

Charlie Munger - USC School of Law Commencement - May 13, 2007

Notes by Joe Koster

Safest way to get what you want is to deserve what you want.

Deliver to the world what you would buy if you were on the other end.

There is huge pleasure in life to be obtained from getting deserved trust. And the way to get it is to deliver what you would want to buy if the circumstances were reversed.

There's no love that's so right as admiration based love and that love should include the instructive dead.

Wisdom acquisition is a moral duty. It's not something you do just to advance in life. As a corollary to that proposition which is very important, it means that you are hooked for lifetime learning. And without lifetime learning, you people are not going to do very well. You are not going to get very far in life based on what you already know. You're going to advance in life by what you learn after you leave here.

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 they were when they got up and boy does that help, particularly when you have a long run ahead of you.

...so if civilization can progress only with an advanced method of invention, you can progress only when you learn the method of learning.

Nothing has served me better in my long life than continuous learning.

I went through life constantly practicing (because if you don't practice it, you lose it) the multi-disciplinary approach and I can't tell you what that's done for me. It's made life more fun, it's made me more constructive, its made me more helpful to others, its made me enormously rich. You name it, that attitude really helps. Now, there are dangers in it because it works so well that if you do it, you will frequently find you're sitting in the presence of some other expert, maybe even an expert superior to you (supervising you), and you'll know more than he does about his own specialty, a lot more. You'll see the correct answer and he's missed it. That is a very dangerous position to be in. You can cause enormous offense by being right in a way that causes somebody else to lose face. And I never found a perfect way to solve that problem. My advice to you is to learn sometimes to keep your light under a bushel.

Marcus Cicero is famous for saying that the man who doesn't know what happened before he was born goes through life like a child. That is a very correct idea. If you generalize Cicero, as I think one should, there are all these other things that you should know in addition to history. And those other things are the big ideas in all the other disciplines. It doesn't help just to know them enough so you can [repeat] them back on an

exam and get an A. You have to learn these things in such a way that they're in a mental latticework in your head and you automatically use them for the rest of your life. If you do that I solemnly promise you that one day you'll be walking down the street and you'll look to your right and left and you'll think "my heavenly days, I'm now one of the of the few most competent people in my whole age cohort." If you don't do it, many of the brightest of you will live in the middle ranks or in the shallows.

The way complex adaptive systems work and the way mental constructs work is that problems frequently get easier, I'd even say usually are easier to solve if you turn them around in reverse. In other words, if you want to help India, the question you should ask is not "how can I help India", it's "what is doing the worst damage in India? What will automatically do the worst damage and how do I avoid it?"

In life, unless you're more gifted than Einstein, inversion will help you solve problems.

Let me use a little inversion now. What will really fail in life? What do you want to avoid? Such an easy answer: sloth and unreliability. If you're unreliable it doesn't matter what your virtues are. Doing what you have faithfully engaged to do should be an automatic part of your conduct. You want to avoid sloth and unreliability.

Another thing I think should be avoided is extremely intense ideology because it cabbages up one's mind. You see it a lot with T.V. preachers (many have minds made of cabbage) but it can also happen with political ideology. When you're young it's easy to drift into loyalties and when you announce that you're a loyal member and you start shouting the orthodox ideology out, what you're doing is pounding it in, pounding it in, and you're gradually ruining your mind. So you want to be very, very careful of this ideology. It's a big danger. In my mind, I have a little example I use whenever I think about ideology. The example is these Scandinavia canoeists who succeeded in taming all the rapids of Scandinavia and they thought they would tackle the whirlpools of the Aron (sp) Rapids here in the United States. The death rate was 100%. A big whirlpool is not something you want to go into, and I think the same is true about a really deep ideology. I have what I call an iron prescription that helps me keep sane when I naturally drift toward preferring one ideology over another and that is: I say that I'm not entitled to have an opinion on this subject unless I can state the arguments against my position better than the people who support it. I think only when I've reached that state am I qualified to speak. This business of not drifting into extreme ideology is a very, very important thing in life.

Another thing that does one in, of course, is the self-serving bias to which we're all subject. You think the true little me is entitled to do what it wants to do. And, for instance, why shouldn't the true little me overspend my income. Mozart became the most famous composer in the world but was utterly miserable most of the time, and one of the reasons was because he always overspent his income. If Mozart can't get by with this kind of asinine conduct, I don't think you should try.

Generally speaking, envy, resentment, revenge and self-pity are disastrous modes of thoughts. Self-pity gets fairly close to paranoia, and paranoia is one of the very hardest things to reverse. You do not want to drift into self-pity. It's a ridiculous way to behave and when you avoid it, you get a great advantage over everybody else or almost everybody else because self-pity is a standard condition, and yet you can train yourself out of it.

Of course the self-serving bias is something you want to get out of yourself. Thinking that what's good for you is good for the wider civilization and rationalizing all these ridiculous conclusions based on this subconscious tendency to serve one's self is a terribly inaccurate way to think. Of course you want to drive that out of yourself because you want to be wise, not foolish. You also have to allow for the self-serving bias of everybody else because most people are not going to remove it all that successfully, the human condition being what it is. If you don't allow for self-serving bias in your conduct, again you're a fool.

The correct answer to situations like [the Saloman case] was given by Ben Franklin, "If you would persuade, appeal to interest not to reason."

Another thing, perverse incentives. You do not want to be in a perverse incentive system that's causing you to behave more and more foolishly or worse and worse - incentives are too powerful a control over human cognition or human behavior. If you're in one, I don't have a solution for you. You'll have to figure it out for yourself, but it's a significant problem.

Perverse associations, also to be avoided. You particularly want to avoid working under somebody you really don't admire and don't want to be like. We're all subject to control to some extent by authority figures, particularly authority figures that are rewarding us. Getting to work under people we admire requires some talent. The way I solved that is I figured out the people I did admire and I maneuvered cleverly without criticizing anybody so I was working entirely under people I admired. You're outcome in life will be way more satisfactory and way better if you work under people you really admire. The alternative is not a good idea.

Objectivity maintenance. Darwin paid particular attention to disconfirming evidence. Objectivity maintenance routines are totally required in life if you're going to be a great thinker. There, we're talking about Darwin's special attention to disconfirming evidence and also about checklist routines. Checklist routines avoid a lot of errors. You should have all this elementary wisdom and then you should go through a mental checklist in order to use it. There is no other procedure in the world that will work as well.

The last idea that I found very important is that I realized very early that non-egality would work better in the parts of the world that I wanted to inhabit. What do I mean by non-egality? I mean John Wooden when he was the number one basketball coach in the world. He just said to the bottom five players that you don't get to play. The top seven

did all the playing. Well the top seven learned more, remember the learning machine, they learned more because they did all the playing. And when he got to that system he won more than he had ever won before. I think the game of life, in many respects, is about getting a lot of practice into the hands of the people that have the most aptitude to learn and the most tendency to be learning machines. And if you want the very highest reaches of human civilization, that's where you have to go. You do not want to choose a brain surgeon for your child from 50 applicants where all of them just take turns doing the procedure. You don't want your airplanes designed that way. You don't want your Berkshire Hathaway's run that way. You want to get the power into the right people.

[Told the story of Max Planck and his chauffeur. After winning the Nobel Prize, Planck toured around giving a speech. The chauffeur memorized the speech and asked if he could give it for him, pretending to be Planck, in Munich and Planck would pretend to be the chauffeur. Planck let him do it and after the speech someone asked a tough question. The real chauffeur said that he couldn't believe someone in such an advanced city like Munich would ask such an elementary question and as such, he was going to ask his chauffeur (Planck) to reply].

In this world we have two kinds of knowledge. One is Planck knowledge, the people who really know. They've paid the dues, they have the aptitude. And then we've got chauffeur knowledge. They have learned the talk. They may have a big head of hair, they may have fine temper in the voice, they'll make a hell of an impression. But in the end, all they have is chauffeur knowledge. I think I've just described practically every politician in the United States.

And you are going to have the problem in your life of getting the responsibility into the people with the Planck knowledge [and away from the people with the chauffeur knowledge]. And there are huge forces working against you. My generation has failed you a bit.....but you wouldn't like it to be too easy now would you?

Another thing that I found is that an intense interest in the subject is indispensable if you're really going to excel in it. I could force myself to be fairly good in a lot of things but I couldn't be really good at anything where I didn't have an intense interest. So to some extent, you're going to have to follow me. If at all feasible, drift into something where you have an intense interest.

Another thing you have to do, of course, is to have a lot of assiduity. I like that word because it means: sit down on your ass until you do it. Two partners that I chose for one little phase in my life had the following rule when they created a design, build, construction team. They sat down and said, two-man partnership, divide everything equally, here's the rule: if ever we're behind in commitments to other people, we will both work 14 hours a day until we're caught up. Needless to say, that firm didn't fail. The people died very rich. It's such a simple idea.

Another thing, of course, is that life will have terrible blows in it, horrible blows, unfair blows. And some people recover and others don't. And there I think the attitude of

Epectitus is the best. He said that every missed chance in life was an opportunity to behave well, every missed chance in life was an opportunity to learn something, and that your duty was not to be submerged in self-pity, but to utilize the terrible blow in constructive fashion. That is a very good idea. You may remember the epitaph which Epectitus left for himself: "Here lies Epectitus, a slave maimed in body, the ultimate in poverty, and the favored of the gods."

I've got a final little idea because I'm all for prudence as well as opportunism. [He talked about his grandfather, Judge Munger, who under spent his income all his life and left his grandmother in comfortable circumstances, which he had to because there were no pensions for federal judges back then. Along the way, he bailed out Charlie's uncle's bank back in the '30s by taking over 1/3 of his good assets in exchange for bad assets of the bank. He remembered his grandfather's example in college when he came across] Housman's poem:

*The thoughts of others
Were light and fleeting,
Of lovers' meeting
Or luck or fame.
Mine were of trouble,
And mine were steady,
So I was ready
When trouble came.*

You can say, who wants to go through life anticipating trouble? Well I did. All my life I've gone through life anticipating trouble. And here I am, going along in my 84th year and like Epectitus, I've had a favored life. It didn't make me unhappy to anticipate trouble all the time and be ready to perform adequately if trouble came. It didn't hurt me at all. In fact it helped me.

The last idea I want to give to you.....is that this is not the highest form that a civilization can reach. The highest form a civilization can reach is a seamless web of deserved trust. Not much procedure, just totally reliable people correctly trusting one another. That's the way an operating room works at the Mayo Clinic. So never forget, when you're a lawyer, that you may be rewarded for selling this stuff but you don't have to buy. What you want in your own life is a seamless web of deserved trust. And so if your proposed marriage contract has 47 pages, my suggestion is you not enter.

Well that's enough for one graduation. I hope these ruminations of an old man are useful to you. In the end I'm like an old VALIANT-FOR-TRUTH in *The Pilgrim's Progress*. "My sword I leave to him who can wear it."