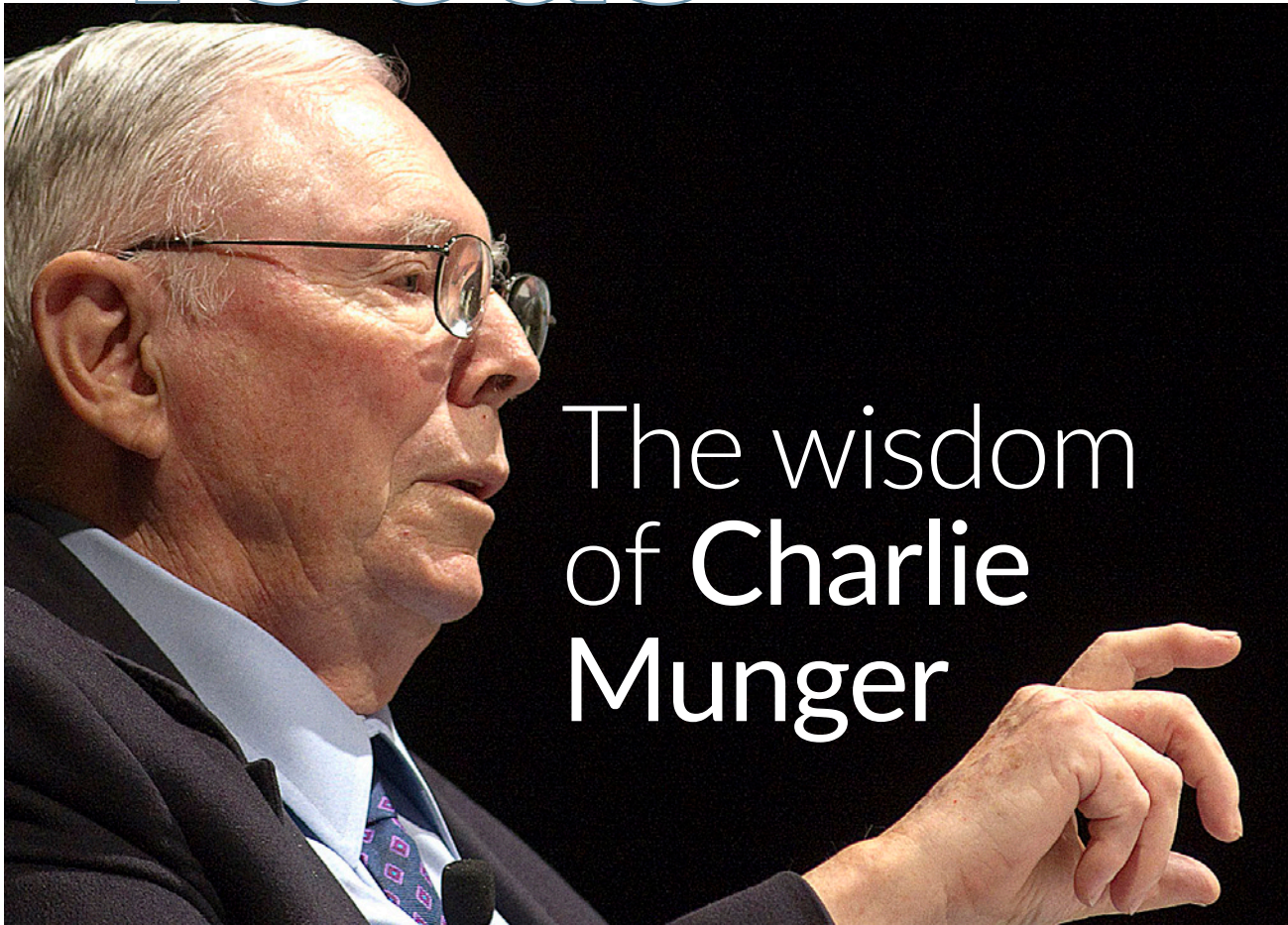


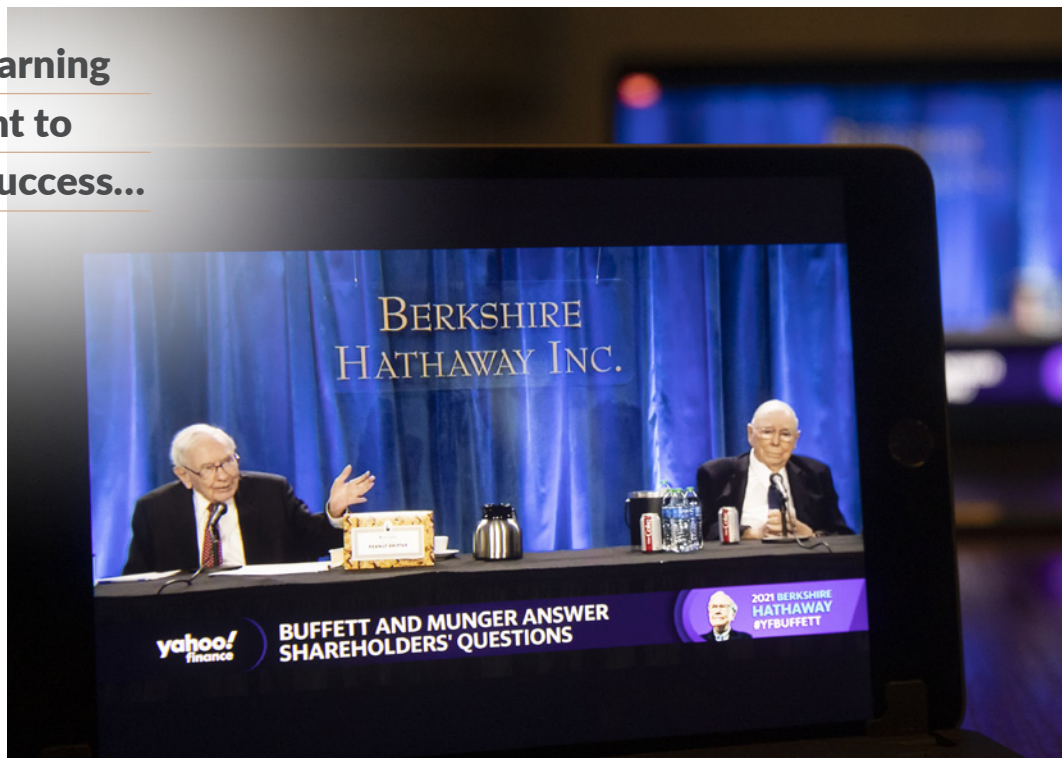
Friday 1 December 2023

# focus



Charlie Munger, one of the true investing greats, passed away this week at the age of 99. Charlie partnered with Warren Buffett over decades to build Berkshire Hathaway into the US\$780 billion conglomerate (and eighth largest company in the world) it is today. As well as his investing prowess, Charlie was renowned for his independent thought, practical advice, and sharp wit. Worried about inflation? Charlie's response: "If I can be optimistic when I'm nearly dead, surely the rest of you can handle a little inflation." Charlie cut through the noise. His insights and strategies offer lessons for all investors.

## ...lifelong learning is paramount to long-term success...



### The importance of patience

*"The big money is not in the buying and selling, but in the waiting."*

*"It's waiting that helps you as an investor and a lot of people just can't stand to wait. If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that."*

Patience was central to Charlie's investment philosophy. He believed in the power of long-term investing and cautioned against trading frequently.

### Ignore short-term volatility

*"Like the weather, I just ignore the weather. I just try to invest whatever capital I have as best I can and take the results as they fall. I just seize whatever opportunities I can and I hope I get my share."*

For Charlie the advantage of taking a long-term view is that he could avoid worrying about short-term noise and market volatility.

### Managing your emotions is critical

*"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."*

The key to long-term investing success is managing your emotions through good times and bad.

### Understand your own limitations and seek advice when you need it

*"It's not supposed to be easy. Anyone who finds it easy is stupid."*

*"Knowing what you don't know is more useful than being brilliant."*

Charlie emphasised the importance of operating within one's "circle of competence". He advised investors to focus on industries and businesses they understand and that stepping beyond this boundary brings with it the risk of poor outcomes.

### Keep learning

*"Lifelong learning is paramount to long-term success."*

*"In my whole life, I have known no wise people who didn't read all the time – none, zero."*

*"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."*

Keep growing your circle of competence.



**...a great business at a fair price is superior to a fair business at a great price...**

### Minimise doing stupid things

*"People are trying to be smart - all I am trying to do is not to be idiotic, but it's harder than most people think."*

*"It's 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."*

*"We have three baskets for investing: yes, no and too tough to understand."*

In a complex world, Charlie championed discipline and keeping it simple. He was a proponent of avoiding unnecessary complications and not trying to pick tomorrow's winners.

### Appreciate that you'll make mistakes along the way ...

*"There's no way that you can live an adequate life without many mistakes. In fact, one trick in life is to get so you can handle mistakes. Failure to handle psychological denial is a common way for people to go broke."*

### ... but learn from those mistakes

*"The most important thing is knowing where you are competent and where you aren't. The human mind tries to make you believe you are smarter than you are. Rub your nose in your mistakes."*

### Buy good businesses at reasonable prices

*"A great business at a fair price is superior to a fair business at a great price."*

*"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."*

Warren Buffett started off as a "cigar-butt" investor – buying poor performing companies but at bargain prices. The analogy goes "a cigar butt found on the street may have only one puff left in it, but the 'bargain purchase' will make that puff all profit".

Charlie transformed Buffett's philosophy – buying great businesses at reasonable prices and holding them over the long-term – which underpins Berkshire Hathaway today.

### Avoid FOMO (fear of missing out) ...

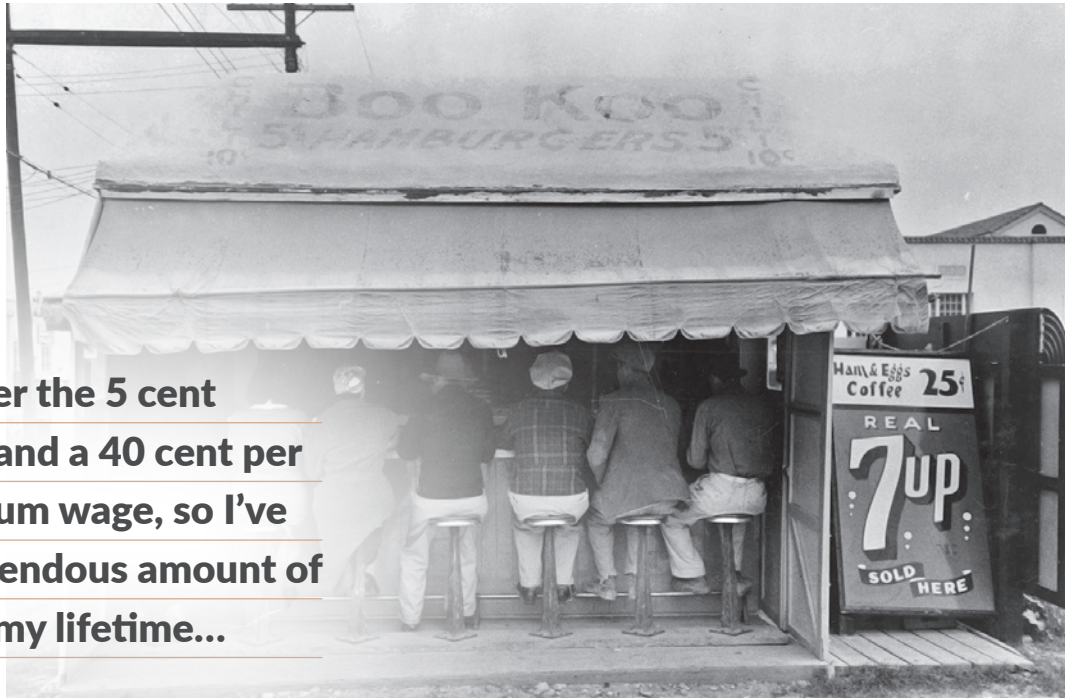
*"Someone will always be getting richer faster than you. This is not a tragedy."*

*"The desire to get rich fast is pretty dangerous."*

### ... and things that sound too good to be true

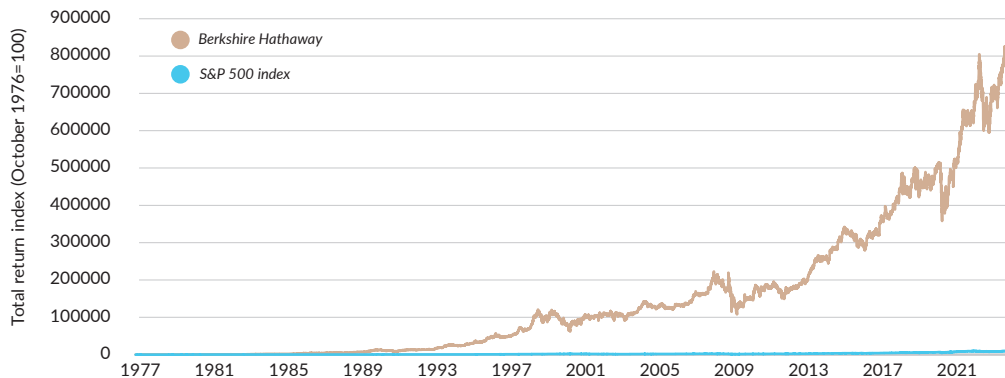
*"When any guy offers you a chance to earn lots of money without risk, don't listen to the rest of his sentence. Follow this, and you'll save yourself a lot of misery."*

Stick to your investment plan.



**...I remember the 5 cent hamburger and a 40 cent per hour minimum wage, so I've seen a tremendous amount of inflation in my lifetime...**

BERKSHIRE HATHAWAY RETURNS 1977-2023



### On the impact of inflation

*"I remember the 5 cent hamburger and a 40 cent-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."*

Owning good companies protects the real value of your wealth over the long-term.

### Formula for success in life

*"It's so simple. You spend less than you earn. Invest shrewdly, and avoid toxic people and toxic activities, and try and keep learning all your life, etc etc. And do a lot of deferred gratification because you prefer life that way. And if you do all those things you are almost certain to succeed. And if you don't, you're going to need a lot of luck."*

Vale Charlie Munger, 1924-2023

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

0800 367 227

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