Ben when we teased this episode in the email about the Jensen episode that we just released the guesses that we were getting from folks were amazing I mean people are like it's Charlie it's Warren or it's Taylor Swift and a lot of people were right Hey Taylor you know where to find us acquired FM gmail.com if you are looking to get more publicity we're open have Travis get in touch all right let's do it who got the truth is it you is it you is it you who got the truth now is it you is it you is it you sit me down say it straight on the way welcome to this episode of acquired the podcast about great technology companies and the stories and playbooks behind them I'm Ben Gilbert I'm David Rosenthal and we are your hosts this episode is a very unique one for David and I good friend of the show Andrew marks organized a little dinner for us with Charlie M and a few other folks at Charlie's home in Los Angeles you can hear Andrew a few times in the background asking Charlie questions we are pretty sure that this is the only podcast that Charlie has ever done Charlie aside from being one of the most prolific investors of all time alongside his partner Warren Buffett is 99 years old he will turn 100 on January 1st of course our conversation was interesting because he's freaking Charlie Munger but also because it was interesting to get the perspective of someone who has seen the last 99 years of human history we talked with Charlie of course about Costco his history investing in retailers over the last 50 years we also got to hear his views on what it takes to build a great partnership what's gone wrong in the Global Securities markets these days the concept of investing versus gambling and where investment opportunities remain in the world today yeah Ben this was such a special life experience for you and me and you and me together to do this and the fact that we got to record it and now share it with the world for posterity just icing on the cake and the whole thing was unbelievable yeah listeners we knew we were going to have dinner we were not sure whether we were going to be able to record it and now we get to share it with all of you with that join the slack there is awesome discussion of every episode and the news of the day at acquired. FMS slack if you sign up for acquired emails you will get episode Corrections and followup from previous episodes plus hints at what the next episode will be that's acquired fm/ and we have only one sponsor for this interview yes a special conversation deserves a special sponsorship and longtime listeners will know there's only one company in the acquired universe that is truly appropriate because everything they do is modeled after Charlie and Warren and that's tiny yep tiny is the Burkshire Hathaway of the internet literally they are such huge fans that they started a company that makes bronze busts of Buffett and Munger themselves but more on that in a minute yeah so Berkshire As We Know started as a textile mill in Massachusetts nearly 200 years ago and almost 20 years ago tiny Founders Andrew Wilkinson and his partner Chris took their version of an Internet textile mill the premier design agency metal lab which designed the uis for slack Uber Tinder headspace coinbase and others and they asked themselves what would Charlie and Warren do if they were us and that led to the realization that just like Burger discovered in the physical world the internet also had has wonderful Niche businesses with great cash flows in fact they tend to be even better than the old days of Casas candies and Blue Chip Stamps because they require zero Capital reinvestment have software margins and can build Global Brands much faster than the what 50 some IDE years it took C's to expand around the world yep so Andrew and Chris took the extra cash flow from metalab and their other businesses and created tiny the world's first and best permanent holding company for wonderful internet businesses and boy did it work yeah fast forward to today and thanks to Tiny's success this opportunity is no longer a secret many people have caught on to the idea that this can really work but just like Burkshire itself no one else has the combination of experience temperament access to Capital and frankly reputation that Andrew and Chris have built over the past two decades we're investors in tiny ourselves alongside Bill Amman and Howard marks and just like the two of them tiny is really the long-term buyer of choice in their Niche anyone who's looking for a permanent home for their profit internet bus or who needs a Capital Partner for a co-founder or VC Capt buyout would be lucky to work with tiny yep for instance they just bought the premier social network for film Buffs letter boxed which has been the founders baby for 12 years and will stay so within tiny and this really reflects Tiny's whole ethos work with only the best internet businesses commit to simple diligence 30-day deals and leave the business alone either for you to operate or bring in new long-term oriented management up to you so thanks to tiny this is the only sponsor as Ben said that you'll hear on this episode and just like Berkshire it'll be here in perpetuity tiny just became a public company earlier this year and they can now do deals ranging anywhere from 1 million all the way up to 250 million so if you want to get in touch just shoot them a note at high tiny.com and just tell them that Ben and David sent you oh and one more thing the bronze Charlie busts the perfect daily reminder in your workspace to ask what would Charlie do just head on over to Burkshire nerds do store to buy your own and they also have plenty of some guy named Warren too okay now without further Ado this is not investment advice David and I may have investments in the companies we discuss and this show is for informational and entertainment purposes only and on to Charlie Monger Charlie I was watching the NFL games last weekend and it seems like every advertisement now is a sports betting advertisement is this good for America no of course not are the dog track and race tracks of America and the casinos good for America of course not they're just very popular that's how Warren got his start though right at the racetrack well but Warren never gambled heavily as a patron Warren one of the odds in his favor not somebody else right it's just so simple if you're Warren you want the house you want to be the house not the pter listeners the next topic that came up was retail stock trading and the idea that for many Americans This is Akin to gambling well it's the way it's organized they don't really know anything about the companies or anything they just gamble on going up and down price H if I were running the world I would have a tax on short-term gains with no offset for losses on anything and I was just drive this whole crowd of people all of business what do you think about the algorithms like Renaissance and stuff like that well of course Renaissance for first algorithm was so simple they sifted all this data for the past and what did they decide up up for two closing prices and down down were more common than down up or up down once they realize that's the way it was for various reasons deep in the psychology of man is man is a natural Trend follower he particular gambling short term and they they just he just programmed the computers to automatically you know Buy in one thing the first up day and then and sell before the end of the second day and he just did it day after day after day and it's every day the machine would you know the central clearing agent and say your check today is $8,500 th000 it's crazy your check tomorrow is 9 million 4 300,000 well what happens is that the ones the easiest trade is the front run what you know what the average what the index funds have to buy and you know what it is exactly they all know that and the way they get their returns year after year is taking the leverage the midday leverage up higher and higher and higher and higher so they're making smaller and smaller profits on more and more volume which gives them this big peak leverage risk which I would not run myself and that's the only way they make these big returns is to have this huge leverage that would make you crazy if you were already rich I had the Good Fortune of speaking with someone you know well Richard galante at Costco and spending a few hours he knows a lot about it he's been there all his life it's crazy I mean it seems like that's everyone on the exec they've all been there I'm curious how did you first come across Costco or or a price Club at the time Rod Hills somehow knew S price and knew what he was doing he said you have to go down and meet him he said so I drove down and look went through his store and talked to Saul and of course Saul was a very intelligent man Saul was an ordinary lawyer until it was 39 years of age then he would out informed government employees discount company or whatever was this in the fedco days he was no longer with fedco and he sold fedco to the Germans ah fedmart to the uh hug man Hugo man yeah yeah and did you get to invest in Price Club before it merged with Costco yes I did but I just bought my stock in the market I wasn't I got any favor and so how did you eventually meet Jim senagal well senagal asked Warren to become a director of Costco he was looking for somebody with a financial reputation as an independent yes and Warren wouldn't do it he said you get Charlie to do it I want shorter plane rides to director's meetings and so so that's how that happened and did Berkshire ever try to become a shareholder or Quire costum I tried to get Warren to buy out the French when they left carefor ah and Warren wouldn't do it Warren doesn't like retailing was it just that he doesn't like retail or what was the big objection he's afraid retail practically everything that was monz mighty and retail's gone s robic is gone the big department are gone you know it's just too damn difficult as far as he's concerned and he had a bad experience with diversified retail right no we made nothing but money and diversified we didn't exactly make it in retailing but we made a lot of money wow and with Diversified most of the money was not on the retailing operation you made a lot of that money through what happened was very simple we bought this little pissant department store chain in Baltimore big mistake too competitive as the ink dried on the closing papers we realized we'd made a terrible mistake so we decided just to reverse take the hster look foolish rather than go broke he just told us how to get us out of this but that time we'd already financed half of it on Covenant free debt and so forth and they had all this extra cash and our own stocks got down to selling an enormous we just in the middle of one of those vations we just bought bought and bought and bought and all that money went right to those stocks and of course we trpl and just sitting on our ass and that led to Blue Chip yeah yeah it was part of the early success of Blue Chip wow and so you know you mentioned Warren doesn't like retail did something else that people don't know about yeah we bought a little pissant savings loan company maybe $20 million and when we left that thing we had taken out of our little $2 million investment over $2 billion in marketable Securities which went into Nebraska insurance companies as part of their Bedrock Capital so we we had some wonderful early years and that's what everybody needs this wonderful early years wow so in our Costco episode we started with the joke at one of the brick meetings probably 10 years ago Warren told the joke about you were on a plane being hijacked and the hijackers gave you one final request and you said you'd like to give your speech on the virtues TI of me kind of reminded you me yeah yeah and he said shoot me first we were hoping could you give us your speech on the virtues of Costco no what war was kidding me for being so repetitive on the subject but there aren't many times in a lifetime when you know you're right and you know you have one that's really going to work wonderfully maybe five six times in a lifetime you get a chance to do it and people do it two or three times early all go broke because they think it's easy it's fact it's very hard and rare what was it about Costco that made you realize this is one of those few moments in a lifetime well they really did sell cheaper than anybody else in America and they did in big efficient stores and all the parking spaces were 10 feet wide instead of 8 Fe n or whatever they normally are they they did it all right yeah and they had a lot of parking spaces they kept out of their stores all these people didn't do big volumes you see and they gave special benefits to the people who did come to the stores in the way of reward points the executive membership yeah it all worked and the capital light business model I mean when we were studying it the difference yeah price they have no investment in them they make the suppliers waai until they've been paid and then they're scheduled to pay only after they're scheduled to sell they've got 900 warehouses around the world full of high quality merchandise none of which they have sitting on their books that's correct yeah our understanding is that price Club went public initially before the merger they just listed they didn't raise any Capital they didn't need any Capital who knows s kind of would like to he was kind of a fin here H he like deals he like this miscellaneous real estate like yeah but it doesn't make sense you don't want you got an Enterprise as big as cost you do not want to screw around with your parking lot get other people clog up your parking lot permanently and stuff that's not going to pay you very much right you don't want them as the answer have you ever seen another business that takes advantage of the virtue of the low skew count the way that Costco does well have you there are lots of them that little grocery store chain here in Los Angeles gson brothers h they wanted High turnovers and low Capital cost and they never made the least effort to earn any money or have they wanted to share their paring out with anybody H as you reflect back on you know one of these few great companies in a lifetime that you should bet big on what advice would you have for David and I as young Partners looking for a few of these In Our Lifetime things to look out for well when you find one you you may find it five years after you bought it you know these things may work into it or you may your own understanding may get better but when you know you have an edge you should bet heavily H you know you're right and most people they don't teach that in business school it's insane of course you got to bet heavily on your best B and how do you develop that level of conviction to know you work at it you redo a lot of reading and thinking and visiting I'm curiously we wanted to ask you you know you've had this beautiful partnership with waren for half a century we're a decade into our part was a lot of low hanging fruit in the early days to our operation you don't have any un hanging fruit that is easy to recognize you mean an investment opportunities yeah that's right but your relationship with Warren like how have you well we were both s kind of similar we both wanted keep our family safe and take do a good job for our investors and so on we had similar attitudes yeah did it change over the decades no Wen still cares more about the safety of his BS or shoulders and he cares about anything else if we used a little bit more leverage throughout we'd have three times as much now and it wouldn't have been that much more risk either and we just we never wanted to give them at least chance of screwing up our basic shelter position if you had used more leverage do you think there's some chance that we would have done a little better sure do you think there's some chance that it wouldn't exist at all that it would have caused you the franchise no I think it would work fine does waren think that easy the situation landed to if you were intelligent just milking it out when you leverage I'm so curious on after we did our it's automatically leveraged you open a new store with no capital of course it's leveraged who wouldn't want a business with no inventories right that's a good point by the virtue of you owe a whole bunch of people money on day one for these Goods that which is which turnover so rapidly right it's interesting I mean that's leverage it's not debt leverage I mean how do you think about debt like after we did our birkshire series A lot of people do it now there a lot of people now do it who manufacture something they're just terribly strong and they're just forcing the suppliers to carry all the inventory isn't like we're the only ones that did it back to the point on partnership David and I are coming up on 10 years as partners in this podcast we do together different than the investing business but a compounding one nonetheless after a 50-year partnership with Warren what advice would you have for us interpersonally to make for an enduring partnership well it helps if you like one another and enjoy work together we do yeah but I don't any one formula a lot of Partnerships that work well for a long time happen because one's good at one thing and one's good at another he just naturally divided and each one likes what he's doing now in Costco's case they had Jeff brodman who's very smart but not a retailer and Jim CLE and they divided it up and they had originally AG that BR would be the chairman and CEO because he was his idea he founded the whole thing but CLE deci said no I have to be the CEO so it was a big unfortunate board meeting a big internal struggle and bman moved aside was that after you joined the board no before do you think you and Warren not living in the same city helped your partnership last so long well I may have helped but Warren has very close relations with all those people that have lunch every Saturday at bercher headquarters isn't like he doesn't have a little quartery of people there who are kind of P from ground up do you think it helps that when you do spend the time together it's special rather than being common well of course we used to spend a lot of time together when we were young because we didn't have that much to do now we've got more to do and then and it's just the other Min year of life so it's different yeah it's funny I feel like we have a lot to do now but of course you do it's very difficult to invest money well and I think it's all impossible to do Time After Time After Time in Venture Capital yeah we really wanted to ask your your thoughts on Venture Capital some of the deals get so hot and you have to decide so quickly you're all just sort of gambling do you think the role of venture capital is being properly accomplished in society no I think it's very poorly done Charlie elaborated on this point with a few things that we can't air but the topic did turn to bitcoin I've heard many comments you've made on bitcoin I'm curious if you have a thought on this particular Angle an easy way to transfer money in between countries especially when those countries don't have a stable store of value within that country is it good to have an independent store of value that is not course it's good for the world as a whole to have a way of having some currency the way that was solved is for a long time the British pound was the national currency of the investment world that shifted to the dollar and it's still a dollar yep and people like China have these enormous Reserves at dollars the money we make by think of the money people give us where we always just print up these pieces of paper yeah and what about the common person in some of these less fortunate countries who don't have access to US Dollars oh they do if they ever get any money the dollar is very fungible you can always buy one anywhere I'm curious back to this point of uh the role of venture capital in a society if you could design a perfect system to fund it's a very legitimate business if you do it right if you want to give the right people the power and nurture them help them you know a lot about the tricks of the games so you can help them run their business yet not interfere with them so much they hate you by and large having bumped into a lot of people in the businesses with Venture Capital financing I would say the ordinary rule is that people in the business doing the work they more than not they hate the Venture capis they don't feel they their partner trying to help them to come think they're only taking care of themselves and so on and so on and they don't like them how could it work differently yeah well but that's not true in berer you see our people they know we're not trying to discard them to the highest bid see if some investment banker offers us 20 times earnings or some lousy business we don't sell H if it's a problem business we've never able to fix we'll sell it but it's a halfway decent business we never sell anything and that gives us this reputation of staying with things which helps us and do you think that Buy and Hold not only mentality but demonstration is the key thing that aligns investors with managers well it's rare you see everybody else has a standard way of doing things the lawyers have their standard forms and everybody just has the same standard form and they get the same standard results subject to the vicissitudes of investment life you don't want to make money by screwing your investors and that's what a lot of venture capitals do the world is full of XG Goldman sax partners that formed the private fund and they manage a billion dollars or something like that and they charge two points off the top plus the and that enables them to make very handsome loadings themselves but the endowments are not getting a good return and do you think it's specifically the fee aspect of fund structures nature the way just the way it works and of course you really shouldn't be in the business of charging extra point this you really are going to achieve very unusual results and of course it's more easy to that you can get good results of just actually get them and so it attracts the wrong people people in investment Capital turn of mine and the people who made the most money out of eventual Capital are a lot like investment bankers deciding which hot new area they're going to get in they're not great investors or great anything what do you think endowments and large pools of capital should do then well they're starting to do it the endowments have started to say to the all these people that judge three and 30 or whatever they charge they said we'll pay your 3 and3 we're going to put in twice as much money and the next half you'll get nothing on it you're going ride Perry passu and some of your Investments so the fees go down by 50% that'll take a lot of the fun out of it fees is down 50% and that's happening All Over America they feel had misled irritated they've looked foolish to their own trustees one of the issues I think in investing right now you mentioned about Venture Capital but I think it's true everywhere it's like there's just so much capital and so much competition we're so far removed from the cigar butd era we're in the opposite of the cigar butd era these days are there opportunities out there somebody will find a few things but it gets harder and harder I would argue one of the easiest ones was when they decided a little group around Home Depo they would copy the Costco metal and Home Improvements that was basically a good idea and think of the money they made doing it yeah Bernie Marcus yeah that was a direct copy of CCO do you think there are more opportunities to copy Costco well there was another one in Costco Flor and Decor is the current imitator and it's just this in vinyl wood imitating vinyl flooring that they're running a Costco model huh and they keep adding miscellaneous stuff to a to it's the miscellaneous stuff that'll eventually kill you though well it would be simpler if it was all floor yeah it's like the vertical Home Depot worked so well but I don't know that it was totally obvious like part of the appeal of Costco was it was horizontal it was everything consumers could come they could make a trip bring their big wagon bring their big truck people was the same they copied everything and famously Bernie Marcus came out to visit Saul before it started they came out they copied everything Saul was like happy to share the Playbook with everybody right how did you feel about that s was a not that crazy he was domineering and so on but he was also very intelligent H but there aren't many opportunities Like Home Depot and Costco there aren't very many why do you think Walmart hasn't been successful once they saw Costco in competing they were too wetted by the ideas they already had that's everybody's trouble they just can't accept it new idea because the place space is occupied by an old idea they got in the habit of getting the real estate practically even nothing because they went little towns where nothing was valuable so there always their occupancy costs are like zero and they knew how to make big fision stores that was their formula so it offended them to go against the rich suburbs and have to pay up for the good locations and Costco just specialized in the good locations where the rich people live and Walmart just let them do it year after year it was a terrible mistake did you know Sam Walton no never met him I knew the son one of the sons and they divided it up you know in about six parts very early yeah M Enterprises they never paid much gift taxes or anything the topic then turned to the automakers and the future of the car industry look how hard it would be to go into the auto business and have some big killing who's going to win who knows whole thing's been thrown way up in the air by all these electric cars all those big New Capital requirements different ways of selling cars and plus they got these tough unions see I just don't even look at the auto industry do you think it's more investable today than it was 50 years ago because of the disruptive innovation of electric well for maybe for one or two electric cars are really good at it maybe but certainly nobody else see you think byd too tough byd was a miracle but that guy works 70 hours a week and has a very high IQ he can do things you can't do he can look at somebody else's auto part and he can figure out how to make the goddamn thing you can't do that you see Charlie you invested a Hyundai yes but they're clever too how was that investment for you I lost money not much because I was stubborn I held out until it got back to almost I paid for it then I sold it there's been a lot of discussion about berkshire's investments in the Japanese trading houses well but that is a no-brainer something like that if you're as smart as Warren Buffett maybe two three times a century you get an idea like that the interest rates in Japan were half a percent per year for 10 years and these trading companies were really entrenched old companies and they had all these cheap copper mines and rubber plantations and so you could borrow for 10 years ahead all the money and you could buy the stocks and the stocks made 5% dividends so there's a huge flow of cash with no investment no thought no anything how often do you do that you'll be lucky if you get one or two a century we could do that nobody else could it looked attractive at half or but you couldn't get it but burer with this credit could and the only way you could get it was be very patient and just pick away at little pieces at a time it took forever to get 10 billion dollar in invested but it was like having God just opening a chest and just pouring money into it you was awfully easy money it's interesting that it's paradoxial you need berkshire's credit but at berkshire's scale it's actually hard to put enough money to work that's true but why shouldn't it be hard to make money why should it be easy Japanese trading companies reminds me we studied another company recently Nike that is that's surprising yeah did you ever look at it style company well of course I've looked at but I like style companies to fad driven well I suppose if you already be her Maids an achiev a price I'd buy it but short of that I'm gonna buy new style company oh that's a good pick to the style Point another one that they covered was lvmh what Arno has done has been amazing so what do you make of that company well if you're he good as they are what they've done you have a lifetime to do it in or now a lifetime really three or four lifetimes to do it in you can cre another but it's not easy Hermes is on the eighth generation I think now the family running it it's not a bit easy they have meetings every day where they make policy decisions and they choose the locations one at a time and it's work it's definitely work what do you think the durable value is in these as you say style companies of the very best one in the world the hermz or the lvmh what makes them enduring well they just got a brand people trust so much it took them Century to do it our conversation then turned to comparing Kirkland Signature as a brand to AES Kirkland is a brand the way tide is a brand and Hermes is a different kind of a brand yeah Ferrari doesn't make detergent no we've spent a lot of time studying these brands how do you look at the value of a brand well it's hard for us not to love Brands since we were lucky enough to buy the Seas candy for $20 million that's our first acquisition and we found out fairly quickly that we could raise the price every year by 10% and nobody cared we didn't make the volumes go up or anything like that just made the profits go up so we've been raising the price by 10% a year for all these 40 years or so wow it's been a very satisfactory company didn't didn't require any new capital that was what was so good about very little New Capital it had two big kitchens and a bunch of rent stores when we bought it and now it's got two big kitchens a bunch of rent stores well Char he was a Playboy and he is brother ran the company his older brother and dominated it completely but when he died Charlie made his brother his executive and now he needs a lot of money to pay death taxes he doesn't have it it's due you know eight months or something later and so they really wanted to sell so they could pay the death taxes and see was only making for in Pre tax when he bought it and so that buying opportunity only came about because the family needed liquidity to pay death taxes that's right we only found out about it because Charlie C was on this cruise to Hawaii or something with this guy who was a client of investment counselor also worked for Blue Chip Stamps who is the company that bought it and anyway that's how we found out about we paid that guy finders fee we've never paid one since always says that was worth it of course but you don't want to be reputation for paying finders fees everybody in the world will be bothering you all day long so what do you think so there are categories like C's or like heres where Brands lead to price and power I think your chances of buying one of them is so low I wouldn't even look I only believe even looking at things that I might find you're not going to get a chance to buy no curiosity without return yeah yeah but why do you think there are extremely well-known brands in other categories maybe packaged food or something where there are a lot there are a lot of professional investors that buy nothing with branded goods and the one they usually start with is nestling and they fil they've done two or three points better than average but it's not a bonanza after that our conversation turned to craft Hines and why Hines is able to have pricing power while craft is not was very interesting there something about the flavor of ketchup on a goddamn fried potato people are really willing to change Brands over they want hindes and so we could raise the price of hindes pretty much but you try to raise the craft cheese and everything goes in Rebellion including the finally final customer of the housewife they don't care that much about whe the cheese is craft or not why do you think that is that some well on the sauce flavor it's happened elsewhere in Korea one guy a Chinese guy controls all the sauces every single major sauce he controls at least 95% of and it's because sauces have such a particular flavor that no one can imitate the trade secret yeah huh and that gives pricing we get used to it I like it is that Coca-Cola as well yeah sure Charlie I'm curious at age 99 what is something that you believe today that 70-year-old Charlie would have disagreed with I think I I knew when I was 70 it was plenty hard but it is just so hard I know how hard it is now and all these people who are getting this 2 and 20 or 3 and 30 or whatever they all talk as always was easy and they get to believe you their own and of is not a bit easy it's very hard if you were back 30 or 40 years old again today would you decide to go into the investment business again well probably because it suits my nature but I didn't really enjoy the 3 and 30 business once I had enough money of my own I'd rather just operate with my own money that is a much better way of doing it than because of the freedom be forced to deal with investment bankers be forced to deal with investment Consultants be forced to deal with Venture Capital the hell will who wants you don't to need other people the point of getting rich is you don't have to need other you don't have to get Charlie if you started with Warren today and you're both 30 years old do you think you guys would build anything close to what Berkshire is today the answer that is no we would we had everybody that has an unusually good result almost everything has three things they're very intelligent they worked very hard they were very lucky it takes all three to get them on this list of the super successful how can you arrange to have two or three answers of good luck the answer is you can start early and keep trying a long time and maybe you'll get one or two if you were starting again today do you think insurance would still be the vehicle it depends on your temperament insurance would be ideal for a certain kind of a temperament and it takes a very patient person to get rid Insurance takes forever to get anything in takes forever to push anybody aside it's very hard to make money I've heard you say as soon as you're wealthy enough to self-insure you should is there any insurance that's about practically everything think of all the crumbs of the world that drink too much and then file big claims to the insurance company when the place gets on fire or something why would you want to pay the your share of their stupidity not to mention the overhead of course the insurance company needs to pay all the people that work there yeah yeah no no I it's crazy is there any insurance that you carry today I carry no fire Insurance anywhere do you carry auto insurance yeah I have to you're legally yes I don't know Charlie could no I have to when I do I'm curious being that since these guys are very Tech focused I'm curious not being a tech person how did you think about the Apple investment and what gave you the conviction to be so big what everybody has learned is that everybody needs some significant participation in the 12 companies to do better than everybody else and you need two or three of them at least and if you have that mindset apple is a logical candidate to be on the list for which you're going to select your companies and it's not very hard to come up with the idea that it may be okay making the list doesn't sound too hard in fact there are these acronyms Fang or M you know Microsoft Apple Google Facebook but selecting the one and putting hundreds of billions of dollar into it we didn't put hundreds of billion billion into it to create hundreds of billions of value that to me sounds hard to pick the one how did you guys pick the one we couldn't find anything else was it valuation or yeah it got cheap it got about 10 times earnings more bu 2015 I believe was the first yeah it's fascinating me this concept of if you look at distressed debt or you look at I think Warren in the last Berkshire letter pointed out it's been handful of really good decisions or you look at Venture Capital that's classically power law distributed any of these asset classes comes down to a few really good decisions with high conviction over an entire career yeah that's exactly what I that's exactly the way it works it's not smoothed there's no asset class where you can repeatedly just do okay no no there's the the lwh hanging for the idiot is it's not gone but it's very small you mentioned the this idea that when we were talking about Apple there's a few companies that it's just really important to be in do you think these big tech companies being the winners where all of the pensions and birkshire and University endowments and everyone's 401ks is being concentrated in these companies do you think that was the natural outcome did we have to end up this way yeah it was natural that's why it happened it [Laughter] was what causes that well just it's that's what human nature and competition that's what it causes will we eventually have one eventually this craziness in Venture Capital when they're all G stupid that's a natural outcome will we have one2 trillion dollar companies and then the next biggest company is I know how the world's going I know we're going to have as we did they just they just happened would you continue investing in China what's your position with that well my position in China has been that the Chinese economy has better future prospects over the next 20 years than almost any other big economy that's number one number two the leading companies of China are stronger and better than practically any other leading companies anywhere and they're available at a a cheaper price so naturally I'm willing to have some China risk in the Munger portfolio how much China risk well that's not a scientific subject but I don't mind whatever it is 18% or something whatever whatever it's worked out in the buer family it's okay with me what about other geopolitical considerations like would you hold tsmc at this point well I don't like that as well as I like something with a real consist or brand of its own like apple I'm curious what majoran companies that haven't been mentioned do you think people would do well to study the virtues of like studying the virtues of Costco well I only study two kinds of companies one I'm enough of a Ben Graham follower to if something is really cheap even though it's a crappy company I will consider buying it for a while anyway and I do that occasionally and I've done it with great success a time or two but I'm like hard marks I've done it once or twice in my lifetime for big games and that's it it's not like I have I've done a 100 times so it isn't a bit easy 100 times easy money is almost non-existent one type of company is the cigar butt what's the other type of company the companies that people would do well to un to study theand companies of course are good get them at the right price the whole trick is to get them on the few rare occasions and they're really cheap but buying Costco at its present price it may work out all right but that's again it's getting hard yeah forgetting the prospects of the stock how do you think about the next 10 years for the business I it do pretty well one more question for you in this area what is your favorite advice to give to young people well I don't give advice to just any young people I give a some I pick my spots I don't want to be more of a guru to the young people I already am it's getting hard out there and there's all this and craziness of course it's going to be hard where do the attractive opportunities hang out anymore it sounds like everything in the whole world is overpriced is could that be possible damn near of course it could be possible it's not only possible it's likely it's actually happened how did the world get so rich if we have all this capital for so few opportunities it's the nature of things look at biology produces a very Advanced creature like us you can sit around and talk intelligently and all these subjects but it does it by killing everybody off in brutal competition one with the other for hundreds of thousands of years in other words the system that nature uses to get smart is kind of unpleasant to the people who are losing so over the last 100 years we've brutally shifted all this value from labor to Capital and now capital is all needing to get into a very small set of opportunities well C never you would it wasn't it it was all that easy if you go back a long time it just was a lot easier and if it continues to get harder The Natural end is that you have yes an unpleasant blow up of some kind and God knows what happens after an unpleasant blow up with our modern democracies you can get so you're lot like Europe which is quite dysfunctional is it too pessimistic of A View to say that the world seems to be out of good ideas to match the amount of capital out there looking for good ideas it was never easy thoroughly understood it was never easy and it's harder now those the two well and you pay attention not you're handling the people you deal with you want a good reputation when you're all done not a Badman and I don't think you're saying there are no opportunities whatsoever I think you're just saying low low expectations and fewer bonanzas now the beauty of it is you only have to get rich once you do not have to clap this mountain four times you just have to do it once well that's sort of your philosophy on both sides is you got to be patient for the great opportunities but when they you got to recognize them when they come and and pounce we turned off the mics to have dinner and then recorded a little bit more later in the evening about Costco and some life advice from Charlie so one Costco question that I've been been wanting to ask you is all the puzzle pieces of the low skew count and the high inventory turnover and there's just so many things that fit together so beautifully they're pretty obvious though but how come no one else can pull it off if they're so obvious well it takes a lot of good execution to do it you really have to set out to do it and then do it with nacism every day every week every year for 40 years it's not so damn easy so you think the success is the magic of the business model and culture yes yes culture plus model yes absolutely and very reliable hardworking determined execution for 40 years I mean they talk about the story of the catchup that you could increase the price of catchup by 3% and nobody would notice but that would destroy everything if you did that right I would say that the central Norm was don't raise the market get it low and keep it there forever which brings us to the hot dogs is it true the story that when Craig took over a CEO he did try to raise the price of the hot dogs I don't know I had no conversations with him on that subject and Jim forbade him well I'm sure Jim would have made it absolutely there was no board level discussion no of the hot dog no no those two would not have thought it was a board matter to discuss the price of hot dog the one thing that fascinates me about Costco is they seem to only be able to grow 10% per year because they're not Capital constrained no amount of money if they were to access it for free could help I'll tell what is it is hard to open too many stores a year new store new manager new this New Politics new it's hard Plus a lot of stuff has to be learned and taught and put in place and so they didn't want to do more than they could comfortably handle to store openings you mentioned China earlier was it 12 no 20 years that Costco had the license to operate in China let me what happened there there the first store they tried to open in China the first store somebody wanted a $30,000 bribe you know Chinese culture and they just wouldn't pay it and that made such a bad impression on Jim Sagle he wouldn't even talk to him going into China for about 30 years thereafter ah so what changed why finally go in well finally the board started making enough noises so you started agitating yeah yeah yeah who on the board could be excited about the Chinese market yeah who can who [Laughter] knows oh that's so great one thing I found fascinating about Costco was the fact that even though they're at you know the lowest possible prices Their audience skews wealthy was that an accident that they figured out over time or did they know price that figured out to anoun all the way back in the price Club days yes he always wanted the rich man trying to save money well and it's not just that they're the wealthiest customers they're smart wealthy customers yeah they're picky wealthy customers on some topics that are outside of Costco you mentioned in the Daily Journal annual meeting this year that a young man knows the rules and an old man knows the exceptions yeah that's an old saying of Peter oh is that a Peter Kaufman yeah what are some of the exceptions that you've found the most useful in life well take those goddamn Costco hot dogs that's an exception any anybody else would have raised the price of hot dogs a long time ago they just don't do it they just know that it's like half famous and people bring their kids in they have the H they they know they've got something going there that's worth extra money to and they just don't destroy it a thing that I've never fully understood I know you're a big fan of the company byd that of course makes the the Chinese company that makes batteries and electric vehicles I may be a big fan but I'm sort of hanging out by my hat while he lurs around the track and they make me nervous it's so aggressive is that dangerous in a company that's what makes me nervous across the Stag so do you think that companies should try to grow at a lower rate than they're capable of in order to be more durable well it's of course you do that if it's safer and it's easier and so forth but I would argue Costco where they've done some of these things that are extreme like the hot dog it's been a plus and they smart to not to change their ways on one item or two and it seems like there's a spectrum where on the one side there's Costco that is just not a fast growing company because it's very difficult to and on byd like you're saying they grew like crazy I mean you turn this year so at least two and a half million cars most of them electric that's unheard of who hell ever heard of they so way more than Mercedes forance more than right yeah more than anybody yeah lots of troubles and losses they ran into terrible trouble they they created the wrong kind they made lots of mistakes they were lucky they be on The Cutting Edge of this electric car business it's way more acceleration than most people so she had a car with more o than most people so the young Macho male has a real Lively car there are a lot of things where car really works in some ways that is better and making a 90° turn go right opposite a parallel park your Bo and just move this waste turn the wheels 90 degrees and go in yeah well nobody's ever done that if your car goes flat you can run a 100 miles on three other wheels or something and do they have better economics because they don't have nearly as many parts it's simpler have you ever had an investment like that before I think you've invested did something like 270 million that's now worth something like 8 billion in byd well very few people have investment that's a venture capital type investment it happened to be a thinly traded public company when we bought it instead of a venture capital type company it was a venture capital type play and they just went put the foot right to the floorboard and played it hard had they manufactured by the way both by and and we Tred to talk out of going into the car business they're going to buy a bankrupt car business and go going into the car business I said that's a graveyard for you know why would you want to do that and he paid no attention to us went right ahead had you invested already when he told you this plan yes yes and it worked fabulously well after huge mistakes they almost went broke with their early dealership building system almost broke what captivated you about guy was a genius he was at a PhD in engineering and he could look at somebody part he could make that part you know look at the morning and look at it in the afternoon he could make it i' never seen anybody like that he could do anything he is a natural engineer and a get done type production executive and that's a big thing it's a big lot of talent to have in one place and it's very useful they've solved all these problems on these electric cars and the motors and the acceleration and breaking and so on how would you compare him and byd to Elon and Tesla well he's a fanatic that knows how to actually make things with his hands so he has to he's closer to ground zero in other words the guy at be is better at actually making things than any yeah he got is Charlie you turn 100 which is an unbelievable statement on January first of next year do you have any plans I'm goinging a party where's the party going to be the California glub but I've totally maxed out the room I can't squeeze another person what captivates you these days what's fun well practically everything is even politics bad as it is is kind of interesting when you look back at your your and Warren's time together when did you have the most fun you had about the same amount of fun all the way through we're having fun now is there a particular era that you remember the most fondly that feels like the good old days well we remember we were sweating blood in some of those good old days oh I mean Solomon Brothers Solomon Brothers yeah there were a lot of close mes we got out with a big problem to Sol we could have had a big loss we could have had more problems than just a loss with Solomon right well actually on our When We examined Burkshire Hathaway on our podcast our takeaway was that the whole franchise was at risk during Solomon Brothers the entire birkshire hathway name and Future Would you agree with that not so much I you would have survived if you had let the whole investment in Solomon go to zero it would have if if it all blown up and went to zero we would have written it off and gone on and done pretty well when do you consider it to be your finest Hour well we like to remember the close misses where we were dealing with real terrible problems we had a terrible problem in the bubo news the Buffalo Evening News yeah was there were two newspapers in that town and we started a Sunday edition and that started a holy war and the other guy went broke well we we could have got a lot of bad publicity over that and you were you were both pretty young and enterprising at that point I you weren't the Warren and Charlie of no but I was very aggressive about wanting to have a good Sunday edition I didn't want to own the paper for 50 years with no Sunday edition when the other guy had one what made the newspaper business so attractive at that point in history it was a gold mine that's attractive time total go M well and the play in particular with the Buffalo Evening News and the Sunday edition was playing for the local Monopoly right to be the game the game in town and with newspapers you could do that sure I mean newspapers for decades had ebit do margins in the 50 60% range right no only the little ones only the little ones oh yeah the big ones were less 30 or 40 or 205 or I'm s i I said ibaa in your presence I apologize cash flow margins actually do you still feel as uh that iida is a a criminal the way that you've demonized it in the past yeah I do I think you got a big truck company and take the depreciation out of the trucks out of the earnings you're been lying about the earnings I mean you witnessed its rise with Malone and TCI and Liberty like when IBA was invented as a concept right like what were you thinking well I've never liked John Malone's extreme manipulations I don't want to be known as the great manipulator like John bone is he paid less income taxes than anybody he just pushed everything to the D in many ways iida was the community adjusted earnings of its era are you familiar with the community adjustment from we we boy maybe um final question to wrap up what are the set of companies that you think are the greatest that you've ever seen either that you've owned or that you've not owned well there are a lot of great companies so her ma is a great company in his Heyday General Motors was a great company it just gradually went to hell one contract at a time what do you think about the predictability of there were a number of companies back when you started where you could have said this business will be the same in 10 years you think that number is the same today or you think it's much harder I think most places have a lot of change and threat in their future do you think most places had a lot of change and threat in their future even 50 years ago and this story is over there's a difference some of what I call the specialized industrial companies and Burkshire has a lot of them we have a lot of companies that are quite insulated from really tough competition just because they've been so long and they're so good at what they do and there's good reputation and high value and so on so on what companies can you see today where you can confidently say Berkshire aside Costco aside you can confidently say the business will be as good as it is today in 10 years well I think a lot of companies are pretty good but you can't countly say what's going to happen because you may get some guy like AER in that just wants to push everything and do the right public relations so no matter how good the business is it'll be kind of phunny Charlie I have a personal question for you David has a two-year-old and I'm gonna have my first child in a month what advice do you have for us about building families well of course you got to get along with everybody you gota help them through their tough times and they help you and so forth yeah but I think it's not as hard as it looks I think half of the marriages in America work pretty damn well and would have work just as well if both of had to marry somebody else by the way well you've said that the uh best way to have a great spouse is to deserve one yeah sure as long as both parties feel that way then it's a recipe for success of course it is and you got to have trust with your spouse when it get things like education of the children and so forth yeah I love that well Charlie thank you yeah thank you Charlie well good luck to you Charlie this has been a lot of people are going to benefit a lot from hearing this and your your wisdom and they're going to learn so much it's very well you know if you stop think about it it's pretty hard it doesn't look so damned easy just to go out if you go to the ordinary person trying to promote himself as an investment advisor of some kind he just thinks he knows everything about everything and how the Federal Reserve should be run and so on we don't feel that way I will say with the people we get to talk to who've built great things every single one of them says it was so hard it's so hard you can't build something great without it being so hard Charlie thanks so much for doing this with us GL to do it it'll be an interesting life you're lead you'll do pretty well at it but it's not going to be that damn easy David total life experience and complete boondoggle I can't believe we got to do this I'm still pinching myself at it's now a couple weeks after it actually happened I know with autograph copies of poor Charlie's Almanac to prove it as if the podcast wasn't enough and actually for those of you who haven't listened back what in 2021 so 2ish years ago we did a whole three-part series just us covering the whole history of Berkshire Hathaway part one is on Warren part two is on Charlie part three is on Berkshire and Ted and Todd all the way up through to today I assume many of have listened to that but there probably are a bunch of folks who haven't so if you want another 9 or 10 hours of acquired content on Burkshire I really think it's some of if not our best work go check those out with that listeners our huge thank you to Tiny for being the sole presenting sponsor of this episode if you have or you know of a wonderful internet business you should reach out hi tiny.com and just tell them that Ben David and Charlie sent you you can sign up for notifications of new emails every time an episode drops and we'll be including little tidbits as we learn things after releasing episodes Corrections updates things like that and teasing the next episode acquire. fm/ listen to acq 2 this is typically where we talk about more upand cominging companies who are earlier in their Journeys or CEOs who are topic experts in important areas like AI search aq2 and any podcast player after you finish this join the slack acquire. fm/ slack and discuss with the whole acquired community and if you want to get some of that sweet acquired merch that everyone's talking about go to acquired. fm/ store with that listeners we'll see you next time we'll see you next time who got the truth is it you is it you is it you who got the truth now [Music] huh