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# AN ANALYSIS OF BERKSHIRE HATHAWAY

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(The latest version of this presentation is always posted at: www.tilsonfunds.com/TilsonBRK.pdf)

# THE BASICS

- Stock price (8/21/19): $299,305 ($199.24 for B shares)
- Shares outstanding: 1.63 million
- Market cap: $489 billion
- Total assets, equity, revenue and float (Q2 '19): $760B, $386B, $252B and $125B, respectively
- Book value per share (Q2 '19): $233,000 (estimated)
- P/B: 1.29x
- Berkshire Hathaway today is the 9th largest company in the world (and 3rd largest in the U.S.) by revenues

At today's price, the stock is not only the cheapest it's been in years, but also with its Fort-Know balance sheet, the perfect sleep-well-at-night stock. There's a very good chance it will beat the S&P over time, especially if the market does poorly.

# HISTORY

- Berkshire Hathaway today does not resemble the company that Buffett bought into during the 1960s
- It was a leading New England-based textile company, with investment appeal as a classic Ben Graham-style "net-net"
- Buffett took control of Berkshire on May 10, 1965
- At that time, the company had a market value of about $18 million and shareholder's equity of about $22 million

# THE BERKSHIRE HATHAWAY EMPIRE TODAY

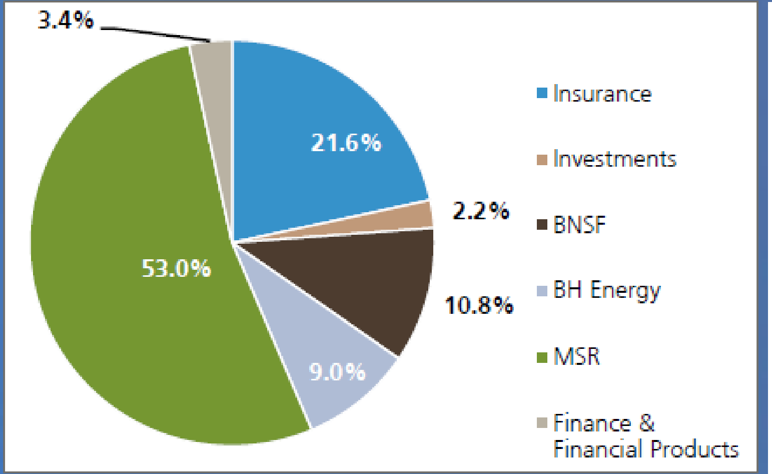
Largest Stakes in Public Companies ($B)

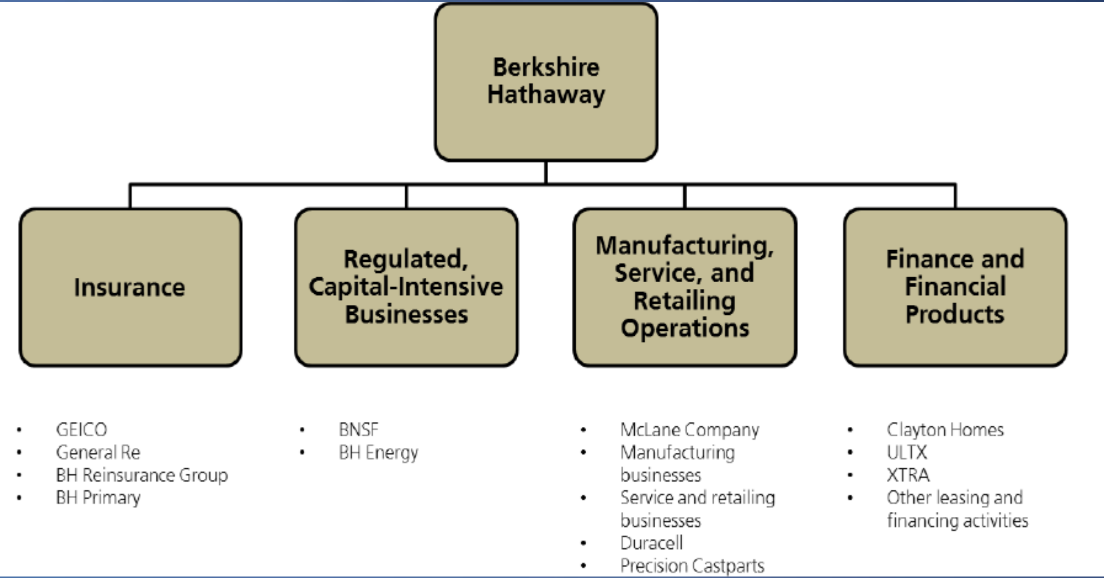
| Company | Shares | Price | Value |
|---|---|---|---|
| Apple | 249.6 | $213.74 | $53,350 |
| Bank of America | 927.2 | $27.16 | $25,183 |
| Coca-Cola | 400.0 | $54.45 | $21,780 |
| American Express | 151.6 | $123.10 | $18,663 |
| Wells Fargo | 409.8 | $45.50 | $18,646 |
| Kraft Heinz | 325.6 | $25.32 | $8,244 |
| U.S. Bancorp | 132.5 | $52.26 | $6,924 |
| JPMorgan Chase | 59.5 | $108.59 | $6,461 |
| Moody’s | 24.7 | $219.64 | $5,418 |
| Delta Airlines | 70.9 | $57.94 | $4,108 |
| Goldman Sachs | 18.4 | $202.49 | $3,726 |
| Bank of NY Mellon | 80.9 | $42.30 | $3,422 |
| Southwest Airlines | 53.6 | $50.95 | $2,731 |
| Verisign | 13.0 | $208.31 | $2,708 |
| General Motors | 72.3 | $37.31 | $2,697 |
| DaVita | 38.6 | $56.83 | $2,194 |
| Charter Comm | 5.4 | $391.55 | $2,114 |
| Others | | | $12,148 |
| **TOTAL** | | | **$200,516** |

Notes: Share count as of 6/30/19 13-F; Stock prices as of 8/22/19.

# THE BERKSHIRE HATHAWAY EMPIRE TODAY (2)

Revenues (2015)




Source: UBS analyst report, 3/28/16.

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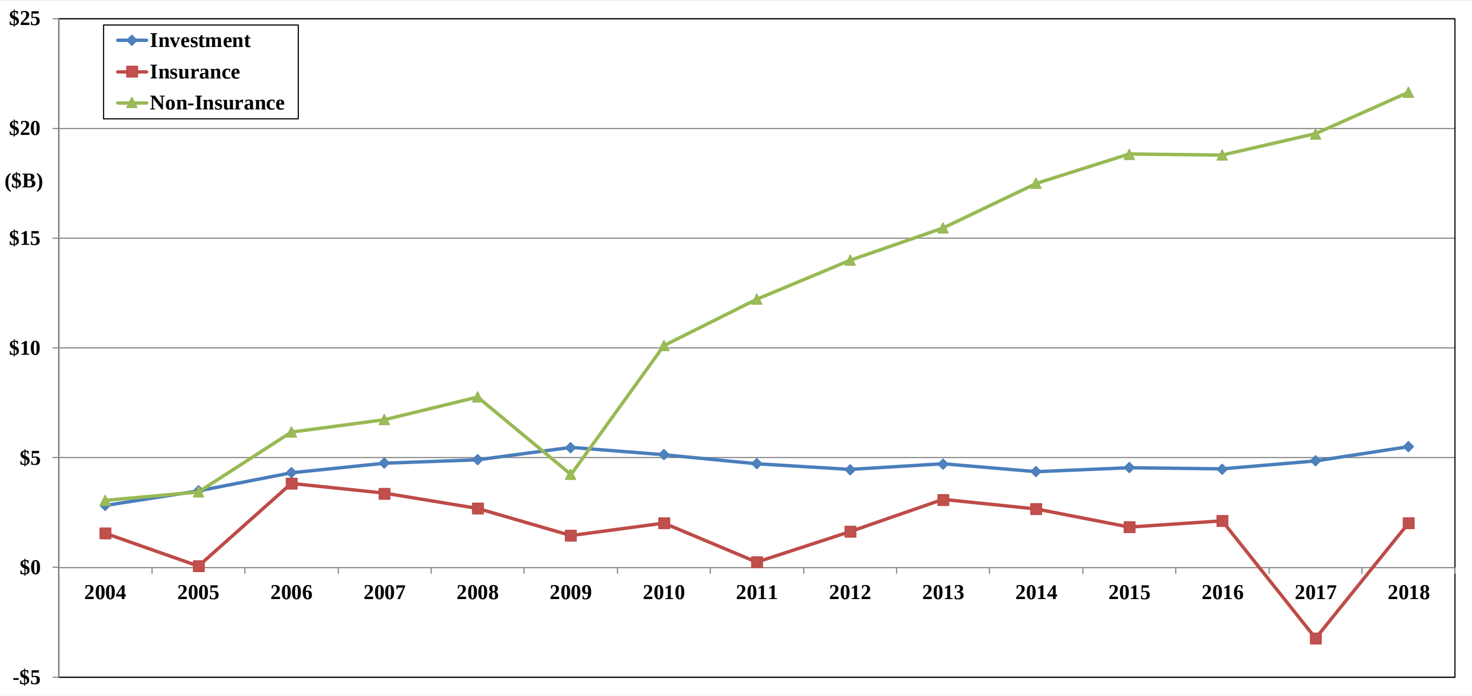
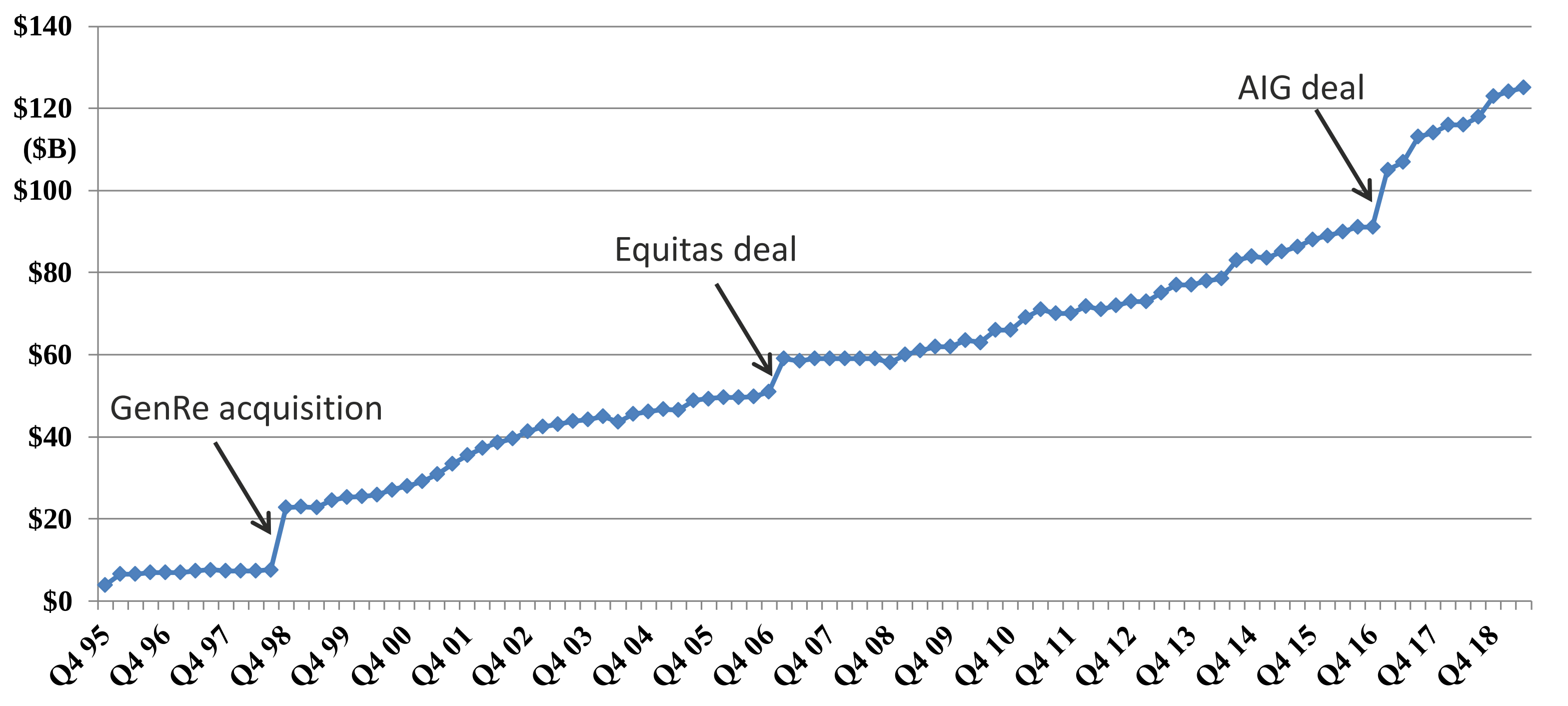
# BERKSHIRE'S NON-INVESTMENT INCOME HAS SOARED OVER TIME




Note: Insurance losses in 2017 were primarily due to "several significant catastrophe loss events occurring during the year including hurricanes Harvey, Irma and Maria, an earthquake in Mexico, a cyclone in Australia and wildfires in California" and an increase in "ultimate claim liability estimates related to the…aggregate excess-of-loss retroactive reinsurance agreement with AIG."

# BERKSHIRE'S FLOAT HAS GROWN ENORMOUSLY

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# BERKSHIRE'S Q2 EARNINGS WERE STRONG

- The bottom-line results can be misleading due to a change in generally accepted accounting principles ("GAAP"), which now require unrealized gains/losses of the equity portfolio to be reflected in the income statement. So while quarterly GAAP earnings grew to $5.74 per B share, up from $4.87 a year ago, this is meaningless.
- Though insurance underwriting income (pretax) declined to $456 million from $1.2 billion, this simply reflects the inherent lumpiness of insurance earnings, especially reinsurance. GEICO was impacted by an increase in loss severity, a dynamic that should normalize.
- Investment income was strong, growing 18% from $1.39 billion to 1.65 billion. Given Berkshire's enormous investment portfolio, this bodes well for Berkshire's future.
- The noninsurance businesses (BNSF, BH Energy, Manufacturing, McLane, and Service/Retailing) were all basically flat, with pretax profit collectively rising 2%.
- In summary, Berkshire's operating businesses continued to generate gobs of cash.
- The balance sheet continues to be rock solid, with cash and short-term investments growing to $119 billion. Insurance float rose to $125 billion, up $2 billion from the start of the year.
- Lastly, the cash flow statement revealed that operating cash flow rose from $8.5 to $9.2 billion year over year, while cap ex fell slightly from $3.7 to $3.6 billion. As a result, free cash flow rose 17% from $4.8 to $5.6 billion.
- Most of this just piled up, as Buffett and his investment team only bought $2.8 billion of stocks (down from $20.8 billion in Q2 '18) and sold $4.5 billion (down from $9.0 billion a year ago). In addition, he only spent $318 million making acquisitions and another $548 million repurchasing stock.
- While the tepid share repurchases are a little disappointing, you can be sure that when Warren Buffett buys in even a single share of his stock, he's confident that he's getting a good value.

# DESPITE BEING VERY CONSERVATIVELY POSITIONED, THE STOCK HAS KEPT PACE WITH THIS LONG BULL MARKET


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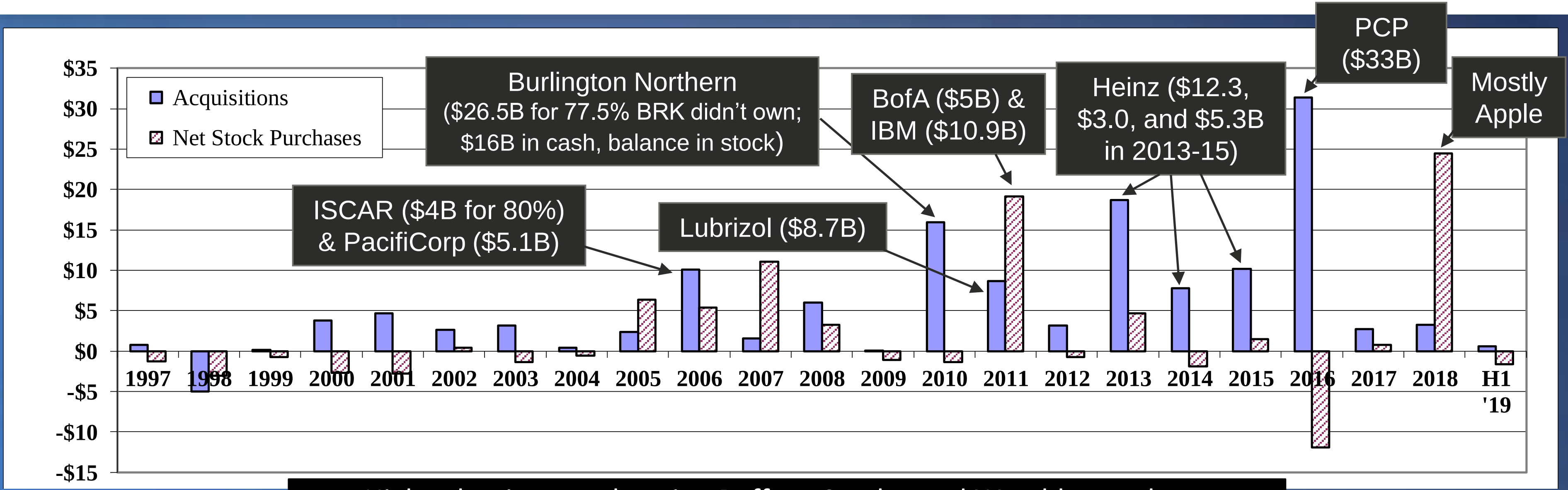
# BUFFETT, COMBS & WESCHLER WERE PUTTING CASH TO WORK AT A HEALTHY CLIP UNTIL 2017




- High valuations are keeping Buffett, Combs, and Weschler on the sidelines these days
- But markets have a way of presenting big opportunities on short notice
  - Junk bonds in 2002, chaos in 2008
  - Buffett has reduced the average maturity of Berkshire's bond portfolio so he can act quickly

# VALUING BERKSHIRE

"Over the years we've…attempt[ed] to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety." – 1995 Annual Letter

"In our last two annual reports, we furnished you a table that Charlie and I believe is central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments, but after all interest and corporate expenses. The second column excludes all dividends, interest and capital gains that we realized from the investments presented in the first column." – 1997 Annual Letter

| Year | Investments Per Share | Pre-tax Earnings Per Share Excluding All Income from Investments |
|---|---|---|
| 1967 | $ 41 | $ 1.09 |
| 1977 | 372 | 12.44 |
| 1987 | 3,910 | 108.14 |
| 1997 | 38,043 | 717.82 |

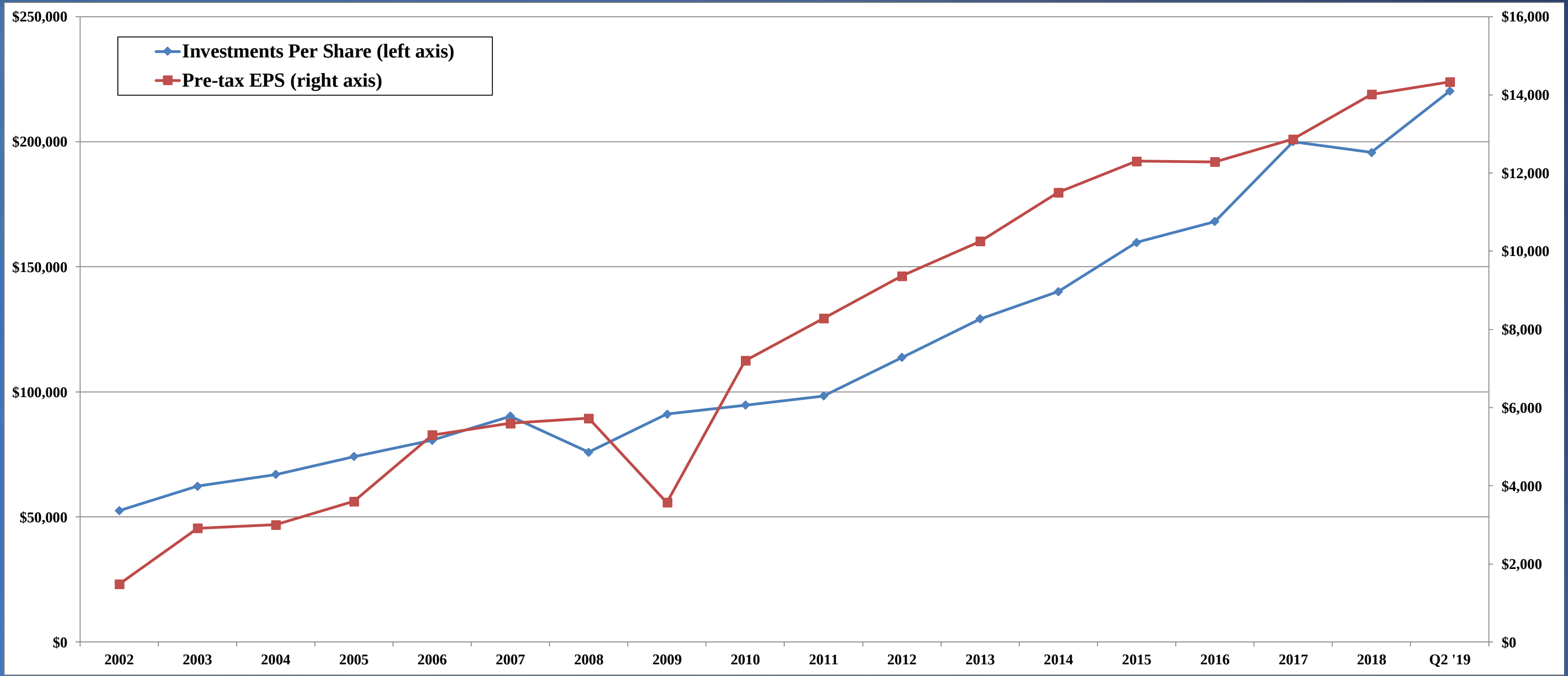
"In effect, the columns show what Berkshire would look like were it split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs." – 1997 Annual Letter

# BUFFETT'S COMMENTS ON BERKSHIRE'S VALUATION LEAD TO AN IMPLIED HISTORICAL MULTIPLIER OF ~12X

| Year | Investments Per Share | Pre-tax EPS Excluding All Income From Investments | Year-End Stock Price | Intrinsic Value | Implied Multiplier |
|---|---|---|---|---|---|
| 1996 | $28,500 | $421 | $34,100 | $34,100 | 13 |
| 1997 | $38,043 | $718 | $46,000 | $46,000 | 11 |
| 1998 | $47,647 | $474 | $70,000 | $54,000 | 13 |
| 1999 | $47,339 | -$458 | $56,100 | $60,000 | |

- 1996 Annual Letter: "Today's price/value relationship is both much different from what it was a year ago and, as Charlie and I see it, more appropriate."
- 1997 Annual Letter: "Berkshire's intrinsic value grew at nearly the same pace as book value" (book +34.1%)
- 1998 Annual Letter: "Though Berkshire's intrinsic value grew very substantially in 1998, the gain fell well short of the 48.3% recorded for book value." (Assume a 15-20% increase in intrinsic value.)
- 1999 Annual Letter: "A repurchase of, say, 2% of a company's shares at a 25% discount from per-share intrinsic value...We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated...Recently, when the A shares fell below $45,000, we considered making repurchases."

# BERKSHIRE'S EARNINGS AND INVESTMENTS PER SHARE HAVE STEADILY RISEN




Note: For EPS, we subtract each year's insurance earnings, which can fluctuate widely, but then add back the average annual earnings from Berkshire's insurance businesses over the past decade of $1.4 billion.

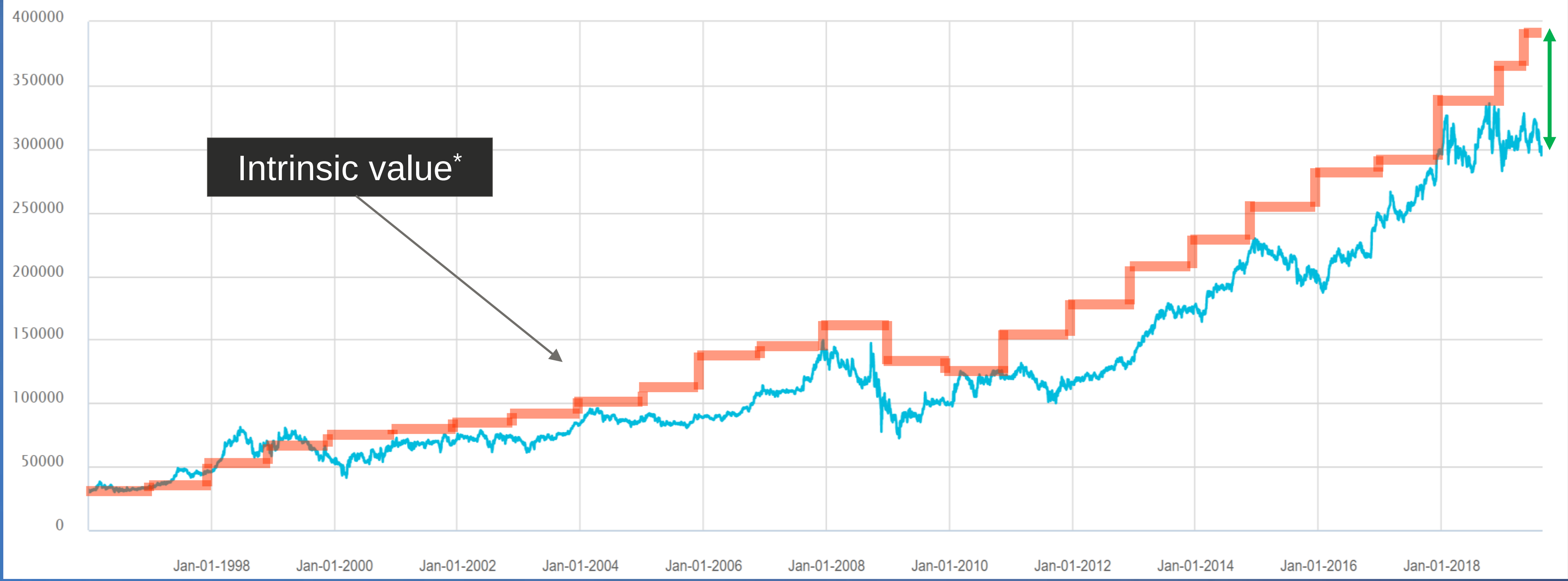
# BERKSHIRE'S INTRINSIC VALUE: 2002-Q2 '19

| Year End | Cash and Investments Per Share[1] | Pre-tax EPS Excluding All Income From Investments[2] | Intrinsic Value Per Share[3] | Subsequent Year Stock Price Range |
|---|---|---|---|---|
| 2002 | $52,507 | $1,479 | $70,255 | $60,600-$84,700 |
| 2003 | $62,273 | $2,912 | $97,217 | $81,000-$95,700 |
| 2004 | $66,967 | $3,003 | $103,003 | $78,800-$92,000 |
| 2005 | $74,129 | $3,600 | $117,329 | $85,700-$114,200 |
| 2006 | $80,636 | $5,300 | $144,236 | $107,200-$151,650 |
| 2007 | $90,343 | $5,600 | $157,543 | $84,000-$147,000 |
| 2008 | $75,912 | $5,727 | $121,728 | $70,050-$108,100 |
| 2009 | $91,091 | $3,571 | $119,659 | $97,205-$128,730 |
| 2010 | $94,730 | $7,200 | $152,330 | $98,952-$131,463 |
| 2011 | $98,366 | $8,279 | $181,158 | $114,500-$134,060 |
| 2012 | $113,786 | $9,367 | $207,460 | $139,610-$178,275 |
| 2013 | $129,253 | $10,256 | $231,814 | $163,038-$229,374 |
| 2014 | $140,123 | $11,503 | $255,153 | $192,200-$224,880 |
| 2015 | $159,794 | $12,304 | $282,829 | $189,640-$249,711 |
| 2016 | $168,099 | $12,284 | $290,940 | $240,280-$299,360 |
| 2017 | $200,043 | $12,867 | $341,585 | $279,410-$335,900 |
| 2018 | $195,771 | $14,016 | $363,968 | ? |
| Q2 2019 | $220,223 | $14,331 | $392,194 | ? |



1. In every annual letter through 2015, Buffett disclosed both pre-tax earnings as well as cash and investments per share." Since then, we estimate them.
2. For EPS, we subtract each year's insurance earnings, which can fluctuate widely, but then add back the average annual earnings from Berkshire's insurance businesses over the past decade of $1.4 billion.
3. Historically we believe Buffett used a 12x multiple, but given compressed multiples during the downturn, we used 8x in 2008-2010 , 10x from 2011-2016, and 11x in 2017 (due to the benefits of the tax reform bill passed at the end of 2017).

# BERKSHIRE IS TRADING 23% BELOW ITS INTRINSIC VALUE

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* Investments per share plus 12x pre-tax earnings per share through 2007, then an 8x multiple from 2008-2010, a 10x multiple from 2011-2016, and an 11x multiple in 2017.

# 12-MONTH INVESTMENT RETURN

- Current intrinsic value: $392,000/share
- Plus 6% annual growth of intrinsic value of the business
- Plus ~$10,000/share cash build over next 12 months
- Equals intrinsic value in one year of $426,000
- 42% above today's price

# CATALYSTS

- Continued earnings growth of operating businesses
- Possibility of meaningful acquisitions
- New stock investments and/or growth of the stock portfolio
- Additional cash build
- Share repurchases (especially now that Buffett has abandoned the 1.2x book value limit and has repurchased stock above 1.4x)

# RISKS: WHO WILL REPLACE BUFFETT?

- When Buffett is no longer running Berkshire, his job will be split into two parts: one CEO, who has not been named (likely Greg Abel and/or Ajit Jain, both of whom were just added to Berkshire's board), and a small number of CIOs (Chief Investment Officers)
  - A CEO successor (and two backups) have been identified, but not publicly named
  - Two CIOs have been named already, Todd Combs and Ted Weschler, both of whom are excellent investors
- Nevertheless, Buffett is irreplaceable and it will be a significant loss when he no longer runs Berkshire for a number of reasons:
  - There is no investor with Buffett's experience, wisdom and track record, so his successors' decisions regarding the purchases of both stocks and entire businesses might not be as good
  - Most of the 80+ managers of Berkshire's operating subsidiaries are wealthy and don't need to work, but nevertheless work extremely hard and almost never leave thanks to Buffett's "halo" and superb managerial skills. Will this remain the case under his successors?
  - Buffett's relationships and reputation are unrivaled so he is sometimes offered deals and terms that are not offered to any other investor – and might not be offered to his successors
  - Being offered investment opportunities (especially on terms/prices not available to anyone else) also applies to buying companies outright. There's a high degree of prestige in selling one's business to Buffett (above and beyond the advantages of selling to Berkshire). For example, the owners of Iscar could surely have gotten a higher price had they taken the business public or sold it to an LBO firm

# AREN'T WE CONCERNED ABOUT THE UNCERTAINTY OF BERKSHIRE AFTER BUFFETT?

Answer: Not really, for three primary reasons:

1. Buffett isn't going anywhere anytime soon. We think it's at least 75% likely that Buffett will be running Berkshire for five more years
   - Buffett turned 88 on Aug. 30th, 2018, is in excellent health, and loves his job
   - There are no signs that he is slowing down mentally – in fact, he appears to be getting better with age
   - A life expectancy calculator (http://calculator.livingto100.com) shows that Buffett is likely to live to age 95 – and we'd bet on the over
2. The stock is undervalued based on our estimate of intrinsic value, which does not include *any* Buffett premium
   - We simply take investments/share and add the value of the operating businesses, based on a conservative multiple of their normalized earnings
   - The value of the cash and bonds won't change, and Wells Fargo, Kraft Heinz, Coke, American Express, Burlington Northern, GEICO, etc. will continue to generate robust earnings even after Buffett is no longer running Berkshire
3. Buffett has built a powerful culture that is likely to endure

# WHY DOESN'T BUFFETT IDENTIFY HIS SUCCESSOR NOW?

We agree with Buffett's decision not to name his successor for three reasons:

1. It would place enormous pressure and expectations on this person, which is unnecessary and counterproductive;
2. It might be demotivating for the candidates who were not chosen; and
3. Who knows what will happen between now and the time that a successor takes over (which could be more than a decade)?
   – Maybe the current designee falls ill, leaves Berkshire, performs poorly, or makes a terrible mistake (e.g., David Sokol)
   – Or what if another candidate (perhaps one of the two backup successors today) performs incredibly well, or Berkshire acquires a business with a fantastic CEO, and Buffett and the board decide that another candidate is better?
   – By not naming Buffett’s successor now, Buffett and the board will be able to switch their choice without the second-guessing and media circus that would occur if the successor had been named

# THE REAL BUFFETT RISK

- Buffett is often asked (as are we): "What would happen to the company (and stock) if you got hit by a bus (i.e., die suddenly)?"
  – If it happened tomorrow, our best guess is that the stock would fall 10% (which might give Berkshire the opportunity to buy back a lot of stock)
  – But this isn't likely. Not to be morbid, but most people don't die suddenly from something like an accident or heart attack, but rather die slowly: their bodies (and sometimes minds) gradually deteriorate
  – A far greater risk to Berkshire shareholders is that Buffett begins to lose it mentally and starts making bad investment decisions, but doesn't recognize it (or refuses to acknowledge it because he loves his work so much) and the board won't "take away the keys", perhaps rationalizing that a diminished Buffett is still better than anyone else
  – Buffett is aware of this risk and has instructed Berkshire's board members, both publicly and privately, that their most important job is to "take away the keys" if they see him losing it
  – We trust that both Buffett and the board will act rationally, but also view it as our job to independently observe and evaluate Buffett to make sure we're comfortable that he's still at the top of his game. Today, we think he's never been better

# BERKSHIRE'S CULTURE IS POWERFUL AND UNIQUE: "A SEAMLESS WEB OF DESERVED TRUST"

- Berkshire operates via extreme decentralization: though it is one of the largest businesses in the world with approximately 389,000 employees, only *26* of them are at headquarters in Omaha
  - There is no general counsel or human resources department
- "By the standards of the rest of the world, we overtrust. So far it has worked very well for us. Some would see it as weakness." – Charlie Munger, 5/14
- "A lot of people think if you just had more process and more compliance — checks and double-checks and so forth — you could create a better result in the world. Well, Berkshire has had practically no process. We had hardly any internal auditing until they forced it on us. We just try to operate in a seamless web of deserved trust and be careful whom we trust." – Munger, 5/07
- "We will have a problem of some sort at some time…300,000 people are not all going to behave properly all the time." – Warren Buffett, 5/14
- "Behavioral scientists and psychologists have long contended that 'trust' is, to some degree, one of the most powerful forces within organizations. Mr. Munger and Mr. Buffett argue that with the right basic controls, finding trustworthy managers and giving them an enormous amount of leeway creates more value than if they are forced to constantly look over their shoulders at human resources departments and lawyers monitoring their every move." – NY Times, 5/5/14

# WE THINK BERKSHIRE AFTER BUFFETT WILL BE LIKE APPLE AFTER JOBS

- The most comparable example of a business that, like Berkshire, is closely associated with its legendary founder and CEO is Apple
  - As Steve Jobs' health began to fail, he assumed fewer day-to-day responsibilities, passing them to top lieutenants
  - Jobs resigned as CEO on Aug. 24, 2011 and died exactly six weeks later on Oct. 5, 2011
  - Apple's stock declined less than 1% on the first trading days after both his retirement and death, and has quadrupled since then as this chart shows:


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# OTHER RISKS

- The single biggest risk is that as Berkshire gets larger and Buffett gets older, investors value the stock at a lower and lower multiple of earnings and book value, such that even if intrinsic value continues to grow, the stock goes nowhere for an extended period
- A recession impacts Berkshire's earnings and stock portfolio materially
- A very large investment goes awry
- A major super-cat event costs Berkshire many billions

# CONCLUSION: BERKSHIRE HAS EVERYTHING WE LOOK FOR IN A STOCK: IT'S SAFE, CHEAP AND GROWING AT A HEALTHY RATE

- Extremely safe: Berkshire's huge hoard of liquid assets, the quality and diversity of its businesses, the fact that much of its earnings (primarily insurance) aren't tied to the economic cycle, and the conservative way in which it's managed all protect Berkshire's intrinsic value, while the share repurchase program provides downside protection to the stock
- Upside: trading 23% below intrinsic value (without giving any credit to immense optionality), with 42% upside over the next year
- Growing: Intrinsic value is growing at roughly 6-8% annually

# APPENDIX

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# EARNINGS BY YEAR

| Earnings before taxes* | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Insurance Group:** | | | | | | | | | | | | | | | |
| GEICO | 970 | 1,221 | 1,314 | 1,113 | 916 | 649 | 1,117 | 576 | 680 | 1,127 | 1,159 | 460 | 462 | -310 | 2,449 |
| General Re | 3 | -334 | 526 | 555 | 342 | 477 | 452 | 144 | 355 | 283 | 277 | 132 | 190 | -685 | |
| Berkshire Reinsurance Group | 417 | -1,069 | 1,658 | 1,427 | 1,222 | 250 | 176 | -714 | 304 | 1,294 | 606 | 421 | 822 | -2,963 | -1,109 |
| Berkshire H. Primary Group | 161 | 235 | 340 | 279 | 210 | 84 | 268 | 242 | 286 | 385 | 626 | 824 | 657 | 719 | 670 |
| Investment Income | 2,824 | 3,480 | 4,316 | 4,758 | 4,896 | 5,459 | 5,145 | 4,725 | 4,454 | 4,713 | 4,357 | 4,550 | 4,482 | 4,855 | 5,503 |
| **Total Insurance Oper. Inc.** | **4,375** | **3,533** | **8,154** | **8,132** | **7,586** | **6,919** | **7,158** | **4,973** | **6,079** | **7,802** | **7,025** | **6,387** | **6,613** | **1,616** | **7,513** |
| | | | | | | | | | | | | | | | |
| **Non-Insurance Businesses:**** | | | | | | | | | | | | | | | |
| Burlington Northern Santa Fe | | | | | | | 3,611 | 4,741 | 5,377 | 5,928 | 6,169 | 6,775 | 5,693 | 6,328 | 6,863 |
| Berkshire Hathaway Energy | 466 | 485 | 1,476 | 1,774 | 2,963 | 1,528 | 1,539 | 1,659 | 1,644 | 1,806 | 2,711 | 2,851 | 2,878 | 2,499 | 2,472 |
| McLane Company | 228 | 217 | 229 | 232 | 276 | 344 | 369 | 370 | 403 | 486 | 435 | 502 | 431 | 299 | 246 |
| Manufacturing | | | | 436 | 733 | 686 | 813 | 992 | 3,911 | 4,205 | 4,811 | 4,893 | 7,735 | 8,324 | 9,366 |
| Service & Retailing | 1,787 | 1,921 | 3,297 | 3,279 | 3,014 | 1,028 | 3,092 | 3,675 | 1,272 | 1,469 | 1,546 | 1,720 | 2,058 | 2,304 | 2,696 |
| Finance and financial products | 584 | 822 | 1,157 | 1,006 | 771 | 653 | 689 | 774 | 1,393 | 1,564 | 1,839 | 2,086 | | | |
| **Total Non-Insur. Oper. Inc.** | **3,065** | **3,445** | **6,159** | **6,727** | **7,757** | **4,239** | **10,113** | **12,211** | **14,000** | **15,458** | **17,511** | **18,827** | **18,795** | **19,754** | **21,643** |
| | | | | | | | | | | | | | | | |
| **Total Operating Income** | **7,440** | **6,978** | **14,313** | **14,859** | **15,343** | **11,158** | **17,271** | **17,184** | **20,079** | **23,260** | **24,536** | **25,214** | **25,408** | **21,370** | **29,156** |

Note: In 2017, Berkshire consolidated General Re and Berkshire Reinsurance Group, so the breakdown is estimated based on the prior year's split.
* In 2010, Berkshire changed this table from "Earnings before income taxes, noncontrolling interests and equity method earnings" to "Earnings before income taxes".
** Non-insurance businesses were recategorized in 2014, so figures prior to 2012 are not comparable.

# BERKSHIRE'S SHARE REPURCHASE PROGRAM (1)

- On September 26, 2011, Berkshire announced the first formal share repurchase program in Berkshire's history, and only the second time Buffett has ever offered to buy back stock
- It's unusual in three ways:
  1. There's no time limit
  2. There's no dollar cap
  3. Buffett set a price: "…no higher than a 10% premium over the then-current book value of the shares. In the opinion of our Board and management, the underlying businesses of Berkshire are worth considerably more than this amount…"
- In December 2012, Berkshire increased the limit to 1.2x book and announced that it had repurchased $1.2 billion in one transaction
- In July 2018, Berkshire announced a new repurchase program whereby there's no limit to the buybacks so long as the company's consolidated cash balance stays above $20 billion and the valuation of the stock is less than intrinsic value in the eyes of Buffett and Munger

# BERKSHIRE'S SHARE REPURCHASE PROGRAM (2)

- Buffett has been buying back stock above 1.4x book value
- It confirms that Buffett shares our belief that Berkshire stock remains undervalued
  - He wouldn't be buying it back at a 40% premium to book value if he thought its intrinsic value was, say, 50% above book
- Buffett has put a new (albeit soft) floor on the stock: he appears eager to buy back *a lot* of stock – and he has plenty of dry powder to do so:
  - Berkshire has $119 billion of cash (excluding railroads, utilities, energy, finance and financial products), plus another $20 billion in bonds (nearly all of which are short-term, cash equivalents), which totals $139 billion, meaning he has nearly $120 billion to deploy
  - On top of this, the company is generating well over $20 billion in free cash flow per year – in other words, the better part of ~$2 billion is pouring into Omaha every *month*
    - It's unlikely, however, that Buffett would repurchase anything close to this amount, as some of the cash and bonds are held at various insurance subsidiaries, plus Buffett likely wants to keep plenty of dry powder to make acquisitions and investments
  - In summary, Buffett could easily buy back $75 billion of stock *and* still have plenty of dry powder for other investments

# DON'T OVERLOOK MUNGER – HE IS A GENIUS IN HIS OWN RIGHT (1)

Favorite Mungerisms

- 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.

# DON’T OVERLOOK MUNGER – HE IS A GENIUS IN HIS OWN RIGHT (2)

Favorite Mungerisms (continued)

- 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.
- 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.
- 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.
- 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.

# DON'T OVERLOOK MUNGER –
# HE IS A GENIUS IN HIS OWN RIGHT (3)

- To learn more about/from Munger, I highly recommend two books:
  1) Poor Charlie's Almanack (I wrote Chapter 3 and provided many of the transcripts)
  2) Seeking Wisdom: From Darwin to Munger