they are idiots, and those who aren't sure.

One of the clearest signals that you are wrong about an investment is having the hunch that you are right about it.

Investors who focus on price levels earn between five and ten times higher profits than those who pay attention to price changes.

The only way to be more certain it's true is to search harder for proof that it is false.

Business value changes over time, not all the time. Stocks are like weather, altering almost continually and without warning; businesses are like the climate, changing much more gradually and predictably.

When rewards are near, the brain hates to wait.

The market isn't always right, but it's right more often than it is wrong.

Often, when we are asked to judge how likely things are, we instead judge how alike they are.

Most of what seem to be patterns in stock prices are just random variations.

In a rising market, enough of your bad ideas will pay off so that you'll never learn that you should have fewer ideas.

The more often people watch an investment heave up and down, the more likely they are to trade in and out over the short term – and the less likely they are to earn a high return over the long term.

Investing is not you versus "Them". It's you versus you.

The single greatest challenge you face as an investor is handling the truth about yourself.

Hindsight bias keeps you from feeling like an idiot as you look back – but it can make you act like an idiot as you look forward.

Ignorance of our own ignorance haunts our financial judgments.

Investing requires taking a stand on at least some of the uncertainties that the future holds. So your goal is to be as sure as possible that you don't think you know more than you really do. How much you know is less important than how clearly you understand where the borders of your ignorance begin. It's not even a problem to know next to nothing, as long as you know you know next to nothing.

Being part of the herd is fun while it lasts, but it's seldom lucrative for very long, and it's impossible to predict when the herd will change its "mind." If you want to make more money than other people, you can't invest like other people.

Knowing, or even imagining, that someone else is relying on your advice can make you feel more accountable, forcing you to go beyond your gut feelings and fortify your opinions with factual evidence.

Find out who has a negative view and give this devil's advocate a full hearing.

Whether you should take a risk depends not just on the probability that you are right but also on the consequences if you are wrong. You must always weigh how right you think you are against how sorry you will be if you turn out to be mistaken.

We are often most afraid of the least likely of dangers, and frequently not worried enough about the risks that have the greatest chances of coming home to roost.

When an intangible feeling of risk fills the air, you can catch other people's emotions as easily as you can catch a cold.

Overreacting to raw feelings "blinking" in the face of risk is often one of the riskiest things an investor can do.

There's safety in numbers only when there's nothing to be afraid of.

Many of the world's best investors have mastered the art of treating their own feelings as reverse indicators. Excitement becomes a cue that it's time to consider selling, while fear tells them that it may be time to buy.

A mistake that stems from an action hurts worse than a mistake that results from inaction.

Once you have a handful of options, adding even more choices will lower you odds of making a good decision and increase your chances of regretting whatever decision you do make.

The harder the choice feels, the less people want to choose. Yet, the threat of having less choice almost always disturbs us.

The closer you come to hitting your target, the more regret you are apt to feel if you miss it.

The human brain is a brilliant machine for comparing the reality of what is against the imagination of what might have been.

There's no end to the roads not taken.

Investors probably hurt themselves more by avoiding risks they imagine they might regret than by taking risks they really do end up regretting.

Instead of making judgments one at a time, you should follow policies and procedures that put your investing decisions on autopilot.

The more you can automate your investing, the easier it should be to control your emotions.

The pleasure you expect tends to be more intense than the pleasure you experience.

We often find out that what we thought we wanted before we got it is no longer what we really want once we have it.

There are two tragedies in life. One is to lose your heart's desire. The other is to gain it.

Your memory of what was is shaped largely by what is.

If you focus too narrowly on the task at hand, you may never use your peripheral vision.

Chance favors the prepared mind.

Foxes and hedgehogs: This is a distinction used by Philip Tetlock, which was made famous by political philosopher Isaiah Berlin (who himself adopted an observation by ancient Greek poet Archilochus): "The fox knows many things, but the hedgehog knows one big thing."

Foxes are intellectual omnivores obtaining disparate information where they can. Hedgehogs in contrast fit all information into one central grand scheme that explains the operation of the world. "Hedgehogs are big-idea thinkers in love with grand theories: libertarianism, Marxism, environmentalism, etc.," says Tetlock. "Their self-confidence can be infectious."

<u>More from Ben Franklin:</u>

"An ounce of prevention is worth a pound of cure."

"He that would live in peace and at ease, must not speak all he knows, nor judge all he sees."

"What you would seem to be, be really."

"As Pride increases, Fortune declines."

"Industry, Perseverance, & Frugality, make Fortune yield."

"To-morrow I'll reform, the fool does say;
To-day itself's too late; - the wise did yesterday."

"Promises may get thee friends, but non-performance will turn them into enemies."

"Enjoy the present hour, be mindful of the past; And neither fear nor wish the approaches of the last."

"What signifies knowing the Names, if you know not the Natures of Things?"

"Well done, is twice done."

"There are three Things extreamly hard; Steel, a Diamond and to know one's self."

"O Lazy bones! Dost thou think God would have given thee arms and legs, if he had not design'd thou should'st use them?"

"He's a Fool that cannot conceal his Wisdom."

"No gains without pains."

"Beware of little Expenses: a small Leak will sink a great Ship."

"Pay what you owe, and you'll know what is your own."

"Be always ashamed to catch thyself idle."

"If you would keep your secret from an enemy, tell it not to a friend."

"Many have been ruined by buying good pennysworths."

"He that lieth down with dogs, shall rise up with fleas."

"A Slip of the Foot you may soon recover, but a slip of the Tongue you may never get over."

"He that waits upon fortune, is never sure of dinner."

"Would you live with ease, do what you ought, and not what you please."

"People who are wrapped up in themselves make small packages."

"Would you persuade, speak of Interest, not of Reason."

"Do good to thy Friend to keep him, to thy Enemy to gain him."

"The first Degree of Folly, is to conceit one's self wise; the second to profess it; the third to despise Counsel."

"You may delay, but Time will not."

"Lost time is never found again."

"Take this remark from Richard, poor and lame, Whate'er's begun in Anger, ends in Shame."

"All things are easy to Industry, all things difficult to Sloth."

"He that cannot obey, cannot command."

"If you would reap Praise you must sow the Seeds, gentle Words and useful Deeds."

"Haste makes Waste."

"Early to bed and early to rise, makes a man healthy, wealthy, and wise."

"If you know how to spend less than you get, you have the philosopher's stone."

"Diligence is the mother of good luck."

"At a great penny worth, pause a while."

"Ignorance leads Men into a party, and Shame keeps them from getting out again."

"He that pays for work before it's done, has but a pennyworth for two pence."

"Anger is never without Reason, but seldom with a good One."

"Thou can'st not joke an enemy into a friend, but thou may'st a friend into an enemy."

"He that falls in love with himself, will have no rivals."

"Patience in Market, is worth Pounds in a year."

"When the well's dry, we know the worth of water."

"Virtue & Happiness are Mother and Daughter."

"Buy what thou hast no need of, and e'er long thou shalt sell they necessaries."

"If you would not be forgotten, as soon as you are dead and rotten, either write things worth reading, or do things worth the writing."

"He that speaks much, is much mistaken."

"Since thou art not sure of a Minute, throw not away an Hour."

"'Tis easier to suppress the first Desire, than to satisfy all that follow it."

"He that pursues two hares at once, does not catch one lets t'other go."

"The sleeping Fox catches no poultry. Up! up!"

"If your Riches are yours, why don't you take them to t'other World?"

"What more valuable than Gold? Diamonds. Than Diamonds? Virtue."

"Great Estates may venture more; Little Boats must keep near Shore."

"'Tis easier to prevent bad habits than to break them."

"Blessed is he that expects nothing, for he shall never be disappointed."

"Diligence overcomes Difficulties, Sloth makes them."

"Neglect mending a small Fault, and 'twill soon be a great One."

"Proclaim not all though knowest, or all though owest."

"A Change of Fortune hurts a wise Man no more than a Change of the Moon."

"Love your Enemies, for they tell you your Faults."

"Dost thou love Life? Then do not squander Time; for that's the Stuff Life is made of."

"Silence is not always a Sign of Wisdom, but Babbling is ever a Folly."

"A long Life may not be good enough, but a good Life is long enough."

"For Age and Want save while you may; No morning Sun lasts a whole day."

"Don't think so much of your own Cunning, as to forget other Men's; a Cunning Man is overmatched by a cunning Man and a Half."

"You may give a Man an Office, but you cannot give him Discretion."

"He that doth what he should not, shall feel what he would not."

"He is a Governor that governs his Passions, and he a Servant that serves them."

"Employ thy time well, if thou meanest to gain leisure."

"Suspicion may be no fault, but showing it may be a great one."

"A good Example is the best Sermon."

"Wise Men learn by others' harms; Fools by their own."

"Laziness travels so slowly that Poverty soon overtakes him."

"He that by the Plough would thrive, himself must either hold or drive."

"Life with Fools consists in Drinking; with the wise Man, living's Thinking."

"The second Vice is Lying; the first is running in Debt."

"Three may keep a secret, if two of them are dead."

"The honest Man takes Pains, and then enjoys Pleasures; the knave takes Pleasure, and then suffers Pains."

"To be proud of Knowledge, is to be blind with Light."

"Get what you can, and what you get hold; 'tis the Stone that will turn all your Lead into Gold."

"An honest Man will receive neither Money nor Praise that is not his due."

"Men take more pains to mask than mend."

"To be proud of Virtue, is to poison yourself with the Antidote."

"One To-day is worth two To-morrows."

"Idleness is the Dead Sea, that swallows all Virtues: Be active in Business, that Temptation may miss her Aim; the Bird that sits, is easily shot."

Charles Ellis: Ten Commandments from "Winning a Loser's Game"

Commandments for individual investors:

1. "Save. Invest your savings in your future happiness and security and education for your kids."
2. "Don't speculate. If you must 'play the market' to satisfy an emotional itch, recognize that you are gambling on your ability to beat the pros so limit the amounts you play with to the same amounts you would gamble with the pros at Las Vegas."
3. "Don't do anything in investing primarily for tax reasons."
4. "Don't think of your home as an investment. Think of it as a place to live with your family-period."
5. "Never do commodities….Dealing in commodities is really only price speculation. It's not investing because there's no economic productivity or value added."
6. "Don't be confused about stockbrokers and mutual fund salespeople. They are usually very nice people, but their job is not to make money *for* you. Their job is to make money *from* you."

7. “Don’t invest in new or ‘interesting’ investments. They are all too often designed to be *sold* to investors, not to be *owned*by investors.”
8. “Don’t invest in bonds just because you’ve heard that bonds are conservative or for safety of either income or capital. Bond prices can fluctuate nearly as much as stock prices do, and bonds are a poor defense against the major risk of long-term investing – inflation.”
9. “Write out your long-term goals, your long-term investing program, and your estate plan – and stay with them.”
10. “Distrust your feelings. When you feel euphoric, you’re probably in for a bruising.”

“The six keys to achieving excellence” we've found are most effective for our clients:

1. **Pursue what you love.** Passion is an incredible motivator. It fuels focus, resilience, and perseverance.
2. **Do the hardest work first.** We all move instinctively toward pleasure and away from pain. Most great performers, Ericsson and others have found, delay gratification and take on the difficult work of practice in the mornings, before they do anything else. That's when most of us have the most energy and the fewest distractions.
3. **Practice intensely, without interruption for short periods of no longer than 90 minutes and then take a break.** Ninety minutes appears to be the maximum amount of time that we can bring the highest level of focus to any given activity. The evidence is equally strong that great performers practice no more than 4 ½ hours a day.
4. **Seek expert feedback, in intermittent doses.** The simpler and more precise the feedback, the more equipped you are to make adjustments. Too much feedback, too continuously, however, can create cognitive overload, increase anxiety, and interfere with learning.
5. **Take regular renewal breaks.** Relaxing after intense effort not only provides an opportunity to rejuvenate, but also to metabolize and embed learning. It's also during rest that the right hemisphere becomes more dominant, which can lead to creative breakthroughs.
6. **Ritualize practice.** Will and discipline are wildly overrated. As the researcher Roy Baumeister has found, none of us have very much of it. The best way to insure you'll take on difficult tasks is to ritualize them — build specific, inviolable times at which you do them, so that over time you do them without having to squander energy thinking about them.

-- Tony Schwartz, HBR 8-24-10

David Dreman's "Contrarian Investment Rules"

Rule 1: Do not use market-timing or technical analysis. These techniques can only cost you money.

Rule 2: Respect the difficulty of working with a mass of information. Few of us can use it successfully. In-depth information does not translate into in-depth profits.

Rule 3: Do not make an investment decision based on correlations. All correlations in the market, whether real or illusory, will shift and soon disappear.

Rule 4: Tread carefully with current investment methods. Our limitations in processing complex information correctly prevent their successful use by most of us.

Rule 5: There are no highly predictable industries in which you can count on analysts' forecasts. Relying on these estimates will lead to trouble.

Rule 6: Analysts' forecasts are usually optimistic. Make the appropriate downward adjustment to your earnings estimate.

Rule 7: Most current security analysis requires a precision in analysts' estimates that is impossible to provide. Avoid methods that demand this level of accuracy.

Rule 8: It is impossible, in a dynamic economy with constantly changing political, economic, industrial, and competitive conditions, to use the past accurately to estimate the future.

Rule 9: Be realistic about the downside of an investment, recognizing our human tendency to be both overly optimistic and overly confident. Expect the worst to be much more severe than your initial projection.

Rule 10: Take advantage of the high rate of analyst forecast error by simply investing in out-of-favor stocks.

Rule 11: Positive and negative surprises affect "best" and "worst" stocks in a diametrically opposite manner.

Rule 12: (A) Surprises, as a group, improve the performance of out-of-favor stocks, while impairing the performance of favorites.
(B) Positive surprises result in major appreciation for out-of-favor stocks, while having minimal impact on favorites.
(C) Negative surprises result in major drops in the price of favorites, while having virtually no impact on out-of-favor stocks.
(D) The effect of an earnings surprise continues for an extended period of time.

Rule 13: Favored stocks under-perform the market, while out-of-favor companies outperform the market, but the reappraisal often happens slowly, even glacially.

Rule 14: Buy solid companies currently cut of market favor, as measured by their low price-to-earnings, price-to-cash flow or price-to-book value ratios, or by their high yields.

Rule 15: Don't speculate on highly priced concept stocks to make above-average returns. The blue chip stocks that widows and orphans traditionally choose are equally valuable for the more aggressive businessman or woman.

Rule 16: Avoid unnecessary trading. The costs can significantly lower your returns over time. Low price-to-value strategies provide well above mar-ket returns for years, and are an excellent means of eliminating excessive transaction costs.

Rule 17: Buy only contrarian stocks because of their superior performance characteristics.

Rule 18: Invest equally in 20 to 30 stocks, diversified among 15 or more industries (if your assets are of sufficient size).

Rule 19: Buy medium-or large-sized stocks listed on the New York Stock Exchange, or only larger companies on Nasdaq or the American Stock Exchange.

Rule 20: Buy the least expensive stocks within an industry, as determined by the four contrarian strategies, regardless of how high or low the general price of the industry group.

Rule 21: Sell a stock when its P/E ratio (or other contrarian indicator) approaches that of the overall market, regardless of how favorable prospects may appear. Replace it with another contrarian stock.

Rule 22: Look beyond obvious similarities between a current investment situa-tion and one that appears equivalent in the past. Consider other important factors that may result in a markedly different outcome.

Rule 23: Don't be influenced by the short-term record of a money manager, broker, analyst or advisor, no matter how impressive; don't accept cursory economic or investment news without significant substantiation.

Rule 24: Don't rely solely on the "case rate." Take into account the "base rate" – the prior probabilities of profit or loss.

Rule 25: Don't be seduced by recent rates of return for individual stocks or the market when they deviate sharply from past norms (the "case rate"). Long term returns of stocks (the "base rate") are far more likely to be established again. If returns are particularly high or low, they are likely to be abnormal.

Rule 26: Don't expect the strategy you adopt will prove a quick success in the market; give it a reasonable time to work out.

Rule 27: The push toward an average rate of return is a fundamental principle of competitive markets.

Rule 28: It is far safer to project a continuation of the psychological reactions of investors than it is to project the visibility of the companies themselves.

Rule 29: Political and financial crises lead investors to sell stocks. This is pre-cisely the wrong reaction. Buy during a panic, don't sell.

Rule 30: In a crisis, carefully analyze the reasons put forward to support lower stock prices – more often than not they will disintegrate under scrutiny

Rule 31: (A) Diversify extensively. No matter how cheap a group of stocks looks, you never know for sure that you aren't getting a clinker.
(B) Use the value lifelines as explained. In a crisis, these criteria get dramatically better as prices plummet, markedly improving your chances of a big score.

Rule 32: Volatility is not risk. Avoid investment advice based on volatility.

Rule 33: Small-cap investing: Buy companies that are strong financially (nor-mally no more than 60% debt in the capital structure for a manufacturing firm).

Rule 34: Small-cap investing: Buy companies with increasing and well-protected dividends that also provide an above-market yield.

Rule 35: Small-cap investing: Pick companies with above-average earnings growth rates.

Rule 36: Small-cap investing: Diversify widely, particularly in small companies, because these issues have far less liquidity. A good portfolio should contain about twice as many stocks as an equivalent large-cap one.

Rule 37: Small-cap investing: Be patient. Nothing works every year, but when smaller caps click, returns are often tremendous.

Rule 38: Small-company trading (e.g., Nasdaq): Don't trade thin issues with large spreads unless you are almost certain you have a big winner.

Rule 39: When making a trade in small, illiquid stocks, consider not only commissions, but also the bid /ask spread to see how large your total cost will be.

Rule 40: Avoid the small, fast-track mutual funds. The track often ends at the bottom of a cliff.

Rule 41: A given in markets is that perceptions change rapidly.

Jim Rogers Keys to Success (Taken from the titles and sub headings of Each Chapter)

1. Do Not Let Others Do Your Thinking For you

2. Focus On What You Like

3. Good Habits For Life & Investing

4. Common Sense? Not So Common

5. Attention to details is what separates success from failure

6. Let the World Be A Part Of Your Perspective

7. Learn Philosophy & Learn To Think

8. Learn History

9. Learn Languages (Make sure Mandarin Is One Of Them)

10. Understand Your Weaknesses & Acknowledge Your Mistakes

11. Recognize Change & Embrace It

12. Look To The Future

13. "Lady Luck Smiles On Those Who Continue Their Efforts"

14. Remember That Nothing is Really New

15. Know when not to do anything

16. Pay attention to what everybody else neglects

17. If anybody laughs at your idea view it as a sign of potential success

Deliberate Practice – Geoff Colvin

1. It's designed to improve performance. "The essence of deliberate practice is continually stretching an individual just beyond his or her current abilities. That may sound obvious, but most of us don't do it in the activities we think of as practice."

2. It's repeated a lot. "High repetition is the most important difference between deliberate practice of a task and performing the task for real, when it counts."

3. Feedback on results is continuously available. "You may think that your rehearsal of a job interview was flawless, but your opinion isn't what counts."

4. It's highly demanding mentally. "Deliberate practice is above all an effort of focus and concentration. That is what makes it 'deliberate,' as distinct from the mindless playing of scales or hitting of tennis balls that most people engage in."

5. It's hard. "Doing things we know how to do well is enjoyable, and that's exactly the opposite of what deliberate practice demands."

6. It requires (good) goals. "The best performers set goals that are not about the outcome but rather about the process of reaching the outcome."

Michael Burry

> "When I stand on my special-issue "Intelligent Investor" ladder and peer out over the frenzied crowd, I see very few others doing the same. Many stocks remain overvalued, and speculative excess – both on the upside and on the downside – is embedded in the frenzy around stocks of all stripes. And yes, I am talking about March 2001, not March 2000.
>
> "In essence, the stock market represents three separate categories of business. They are, adjusted for inflation, those with shrinking intrinsic value, those with approximately stable intrinsic value, and those

with steadily growing intrinsic value. The preference, always, would be to buy a long-term franchise at a substantial discount from growing intrinsic value.

"However, if one has been playing the buy-and-hold game with quality securities, one has been exposed to a substantial amount of market risk because the valuations placed on these securities have implied overly rosy scenarios prone to popular revision in times of more realistic expectation. This is one of those times, but it is my feeling that the revisions have not been severe enough, the expectations not yet realistic enough. Hence, the world's best companies largely remain overpriced in the marketplace.

"The bulk of the opportunities remain in undervalued, smaller, more illiquid situations that often represent average or slightly above-average businesses – these stocks, having largely missed out on the speculative ride up, have nevertheless frequently been pushed down to absurd levels owing to their illiquidity during a general market panic. I will not label this Fund a "small cap" fund, for this may not be where the best opportunities are next month or next year. For now, though, the Fund is biased toward smaller capitalization stocks. As for the future, I can only say the Fund will always be biased to where the value is. If recent trends continue, it would not be surprising to find the stocks of several larger capitalization stocks with significant long-term franchises meet value criteria and hence become eligible for potential addition to the Fund." – Michael Burry, 1Q01 letter to investors

Michael Burry on Bloomberg's "Risk Takers":

- "Everything I do in investment is just very different."
- "I just really like to find my own ideas."
- "My natural state is an outsider. I've always felt outside the group, and I've always been analyzing the group."
- "I think a lot of funds get their ideas from Wall Street. I just like to find my own ideas. I read a lot. A lot of news. I just follow my nose. A lot of times it's a dead end, but sometimes there's value there."
- "I didn't offer transparency. I provided one quarterly report in letter form. That was all you got. I basically demanded that if you're going to invest in my fund you need to accept my terms. The terms not being super highs, but just, I'm not going to cater to you."
- "My positioning with my investors was always, I need three to five years."

Michael Burry in The Big Short:

- *In early 2004…Burry immersed himself for the first time in the bond market. He learned all he could about how money got borrowed and lent in America. He didn't talk to anyone about his new obsession; he just sat alone in his office, in San Jose, California, and read books and articles and financial filings. He wanted to know, especially, how subprime mortgage bonds worked.*

- "What you want to watch are the lenders, not the borrowers. The borrowers will always be willing to take a great deal for themselves. It's up to the lenders to show restraint, and when they lose it, watch out."

- "The late 90s almost forced me to identify myself as a value investor, because I thought what everybody else was doing was insane."

- *Burry did not think investing could be reduced to a formula or learned from any one role model. The more he studied Buffett, the less he thought Buffett could be copied. Indeed, the lesson of Buffett was: To succeed in a spectacular fashion you had to be spectacularly unusual.*

- "If you are going to be a great investor, you have to fit the style to who you are," Burry said. "At one point I recognized that Warren Buffett, though he had every advantage in learning from Ben Graham, did not copy Ben Graham, but rather set out on his own path, and ran money his way, by his own rules.… I also immediately internalized the idea that no school could teach someone how to be a great investor. If it were true, it'd be the most popular school in the world, with an impossibly high tuition. So it must not be true."

- "Time is a variable continuum," [Burry] wrote to one of his e-mail friends one Sunday morning in 1999: "An afternoon can fly by or it can take 5 hours. Like you probably do, I productively fill the gaps that most people leave as dead time. My drive to be productive probably cost me my first marriage and a few days ago almost cost me my fiancée. Before I went to college the military had this 'we do more before 9am than most people do all day' and I used to think I do more than the military. As you know there are some select people that just find a drive in certain activities that supersedes everything else."

- *His $40,000 in assets against $145,000 in student loans posed the question of exactly what portfolio he would run. His father had died after another misdiagnosis: a doctor had failed to spot the cancer on an X-ray, and the family had received a small settlement. The father disapproved of the stock market, but the payout from his death funded his son into it. His mother was able to kick in $20,000 from her settlement, his three brothers kicked in $10,000 each of theirs. With that, Dr. Michael Burry opened Scion Capital. (As a teen he'd loved the book The Scions of Shannara.) He created a grandiose memo to lure people not related to him by blood. "The minimum net worth for investors should be $15 million," it said, which was interesting, as it excluded not only himself but basically everyone he'd ever known.*

- *As he scrambled to find office space, buy furniture, and open a brokerage account, he received a pair of surprising phone calls. The first came from a big investment fund in New York City, Gotham Capital. Gotham was founded by a value-investment guru named Joel Greenblatt. Burry had read Greenblatt's book You Can Be a Stock Market Genius. ("I hated the title but liked the book.") Greenblatt's people told him that they had been making money off his ideas for some time and wanted to continue to do so—might Mike Burry consider allowing Gotham to invest in his fund? "Joel Greenblatt himself called," said Burry, "and said, 'I've been waiting for you to leave medicine.'" Gotham flew Burry and his wife to New York—and it was the first time Michael Burry had flown to New York or flown first-class—and put him up in a suite at the Intercontinental Hotel.*

- *He arrived at the big New York money-management firm as formally attired as he had ever been in his entire life to find its partners in T-shirts and sweatpants. The exchange went something like this: "We'd like to give you a million dollars."* "Excuse me?" *"We want to buy a quarter of your new hedge fund. For a million dollars."* "You do?" *"Yes. We're offering a million dollars."* "After tax!

- *Burry didn't know it, but it was the first time Joel Greenblatt had done such a thing. "He was just obviously this brilliant guy, and there aren't that many of them," says Greenblatt.*

- *Shortly after that odd encounter, he had a call from the insurance holding company White Mountain. White Mountain was run by Jack Byrne, a member of Warren Buffett's inner circle, and they had spoken to Gotham Capital. "We didn't know you were selling part of your firm," they said—and Burry explained that he hadn't realized it either until a few days earlier, when someone offered a million dollars, after tax, for it. It turned out that White Mountain, too, had been watching Michael Burry closely. "What intrigued us more than anything was that he was a neurology resident," says Kip Oberting, then at White Mountain. "When the hell was he doing this?" From White Mountain he extracted $600,000 for another piece of his fund, plus a promise to send him $10 million to invest. "And yes," said Oberting, "he was the only person we found on the Internet and cold-called and gave him money."*

- *Thus when Mike Burry went into business he disapproved of the typical hedge-fund manager's deal. Taking 2 percent of assets off the top, as most did, meant the hedge-fund manager got paid simply for amassing vast amounts of other people's money. Scion Capital charged investors only its actual expenses—which typically ran well below 1 percent of the assets. To make the first nickel for himself, he had to make investors' money grow. "Think about the genesis of Scion," says one of his early investors. "The guy has no money and he chooses to forgo a fee that any other hedge fund takes for granted. It was unheard of."*

- *He'd started Scion Capital with a bit more than a million dollars—the money from his mother and brothers and his own million, after tax. Right from the start, Scion Capital was madly, almost comically successful. In his first full year, 2001, the S&P 500 fell 11.88 percent. Scion was up 55 percent. The next year, the S&P 500 fell again, by 22.1 percent, and yet Scion was up again: 16 percent. The next year, 2003, the stock market finally turned around and rose 28.69 percent, but Mike Burry beat it again—his investments rose by 50 percent. By the end of 2004, Mike Burry was managing $600 million and turning money away. "If he'd run his fund to maximize the amount he had under management, he'd have been running many, many billions of dollars," says a New York hedge-fund manager who watched Burry's performance with growing incredulity. "He designed Scion so it was bad for business but good for investing."*

- *By the middle of 2005, over a period in which the broad stock-market index had fallen by 6.84 percent, Burry's fund was up 242 percent, and he was turning away investors. To his swelling audience, it didn't seem to matter whether the stock market rose or fell; Mike Burry found places to invest money shrewdly. He used no leverage and avoided shorting stocks. He was doing nothing more promising than buying common stocks and nothing more complicated than sitting in a room reading financial statements. Scion Capital's decision-making apparatus consisted of one guy in a room, with the door closed and the shades down, poring over publicly available information and data on 10-K Wizard. He went looking for* *court rulings, deal completions, and government regulatory changes—anything that might change the value of a company.*

- *As often as not, he turned up what he called "ick" investments. In October 2001 he explained the concept in his letter to investors:* "Ick investing means taking a special analytical interest in stocks that inspire a first reaction of 'ick.'"
    - *Avant! Corporation was a good example. He'd found it searching for the word "accepted" in news stories. He knew that, standing on the edge of the playing field, he needed to find unorthodox ways to tilt it to his advantage, and that usually meant finding unusual situations the world might not be fully aware of.* "I wasn't searching for a news report of a scam or a fraud per se. That would have been too backward-looking, and I was looking to get in front of something I was looking for something happening in the courts that might lead to an investment thesis. An argument being accepted, a plea being accepted, as settlement being accepted by the court."
    - *A court had accepted a plea from Avant! Corporation. Avant! had been accused of stealing from a competitor the software code that was the whole foundation of Avant!'s business. The company had $100 million in cash in the bank, was still generating $100 million a year of free cash flow – and had a market value of only $250 million! Michael Burry started digging; by the time he was done, he knew more about the Avant! Corporation than any man on earth. He was able to see that even if the executives went to jail (as they did) and the fines were paid (as they were), Avant! would be worth a lot more than the market then assumed. Most of its engineers were Chinese nationals on works visas, and thus trapped – there was no risk that anyone would quit before the lights were out. To make money on Avant!'s stock, however, he'd probably have to stomach short-term losses, as investors puked up shores in horrified response to negative publicity. Burry bought his first shares of Avant! in June 2001 at $12 a share. Avant!'s management then appeared on the cover of an issue of* Business Week *under the headline "Does Crime Pay?" The stock plunged; Burry bought more. Avant!'s management went to jail. The stock fell some more. Mike Burry kept on buying it – all the way down to $2 a share. He became Avant!'s single largest shareholder; he pressed management for changes.* "With [the former CEO's] criminal aura no longer a part of operating management," *he wrote to the new bosses,* "Avant! has a chance to demonstrate its concern for shareholders." *Four months later, Avant! got taken over for $22 a share. "That was a classic Mike Burry trade," says one of his investors. "It goes up by ten times but first it goes down by half."*

- *This isn't the sort of ride most investors enjoy, but it was, Burry thought, the essence of value investing. His job was to disagree loudly with popular sentiment. He couldn't do this if he was at the mercy of very short-term market moves, and so he didn't give his investors the ability to remove their money on short notice, as most hedge funds did. If you gave Scion your money to invest, you were stuck for at least a year.*

- *Burry also designed his fund to attract people who wanted to be long the stock market – who wanted to bet on stocks going up frather than stocks going down.* "I am not a short at heart. I don't dig into companies looking to short them, generally. I want the upside to be much more than the downside, fundamentally." *He also didn't like the idea of taking the risk of selling a stock short, as the risk was, theoretically, unlimited. It could only fall to zero, but it could rise to infinity.*

- *Investing well was all about being paid the right price for risk. Increasingly, Burry felt that he wasn't. The problem wasn't confined to individual stocks. The Internet bubble had burst, and yet house prices in San Jose, the bubble's epicenter, were still rising. He investigated the stocks of homebuilders and then the stocks of companies that insured home mortgages, like PMI. To one of his friends—a big-time East Coast professional investor—he wrote in May 2003 that the real-estate bubble was being driven ever higher by the irrational behavior of mortgage lenders who were extending easy credit.* "You just have to watch for the level at which even nearly unlimited or unprecedented credit can no longer drive the [housing] market higher," *he wrote.* "I am extremely bearish, and feel the consequences could very easily be a 50% drop in residential real estate in the U.S.…A large portion of current [housing] demand at current prices would disappear if only people became convinced that prices weren't rising. The collateral damage is likely to be orders of magnitude worse than anyone now considers."

- *He gave a talk [at a Bank of America cap intro conference] in which he argued that the way they measured risk was completely idiotic. They measured risk by volatility: how much a stock or bond happened to have jumped around in the past few years. Real risk was not volatility; real risk was stupid investment decisions.* "By and large," *he later put it,* "the wealthiest of the wealthy and their representatives have accepted that most managers are average, and the better ones are able to achieve average returns while exhibiting below-average volatility. By this logic a dollar selling for fifty cents one day, sixty cents the next day, and forty cents the next somehow becomes worth less than a dollar selling for fifty cents all three days. I would argue that the ability to buy at forty cents presents opportunity, not risk, and that the dollar is still worth a dollar."

- "Sometimes markets err big time. Markets erred when they gave America Online the currency to buy Time Warner. They erred when they bet against George Soros and for the British pound. And they are erring right now by continuing to float along as if the most significant credit bubble history has ever seen does not exist. Opportunities are rare, and large opportunities on which one can put nearly unlimited capital to work at tremendous potential returns are even more rare. Selectively shorting the most problematic mortgage-backed securities in history today amounts to just such an opportunity."

- "It is ludicrous to believe that asset bubbles can only be recognized in hindsight," *he wrote.* "There are specific identifiers that are entirely recognizable during the bubble's inflation. One hallmark of mania is the rapid rise in the incidence and complexity of fraud.… The FBI reports mortgage-related fraud is up fivefold since 2000." *Bad behavior was no longer on the fringes of an otherwise sound economy; it was its central feature.* "The salient point about the modern vintage of housing-related fraud is its integral place within our nation's institutions," *he added.*

- *Inadvertently, he'd opened up a debate with his own investors, which he counted among his least favorite activities.* "I hated discussing ideas with investors," *he said,* "because I then become a Defender of the Idea, and that influences your thought process." *Once you became an idea's defender, you had a harder time changing your mind about it. He had no choice: among the people who gave him money there was pretty obviously a built-in skepticism of so-called macro thinking.* "I have heard that White Mountain would rather I stick to my knitting," *he wrote, testily, to his original backer,* "though it is not clear to me that White Mountain has historically understood what my knitting really is." *No one seemed able to see what was so plain to him: these credit-default swaps were all part of his global search for value.* "I don't take breaks in my search for value," *he wrote to White Mountain.* "There is no golf or other hobby to distract me. Seeing value is what I do."

- *When he'd started Scion, he told potential investors that, because he was in the business of making unfashionable bets, they should evaluate him over the long term—say, five years. Now he was being evaluated moment to moment.* "Early on, people invested in me because of my letters," he said. "And then, somehow, after they invested, they stopped reading them."

- "People get hung up on the difference between +5% and -5% for a couple of years," Burry replied to one investor who had protested the new strategy. "When the real issue is: over 10 years who does 10% or better annually? And I firmly believe that to achieve that advantage on an annual basis, I have to be able to look out past the next couple of years.… I have to be steadfast in the face of popular discontent if that's what the fundamentals tell me." *In the five years since he had started, the S&P 500, against which he was measured, was down 6.84 percent. In the same period, he reminded his investors, Scion Capital was up 242 percent. He assumed he'd earned the rope to hang himself. He assumed wrong.* "I'm building breathtaking sand castles," he wrote, "but nothing stops the tide from coming and coming and coming."

- *In January 2007…Michael Burry sat down to explain to his investors hw, in a year when the S&P had risen by more than 10 percent, he had lost 18.4 percent. A person who had had money with him from the beginning would have enjoyed gains of 186 percent over those six years, compared to 10.13 percent for the S&P 500 Index, but Burry's long-term success was no longer relevant. He was now being judged monthly.* "The year just completed was one in which I underperformed nearly all my peers and friends by, variably, thirty or forty percentage points. A money manager does not go from being a near nobody to being nearly universally applauded to being nearly universally vilified without some effect."

- "I have always believed that a single talent analyst, working very hard, can cover an amazing amount of investment landscape, and this belief remains unchallenged in my mind."

- "With all that has gone on recently, I've had the opportunity to talk with many of our investors, which is the first time I've done so in the history of the funds. I've been shocked by what I've heard. It appears that investors only have passingly paid attention to my letters, and many have been clinging to various rumors and hearsay in place of analysis or original thought. I've variably launched a private equity fund, tried to buy a Venezuelan gold company, launched a separate hedge fund called Milton's Opus, got divorced, got blown up, never disclosed the derivatives trade, borrowed $8 billion, spent much of the past two years in Asia, accused everyone but me on Wall Street of being idiots, siphoned off the capital of the funds into my personal account, and more or less turned Scion into the next Amaranth. None of this made up."

Peter Cundill

"Curiosity is the engine of civilization. If I were to elaborate it would be to say read, read, read, and don't forget to talk to people, really talk, listening with attention and having conversations, on whatever topic, that are an exchange of thoughts. Keep the reading broad, beyond just the professional. This helps to develop one's sense of perspective in all matters." – Peter Cundill

Peter Cundill on routines...
"Routines and discipline go hand in hand. They are the road-map that guides the pursuit of excellence for its own sake. They support proper professional ambition and the commercial integrity that goes with it."

"Skepticism is good, but be a skeptic, not an iconoclast." -Peter Cundill

"Sir John Templeton said something to me and it stuck in my mind and I didn't do anything about it at the time. We were on a roll of fifteen years of wonderful results, no down years, a high compound rate of return and some money coming in. He said something which I think is correct, and that Graham also talks about; 'always change a winning game.' I didn't do it because I was on a roll then and I wasn't flexible enough. There is no investment rule that remains immutable except the margin of safety. There are always breaks and the trick is to begin to anticipate, if you can, where the break points will be and shift. Not the disciplines and not the framework but the tactics that are involved." -- Peter Cundill discussing "always change a winning game"

"There is no investment rule that remains immutable except the margin of safety." – Peter Cundill

Jim Chanos

"Bubbles are best identified by credit excesses, not valuation excesses." – Jim Chanos

"What we define as a bubble is any kind of debt fueled asset inflation, where the cash flow generation from the asst itself a rental property apartment building does not cover the debt service and the debt incurred to buy the asset. So you depend on the greater fool. Minsky called it Ponzi finance, meaning you need the greater fool to come in and buy it at a higher price because as an income producing property it's not going to do it. And that's certainly the case in China right now." -- Jim Chanos, 4-12-10

"China is a world class if not the world class property bubble, primarily high-rise buildings, offices and condos." – Jim Chanos, 4-12-10

"We try not to short on valuation. We try to focus on businesses where something is going wrong. Better yet, we look for companies that are trying – often legally but aggressively – to hide the fact that things are going wrong through their accounting, acquisition policy, or other means."[188] **–** Jim Chanos

"There's a big difference between a long-focused value investor and a good short-seller. That difference is psychological…You're basically told that you're wrong in every way imaginable every day. It takes a certain type of individual to drown that noise and negative reinforcement out and to remind oneself that their work is accurate and what they're hearing is not." – Jim Chanos[189]

"Always remember, what is immaterial to one entity can be very material to a key person." –Jim Chanos, *The Alpha Masters*

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[188] Interview with Jim Chanos, *Graham and Doddsville*, Spring 2012
[189] Interview with Jim Chanos, *Graham and Doddsville*, Spring 2012

"We all get lazy and when an idea seems to be working — inertia tends to take over and you stop paying attention." Jim Chanos[190]

"I always used to say, on the short side, people are made not born. I've changed my view on that a bit. I do think there are enough asymmetries between the long side and the short side that it makes it difficult for people who are otherwise very bright investors, particularly people in the value world, who look at things and see great short opportunities, but can never get their mind to the point where they can become good short sellers. I do think, to some extent, the temperament of a good short seller is probably genetic. So I think the skill set is the same in terms of trying to do deep research and finding unique value in companies is the same, the mindset can be very different. You need to be able to weather being told you're wrong all the time. Short sellers are constantly being told they're wrong. A lot of people don't function well in an environment of negative reinforcement and short selling is the ultimate negative reinforcement profession, as you are going against the grain of a lot of well-financed people who want to prove you wrong. It takes a certain temperament to disregard this." – Jim Chanos[191]

"I call it the Rule of Three. If you read a company's financial statements three times, and you still can't figure out how they make their money, that's usually for a reason." – Jim Chanos

Regarding the notion that since security prices are bounded by zero and infinity, it is always better to be long. "I've seen a lot more go to zero than infinity." – Jim Chanos

"One of the biggest things I see quite often is getting too close to management. We never meet with management. For all of the bad asymmetries of being on the short side, one of the good asymmetries is that we don't rely on the company. We can get information from the company if we want to, as we can go through the sellside. Those that are long the stock and are close to the company almost never hear the negative side in any detail. The biggest mistake people make is to be co-opted by management. The CFO will always have an answer for you as to why a certain number that looks odd really is normal, and why some development that looks negative is actually positive." –Jim Chanos[192]

More thoughts from Chanos's 2010 CFA conference presentation:

- According to Chanos, citing CFO magazine, 2/3 of all CFOs have been asked to cook the books (55% declined, but 12% did it.)
- Always a good idea to avoid management, since they're either clueless or lying.
- Two ways to handle risk: stop loss orders (but fundamentals, rather than price alone, should dictate the outcome) and position sizing. Chanos sizes short positions between a minimum 0.5% and maximum 5%.
- Chanos does not use options, which are used to either manage risk or gain leverage; Chanos believes he can do either more effectively and cheaply outside the options market. Never uses CDS because of counterparty risk, which requires two correct decisions.
- Good short sellers are born, not trained
- Sources of ideas
    - Experience

[190] http://goo.gl/wptHWl
[191] Interview with Jim Chanos, *Graham and Doddsville*, Spring 2012
[192] Interview with Jim Chanos, *Graham and Doddsville*, Spring 2012

- Third-party accounting research
- Screens
- Other managers
- Partners/investors in the fund

> "What we define as a bubble is any kind of debt fueled asset inflation, where the cash flow generation from the asst itself a rental property apartment building does not cover the debt service and the debt incurred to buy the asset. So you depend on the greater fool. Minsky called it Ponzi finance, meaning you need the greater fool to come in and buy it at a higher price because as an income producing property it's not going to do it. And that's certainly the case in China right now." -- Jim Chanos, 4-12-10

Chanos on his accSi-selling themes:[193]

1. **BOOMS THAT GO BUST.** "...we've tended down through the years to see that a lot of our ideas fit certain broad themes. One I mentioned is the booms that go bust, where you just get these credit-driven asset manias and the asset can't service the debt. Usually that ends in tears."
2. **TECHNOLOGICAL OBSOLESCENCE.** "The internet's been a great wealth creator, but it has destroyed lots of business plans and lots of moats, and we keep our eye out. And that's, for us, an ongoing source of ideas. It's amazing how the analogto-digital revolution just continues to find new businesses to decimate. And we're mindful of that. It's the Schumpeterian view of capitalism."
3. **CONSUMER FADS.** "...you see Wall Street over and over and over again just extrapolating out single product companies with hockey stick growth, whether it's George Foreman Grills or Nordic Tracks or Cabbage Patch Dolls or FitBits or whatever it might be. 'This time it's different. Everybody's going to have five.' And it rarely is."
4. **GROWTH BY ACQUISITION.** "Another area would be growth by acquisition. We're just drawn like moths to the flame, I guess, to companies in crummy businesses that decide to tell the Street that they're actually growth companies by buying the growth. Typically this leads to the temptation of playing acquisition accounting games in terms of valuing the assets and/or spring-loading by having the target companies hold off business in the interim period between the announcement of the deal and the closing of the deal so they look better once you fold them in. And so we love those kinds of stories, the rollups, or as they've been deemed, the 'platform companies'."
5. **ACCOUNTING GAMES.** Then there are just pure outright accounting stories, where we just find a company that's just completely playing legal or illegal accounting games to obscure the reality of what's going on.
6. **SILLY TRADES.** "...then finally, any time we can sell $1 for $2 because the market gives us some silly trade, we'll do that till the cows come home."

Joel Greenblatt

[193] FT Alphachatterbox – April 2016

“There’s a clarity that comes with great ideas: You can [easily and simply] explain why something’s a great business, how and why it’s cheap, why it’s cheap for temporary reasons and how, on a normal basis, it should be trading at a much higher level. You’re never sitting there on the 40th page of your spreadsheet, as Buffett would say, agonizing over whether you should buy or not.” – Joel Greenblatt

“Value investing strategies have worked for years and everyone’s known about them. They continue to work because it’s hard for people to do, for two main reasons. First, the companies that show up on the screens can be scary and not doing so well, so people find them difficult to buy. Second, there can be one-, two- or three-year periods when a strategy like this doesn’t work. Most people aren’t capable of sticking it out through that.” – Joel Greenblatt

“I wait until an investment idea is so good, it hits me over the head like an anvil.” – Joel Greenblatt

Joel Greenblatt *(unknown source)*:

> “There’s a virtuous cycle when people have to defend challenges to their ideas. Any gaps in thinking or analysis become clear pretty quickly when smart people ask good, logical questions. You can’t be a good value investor without being an independent thinker – you’re seeing valuations that the market is not appreciating. But it’s critical that you understand why the market isn’t seeing the value you do. The back and forth that goes on in the investment process helps you get at that.”
>
> “I still believe that for good business analysts a concentrated portfolio is a good strategy combined with a long term horizon. Once again, the secret to success in following the formula strategy is patience, a quality in short supply for both professionals and individual investors alike. I think investors should have a large portion of their assets in equities over time.”
>
> “I don’t know too many people that are good at timing the market relative to macro-economic events.”
>
> “The way we make money as a group is that we don’t pay a lot for anything, and most of the stocks we buy have low expectations.”
>
> “Figure out what something is worth and pay a lot less.”
>
> “If I plug my estimates into the Magic Formula, and it comes out cheap, that’s good.”
>
> “There’s a virtuous cycle when people have to defend challenges to their ideas. Any gaps in thinking or analysis become clear pretty quickly when smart people ask good, logical questions. You can’t be a good value investor without being an independent thinker – you’re seeing valuations that the market is not appreciating. But it’s critical that you understand why the market isn’t seeing the value you do. The back and forth that goes on in the investment process helps you get at that.”
>
> “Buying a share of a good business is better than buying a share of a bad business. One way to do this is to purchase a business that can invest its own money at high rates of return rather than purchasing a business that can only invest at lower ones. In other words, businesses that earn a high return on capital are better than businesses that earn a low return on capital.”

“I think the exercise of trying to figure out how to simplify concepts has been incredibly helpful to me over the last 13 years of teaching and I hope my students have benefited from it.”

“The Magic Formula works on average. It can either be used as a screening device to find companies to do more work on to determine whether earnings are sustainable and predictable or as a way to accumulate a basket of 20 or 30 companies that on average are cheap and good. If you don’t plan on doing additional research, buying individual companies without further research would obviously be imprudent.”

“The big picture is: the main thing you should be concerned about in the future are incremental returns on capital going forward. As it turns out, past history of a good return on capital is a good proxy for this but obviously not foolproof. I think this is an area where thoughtful analysis can add value to any simple ranking/screening strategy such as the magic formula. When doing in depth analysis of companies, I care very much about long term earnings power, not necessarily so much about the volatility of that earnings power but about my certainty of “normal” earnings power over time.”

“My goal is to buy a company at a low multiple to normal earnings power several years out and that the company earns good returns on capital at that level of normal earnings. A holding period of more than one year also works quite well as the factors are persistent in years 2 and 3.”

Howard Marks

"...in the economic/investment world, what matters most in the short run isn't necessarily what's true but, rather, what's on people's minds." -Howard Marks

The World According to Marks

Here are some choice Howardisms, as Joel Greenblatt of Gotham Capital calls them. They're plucked from memos and other musing in Marks' book *The Most Important Thing Illuminated*.

"Experience is what you get when you didn't get what you wanted."

"Being right may be a necessary condition for investment success, but it won't be sufficient. You must be more right than others."

"Well bought is half sold."

"When things are going well and prices are high, investors rush to buy, forgetting all prudence. Then when there's chaos all around and assets are on the bargain counter, they lose all willingness to bear risk and rush to sell. And it will ever be so."

"Risk control is the best route to loss avoidance. Risk avoidance, on the other hand, is likely to lead to return avoidance as well."

There are old investors, and there are bold investors, but there are no old bold investors

"The truth is, much in investing is ruled by luck."

From *The Most Important Thing Illuminated:*

"Risk control isn't an action so much as it is a mindset. It stems largely from putting at least as much emphasis on avoiding mistakes as doing great things." – Howard Marks[194]

"People who might be perfectly happy with their lot in isolation become miserable when they see others do better. In the world of investing, most people find it terribly hard to sit by and watch while others make more money than they do."

"Emotion and ego: A lot of the drive in investing is competitive. High returns can be unsatisfying if others do better, while low returns are often enough if others do worse. The tendency to compare results is one of the most invidious. The emphasis on relative returns over absolute returns shows how psychology can distort the process."

"I know of a nonprofit institution whose endowment earned 16 percent a year from June 1994 to June 1999, but since its peers averaged 23 percent, the people involved with the endowment were dejected."

Seth Klarman: "Even the best investors judge themselves on the basis of return. It would be hard to evaluate yourself on risk, since risk cannot be measured. Apparently, the risk-averse managers of this endowment were disappointed with their relative returns even though their risk-adjusted performance was likely excellent, as borne out by their performance over the following three years. This highlights just how hard it is to maintain conviction over the long run when short-term performance is considered poor."

"Without growth stocks, technology stocks, buyouts and venture capital, the endowment was entirely out of step for half a decade. But then the tech stocks collapsed, and from June 2000 to June 2003 the institution earned 3 percent a year while most endowments suffered losses. The stakeholders were thrilled. There's something wrong with this picture. How can people be unhappy making 16 percent a year and happy making 3 percent? The answer lies in the tendency to compare ourselves to others and the deleterious impact this can have on what should be a constructive, analytical process."

[194] June 20, 2012

> Joel Greenblatt: "This is incredibly important. Most institutional and individual investors benchmark their returns, and therefore most end up chasing the crowd: accent on the wrong sylLABle."

"Accepting the broad concept of contrarianism is one thing; putting into practice is another. On one hand, we never know how far the pendulum will swing, when it will reverse, and how far it will then go in the opposite direction. On the other hand, we can be sure that, once it reaches an extreme position, the market eventually will swing back toward the midpoint (or beyond). Investors who believed that the pendulum would move in one direction forever -- or, having reached an extreme, would stay there -- are inevitably disappointed. On the third hand, however, because of the variability of the many factors that influence markets, no tool -- not even contrarianism -- can be relied on completely."

"Contrarianism isn't an approach that will make you money all of the time. Much of the time there aren't great market excesses to bet against."

> Joel Greenblatt: "I've put it this way: just because no one else will jump in front of a Mack truck barreling down the highway, doesn't mean that you should!"

"Even when an excess does develop, it's important to remember that "overpriced" is incredibly different from "going down tomorrow.""

"Markets can be over- or underpriced and stay that way -- or become more so -- for years."

"It can be extremely painful when the trend is going against you."

> Seth Klarman: "This is where it is particularly important to remember the teachings of Graham and Dodd. If you look to the markets for a report card, owning a stock that declines every day will make you feel like a failure. But if you remember that you own a fractional interest in a business and that every day you are able to buy in at a great discount to underlying value, you might just be able to maintain a cheerful disposition. This is exactly how Warren Buffett describes bargain hunting amid the ravages of the 1973 to 1974 bear market."

"It can appear at times that "everyone" has reached the conclusion that the herd is wrong. What I mean is that contrarianism itself can appear to have become too popular, and thus contrarianism can be mistaken for herd behavior."

"Finally, it's not enough to bet against the crowd. Given the difficulties associated with contrarianism just mentioned, the potentially profitable recognition of divergences from consensus thinking must be based on reason and analysis. You must do things not just because they're the opposite of what the crowd is doing, but because you know why the crowd is wrong. Only then will you be able to hold firmly to your views and perhaps buy more as your positions take on the appearance of mistakes and as losses accrue rather than gains."

"One of the most striking things I've noted over the last 35 years is how brief most outstanding investment careers are....I don't think many investment managers' careers end because they fail to hit home runs. Rather, they end up out of the game because they strike out too often – not because they don't have enough winners, but because they have too many losers. And yet, lots of managers keep swinging for the fences." – Howard Marks

"Macro-forecasting not critical to investing – We believe consistently excellent performance can only be achieved through superior knowledge of companies and their securities, not through attempts at predicting what is in stores for the economy, interest rates or the securities markets. Therefore, our investment process is entirely bottom-up, based upon proprietary, company-specific research. We use overall portfolio structuring as a defensive tool to help us avoid dangerous concentration, rather than as an aggressive weapon expected to enable us to hold more of the things we do best." – Howard Marks, Oaktree's "Six Tenets of Investing"[195]

"Disavowal of market timing – Because we do not believe in the predictive ability required to correctly time markets, we keep portfolios fully invested whenever attractively priced assets can be bought. Concern about the market climate may cause us to tilt toward more defensive investments, increase selectivity or act more deliberately, but we never move to raise cash. Clients hire us to invest in specific market niches, and we must never fail to do our job. Holding investments that decline in price is unpleasant, but missing out on returns because we failed to buy what were hired to buy is inexcusable." – Howard Marks, Oaktree's "Six Tenet's of Investing"[196]

"There are a few things I dismiss and a few I believe in thoroughly. The former include economic forecasts, which I think don't add value, and the list of the latter starts with cycles and the need to prepare for them. 'Hey,' you might say, 'that's contradictory. The best way to prepare for cycles is to predict them, and you just said it can't be done.' That's absolutely true, but in my opinion by no means debilitating. All of investing consists of dealing with the future…and the future is something we can't know much about. But the limits on our foreknowledge needn't doom us to failure as long as we acknowledge them and act accordingly. In my opinion, the key to dealing with the future lies in knowing where you are, even if you can't know precisely where you're going. Knowing where you are in a cycle and what that implies for the future is different from predicting the timing, extent and shape of the cyclical move." – Howard Marks

"There's simply no magic in investing." – Howard Marks[197]

"Second-level thinking is deep, complex and convoluted. The second-level thinker takes a great many things into account:

- What is the range of likely future outcomes?
- Which outcome do I think will occur?
- What's the probability I'm right?
- What does the consensus think?
- How does my expectation differ from the consensus?
- How does the current price for the asset comport with the consensus view of the future, and with mine?
- Is the consensus psychology that's incorporated in the price too bullish or bearish?
- What will happen to the asset's price if the consensus turns out to be right, and what if I'm wrong?"

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[195] What Can We Do For You? January 10, 2012
[196] What Can We Do For You? January 10, 2012
[197] The Most Important Thing

-Howard Marks[198]

	Conventional Behavior	Unconventional Behavior
Favorable Outcomes	Average good results	Above-average results
Unfavorable Outcomes	Average bad results	Below-average results

"Respect for efficiency says that before we embark on a course of action, we should ask some questions: have mistakes and mispricings been driven out through investors' concerted efforts, or do they still exist, and why? Think of it this way:

- Why should a bargain exist despite the presence of thousands of investors who stand ready and willing to bid up the price of anything that's too cheap?
- If the return appears so generous in proportion to the risk, might you be overlooking some hidden risk?
- Why would the seller of the asset be willing to part with it at a price from which it will give you an excessive return?
- Do you really know more about the asset than the seller does?
- If it's such a great proposition, why hasn't someone else snapped it up?"

-- Howard Marks[199]

"The discipline that is most important is not accounting or economics, but psychology. The key is who likes the investment now and who doesn't. Future price changes will be determined by whether it comes to be liked by more people or fewer people in the future. Investing is a popularity contest, and the most dangerous thing is to buy something at the peak of its popularity. At that point, all favorable facts and opinions are already factored into its price, and no new buyers are left to emerge. The safest and most potentially profitable thing is to buy something when no one likes it. Given time, its popularity, and thus its price, can go only one way: up." – Howard Marks[200]

"Riskier investments are those for which the outcome is less certain. That is, the probability distribution is wider. When priced fairly, riskier investments should entail:

- higher expected returns,
- the possibility of lower returns, and
- in some cases the possibility of losses." – Howard Marks[201]

"Whatever few awards are presented for risk control, they're never given out in good times. The reason is that risk is covert, invisible. Risk – the possibility of loss – is not observable. What is observable is loss, and loss generally happens only when risk collides with negative events…Loss is what happens when risk meets adversity. Risk is the potential for loss if things go wrong. As long as things go well, loss does not arise. Risk

198 The Most Important Thing, p. 4
199 The Most Important Thing, p. 14
200 The Most Important Thing, p. 27
201 The Most Important Thing, p. 34

gives rise to loss only when negative events occur in the environment…The important thing here is the realization that risk may have been present even though loss didn't occur." – Howard Marks[202]

"Rule number one is that most things will prove to be cyclical. Rule number two is that some of the greatest opportunities for gain and loss come when other people forget rule number one." – Howard Marks[203]

"The pendulum swing regarding attitudes toward risk is one of the most powerful of all. In fact, I've boiled down the main risks in investing to two: the risk of losing money and the risk of missing opportunity. It's possible to eliminate either one, but not both." – Howard Marks[204]

"…the three stages of a bull market.
- The first, when a few forward-looking people begin to believe things will get better
- The second, when most investors realize improvement is actually taking place
- The third, when everyone concludes things will get better forever.

"…the three stages of a bear market:
- The first, when just a few thoughtful investors recognize that, despite the prevailing bullishness, things won't always be rosy
- The second, when most investors recognize things are deteriorating
- The third, when everyone's convince things can only get worse"

-- Howard Marks[205]

Weapons against irrational, emotional investing:
- a strongly held sense of intrinsic value,
- insistence on acting as you should when price diverges from value,
- enough conversance with past cycles – gained at first from reading and talking to veteran investors, and later though experience – to know that market excesses are ultimately punished, not rewarded,
- a thorough understanding of the insidious effect of psychology on the investing process at market extremes,
- a promise to remember that when things seem 'too good to be true,' they usually are,
- willingness to look wrong while the market goes from misvalued to more misvalued (as it invariably will), and
- like-minded friends and colleagues from whom to gain support (and for you to support)."

-- Howard Marks[206]

"…because of the variability of the many factors that influence markets, no tool – not even contrarianism – can be relied on completely.
- Contrarianism isn't an approach that will make you money all of the time. Much of the time there aren't great market excesses to bet against.

[202] The Most Important Thing, p. 58
[203] The Most Important Thing, p. 67
[204] The Most Important Thing, p. 75
[205] The Most Important Thing, p. 76-77
[206] The Most Important Thing, p. 90

- Even when an excess does develop, it's important to remember that 'overpriced' is incredibly different from 'going down tomorrow.'
- Markets can be over- or underpriced and stay that way – or become more so – for years.
- It can be extremely painful when the trend is going against you.
- It can appear at times that 'everyone' has reached the conclusion that the herd is wrong. What I mean is that contrarianism itself can appear to have become too popular, and thus contrarianism can be mistaken for herd behavior.
- Finally, it's not enough to bet against the crowd. Given the difficulties associated with contrarianism just mentioned, the potentially profitably recognition of divergences from consensus thinking must be based on reason and analysis. You must do things not just because they're the opposite of what the crowd is doing, but because you know why the crowd is wrong. Only then will you be able to hold firmly to your views and perhaps buy more as your positions take on the appearance of mistakes and as losses accrue rather than gains."

-- Howard Marks[207]

"The key during crisis is to be (a) insulated from the forces that require selling and (b) positioned to be a buyer instead. To satisfy those criteria, an investor needs the following things: staunch reliance on value, little or no use of leverage, long-term capital and a strong stomach. Patient opportunism, buttressed by a contrarian attitude and a strong balance sheet, can yield amazing profits during meltdowns." – Howard Mark[208]

"I'm firmly convinced that (a) it's hard to know what the macro future holds and (b) few people possess superior knowledge of these mattes that can regularly be turned into an investing advantage. There are two caveats, however:

- The more we concentrate on smaller-picture things, the more it's possible to gain a knowledge advantage. With hard work and skill, we can consistently know more than the next person about individual companies and securities, but that's much less likely with regard to markets and economies. Thus I suggest people try to 'know the knowable.'
- An exception comes int eh form of my suggestion…that investors should make an effort to figure out where they stand at a moment in time in terms of cycles and pendulums. That won't render the future twists and turns knowable, but it can help one prepare for likely developments."

-- Howard Marks[209]

"THE POOR MAN'S GUIDE TO MARKET ASSESSMENT"[210]

"If you find that most of your checkmarks are in the left-hand column…hold on to your wallet."

Economy:	Vibrant	Sluggish
Outlook:	Positive	Negative
Lenders:	Eager	Reticent

[207] The Most Important Thing, p. 94
[208] The Most Important Thing, p. 115
[209] The Most Important Thing, p. 117
[210] The Most Important Thing, p. 131

Capital markets:	Loose	Tight
Capital:	Plentiful	Scarce
Terms:	Easy	Restrictive
Interest rates:	Low	High
Spreads:	Narrow	Wide
Investors:	Optimistic	Pessimistic
	Sanguine	Distressed
	Eager to buy	Uninterested in buying
Asset owners:	Happy to hold	Rushing for the exits
Sellers:	Few	Many
Markets:	Crowded	Starved for attention
Funds:	Hard to gain entry	Open to anyone
	New ones daily	Only the best can raise money
	GPs rule	LPs have bargaining power
Recent performance:	Strong	Weak
Asset prices:	High	Low
Prospective returns:	Low	High
Risk	High	Low
Popular qualities:	Aggressiveness	Caution and discipline
	Broad reach	Selectivity

"I find that I agree with essentially all of Taleb's important points.

- Investors are right (and wrong) all the time for the 'wrong reason.' Someone buys a stock because he or she expects a certain development; it doesn't occur; the market takes the stock up anyway; the investor looks good (and invariably accepts credit).
- The correctness of a decision can't be judged from the outcome. Nevertheless, that's how people assess it. A good decision is one that's optimal at the time it's makde, when the future is by definition uknown. Thus, correct decisions are often uncessucessful, and vice versa.
- Randomness alone can produce just about any outcome in the short run. In portfolios that are allowed to reflect them fully, market movements can easily swamp the skillfulness of the manger (or lack thereof). But certainly market movements cannot be credited to the manager (unless he or she is the rare market time who's capable of getting it right repeatedly).
- For these reasons, investors often receive credit they don't deserve. One good coup can be enough to build a reputation, but clearly a coup can arise out of randomness alone. Few of these 'geniuses' are right more than once or twice in a row.
- Thus, it's essential to have a large number of observations – lots of years of data – before judging a given manager's ability."

-- Howard Marks[211]

"*Defensive investing* sounds erudite, but I can simplify it: Invest scared!" – Howard Marks[212]

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[211] The Most Important Thing, p. 136
[212] The Most Important Thing, p. 151

"Most of these eleven lessons [from a crisis] can be reduced to just one: be alert to what's going on around you with regard to the supply/demand balance for investable funds and the eagerness to spend them." – Howard Marks[213]

"The markets are a classroom where lessons are taught every day. The keys to investment success lie in observing and learning." – Howard Marks[214]

"The formula for error is simple, but the ways it appears are infinite – far too many to allow enumeration. Here are the usual ingredients:

- data or calculation error in the analytical process leads to incorrect appraisal of value;
- the full range of possibilities or their consequences is underestimated;
- greed, fear, envy, ego, suspension of disbelief, conformity or capitulation, or some combination of these, moves to an extreme;
- as a result, either risk taking or risk avoidance becomes excessive;
- prices diverge significantly from value; and
- investors fail to notice this divergence, and perhaps continue its furtherance."

-- Howard Marks[215]

"..think about what 'today's mistake' might be and try to avoid it." – Howard Marks[216]

"The best foundation for a successful investment – or a successful investment career – is value. You must have a good idea of what the thing you're considering buying is worth. There are many components to this and many ways to look at it. To oversimplify, there's cash on the books and the value of the tangible assets; the ability of the company or asset to generate cash; and the potential for these things to increase." – Howard Marks[217]

"…girding for bad times, and thereby ensuring margin for error, is more essential than preparing for good times." – Howard Marks[218]

"We believe that because there's so much we can't know about the future, we should invest only where our analysis tells us the worst case is tolerable." – Howard Marks, memo to clients, dated March 11, 2003

"I have no interest in being a pessimist or a bear, and I don't like to think of myself that way. I just may be more impressed by the unknowability of the future than most people. When I reflect on all of the mottoes I use, it seems half of them relate to how little we can know about what lies ahead." – Howard Marks (2001)

On the demand for "high-return, low-risk" investment vehicles led to artificial demand for housing → mortgages → RMBS → CDOs: "When the perpetual motion machine of house appreciation ground to a halt in 2007, the combination of too-high prices and record mortgage defaults resulted in the first nationwide decline in

[213] The Most Important Thing, p. 161
[214] The Most Important Thing, p. 159
[215] The Most Important Thing, p. 164
[216] The Most Important Thing, p. 164
[217] The Most Important Thing, p. 173
[218] "Margin for Error" – interview in CFA Magazine Sept-Oct 2010

housing prices. Thus, in the end, the belief that an asset was safe led to investor behavior that made it unsafe. That's reflexivity." – Howard Marks[219]

"Inefficient markets do not necessarily give their participants generous returns. Rather, it's my view that they provide the raw material – mispricings – that can allow some people to win and others to lose on the basis of differential skill."- Howard S. Marks

"History constantly reminds us that in an uncertain world there is no visibility of prospects. Future earnings cannot be predicted with accuracy." – David Dreman, Contrarian Investment Strategies: The Next Generation

"During inflation, Goodwill is the gift that keeps on giving." – Warren Buffett[220]

"Nothing's more risky than a widespread belief that there's no risk." – Howard Marks[221]

"It's not possible that something can be a good investment regardless of the price paid. But when a logical-seeming platitude is adopted by the stampeding herd, that belief is the result. That's how we get bubbles." – Howard Marks[222]

"It's not sufficient to think about surviving 'on average' – investment survival has to be achieved every day, under all circumstances." – Howard Marks[223]

"Ensuring sufficient margin for error and attempting to maximize returns are incompatible." – Howard Marks[224]

"Skepticism and pessimism aren't synonymous. Skepticism calls for pessimism when optimism is excessive. But it also calls for optimism when pessimism is excessive." – Howard Marks[225]

"[The massive rally in 2009] shows that good [absolute] fundamentals aren't a prerequisite for gains. Too-cheap prices, a halt to fundamental deterioration and forced selling, improved psychology and the arrival of buyers can be enough." – Howard Marks[226]

"[T]here are two main risks in the investment world: the risk of losing money and the risk of missing opportunity. You can completely avoid one or the other, or you can compromise between the two, but you can't eliminate both. One of the prominent features of investor psychology is that few people are able to (a) always balance the two risks or (b) emphasize the right one at the right time. Rather, at the extremes they usually obsess about the wrong one…and in doing so make the other one deserving attention." – Howard Marks[227]

[219] "Touchstones" letter to clients, 2009
[220] 1983 letter to Berkshire shareholders
[221] Ibid
[222] Ibid
[223] Ibid
[224] Ibid
[225] "The Limits to Negativism," October 15, 2008
[226] "2009 in Review"
[227] "Warning Flags – Past and Present"

"The desire for more, the fear of missing out, the tendency to compare against others, the influence of the crowd and the dream of the sure thing—these factors are near universal. Thus they have a profound collective impact on most investors and most markets. The result is mistakes, and those mistakes are frequent, widespread and recurring." – Howard Marks

"As Warren Buffett told Congress on June 2, 2010, 'Rising prices are a narcotic that affects the reasoning power up and down the line.'" – Howard Marks

"Asset prices fluctuate much more than fundamentals." – Howard Marks[228]

"**One of the most important things we can do is take note of other investors' attitudes and behavior regarding risk**. Fear, worry, skepticism and risk aversion are the things that keep the market at equilibrium and prospective returns fair. But when investors don't fear sufficiently – when they're risk tolerant rather than risk averse – the let down their guard, surrender their discipline, accept rosy projections, enter into unwise deals, and settle for too little in the way of prospective returns and risk premiums." – Howard Marks[229]

"**There's nothing more risky than a widespread belief that there's no risk…but that's what characterized the investment world** [leading up to the onset of the crisis in mid-2007]. It was possible to conclude in 2005-07 that investors were applying insufficient risk aversion and thus engaging in risky behavior, elevating asset prices, reducing prospective returns, and raising risk levels. What were there signs?

- The issuance of non-investment grade debt was at record levels.
- An unusually high percentage of the issuance was rated triple-C, something that's not possible when attitudes toward risk are sober.
- 'Dividend recaps' went unquestioned, with buyout companies borrowing money with which to pay dividends, vastly increasing their leverage and reducing their ability to get through tough times.
- Credit instruments were increasingly market by few or no covenants to protect lenders from managements' machinations, and by interest payments that could be made with debt rather than cash at the companies' discretion.
- Collateralized loan debt obligations were accepted as being respectable instruments – with the risk made to vanish – despite the questionable underlying assets.
- Buyouts of larger and larger companies were done at increasing valuation multiples, with rising debt ratios and shrinking equity contributions, and despite the fact that target companies were increasingly cyclical.
- Despite all of these indications of falling credit standards and rising riskiness, the yield spread between high yield bonds and Treasury notes shrank to record lows.
- The generous capital market conditions and low cost of capital for borrowers caused buyout fund managers to describe the period of as 'the golden age of private equity.' Conversely, then, for lenders it was the pits."

-- Howard Marks[230]

[228] "How Quickly They Forget" – May 2011
[229] "How Quickly They Forget" – May 2011
[230] "How Quickly They Forget" – May 2011

"**If I had to identify a single key to consistently successful investing, I'd say it's 'cheapness.'** Buying at low prices relative to intrinsic value (rigorously and conservatively derived) holds the key to earning dependably high returns, limiting risk and minimizing losses. It's not the only thing that matters – obviously – but it's something for which there's no substitute. Without doing the above, 'investing' moves closer to 'speculating,' a much less dependable activity." – Howard Marks[231]

"So if you could ask just one question regarding an individual security, asset class or market, it should be 'is it cheap?' Oaktree's investment professionals try to ask it, in different ways, every day. And what makes for cheapness? In sum, the attitudes and behavior of others. I try to get away from it, but I can't. the quote I return to most often in these memos, even 17 years after the first time, is another from Warren Buffett: 'The less prudence with which others conduct their affairs, the greater prudence with which we should conduct our own affairs.' When others are paralyzed by fear, we can be aggressive. But when others are unafraid, we should tread with the utmost caution. **Other peoples' fearlessness invariably translates into inflated prices, depressed potential returns and elevated risk."** – Howard Marks[232]

"Nothing can reduce returns, worsen terms or raise risk fatster than 'too much money chasing too few deals.' **It's disproportionate flows of capital into a market that give rise to the disastrous race to the bottom such as we saw in 2005-07. Greater sums are provided to weaker borrowers at lower interest rates and with looser terms. Higher prices are paid for assets: first less of a discount from intrinsic value, then the full intrinsic value, and eventually premiums above intrinsic value."** – Howard Marks[233]

"Security analysis and knowledgeable investing aren't easy. Investors must be alert for fuzzy or incomplete information, and for companies that don't put their interests first. They must invest only when they know what they don't know, and they must insist on sufficient margin for error owing to any shortcomings." – Howard Marks, March 2002 Memo "Learning from Enron":

"Time and time again, the combination of pressure to conform and the desire to get rich causes people to drop their independence and skepticism, overcome their innate risk aversion and believe things that don't make sense." – Howard Marks, The Most Important Thing

"People who might be perfectly happy with their lot in isolation become miserable when they see others do better. In the world of investing, most people find it terribly hard to sit by and watch while others make more money than they do." – Howard Marks, The Most Important Thing

"…most people say, 'We're not going to try to catch a falling knife; it's too dangerous.' They usually add, 'We're going to wait until the dust settles and uncertainty is resolved.' The one thing I'm sure of is that by the time the knife has stopped falling, the dust has settled and the uncertainty has been resolved, there'll be no great bargains left…Thus a hugely profitable investment that doesn't begin with discomfort is usually an oxymoron."
Howard Marks

[231] "How Quickly They Forget" – May 2011
[232] "How Quickly They Forget" – May 2011
[233] "How Quickly They Forget" – May 2011

Charles Kindleberger

Kindleberger: Manias, Panics, and Crashes

"The big ten financial bubbles

1. The Dutch Tulip Bulb Bubble 1636
2. The South Sea Bubble 1720
3. The Mississippi Bubble 1720
4. The late 1920s stock price bubble 1927-1929
5. The surge in bank loans to Mexico and other developing countries in the 1970s
6. The bubble in real estate and stocks in Japan 1985-1989
7. The 1985-1989 bubble in real and stocks in Finalnd, Norway and Sweden
8. The bubble in real estate and stocks in Thailand, Malaysia, Indonesia and several other Asian countrites 1992-1997
9. The surge in foreign investment in Mexico 1990-1993
10. The bubble in over-the-counter stocks in the United States 1995-2000"

"The thesis of this book is that the cycle of manias and panics results from the pro-cyclical changes in the suppply of credit; the creddit supply icnreases relatively repaidly in good times, and then when economic growth slacken, the reate of growth of credit has often declined sharply. A mania involves increases in the prices of real estate or stocks or a currency or a commodity in the present and near-future that are not consistent with the prices of the same real estate or stocks in the distant future."

"'There is nothing as disturbing to one's well-being and judgment as to see a friend get rich.' Unless it is to see a nonfriend get rich."

"In the ruin of all collapsed booms is to be found the work of men who bought property at prices they knew perfectly well were fictitious, but who were willing to pay such prices simply because they knew that some still greater fool could be depended on to take the property off their hands and leave them with a profit." Homer Hoyt, in *One Hundred Years of Land Values in Chicago*, quoted in a *Chicago Tribune* editorial of April 1890

"Between 1982 and 1999 U.S. stock prices increased by a factor of thirteen -- the most remarkable run of annual increases in stock prices in the two hundred years of the American republic. In the very long run, U.S. stock prices have declined every third year; in the last two decades of the last century, stock prices fell in only one year, and then only by 5 percent. The market value of U.S. stocks increased from 60 percent of U.S. GDP in 1982 to 300 percent of GDP in 1999."

"the ultimate result of shielding man from the effects of folly is to people the world with fools." -- Herbert Spencer

Pascal's Wager -- an argument that belief in God is rational; if God does not exist, one will lose little by believing in the supreme being, while if God does exist, one will lose everything by not believing.

"Markets look a lot less efficient from the banks of the Hudson than the banks of the Charles." -- Fischer Black, quoted in Bernstein's *Against the Gods*

Offer to play a game in which a fair game is tossed; for every tails, you are paid $2, but a heads ends the game. For each tails, your payout doubles. How much would someone have to offer you to take your place in the game? [The expectation is infinite, but obviously most people will accept a finite payout to give up their spot in the game.]

Walter Schloss

On common stocks March 10,1994

Walter & Edwin Schloss Associates, L.P.

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Factors needed to make money in the stock market

1. Price is the most important factor to use in relation to value.

2. Try to establish the value of the company. Remember that a share of stock represents a part of a business and is not just a piece of pape

3. Use book value as a starting point to try and establish the value of the enterprise. Be sure that debt does not equal 100% of the equity. (Capital and surplus for the common stock).

4. Have patience. Stocks don't go up immediately.

5. Don't buy on tips or for a quick move. Let the professionals do that, if they can. Don't sell on bad news.

6. Don't be afraid to be a loner but be sure that you are correct in your judgment. You can't be 100% certain but try to look for xxx weaknesses in your thinking. Buy on a scale and sell on a scale up.

7. Have the courage of your convictions once you have made a decision.

8. Have a philosophy of investment and try to follow it. The above is a way that I've found successful.

9. Don't be in too much of a hurry to sell. If the stock reaches a price th you think is a fair one, then you can sell but often because a stock goes up say 50%, people say sell it and button up your profit. Before selling try to reevaluate the company again and see where the stock sells in relation to its book value. Be aware of the level of the stock market. Are yields low and P-E ratios high. If the stock market historically high. Are people very optimistic etc?

10 When buying a stock, I find it helpful to buy near the low of the past few years. A stock may go as igh as 125 and then decline to 60 and you think it attractive. 3 years before the stock sold at 20 which shows that there is some vulnerability in it.

11. Try to buy assets at a discount than to buy earnings. Earnings can change dramatically in a short time. Usually assets change slowly. One has to know much more about a company if one buys earnings.

12. Listen to suggestions from peole you respect. This doesn't mean you have to accept them. Remember it's your money and generally it is harder to keep money than to make it. Once you lose a lost of money it is hard to make it back.

13. Try not to let your emotions affect your judgment. Fear and greed are probably the worst emotions to have in connection with the purchase and sale of stocks.

14. Remember the work compounding. For example, if you can make 12% a year and reinvest the moneyback, you will double your money in 6 yrs, taxes excluded. Remember the rule of 72. Your rate of return into 72 will tell you the number of years to double your money.

15. Prefer stocks over bonds. Bonds will limit your gains and inflation will reduce your purchasing power.

WJS

16. Be careful of leverage. It can go against you.

Peter Cundill

Peter Cundill[234]

- The essential concept is to buy under-valued, unrecognized, neglected, out of fashion, or misunderstood situations where inherent value, a margin of safety, and the possibility of sharply changing conditions created new and favourable investment opportunities. Although a large number of holdings might be held, performance was invariably established by concentrating in a few holdings. In essence, the fund invested in companies that, as a result of detailed fundamental analysis, were trading below their "intrinsic value." The intrinsic value was defined as the price that a private investor would be prepared to pay for the security if it were not listed on a public stock exchange. The analysis was based as much on the balance sheet as it was on the statement of profit and loss.
- Investments should only be made if most of the following criteria are met:
    - The share price must be less than book value. Preferably it will be less than net working capital less long term debt.
    - The price must be less than one half of the former high and preferably at or near its all time low.
    - The price earning multiple must be less than ten or the inverse of the long term corporate bond rate, whichever is the less.
    - The company must be profitable. Preferably it will have increased its earnings for the past five years and there will have been no deficits over that period.
    - The company must be paying dividends. Preferably the dividend will have been increasing and have been paid for some time.
    - Long term debt and bank debt (including off-balance sheet financing must be judiciously employed. There must be room to expand the debt position if required.
- In every analysis you need to isolate what the real assets are and you must not forget to examine the franchise to do business, to review the *character and competence* of the management and to estimate the outcome if the whole business had to be turned into cash.
- I try to keep in mind Oscar Wilde's comment that "saints always have a past and sinners always have a future," so no investment should be ruled out simply on the basis of past history. We focus on liquidation analysis and liquidation analysis alone.
- Characteristics that appear with greater frequency than all the rest (regarding the traits of great investors):
    - Insatiable curiosity: "Curiosity is the engine of civilization. If I were to elaborate it would be to read, read, read, and don't forget to talk to people, really talk, listening with attention and having conversations, on whatever topic, that are an exchange of thoughts. Keep the reading broad, beyond jus the professional. This helps to develop one's sense of perspective in all matters."
    - Patience: "Patience, patience, and more patience. Ben Graham said it, but it is true of all investment disciplines, not only value investing, although it is indispensable to that."
    - Concentration: "You must have the ability to focus and to block out distractions. I am talking about not getting carried away by events or outside influences – you can take them into account, but you must stick to your framework."
    - Attention to detail: "Never make the mistake of not reading the small print, no matter how rushed you are. Always read the notes to a set of accounts very carefully – they are your

[234] From the book "There's Always Something to do: The Peter Cundill Investment Approach"

barometer. You need sound simple arithmetic skills, not differential calculus. They will give you the ability to spot patterns without a calculator or a spread sheet. Seeing the patterns will develop your investment insights, your instincts – your sense of smell. Eventually it will give you the agility to stay ahead of the game, making quick, reasoned decisions, especially in a crisis."

- Calculated risk: "Be prepared to take risks but never gambles. Value investors are often perceived as taking the safe investment route and that it true. But the time scales required for value investor can be contradictory. Holding on to heavily discounted stock that the market dislikes for a period of five or ten years is not risk free. As yeach year passes the required end reward to justify the investment becomes higher, irrespective of the original margins of safety. Equally for the growth specialist, speculating that a company in a favoured market, with negligible current earnings, will in due course enjoy exponential growth is not risk free. On top of which there is no margin of safety. Either could be regarded as gambling, or calculated risk. Which side of that scale they fall on is a function of whether the homework has been good enough and has not neglected the fieldwork."
- Independence of mind: "I think it is very useful to develop a contrarian cast of mind combined with a keen sense of what I would call 'the natural order of things.' If you can cultivate these two attributes you are unlikely to become infected by dogma and you will begin to have a predisposition towards lateral thinking – making important connections intuitively."
- Humility: "I have no doubt that a strong sense of self belief is important – even a sense of mission – and this is fine as long as it is tempered by a sense of humour, especially an ability to laugh at oneself. One of the greatest dangers that confront those who have been through a period of successful investment is hubris – the conviction that one can never be wrong again. An ability to see the funny side of oneself as it is seen by others is a strong antidote to hubris."
- Routines: "Routines and discipline go hand and hand. They are the roadmap that guidaes the pursuit of excellence for its own sake. They support proper professional ambition and the commercial integrity that goes with it."
- Mens sana in corporate sano: "I now that there are successful investors who are supremely unfit and don't give a fig. for myself I have found that my exercise routines have contributed immensely towards giving me the mental resilience to get through the tough times – ad there are always tough times. I also believe that engaging in competitive sport has taught me to temper my competitive instincts with common sense and only to attempt what I sincerely think is possible – that works professionally too. About fifty percent of my time is spent reading and running is useful for digesting it all. I run almost every day, but I hope not to point of obsession. I have been known to have the odd dry martini now and then! But I am convinced that there is a strong link in temperament between elite athletes and elite investors. Watching the best sportsmen in action prompts the question as to why the best are so much better than everyone else. Perhaps it is because they practice 'adaptive perfectionism.' This is something that is readily applicable to investment and I have tried to follow it by remaining faithful to the Ben Graham principles that I believe are the soundest route to investment success, while retaining an eye for adapting them and moving them forward to fit today's investment world more perfectly."
- Scepticism: "Scepticism is good, but be a sceptic, not an iconoclast. Have rigour and flexibility, which might be considered an oxymoron but is exactly what I meant when I quoted Peter Robertson's dictum 'always change a winning game." An investment framework ought to include a liberal dose of scepticism both in terms of markets and of company accounts. Taking this a step further, a lot of MBA programs, particularly these days, teach you about market efficiency and accounting rules, but this is not a perfect world and there will always be

anomalies and there is always 'wriggle room' within company accounts so you have to stick to your guns and forget the hype."

- Reading again: "There are a few books – really not that many – which I believe are indispensable reading for every serious investor in whatever facet of investment practice they may favour:
  - "*Extraordinary Popular Delusions and the Madness of Crowds* by Charles MacKay (only the first two chapters – the title is worth the price of admission!)
  - "*The Crowd: A Study of the Popular Mind* by Gustave Le Bon
  - "*Buffett: The Making of an American Capitalist* by Roger Lowenstein
  - "*The Money Masters* by John Train
  - "*The Intelligent Investor: A Book of Practical Counsel* by Benjamin Graham
  - "*The Templeton Touch* by William Proctor
  - "*The Alchemy of Finance* by George Soros"
- Always Change a Winning Game – "The investment business is organic, based on a mix of financials, politics, human greed, and a huge dose of sentiment – not forgetting the urge to outdo the competition."
  - "Sir John Templeton said something to me and it stuck in my mind…Graham also talks about [it]; 'always change a winning game.' I didn't do it because I was on a roll then and I wasn't flexible enough. There is no investment rule that remains immutable except the margin of safety. There are always breaks and the trick is to begin to anticipate, if you can, where the break points will be and shift. Not the disciplines and not the framework but the tactics that are involved."
- Analysis: "There's almost too much information now. It boggles most shareholders and a lot of analysts. All I really need is a company's published report and records; that plus a sharp pencil, a pocket calculator, and patience."
- Dead companies: "The companies I buy, when I buy them, are worth more to me dead than alive. I don't invest to see them die but I go in knowing that if I keep buying at my price and end up owning the companies, they will be worth more at liquidation than I paid for them."
- "If it is cheap enough, we don't care what it is."
- "Why will someone sell you a dollar for 50 cents? Because in the short run, people are irrational on both the optimistic and pessimistic side."
- "One of the dangers about net-net investing is that if you buy a net-net that begins to lose money your net-net goes down and your capacity to be able to make a profit becomes less secure. So the trick is not necessarily to predict what the earnings are going to be but to have a clear conviction that the company isn't going bust and that your margin of safety will remain intact over time."
- Margin of Safety: "The difference between the price we pay for a stock and its liquidation value gives us a margin of safety. This kind of investing is one of the most effective ways of achieving good long term results."
- "What differentiates us from other money managers with a similar style is that we're comfortable with new lows."
- "When times aren't good I'm still there. You find bargains among the unpopular things, the things that everybody hates. The key is that you must have patience."
- "When a stock doubles, sell half – then what you have is a free position. Then it becomes more of an art form. When you sell depends on individual circumstances."
- "…it all depends on your entry point and the situation on the day – which is what Graham was really doing – and being flexible. If I had started doing net-net investing in 1973 then I never would have lasted to 1975 in the business. Stocks would have just gotten cheaper and I would

have died on the vine and would have had to go back and be a chartered accountant, which would have been a laugh both professionally and for me. Yet Irving Kahn gave me some advice many years ago when I was bemoaning the fact that according to my criteria there was nothing to do. He said, 'There is always something to do. You just need to look harder, be creative and [be] a little flexible.'"

- "We do liquidation analysis and liquidation analysis only."
- "We customarily do three tests: one them asset-based – the NAV, using the company's balance sheet. The second is the sume of the parts, which I think is probably the most important part that goes into the balance sheet I'm creating. And then a future NAV, which is making a stab (which I'm always suspicious about) at what you think the business might be doing in three years from now."

James Montier

"Risk shouldn't be defined as standard deviation (or volatility). I have never met a long-only investor who gives a damn about upside volatility. Risk is an altogether more complex topic – I have argued that a trinity of risk sums up the aspects that investors should be looking at. Valuation risk, business or earnings risk, and balance sheet risk." – James Montier[235]

"As tempting as it may be to be a 'man of action,' it often makes more sense to act only at the extremes. But the discipline required to 'do nothing' for long periods of time is not often seen." – James Montier[236]

"Leverage can't make a bad investment good, but it can make a good investment bad!" – James Montier[237]

"People love extrapolation and forget that cycles exist. The good news is that you get paid for doing uncomfortable things, when stocks are at tough earnings and low multiples their implied return is high, in contrast you don't paid for doing things that are comfortable."

"**Finance has turned the art of transforming the simple into the complex into an industry.** Nowhere (at least outside of academia) is overly complex structure and elegant (but not robust) mathematics so beloved. The reason for this obsession with needless complexity is clear: it is far easier to charge higher fees for things that sound complex." – James Montier [238]

"In general, critical thinking is an underappreciated asset in the world of investment. As George Santayana observed, 'Scepticism is the chastity of the intellect, and it is shameful to surrender it too soon or to the first comer: there is nobility in preserving it coolly and proudly.' Scepticism is one of the key traits that many of the best investors seem to share. They ask themselves, 'Why should I own this investment?' This is a different question from the average [investor], who asks, 'Why shouldn't I own this investment?' In effect, investors

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[235] "Value Investing: Tools and Techniques for Intelligent Investment," p. 9
[236] "Was it All Just a Bad Dream?" February 2010 GMO letter
[237] Ibid
[238] Ibid

should consider themselves to be in the rejection game. Investment ideas shouldn't be accepted automatically, but rather we should seek to pull them apart. In effect, investors would be well-served if they lived by the Royal Society's motto: *Nullius in Verba* (for which a loose modern translation would be, 'Take no one's word for it.')." – James Montier[239]

"All too often, so-called financial innovation is revealed to be little more than thinly veiled leverage." – James Montier

"One of my clients has only one Bloomberg terminal in his office, sitting in the corner, and people get ridiculed when they use it too often. His point is that they don't need it – their business is investing and they should work out the value before seeing if there is a sufficient margin of safety to invest at the current price. If there isn't, the work hasn't been wasted because there one day might be." – James Montier

"'What else am I going to do?' is not the most compelling reason for doing something. If there's nothing to do, do nothing. It's not that difficult. Absolute standards of valuation get you away from the idea that you have to be doing something, which goes all the way back to Ben Graham. He was looking at all elements of the capital structure in a very unconstrained fashion, but was fully prepared to hold cash when there were no opportunities." – James Montier[240]

"I'm amazed at how common the relative valuation argument is. [Speaking about the environment at the time] But you shouldn't forget that all that argument may be telling you is that bonds suck, not that equities are great. It's like going to Cinderella's house and meeting the two ugly stepsisters and being told you should be happy to date one of them. Personally, I'd rather wait for Cinderella." – James Montier[241]

[On avoiding the temptation to get caught up in the day-to-day turmoil of volatile markets] "Just turning off the screens is usually a good start. It's the bias of the information age that people feel isolated when they're not in touch with what's going on. To me it's a good discipline to often say, "I don't really care what goes on in the market today." When you do that you can actually get something useful done. Even something simple like saying you'll only answer e-mails in the morning, at lunch and at the end of the day sometimes can go a long way toward avoiding unhelpful distractions that tend to arise. We're very big on what we call battle plans, in which we map out how we'll behave at various price points in the market. John Templeton used to talk often about taking that kind of pre-commitment down to the level of individual securities. Because you've already decided what you should be doing, it allows you to focus your attention in a very useful way when the market is falling to pieces." – James Montier[242]

"You should really only want insurance when it is cheap, as this is the time when the no one else wants it, and (perversely) the events are most likely. Buying expensive insurance is just like buying any other overpriced asset...a path to the permanent impairment of capital [sic]. Rather than wasting money on expensive insurance, holding a larger cash balance makes sense. It preserves the dry powder for times when you want to deploy capital, and limits the downside. So buy insurance when it's cheap. When it isn't and you are worried about the downside, hold cash. As Buffet said holding cash is painful, but not as painful as doing something stupid!" – James Montier

[239] Ibid
[240] Value Investor Insight issue of 11-29-11
[241] Value Investor Insight issue of 11-29-11
[242] Value Investor Insight issue of 11-29-11

"Patience is required when investors are faced with an unappealing opportunity set. Many investors seem to suffer from an 'action bias' – a desire to do something. However, when there is nothing to do, the best plan is usually to do nothing. Stand at the plate and wait for the fat pitch." – James Montier[243]

Longleaf owner's manual

- We will treat your investment in Longleaf as if it were our own.
- We will remain significant investors with you in Longleaf.
- We will invest for the long term, while always striving to maximize returns and minimize business, financial, purchasing power, regulatory and market risks.
- We will choose our equity investments based on their discounts from our appraisals of their corporate intrinsic values, their financial strengths, their management, their competitive positions, and our assessments of their future earnings potential.
- We will concentrate our assets in our best ideas.
- We will not impose loads, exit fees or 12b-1 charges on our investment partners.1
- We will consider closing the Funds to new investors if closing would benefit existing shareholders.
- We will discourage short-term speculators and market timers from joining us, the long-term investors in Longleaf.
- We will continue our efforts to enhance shareholder services.
- We will communicate with our investment partners as candidly as possible.

[243] "The Seven Immutable Laws of Investing" – March 2011