

Pathfinder Investment Outlook

For the week ending December 1st, 2023.

Memorable Charlie Munger quotes

*Partially Reproduced from Yahoo Finance, Julia La Roche and Adriana Belmonte
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Charlie Munger, vice chairman of Berkshire Hathaway (**BRK-A**, **BRK-B**) and a legend of the investing world, died on Nov. 28 at the age of 99. To commemorate Munger's monumental legacy, we've been through a number of Mr. Munger's quotes and selected out favorites. Please read to the last line to find a great gem:

On life:

- "I think **life is a whole series of opportunity costs**. You know, you got to marry the best person who is convenient to find who will have you. Investment is much the same sort of a process." — *1997 Berkshire Hathaway Annual Meeting*
- "Another thing, of course, is life will have terrible blows, horrible blows, unfair blows. Doesn't matter. And some people recover and others don't. And there I think the attitude of Epictetus is the best. He thought that **every mischance in life was an opportunity to behave well**. Every mischance in life was an opportunity to learn something and your duty was not to be submerged in self-pity, but to utilize the terrible blow in a constructive fashion. That is a very good idea." — *2007 USC Law School Commencement Address*
- **On how to live a long life:** "You **don't** have a lot of **envy**, you don't have a lot of **resentment**, you don't **overspend** your income, you **stay cheerful** in spite of your troubles, you **deal with reliable people** and you do what you're supposed to do. All these simple rules work so well to make your life better." — *2019 CNBC interview*

On learning:

- "**Without** the method of **learning**, you're like a **one-legged man in an ass-kicking contest**. It's just not going to work very well." — *2021 Daily Journal Annual Meeting*
- "In my whole life, I have known no wise people (over a broad subject matter area) who didn't **read all the time** — none, zero. You'd be amazed at how much Warren reads — and at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out." — *Poor Charlie's Almanack*
- "I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are **learning machines**. They **go to bed every night a little wiser** than when they got up and boy does that help — particularly when you have a long run ahead of you." — *2007 USC Law Commencement Address*
- "I think that a life properly lived is just **learn, learn, learn all the time**." — *2017 BRK Annual Meeting*
- "**Acquire** worldly **wisdom** and adjust your **behavior accordingly**. If your new behavior gives you a little temporary unpopularity with your peer group then to hell with them." — *Poor Charlie's Almanack*



On the stock market:

- "I think **value** investors are going to have a harder time now that there's so many of them competing for a diminished bunch of opportunities. So my advice to value investors is to get used to making less." — *2023 Berkshire Hathaway Annual Meeting*
- "There is **so much money** now in the hands of so **many smart people** all trying to outsmart one another. It's a **radically different world** from the world we started in." — *2023 Berkshire Hathaway Annual Meeting*
- On **meme** stocks: "What we're getting is **wretched excess** and danger for the country. A lot of people like a drunken brawl, and so far those are the people that are winning, and a lot of people are making money out of our brawl." *2021 Daily Journal Annual Meeting*

On investing:

- "One of the inane things [that gets] taught in modern university education is that a **vast diversification** is absolutely mandatory in investing in common stocks. That is an **insane** idea. It's not that easy to have a vast plethora of good opportunities that are easily identified. And if you've only got three, **I'd rather it be my best ideas instead of my worst**. And now, some people can't tell their best ideas from their worst, and in the act of deciding an investment already is good, they get to think it's better than it is. I think we make fewer mistakes like that than other people. And that is a blessing to us." — *2023 BRK Annual Meeting*
- "I find it much easier to find four or five investments where I have a pretty reasonable chance of being right that they're way above average. I think it's much **easier to find five than it is to find 100**. I think the people who argue for all this diversification — by the way, I call it '**deworsification**' — which I copied from somebody — and I'm way more comfortable owning two or three stocks which I think I know something about and where I think I have an advantage." — *2021 Daily Journal Annual Meeting*
- "There are huge advantages for an individual to get into a position where you **make a few great investments and just sit on your ass**: You are paying less to brokers. You are listening to less nonsense. And if it works, the governmental tax system gives you an extra 1, 2 or 3 percentage points per annum compounded." — *Worldly Wisdom by Charlie Munger 1995-1998*
- "I have a friend who's a fisherman. He says, 'I have a simple rule for success in fishing. **Fish where the fish are.**' You want to **fish where the bargains are**. That simple. If the fishing is really lousy where you are you should probably look for another place to fish." — *2020 Daily Journal Annual Meeting*
- "**Understanding** both the power of **compound interest and the difficulty of getting it** is the heart and soul of understanding a lot of things." — *Poor Charlie's Almanack*

On new technologies:

- On **Big Tech regulation**: "I would **not break** them **up**. They've got their little niches. Microsoft maybe has a nice niche, but it doesn't own the Earth. I like these high-tech companies. I think **capitalism should expect to get a few big winners by accident**." — 2023 "Acquired" podcast
- "We now have computer **algorithms trading with other computers**. And people buying stocks who know nothing, being advised by people who know even less. It's an incredibly crazy situation ... **All this activity makes it easier for us**." — 2022 Berkshire Hathaway Annual Shareholders Meeting
- "We are going to **miss these newspapers terribly**. Each newspaper... was an **independent** bastion of power. The economic position was so impregnable ... and the ethos of a **journalist was to try to tell it like it is**. And they really were a branch of the government — they called them the Fourth Estate, meaning the fourth branch of the government. It arose by accident. Now about 95% of [newspapers are] going to disappear and go away forever. And what do we get in **substitute**? We get a **bunch of people** who attract an audience because they're **crazy**

On crypto:

- "A cryptocurrency is **not a currency, not a commodity, and not a security**. Instead, it's a **gambling contract** with a nearly 100% edge for the house, entered into in a country where gambling contracts are traditionally regulated only by states that compete in laxity." — 2023 Wall Street Journal op-ed
- "I'm **proud** of the fact that I **avoided it**. I just regard it as **beneath contempt**. Some people think it's modernity, and they welcome a currency that's so useful in extortions and kidnappings [and] tax evasion." — 2022 Berkshire Hathaway Annual Meeting
- "When you have your own retirement account and your friendly adviser suggests you put all the money into bitcoin, **just say no**." — 2022 Berkshire Hathaway Annual Meeting

On the US economy and business:

- "What makes capitalism work is the fact that if you're an able-bodied young person, if you **refuse to work**, you suffer a fair amount of **agony**, and because of that **agony, the whole economic system works** ...— 2022 Daily Journal Annual Meeting
- "Usually, I **don't use formal projections**. I don't let people do them for me because I don't like throwing up on the desk, but I see them made in a very foolish way all the time, and many people believe in them, no matter how foolish they are. It's an **effective sales technique** in America to put a **foolish projection** on a desk."—2003 Herb Kay Undergraduate Lecture, University of California, Economics Department
- "**Capitalism without failure is like religion without hell**." — Tao of Charlie Munger

On mental models and decision-making frameworks:

- “We’ve had enough good sense when **something is working** very well to **keep doing it**. I’d say we’re demonstrating what might be called the fundamental algorithm of life — repeat what works.” — *2010 Berkshire Hathaway Annual Meeting*
- “I spent a lifetime trying to **avoid** my own **mental biases**. A.) I **rub my own nose into my own mistakes**. B.) I try and keep it simple and fundamental as much as I can. And, I like the engineering concept of a margin of safety. I’m a very blocking and tackling kind of thinker. I **just try to avoid being stupid**. I have a way of handling a lot of problems — I put them in what I call my ‘too hard pile,’ and just leave them there. I’m not trying to succeed in my ‘too hard pile.’” — *2020 CalTech Distinguished Alumni Award interview*

Bonus compilation from Warren Buffett:

- “Charlie and I think pretty much alike. But what it **takes me a page to explain, he sums up in a sentence**. His version, moreover, is always more clearly reasoned and also more artfully — some might add bluntly — stated.

Here are a few of his thoughts, many lifted from a very recent podcast:

- All I want to know is where I’m going to die, so I’ll never go there.
- Patience can be learned. Having a long attention span and the ability to concentrate on one thing for a long time is a huge advantage.
- You can learn a lot from dead people. Read of the deceased you admire and detest.
- Don’t bail away in a sinking boat if you can swim to one that is seaworthy.
- A great company keeps working after you are not; a mediocre company won’t do that.
- There is no such thing as a 100% sure thing when investing. Thus, the use of leverage is dangerous. A string of wonderful numbers times zero will always equal zero. Don’t count on getting rich twice.
- You have to keep learning if you want to become a great investor. When the world changes, you must change.
- Warren and I hated railroad stocks for decades, but the world changed and finally the country had four huge railroads of vital importance to the American economy. We were slow to recognize the change, but better late than never.

Finally... My favorite line, which sums up a beautiful life-long business friendship in just 2 short sentences:

‘Warren, think more about it. You’re smart and I’m right.’



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For more information, please follow the links above to review the fund term sheets.

*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the master's series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April 2013), and Pathfinder International Fund (November 2014).

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