- Our goal is more modest: we simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.

- Herb Stein: “Anything that can’t go on forever will end.”

- Or as Keynes said, “I would rather be vaguely right than precisely wrong.”

- On the Ideal Business Buffett: “Something that costs a penny, sells for a dollar and is habit forming.”

- While inflation is still undesirable, well-run businesses that employ relatively little capital, that throw off lots of cash and that have pricing flexibility will cope well with inflation.

- He noted that Golden Arches and The Big Store offer great lessons on business.

- Buffett noted that if he and Munger get a value of X to 3X for an asset, then they attempt to buy it at 1/2X.(22)

- “It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price.” – Warren Buffett

- Ben Franklin’s advice: “Keep your eyes wide open before marriage and half shut thereafter.”

- Buffett also noted that book value is seldom meaningful in analyzing the value of a business. Book value simply records what was put into the business. The key to calculating value is determining what will come out of the business.

- The danger of relying on historical statistics or formulas is that you end up betting on a 14-year-old horse with a great record but is now ready for the glue factory.

- “the failure rate of all great civilizations is 100%.”

- Buffett gave two criteria for evaluating the performance of management: 1) How well do they run the business? and 2) How well do they treat the owners?

- Buffett said that they know how to evaluate businesses. They do not know how to predict market swings. “It is crazy to give up something you know for something you do not.” Munger added that they are agnostic on macroeconomic factors. Instead, they spend all their time on individual businesses. “To think about what will happen versus when is a far more efficient way to behave.”

- Buffett said to beware projections (“Don’t ask the barber if you need a haircut.”) and to keep things simple (“I’d rather multiply by three than by pi.”).

- Asked if he had anything to add, the taciturn Munger shook his head. Buffett quipped, “For a minute there, I thought Charlie was going to have a near-life experience!”

- Buffett added that people market these fad theories to justify needing high priests. “If all it takes is the Ten Commandments, it makes it tough on religion. ‘Listen to your customers’ as a business principle does not require a 300-page book.”

- Mark Twain: “A mine is a hole in the ground owned by a liar.”

- Munger said the ideal business has a wide and long-lasting moat around a terrific castle with an honest lord. The moat represents a barrier to competition and could be low production costs, a trademark, or an advantage of scale or technology. They regard Coca-Cola as the standard (of which Berkshire owns 100 million shares). Buffett noted it is important to differentiate between a business where you have to be smart once versus one where you have to stay smart. For example, in retail, you are under assault at all times versus a newspaper, where you just need to be first. Buffett quoted the Southern newspaper publisher who, when asked of the secrets of his success, replied, “Monopoly and nepotism.”

- He concluded, quoting Bertrand Russell, “Most men would rather die than think. Many have.”

- Overall, Berkshire seeks low-risk businesses with sustainable competitive advantages and strong capital structures.

- Find people with brains, energy and integrity, and you can own the world.

- As Peter Lynch has said, “Find a business any idiot could run because eventually one will.”

- By learning the primary models in each major discipline (such as compound interest and probability in math and break-points and back-up systems in engineering) and applying all of them, he asserts that people will make better decisions.

- Munger observed that the production of electricity is an enormous and fundamental business. But the California mess exposes a flaw in our education system as all sorts of smart people – utility executives, governors, journalists – have difficulty realizing the most important thing with a power system is to have surplus capacity.

- While few managements think about it, Buffett claimed blown opportunities have cost Berkshire’s shareholders “billions and billions and billions of dollars.” Munger gave a dramatic example of how, with the power of compounding, blown opportunities can cost an awesome amount of money. In his younger days, Munger was offered 300 shares of Belrich Oil, which, by his analysis, offered no possibility of losing money and a large possibility of making money. He bought. Three days later, he was offered 1500 shares, which he refused since he’d have to sell something to buy them. Munger claims that mistake, traced through to today, cost him $200 million. Buffett qualified the notion of mistakes as those things within their circle of competence. Missing a big move in cocoa futures is not an error since that is something they know little about. An error is when it’s something they understand, but then they don’t act on it in a big way. Munger elegantly calls it “thumb-sucking.”

- Buffett would pay any bright student probably $50,000 for 10% of their future earnings for the rest of his life. So each student is a $500,000 asset just standing there. What you do with that $500,000 asset should be developing your mind and talent.

- The figure to look for with airlines, then, is cost per available seat mile and the cost per occupied seat mile.

- If you’re smart enough to figure out exactly how far you can push us where we still have a business and you still have a job, you’re smarter than I am, so you go home and figure it out.

- Buffett noted that such enormously successful companies as Wal-Mart, GE and Microsoft never mention EBIDTA. Those who do are probably conning you or conning themselves or both.

- Berkshire vastly prefers businesses where you get the cash up front (like insurance). Similarly the "T" (taxes) is a real cost. To pretend otherwise is delusional. Buffett concluded that it was amazing to him how widespread the usage of EBIDTA has become.

- He asserted that options that included a cost of capital factor and were issued only at or above the company's intrinsic business value would be logical. However, that's not how it's been done.

- Munger brought down the house with this teaching tool: "Everywhere you see 'EBITDA' in some analyst's report, simply insert the words 'bullshit earnings.'"

- He suggested that if we had 3% real GDP growth plus 2% inflation, that would equal 5% nominal GDP growth. With 1% to 2% in dividends (less frictional costs), returns of 6% to 7% for equity investors seem a reasonable expectation and not bad in a low-inflation world. With a nation of 100 million workers and a $10 trillion GDP, having shareholders receive a 6% to 7% return is a perfectly acceptable outcome.

- Munger is fond of saying the fail rate of all great civilizations is 100%.

- Buffett continued that when things go bad, all kinds of things correlate that you wouldn't think of. Buffett said this is deadly. If you are not aware of these correlations, you have an unrecognized concentration of risk.

- Munger emphasized the qualitative. They have learned by experience that they have made more money with a wonderful business at a fair price than a fair business at a wonderful price. While the qualitative insight was much harder to come by, it has proved much more valuable.

- Munger asserted that all intelligent people base decisions on opportunity costs. The alternative returns available should weigh on whether you make a particular investment. It is freshman economics.

- Munger advocated developing a temperament of owning securities without fretting. If you focus on the price, you are really saying that you believe the market knows more than you do. If you think of the value of the business instead of the price, you will sleep better. If the market were to shut down for five years, Acme Brick would still be turning out bricks, and Dairy Queen would still be selling Dilly Bars.

- The worst sorts of businesses to own in an inflationary environment are ones that require lots of capital to stay in the game and provide no real return.

- Munger concluded with characteristic understatement, "I would rather throw a viper down my shirt than hire a compensation consultant."

- Munger noted the common error is not thinking through the consequences of the consequences.(72) Buffett reflected that lots of things correlate that people don't expect to correlate.

- Buffett said his failure to buy Wal-Mart has cost Berkshire shareholders $10 billion to date. He said that he initially ran the idea by Charlie who said, "It isn't the worst idea you've ever had," which, coming from Charlie, Buffett took as "ungodly praise." But he got anchored on a price of $23. When the price moved up, he stopped buying.

- Buffett summed up with regard to financial calamities: (1) don't let it wipe you out, and (2) be prepared to take advantage. Berkshire is so positioned.

- Buffett concluded with the story of the woman who turned 103 and was asked, "What do you like about being 103?" She responded, "No peer pressure."

- Buffett added that "it is not a great business when you have a prayer session before raising prices a penny."

- While determining the timing is very difficult, predicting what will happen is easier. Unlike a crowded theater where you can just leave your seat and run for the exit, in finance, you must find someone to take your seat. Someone must be on the other side of the transaction.

- Buffett concluded humorously, "Since my dad would not let me be a bookie, I went into investing."(82)

- Regarding modern asset allocation, Munger concluded, "If a thing is not worth doing at all, it's not worth doing well."

- He quoted IBM CEO Tom Watson, "I'm smart in spots."

- One fascinating side note, Buffett observed, "Any calls you get on Sunday, you're going to make money." Those rare calls are the best since they are inevitably from seriously distressed sellers.

- He got the idea to add a mental compound interest as well. So he decided he would sell himself the best hour of the day to improving his own mind, and the world could buy the rest of his time.

- He told the story of the man who spent 20 years looking for the perfect woman before he finally found her. Unfortunately, she was looking for the perfect man.

- As he has counseled on numerous occasions, Buffett suggested the best investment one can make is in oneself. He noted that few people get the maximum horsepower out of life. Potential exceeds realization for so many.

- Buffett added that this false precision only arises with very high IQs. You only need an IQ of 120 or so to be a good investor. In fact, he suggested, if you have a high IQ, keep your 120 and sell the rest. Higher math can lead you astray.

- In valuing businesses, it is important to understand the language of accounting, to stay within your circle of competence, and to focus on what is meaningful and sustainable. In thinking about markets, it is important to remember that markets are there to serve you, not instruct you. The key here is emotional stability, to have an inner peace about your decisions. It is important to think for yourself and to make good decisions over time.(108)

- Buffett concluded with Max Plank's observation of the inexorable evolution of science despite the strong resistance to new ideas by even the best and brightest of his peers: "Science advances one funeral at a time."

- Beyond that, Buffett shared that he did copy Ben Graham by studying Graham Newman reports years ago. "Coat-tailing" was the term.

- The best protection against inflation, according to Buffett, is your own earning power. If you constantly increase your earning power, you'll be sure to get your share of the economic pie.

- He added that the SEC suit is actually a plus for Berkshire because it most likely delays the point at which Goldman can call Berkshire's $5 billion 10% preferred at 110% of par. That preferred pays Berkshire $500 million a year, or $15 every second. Every extra "tick" between now and the calling of the preferred is another $15 for Berkshire. Tick, tick – while he sleeps – tick, tick on weekends – tick, tick… Buffett loves this investment.

- Munger noted that GE and many other large companies have centralized personnel departments for such things. Imposing policy from headquarters can build resentment. Berkshire is the opposite – totally decentralized management. Munger mused that it is amazing how simple it's been, how well it has worked and how little time it takes.

- Munger concluded with a joke. The man says, "Would you still love me if I lost all our money?" The wife replies, "Yes, I will love you always, and I would miss you terribly."

- Asked about their theory for life, Munger seized the microphone and said, "Pragmatism! Do what suits your temperament. Do what works better with experience. Do what works and keep doing it. That's the fundamental algorithm of life – REPEAT WHAT WORKS."

- Instead, investors should focus on gains in operating earnings, gains in book value and gains in intrinsic value.

- At the same time, he held firm that it doesn't serve to make decisions in anger. He quoted Berkshire board member Tom Murphy: "You can always tell a man to go to hell tomorrow if it's such a good idea."

- In 1951, the two men Warren admired most, his father and Ben Graham, both advised him against starting in the investment business at that time. The Dow at 200 (200!!!) was much too high. Better to park yourself on the sidelines for a while. We've had the Civil War…15 recessions…it certainly has not been a straight line of progress, but the power of capitalism has been amazing. Stimulus has helped our recent problems, but what will really bring us out of recession is capitalism. And the world has caught on. Buffett predicted that in the next 100 years, we will have 15 to 20 lousy years and that we'll be so far ahead of where we are now that it will be beyond belief. Munger, in his characteristically sunny way, concluded that "Europe had the Black Death where one-third of the population died. The world will go on."

- Buffett declared the best inflation hedge is a company with a wonderful product that requires little capital to grow.

- See’s inventory turns fast, has no receivables and has little fixed investment – a perfect inflation hedge. Buffett allowed that if you have tons of receivables and inventory, that’s a lousy business in inflation.

- Asked about commodities, Buffett noted that when he took over Berkshire, the stock traded for three-quarters of an ounce of gold. At $1,500 an ounce, gold has a long ways to go to catch up to Berkshire’s $120,000 per share stock price.

- Investments that don’t produce anything but you hope to sell at a higher price. Gold, for example.

Def de commods

- conglomerates enable the tax efficient transfer of cash from businesses that cannot use the money intelligently to those that can. Berkshire is a very rational conglomerate.

- Munger said he was confident Berkshire will outperform U.S. industry in aggregate. He suggested that reduced expectations are the best defense for the investor. He added that lowering expectations was how he got married – “My wife lowered her expectations.” Buffett immediately quipped, “And he lived up to them!”

- Buffett quipped, “If there’s anyone else we forgot to insult, just pass their names up.”

- Buffett noted that the high-speed rail proposal in California came with an estimated cost of $43 billion, a cost that would be sure to go up. Meanwhile, Berkshire paid about $43 billion for BNSF and got 22,000 miles of track, 6,000 locomotives, 13,000 bridges (anyone want to buy a bridge?). So the replacement value of BNSF is huge. The country will always need railroads. It’s a terrific asset to own.

- Buffett noted that he is the CRO at Berkshire and that role along with capital allocation and the selection of managers, are his primary duties. The two basic risks he analyzes are excessive leverage and insurance risk.

- Regarding compensation consultants, he suggested prostitution would be a step up for them.

- As he has in years past, Buffett asserted that The Intelligent Investor chapters 8 (Mr. Market) and 20 (Margin of Safety) give you all you need to know. Build into your system that stocks get mispriced.

- He noted that Ray Kroc had no need to know the option value of McDonald’s, but thought long and hard about how to make better fries.

- With regard to systemic risk, Buffett noted that his first rule is to play tomorrow. That means not going broke no matter what happens. So keep plenty in reserves, and go low on debt.(130) If that is handled, then you can invest.

- Buffett noted that Berkshire wrote a lot of catastrophe insurance in the U.S. when prices were right. Now, the prices aren’t right, so they aren’t writing it. Buffett concluded, “We haven’t left the market. The market left us.”

- Buffett added that if you buy a great business for what appears to be a high price, it's seldom a mistake.

- Moving into a tutorial on interest rates, Buffett observed, "Interest rates are to asset prices sort of like gravity is to the apple." When there are very low interest rates, there is not much of a gravitational pull on asset prices. People behave differently today, when money costs virtually nothing, versus the early 1980s when Volker was trying to stem inflation and rates were 15%. Buffett continued, "Interest rates power everything in the economic universe."

- He surmised that asset prices were higher because people believe that interest rates will stay low. Relating the interest rate environment to bonds, he added that when the 30-year Treasury bond is 2.8%, it makes houses very attractive.

- Buffett concluded, "Our competitive advantage is that we have no competitors."

- For example, they didn't know when they started out about modern psychological evidence that you shouldn't make important decisions when you're tired and that difficult decisions are tiring. He joked that they didn't know important decision-making was helped by consuming lots of caffeine and sugar.

- Here's what seems big to us and what few seem to have really noticed: 1. Berkshire is more invested in equities than any time since 1997 (and less invested in fixed income than any time since 1995). How's that for a headline?

- Berkshire is a smooth-running capital allocation machine. Allocation of capital is the key to future returns in the business world. Never before has the world seen an allocation machine like Berkshire Hathaway. Generating in the neighborhood of $20 billion a year in growing cash flow, Berkshire will easily generate more than $230 billion of cash in the next decade, an amount equal to its current equity value.

- There are essentially five things public corporations can do with a dollar earned: reinvest in the business, acquire other businesses or assets, pay down debt, pay dividends, and/or buy in shares.

- Buffett observed that they do have filters. A key one is whether they have a good idea of how the business is going to do over the next five or 10 years. That filter eliminates many businesses from consideration. Another filter is people. Buffett wants people to run the business the same way after selling to Berkshire as they ran it before selling to Berkshire. That filter also eliminates a lot of deals. Buffett concluded, "I can't give you five criteria. Maybe Charlie has kept them from me."

- "I think one thing that we have done that's worked best is that we were always dissatisfied with what we already knew, and we wanted to know more. We kept learning, and that's what made it work."

- Buffett's formula for happiness is simple: "Do what I like with people I like."

- Buffett likes fudge, peanut brittle. He said that he wished he had a twin who only ate broccoli. He knew he'd be happier than that twin.

- Munger went even further by suggesting that if you disagree with someone, you should understand their side better than they do before you open your mouth.

- Munger summed: “We’d prefer that derivatives were illegal.”

- Peter Kiewit: “If you need a manager, look for someone with intelligence and energy and integrity. If they don’t have the last one, then be sure you don’t have the first two. If they have no integrity, I want them dumb and lazy.”

- Buffett asserted that far more money is made on Wall Street with selling talent than with investing talent.

- What matters most to him are micro factors, as opposed to the macro factors that so often get all the attention. He loves to know all the details of a business.

- Yogi Berra: “You can see a lot just by observing.”

- Buffett added that he likes to show trust and that trust usually comes right back. That keeps things moving.

- Tom Murphy, CEO of Cap Cities, who said the best approach is to never hire a person you don’t need, so you never have to lay anyone off.

- For one, focus on intrinsic value growth, not reported earnings. Again, it’s not what the numbers are but what they mean that matters.

- Each business will have a couple of unique factors that are essential in evaluating its progress. Often, those unique factors are not immediately reflected in the reported earnings. In our short-attention-span world, analysts and the media so often focus on reported earnings and look no deeper.

- He noted that the five largest companies in the U.S. by market cap (excluding Berkshire)—some $2.5 trillion of market value—now represent 10% of the whole market. These five companies (Alphabet, Amazon, Apple, Facebook, Microsoft) require no equity capital to run them. None.

- the “Salomon pledge”: “Lose money for the firm and I will be understanding. Lose one shred of reputation for the firm and I will be ruthless.”

- Ben Franklin: “An ounce of prevention is worth a ton of cure.”

- Buffett added that if you want to be a good evaluator of a business, run a lousy business for a while. You can see how awful it can be and that having a high IQ doesn’t help.