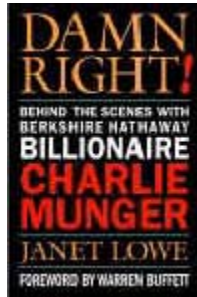


Damn Right! Behind the Scenes with Berkshire Hathaway

Billionaire Charlie Munger



1. **Live Below Your Means** - Munger notes that it is very important to consistently underspend your income, especially when starting a career, investing the excess funds wisely. The most difficult part of building wealth is "accumulating the first \$100,000 from a standing start, with no seed money" according to Munger. Making the first million is the next big hurdle.
2. **Understand Your Risk Tolerance** - Every investor has to know the level of risk that they can comfortably assume. Since losses are inevitable - and the book discusses numerous mistakes made by both Munger and Buffett - an investor must adopt a strategy that fits their risk profile. Since recent behavioral finance studies indicate that losses are three times as painful as gains for most investors, many investors may want to adopt a relatively conservative strategy.
3. **Research Opportunities** - Investors must be able to process a massive amount of information effectively, and must learn to evaluate the risks and rewards of potential investments. Business magazines are a great resource for evaluating trends, and Munger notes that "I don't think you can get to be a really good investor . . . without doing a massive amount of reading."
4. **Invest for the Long Term** - Volatility has not been a major concern of Munger, provided the long term odds of success are in his favor. In fact, volatility can allow an investor to accumulate positions in a viable enterprise at prices below intrinsic value. A long term focus is essential when ignoring the volatility of markets and individual stocks, and can provide impressive gains that tend to compound over time.
5. **Funds Are No Substitute** - Americans are oversold on the benefit they receive from money managers, especially mutual fund managers, and "that bothers Munger enormously." Transaction costs, taxes, and fees can significantly reduce total returns. Munger advocates buying index funds, or alternatively buying high quality stocks that are not overvalued and holding for the long term.
6. **Patience, Coupled With Decisive Action** - Excellent investment opportunities are not common. Investors should continually search and evaluate opportunities. Utmost patience is required, until one is found that has extremely favorable odds of success. "People underrate the importance of a few simple big ideas" according to Munger. Extreme decisiveness, once the commitment is made, dramatically improves financial results over a lifetime.
7. **Tax Planning** - Taxes and tax planning play a major role in wealth accumulation. As a lawyer drawing an income Munger was subject to relatively high income tax rates, significantly above what he paid on capital gains, which reduces the ability to build wealth. The recognition of any

capital gains on investments many times can be delayed or offset by investment losses, allowing the investment to compound at an accelerated rate.

8. **Love the Process** - Because investors must initially be willing to live below their means, have the skills to conduct a massive amount of due diligence, exhibit patience, read voraciously, manage risk effectively, and make decisive actions when the odds are in their favor, an investor must love the evaluation and investment process since it is not without a massive amount of work.
9. **Pay a Reasonable Price** - While value is important, investors should buy good businesses that are in sectors that exhibit favorable business characteristics. Management can only do so much with a company in a declining industry. Good businesses will grow in value over time.
10. **Choose Good Partners** - Every investor relies on the advice of others in making investment decisions - whether those are investment advisors, brokers, newsletters, or business partners. Munger was fortunate to have selected some of the best partners available to assist in evaluating investment issues. Successful investors will have top quality investment partners.