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STOCK MARKET INVESTMENT

# MUNGER'S SUCCESSFUL STRATEGY

**C**HARLIE Munger, the vice-chairman of Berkshire Hathaway and a renowned investor, is known for his distinctive investment philosophy, which complements his longtime business partner, Warren Buffett.

Munger's multidisciplinary approach emphasises rational thinking, mental models and a focus on long-term value.

He is credited for shifting Buffett's investing strategy from cigar butts selling at a "bargain price" to excellent businesses selling at a "fair price".

**Mental Models:** One of the core aspects of Munger's philosophy is the use of mental models. Mental models are cognitive tools that help individuals understand and analyse complex problems.

He believes in building a vast mental repository of models from various disciplines, including mathematics, psychology, economics, and biology.

By using these models, investors can make better decisions by applying insights from one domain to another, gaining a broader perspective.

Investing is a wholesome exercise and all that you know must be applied to be successful in investing — it is much more than mere number crunching.

**Circle of Competence:** Munger emphasises the importance of knowing one's circle of competence. This means understanding the limits of one's knowledge and expertise and focusing on making investment decisions within that area. Staying within the cir-

cle of competence allows investors to have a better grasp of the risks and opportunities, leading to more informed choices.

This principle is so simple and basic and can be put succinctly as "invest in what you understand and stay away from what you do not".

**Long-Term Investing:** Munger is a strong advocate of long-term investing. He believes in buying and holding high-quality companies for extended periods, benefiting from their compounding growth over time. This patient approach aligns with his view that investment success comes from a combination of patience, discipline and a strong understanding of the underlying businesses.

**Value Investing:** Like Buffett, Munger is fundamentally a value investor. He seeks to identify undervalued assets, often through a thorough analysis of a company's financials, competitive advantages and long-term prospects.

He looks for businesses with durable competitive moats that can sustain profitability over time. Moats protect the business from competition. As such, the businesses' long-term profitability is somewhat assured.

**Margin of Safety:** Munger stresses the importance of having a margin of safety when making investments. This means buying assets at a significant discount to their intrinsic value, creating a buffer against potential uncertainties or adverse market conditions.

A margin of safety provides some level of protection against investment mistakes and unexpected events. The lower the price paid compared to the intrinsic value, the lower the downside risk of loss. And conversely, the higher the opportunity for upside gain.

**Avoiding Overconfidence and Biases:** Munger believes that overconfidence and cognitive biases can be detrimental to investment decision-making. He encourages investors to be aware of their biases, such as confirmation bias or over-optimism, and to actively seek out alternative perspectives to avoid making irrational choices.

**Inversion:** Inversion is a problem-solving technique that involves looking at a situation from the opposite perspective. Munger uses inversion to identify and mitigate risks effectively. By thinking about what could go wrong rather than what could go right, investors can make more prudent decisions and protect themselves from potential pitfalls.

**Quality over Quantity:** Munger emphasises the importance of quality over quantity when constructing an investment portfolio. Instead of diversifying across numerous investments, he suggests focusing on a smaller number of high-quality, well-researched opportunities.

This approach reduces the chance of diluting the overall portfolio returns with subpar investments. Every not-so-good in-

vestment tends to drag down the performance of good investments. Thus, it makes sense just to have a few good investments.

**Continuous Learning:** Munger advises investors to read widely and stay intellectually curious to expand their mental models and gain insights from various disciplines. Learning from the successes and failures of others can help investors make better choices.

**Humility and Patience:** Throughout his career, Munger has shown great humility and patience. He recognises that the investment landscape is complex and uncertain, and success often requires enduring difficult periods. By staying humble and patient, investors can weather market fluctuations and avoid making impulsive decisions.

In conclusion, Munger's investment philosophy is a holistic approach that combines rational thinking, mental models, a focus on long-term value, and a commitment to continuous learning.

His emphasis on understanding one's circle of competence, maintaining a margin of safety, and avoiding cognitive biases has made him one of the most respected investors in the world.

By incorporating these principles into their own investment strategies, investors can seek to improve their decision-making and increase their chances of long-term success.

The writer is chief executive officer of Minority Shareholders Watch Group.

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