

WEALTH & INVESTING



INSIGHTS FROM
CFA SOCIETY SINGAPORE

By Ian Robertson

Book review: *Poor Charlie's Almanack*

The late Charlie Munger – long-time vice-chair of Berkshire Hathaway – offers his own recipe for investment success

THERE is no shortage of advice to improve our diets. There is an “expert” for every taste: from doctors and dieticians to members of the US Congress (who in 2011 defined pizza as a vegetable) and social media influencers. Food companies add their own voices. The cornucopia of competing guidance overwhelms, but common sense and wisdom from our elders can guide us to the best choices.

There is no shortage of guidance to improve our investment returns, either. The late Charlie Munger – long-time vice-chair of Berkshire Hathaway – offers his own recipe for investment success, and it is very much like the dietary common sense that informed mealtimes a few decades ago.

In *Poor Charlie's Almanack: The Essential Wit and Wisdom of Charles T Munger*, Munger dishes out folksy wisdom about values and valuation accumulated over almost a century. His examples are punctuated with memorable phrases, such as the utility of “a one-legged man in an a**kicking contest” and a man who owns only a hammer and to whom every problem looks like a nail.

While Munger, who died Nov 28, 2023, knew the ingredients for success, he was quick to dismiss the physics envy and false precision of financial experts as well as the efficient market hypothesis, which supposes the immediate incorporation of new information into the market prices of securities. How, after all, can we explain his and Berkshire partner Warren Buffett's incredible and enduring investment success if the market is perfectly efficient, or if success requires ever-increasing computing power?

Astute readers will recognise, however, that Berkshire uses leverage and has investment tools unavailable to most investors; it can purchase companies outright, and its fortress balance sheet allows bespoke and profitable transactions with companies in difficulty – for example, Salomon Brothers and Goldman Sachs.

Poor Charlie's Almanack, first published in 2005, is a reissue with a new foreword by Stripe (and Stripe Press) founder John Collison.

Following the original three forewords by Buffett, Munger and almanac compiler Peter D Kaufman, the book features three introductory chapters: a “portrait” of Munger's life, recollections and anecdotes from his children, and a summary of his “approach to life, learning, and decision-making”.

This is followed by 11 talks given between

1986 and 2005. Munger's final talk is substantially revised and expanded from three speeches given between 1992 and 1995, and serves as a bookend to the third introductory chapter.

Either of the bookend chapters could serve on its own as a comprehensive exposition, but the book is strengthened through repetition of Munger's lessons and wit. The chronological arrangement of the talks also gives readers insight into the evolution of his wisdom (the wit is there from the start). The almanac is less textbook and more a series of warm fireside chats and, as with the yarns of our elders, the repetition can draw a groan but also ensures that the lessons endure.

Most talks are followed by a short reflection by Munger and some featured highlights from audience question-and-answer (Q&A) sessions.

For example, an attendee asks how to copy the Berkshire model of success. Munger's response underscores the value of wisdom rather than formulas or shortcuts.

First, Munger and Buffett's system is not a secret formula but, rather, a latticework of mental models that challenges assumptions and assesses downside risks from a variety of perspectives. Second, they focus on areas where they have a competitive advantage, or at least areas where they are not at a disadvantage (hence Berkshire's traditional reluctance to invest in technology stocks – businesses they claim not to understand well).

In one of many analogies from his wide range of interests, Munger draws on the card game bridge to demonstrate the importance of using all available models and the importance of model interaction.

Successful players communicate the strengths and weaknesses of their hands through strategic bidding, and then leverage that information through finesse and skilful card play. Investors who have attended one of Berkshire Hathaway's convention and annual meeting weekends may know already of the link between Munger's passion for bridge and the breadth of the company's investment holdings.

Convention floor attendees may have kicked (while wearing Justin Brands boots) the tyres of a Dairy Queen ice cream cart or a NetJets plane or a Burlington Northern and Santa Fe Railway car and then witnessed Munger and Buffett drop in for a hand at a side area duplicate bridge match.

At the arena next door, Munger's and Buffett's market insight would have been on lively display at the annual meeting's Q&A session. *Poor*



This reissue of *Poor Charlie's Almanack: The Essential Wit and Wisdom of Charles T Munger* features a new foreword. PHOTO: STRIPE PRESS

Charlie's Almanack weaves the temporal wisdom of successive annual meetings – at which, questions often focus on current market events – into a comprehensive and equally lively set of life lessons and investment guidance, producing a philosophical companion to the live experience of a Berkshire annual meeting.

The multiple models approach includes management of downside risks, for which Munger quotes the algebraist Carl Jacobi (“invert, always invert”) and provides practical examples in the methodology used by Charles Darwin as he developed *On the Origin of Species*.

Additional lessons are drawn from an eclectic list of tutors: Demosthenes, Jack Welch, George Bernard Shaw, BF Skinner, and, of course, Ben Franklin. Munger was also fond of the term “lollapalooza”, by which he meant the synergistic interaction of multiple biases or effects or models. It is unclear whether he knew the musician Perry Farrell, who more recently popularised the term.

Criticisms of the book are few. Munger's style can seem outdated; he draws mostly on male examples and uses such phrases as “the manly art of wagering”. But given that he lived to the age of 99, readers may overlook this drawback to focus on his wisdom.

Still, some of Munger's examples age better than others. As expected, Demosthenes and

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