



Charlie Munger

The Life and Legacy of Our Late, Eminent Friend

By Lawrence A. Cunningham

CHARLES T. MUNGER, who died on November 28, 2023, a month shy of his 100th birthday on New Years Day, was an eminent figure in contemporary finance. As Warren Buffett's long-time business partner and vice chairman of Berkshire Hathaway, he helped shape the culture and philosophy of one of the world's most successful and admired companies. He was also a voracious reader and gifted intellectual who drew on a wide range of disciplines and sources to develop a unique approach to investing and decision-making.

A Remarkable Career

Munger was born in Omaha, Nebraska, in 1924, the son of a lawyer and a home-maker and grandson of a federal judge. He attended the University of Michigan as a math major from 1941 to 1942, served as a meteorologist in the US Army Air Corps during World War II while taking classes at Caltech and graduated *magna cum laude* from Harvard Law School in 1948

(in two years rather than three, despite not having a college degree). He practiced law in Los Angeles until 1965, while also pursuing interests in the fields of investing and real estate.

In 1959, Munger met Buffett, a fellow Omaha native, and they soon became close friends and collaborators. In 1962, Munger co-founded both a law firm, Munger Tolles, a leading firm today, and an investment partnership, Wheeler, Munger & Company, which achieved an average annual return of 19.8% through its closure in 1975, beating the Dow Jones Industrial Average by 13.7 percentage points over the period.

In 1977, Munger acquired the Daily Journal Corporation, and led its growth over the decades, remaining on its board until his death. In 1978, he joined Berkshire Hathaway as vice chairman, where he made many contributions and influenced the world of finance for five decades. He was also chairman and president of Wesco Financial from 1984 until 2011, when it became a wholly owned Berkshire subsidiary.

Major Contributions to Berkshire

Munger's most significant contribution to Berkshire was shaping its investment philosophy. Under his influence, Buffett's approach evolved. In his early years, Buffett focused on cheap and undervalued companies as his mentor, Benjamin Graham, had taught him. Munger nudged Buffett toward a broader and more flexible one that considered business quality, as outlined by investor Phil Fisher in his 1958 book, *Common Stocks and Uncommon Profits*, now a classic of investment literature.

Munger recognized that high-quality businesses with durable competitive advantages can generate more value over time, even if not bargain-priced, which is better for the long term than mere "cigar butt" companies. This refinement of investing to focus on both value and quality was demonstrated early in the Buffett-Munger collaboration. In 1971, Munger persuaded Buffett to buy See's Candies, a premium chocolate maker, for a price that was far above its book value and earnings multiple. Munger observed that See's had a loyal

customer base, a strong brand and a high return on capital, which allowed it to raise prices and increase cash flow over time.

The See's acquisition began Berkshire's legendary practice of buying high-quality businesses with durable competitive advantages at reasonable prices, rather than mediocre ones on the cheap. Good examples are marquee Berkshire subsidiaries such as Benjamin Moore, Dairy Queen and Fruit of the Loom, along with a collection of regional furniture marts and jewelry stores. Berkshire used this approach to buy and hold shares in some of the most successful and profitable companies in history, such as American Express, Apple and Coca-Cola. Munger and Buffett have often repeated what is now a talismanic lesson: "A great business at a fair price is superior to a fair business at a great price."

Munger and Buffett maintained a strong and harmonious partnership across six decades. They shared a fundamental philosophy, a passion for learning and a sense of humor, despite occasional disagreements and different temperaments, with Buffett being gregarious and upbeat, Munger dour and cynical.

One example of their humor was the naming of a corporate jet they acquired in the 1980s, which they dubbed the "Indefensible," reflecting their aversion to unnecessary expenses and awareness of the irony of owning a luxury item. They sold the jet in 2000, after buying Net Jets, a fractional aviation company, which they considered a better investment and a more efficient way of traveling.

Munger devised Berkshire's distinctive shareholder charitable giving program in 1981, which during its 20-year run allowed every Berkshire shareholder to choose charities to receive a certain amount of money from Berkshire. This program responded to the company's growing wealth and diverse shareholders. Munger's unique and democratic design reflected Buffett and Munger's belief not only in the importance of the affluent giving back to society, but their conviction that a company's shareholders, not its managers, should decide how corporate philanthropy is directed.

Munger was known for his sparing but decisive veto power over improvident acquisitions at Berkshire. He always said no to Buffett when he thought a deal was too risky, expensive or complex, earning



Warren Buffett and Charlie Munger at the symposium for *The Essays of Warren Buffett*, held at the Cardozo Law School in New York City in October 1996.

Courtesy of Lawrence A. Cunningham

him the nickname "abominable no-man," as Buffett put it while quipping of Munger's role as a "negative feedback system."

Buffett admitted to making mistakes when failing to consult with Munger, such as losing a billion dollars on a \$2 billion investment in the debt of a leveraged buyout of Texas Electric Utilities in 2007. He regretted not seeking Munger's advice, who would have warned of the dangers of excessive leverage and the unpredictability of the energy market.

Munger also taught Buffett to avoid the "institutional imperative": the tendency of managers to follow the crowd and imitate peer behavior, regardless of the merits.

Munger drew on his deep reading in the fields of psychology and human behavior to help Buffett to think independently and rationally, and to resist the pressures of conformity and convention.

Munger extolled Berkshire's decentralized structure, which gives managers the freedom to run their businesses without interference from headquarters, as long as they followed basic principles and reported honestly and promptly. Such autonomy helped make Berkshire the buyer of choice for business sellers wishing to continue operating them. Munger famously put it at the 1998 Berkshire annual meeting: We delegate "to a point



Courtesy of Lawrence A. Cunningham

The Corporate Finance panel at the symposium for *The Essays of Warren Buffett*, October 1996. Left to right: Professor William A. Klein (UCLA), Professor Lynn A. Stout (Cornell), Professor Lawrence A. Cunningham (GW), Charlie Munger, Professor Robert W. Hamilton (Texas) and Professor William W. Bratton (Rutgers).

just short of abdication.” At the 2009 meeting, Munger said Berkshire was built upon “a seamless web of deserved trust,” another turn of phrase well-known to Munger’s followers. He explained the culture and its value:

We have a very extreme version of federalism. We leave people alone. We don’t have big staffs, lots of meetings or reports, budgets, consultants or strategic plans. We just have a lot of trust. And that’s what we want. And if you have that, you have a huge competitive advantage.

A Voracious Reader Seeking “A Latticework of Mental Models”

Munger’s influence on Buffett’s investment philosophy and Berkshire’s culture is recognized by a wide and diverse

audience, including an insightful 2017 book by Tren Griffin, *Charlie Munger: The Complete Investor*. In my 350-page collection of Buffett’s famous shareholder letters, *The Essays of Warren Buffett*, he mentions Munger on average once every third page.

In her delightful 2003 biography of Munger, *Damn Right!*, Janet Lowe captured the essence of the man behind the grumpy exterior, revealing Munger as a modern Benjamin Franklin. Like Franklin, Munger was a polymath who embraced interdisciplinary learning and excelled in various fields.

Franklin was not only a founding father and diplomat, but also a writer, publisher, translator, scientist and a civic innovator, who helped create the first public library and fire insurance company in America and founded the University of Pennsylvania. Munger—besides being Buffett’s

partner and vice chairman of Berkshire, a successful lawyer, investor and business leader—was also accomplished in architecture and a generous philanthropist.

Like Franklin, Munger believed that what he called “elementary worldly wisdom” required grasping the “fundamental four-discipline combination” of chemistry, engineering, math and physics—along with accounting, biology, economics, history, philosophy, psychology and statistics. He urged collecting from these disciplines diverse “mental models” which together would form a “latticework” of practical knowledge. According to Munger:

You must know the big ideas in the big disciplines and use them routinely—all of them, not just a few. Most people are trained in one model—economics, for example—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.

He quoted Franklin, who said, “An investment in knowledge pays the best interest.” Munger was an avid reader who advised that wisdom comes from constant learning. In a 2007 commencement address at USC Law School, Munger aptly advised: “In my whole life, I have known no wise people who didn’t read all the time—none, zero.” Munger called himself a “certified biography nut” and joked how his kids think of him as “a book with a couple of legs sticking out.” He admitted that it sounded “funny,” but he said reading the old great works was a bit like “making friends of the eminent dead.”

Munger loved Adam Smith, the 18th century Scottish economist and moral philosopher widely regarded as the architect of modern economics and founder of the classical school of economic thought. Munger admired the idea of the invisible hand, which Smith described as the market mechanism that guides self-interested individuals to promote the public good, even without intending to do so.

As a student of economics and psychology, Munger appreciated that self-interest is both the motive of man and the magic of mankind: let merchants ply their trades and prices will deliver goods to their best uses. He recognized that markets, while imperfect and prone to errors, tend to allocate resources efficiently and reward value creation. Munger also understood that self-interest, when tempered by ethical standards and social norms, can be a powerful force for innovation and progress.

Munger quoted John Maynard Keynes “all the time.” He was especially fond of a paraphrase of the 20th century British economist by his teacher, Alfred Marshall, who said: “It is better to be vaguely right than exactly wrong.” Munger used this quote to stress the importance of focusing on business fundamentals over market predictions and to criticize overconfident belief in strong form stock market efficiency. He believed that investors should aim for a reasonable estimate of the intrinsic value of a business, rather than a precise forecast of performance, and seize opportunities when prices fall below value.

Munger also liked this Keynes quote:

“The market can stay irrational longer than you can stay solvent.” Besides the phrase’s appealing pith and punch, it implies the virtues of both conservatism and patience—speculative bubbles are dangerous, timing the market perilous. This quote encourages investors to approach finance with a sense of humility, recognizing the limits of their ability to predict short-term market movements. It aligns with Munger’s broader philosophy of pragmatism and the usefulness of focusing on a small number of big long-term opportunities, rather than many short-term ones.

Munger was also influenced by Charles Darwin, the 19th century British naturalist and biologist. He was fond of Darwin’s theory of evolution by natural selection, which was popularized by a phrase attributed to him by a later writer: “It is not the strongest of the species that survives, nor the most intelligent; it is the one most responsive to change.” Munger also liked Darwin’s assertion that “Ignorance more frequently begets confidence than does knowledge.” These points capture Munger’s views on the importance not only of learning, but adaptability and humility in the face of uncertainty and complexity.

Munger devoured business biographies as well, especially tales of valuable entrepreneurial pivots. A favorite example is the story of the cash register, which Munger called one of the “greatest contributions to civilization.”

A struggling merchant, John Patterson, bought a crude cash register to use in his store, which instantly swung from loss to profit because the device made it harder for employees to steal. Patterson was so impressed with the invention, he went into the cash register business, founding in 1884 the National Cash Register Company (NCR), which became one of the most successful companies in history that created enormous value for its customers.

Munger’s prodigious reading and lecturing gained a wide following from academics and journalists to entrepreneurs and innovators, including *The Wall Street Journal*, *The Economist* and *Forbes*, as well as Robert Cialdini, Bill Gates and Malcolm Gladwell. A wonderful collection of 11 Munger lectures, along with other notes and commentary, is published by Peter Kaufman as *Poor Charlie’s Almanack*, a tribute modeled on Franklin’s *Poor Richard’s Almanack*.

Enduring Legacy

One of Munger’s most amusing quips came just after his 90th birthday, when a friend asked him how it felt to be 90, and he sighed, saying, “Oh, to be 80 again.” Around his 80th birthday, another friend gave him an inspiring present: a 1744 edition of *Cato Maior de Senectute*, or *Cato the Elder on Old Age*, a book by Cicero in praise of aging that Ben Franklin had translated from the Latin. The erudite Munger had not known of this book and “went into orbit” on reading it. Its message of living a long life to the fullest and then sharing the accumulated wisdom resonated, and Munger proceeded to live life that way for two more decades.

One of Munger’s best-known witticisms was: “All I want to know is where I’m going to die, so I’ll never go there,” and it is possible to lament that he ultimately went there and succumbed. Yet the quip was not about the fear of death, which Munger did not suffer, but a lesson in perhaps his most powerful mental model, the practice of inverting. Reading the ancient eminent mathematician Jacobi taught Munger—who then taught the rest of us—the mantra “invert, always invert.” Munger advised that “many hard problems are best solved when they are addressed backwards,” which often means first stating what to avoid rather than what to seek.

Munger’s absence from the scene is a seismic change, but to cite a favorite quote of yet another strong influence on Munger and Buffett, Professor Benjamin Graham: “*Plus ça change, plus c’est la même chose.*” Everything changes, but things also stay the same. A final Munger comment on Berkshire still rings true: “We’re not looking for a lot of change at Berkshire. We like things the way they are.” Munger’s legacy endures, even if he is now among our “eminent dead” friends. 💰

Lawrence A. Cunningham is special counsel in Mayer Brown’s New York office and the author or editor of many books, including *The Essays of Warren Buffett*, *Quality Investing and Berkshire Beyond Buffett*. He is a member of the Museum’s Board of Trustees, as well as the Financial History editorial board.