

## J. Michael Locke

### Musings

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#### #214: Musing March 4, 2023

Warren Buffett is widely recognized as one of the best investors ever. I enjoy his annual letter to shareholders. Along with owning businesses completely, they invest in some stocks. Here is a good quote from Buffett on publicly-traded stocks – *“it’s crucial to understand that stocks often trade at truly foolish prices, both high and low. “Efficient” markets only exists in textbooks. In truth, marketable stocks and bonds are baffling, their behavior usually understandable only in retrospect.”*.....this is why I do no stick picking. Index funds for me. Make your real returns in private operating businesses.

Less well known is Buffett’s lifelong partner Charlie Munger. He is just as important and impressive as Buffett. Munger has a reputation for straight talk and they included some of his best quotes in this year’s letter:

1. *The world is full of foolish gamblers, and they will not do as well as the patient investor.*
2. *If you don’t see the world the way it is, it’s like judging something through a distorted lens.*
3. *All I want to know is where I’m going to die, so I’ll never go there. And a related thought: Early on, write your desired obituary – and then behave accordingly.*
4. *If you don’t care whether you are rational or not, you won’t work on it. Then you will stay irrational and get lousy results.*
5. *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.*
6. *You can learn a lot from dead people. Read of the deceased you admire and detest.*
7. *Don’t bail away in a sinking boat if you can swim to one that is seaworthy.*
8. *A great company keeps working after you are not; a mediocre company won’t do that.*
9. *Warren and I don’t focus on the froth of the market. We seek out good long-term investments and stubbornly hold them for a long time.*
10. *Ben Graham said, “Day to day, the stock market is a voting machine; in the long term it’s a weighing machine.” If you keep making something more valuable, then some wise person is going to notice it and start buying.*
11. *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.*
12. *You don’t, however, need to own a lot of things in order to get rich.*
13. *You have to keep learning if you want to become a great investor. When the world changes, you must change.*

More important cases before the Supreme Court this week. My prediction is you are going to see the Court rule against the government and the increasingly active regulatory approach taken by Presidents (Democratic and Republican) in the last couple decades. The way our system is supposed to work is Congress passes laws and then the executive branch implements them with specific regulations. With the general dysfunction in Congress, Presidents have started “legislating” through more active

regulatory actions. I think the Court will strike down Biden wiping away billions in student debt through executive action, the framework of the Consumer Finance Protection Bureau (CFPB) which was set up outside of congressional funding and gets its money from the Federal Reserve, so Congress has no oversight, and eventually, the FTC move to ban non-competes. I am not taking a side on the actual issues but rather pointing out decision rights. These are Congressional issues and not ones for the executive branch to do on their own.

You don't necessarily want all of the business you can sign up. Some clients are not good partners and might have unreasonable expectations or abuse your team with relentless demands. The client is not always right and your team needs to say no and not be too responsive. There comes a point where you might even need to fire a client. Everyone underestimates the "cost" in time, dollars and pride that comes with a problem client and the management of a business spending all of their time trying to satisfy.

Heard a new term: "Digital intimacy." With everything happening through technology and the resulting abundance of data, companies can have a crazy, detailed window on the consumer.

Interesting stat: 90% of people in the US live within 10 miles of a Walmart. This is part of why Walmart is pushing into medicine and setting up primary care clinics.

I was interviewing someone this week and they used this line which I agree with: *"I think you have to listen and learn before you lead."*

Great old quote from Netflix on their culture: *"We're a team, not a family.....We're like a pro sports team, not a kid's recreational team.....Netflix leaders hire, develop and cut smartly, so we have stars in every position."* Every leader I know retrospectively feels they moved too slow on eliminating subpar performers. Good leaders are empathetic, confident and positively-oriented so often falsely believe they can help someone improve their performance rather than firing them.

RIP the use of cash. According to the WSJ, cash and checks are 14% of payments down from 42% in 2010.

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