Charlie Munger – The Architect of Berkshire Hathaway

Charlie Munger died on November 28, just 33 days before his 100th birthday.

Though born and raised in Omaha, he spent 80% of his life domiciled elsewhere. Consequently, it was not until 1959 when he was 35 that I first met him. In 1962, he decided that he should take up money management.

Three years later he told me − correctly! − that I had made a dumb decision in buying control of Berkshire. **But**, he assured me, since I had already made the move, he would tell me how to correct my mistake.

In what I next relate, bear in mind that Charlie and his family did not have a dime invested in the small investing partnership that I was then managing and whose money I had used for the Berkshire purchase. Moreover, neither of us expected that Charlie would **ever** own a share of Berkshire stock.

Nevertheless, Charlie, in 1965, promptly advised me: "Warren, forget about ever buying another company like Berkshire. But now that you control Berkshire, add to it wonderful businesses purchased at fair prices and give up buying fair businesses at wonderful prices. In other words, abandon everything you learned from your hero, Ben Graham. It works but only when practiced at small scale." With much back-sliding I subsequently followed his instructions.

Many years later, Charlie became my partner in running Berkshire and, repeatedly, jerked me back to sanity when my old habits surfaced. Until his death, he continued in this role and together we, along with those who early on invested with us, ended up far better off than Charlie and I had ever dreamed possible.

In reality, Charlie was the "architect" of the present Berkshire, and I acted as the "general contractor" to carry out the day-by-day construction of his vision.

Charlie never sought to take credit for his role as creator but instead let me take the bows and receive the accolades. In a way his relationship with me was part older brother, part loving father. Even when he knew he was right, he gave me the reins, and when I blundered he never − **never** −reminded me of my mistake.

In the physical world, great buildings are linked to their architect while those who had poured the concrete or installed the windows are soon forgotten. Berkshire has become a great company. Though I have long been in charge of the construction crew; **Charlie** should **forever** be credited with being the architect.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Berkshire has more than three million shareholder accounts. I am charged with writing a letter every year that will be useful to this diverse and ever-changing group of owners, many of whom wish to learn more about their investment.

Charlie Munger, for decades my partner in managing Berkshire, viewed this obligation identically and would expect me to communicate with you this year in the regular manner. He and I were of one mind regarding our responsibilities to Berkshire shareholders.

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Writers find it useful to picture the reader they seek, and often they are hoping to attract a mass audience. At Berkshire, we have a more limited target: investors who trust Berkshire with their savings without any expectation of resale (resembling in attitude people who save in order to buy a farm or rental property rather than people who prefer using their excess funds to purchase lottery tickets or "hot" stocks).

Over the years, Berkshire has attracted an unusual number of such "lifetime" shareholders and their heirs. We cherish their presence and believe they are entitled to hear every year both the good and bad news, delivered directly from their CEO and *not* from an investor-relations officer or communications consultant forever serving up optimism and syrupy mush.

In visualizing the owners that *Berkshire* seeks, I am lucky to have the perfect mental model, my sister, Bertie. Let me introduce her.

For openers, Bertie is smart, wise and likes to challenge my thinking. We have never, however, had a shouting match or anything close to a ruptured relationship. We never will.

Furthermore, Bertie, and her three daughters as well, have a large portion of their savings in Berkshire shares. Their ownership spans decades, and every year Bertie will read what I have to say. My job is to anticipate her questions and give her honest answers.

Bertie, like most of you, understands many accounting terms, but she is not ready for a CPA exam. She follows business news – reading four newspapers daily – but doesn't consider herself an economic expert. She is sensible – *very* sensible – instinctively knowing that pundits should *always* be ignored. After all, if *she* could reliably predict tomorrow's winners, would she freely share her valuable insights and thereby increase competitive buying? That would be like finding gold and then handing a map to the neighbors showing its location.

Bertie understands the power – for good or bad – of incentives, the weaknesses of humans, the "tells" that can be recognized when observing human behavior. She knows who is "selling" and who can be trusted. In short, she is nobody's fool.

So, what would interest Bertie this year?

Operating Results, Fact and Fiction

Let's begin with the numbers. The *official* annual report begins on K-1 and extends for 124 pages. It is filled with a vast amount of information – some important, some trivial.

Among its disclosures many owners, along with financial reporters, will focus on page K-72. There, they will find the proverbial "bottom line" labeled "Net earnings (loss)." The numbers read $90 billion for 2021, ($23 billion) for 2022 and $96 billion for 2023.

What in the world is going on?

You seek guidance and are told that the procedures for calculating these "earnings" are promulgated by a sober and credentialed Financial Accounting Standards Board ("FASB"), mandated by a dedicated and hard-working Securities and Exchange Commission ("SEC") and audited by the world-class professionals at Deloitte & Touche ("D&T"). On page K-67, D&T pulls no punches: "In our opinion, the financial statements . . . . . present fairly, *in all material respects* (italics mine), the financial position of the Company . . . . . and the results of its operations . . . . . for each of the three years in the period ended December 31, 2023 . . . . ."

So sanctified, this worse-than-useless "net income" figure quickly gets transmitted throughout the world via the internet and media. All parties believe they have done their job – and, legally, they have.

We, however, are left uncomfortable. At Berkshire, *our* view is that "earnings" should be a sensible concept that Bertie will find somewhat useful – *but only as a starting point* – in evaluating a business. Accordingly, Berkshire *also* reports to Bertie and you what we call "operating earnings." Here is the story *they* tell: $27.6 billion for 2021; $30.9 billion for 2022 and $37.4 billion for 2023.