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Here's the Story on Berkshire's Munger

By [SCOTT PATTERSON](#)

Warren Buffett is synonymous with [Berkshire Hathaway Inc.](#), getting credit for billions of dollars in big deals that have made him an icon to investors around the world. But on the one day a year when he faces his shareholders, at his side will be his longtime partner, Vice Chairman Charles Munger.

On Saturday, the partners will take their decades-old act back to the stage in Omaha, Neb., telling thousands of loyal shareholders that they see huge opportunities amid the financial crisis that drove Berkshire to its worst performance since Mr. Buffett took it over 44 years ago.

The two men, Mr. Munger, 85 years old, and Mr. Buffett, 78, speak frequently and confer about most deals, but there are differences. Mr. Munger is laconic; Mr. Buffett loquacious. Mr. Munger leans Republican; Mr. Buffett tilts Democratic. Mr. Munger will pay hefty price tags for businesses; Mr. Buffett likes safe, dirt-cheap stocks.

Mr. Munger's views have pushed Berkshire into some surprising directions. Several years ago, Mr. Munger learned of an obscure Chinese maker of batteries and automobiles called [BYD Inc.](#), which hopes to create a cheap, functional electric car.

A Chinese tech company is nothing like the shoe and underwear makers Berkshire had been buying. But Mr. Munger was enthusiastic, less about the technology than about Wang Chuanfu, who runs BYD. Mr. Wang, Mr. Munger says, is "likely to be one of the most important business people who ever lived."

Mr. Buffett was skeptical at first. But Mr. Munger persisted. David Sokol, chairman of Berkshire utility MidAmerican Energy Holdings Co., paid a visit to BYD's factory in China and agreed with Mr. Munger's assessment. Last year, MidAmerican paid \$230 million for a 10% stake in BYD.

"BYD was Charlie's idea," Mr. Buffett said. "When he encounters genius and sees it operating in a practical way, he gets blown away."

Mr. Munger also was an advocate of Berkshire's \$4 billion investment in Iscar Metalworking Cos., an Israeli maker of metal-cutting tools, in 2006. The investment was relatively pricey, especially given Mr. Buffett's preference for cheap companies. But Mr. Munger convinced his longtime partner that Iscar was worth the cost.

The deal helped pave the way for other large investments by Berkshire in companies outside the U.S. Results on the two investments haven't been reported.

The men share a view that the U.S. financial system will change, and criticize past excesses. "People were horribly overpaid for just pouring on leverage," Mr. Munger said. The two investors have repeatedly warned about the systemic

risks posed by the abuse of leverage and derivatives.

Mr. Munger thinks regulators may significantly curb the amount of leverage, or borrowed money, that banks can use. That will drive down pay at Wall Street firms, since traders won't be able to make as many big, leveraged bets. This could benefit Berkshire, with its cash hoard of \$24.3 billion at the end of 2008. "There's going to be new rules in the game," he said. "For someone like us, that's going to be very interesting."

Saturday's meeting comes after the worst year in Berkshire's history, when it lost 9.6% in book value per share, a common metric it uses to track its performance. It marked the biggest decline since Mr. Buffett took over the company in 1965, when it was an East Coast textile maker, and turned it into an investing powerhouse. Berkshire's shares have fallen 36% since September.

The two investors say they expect Berkshire to return to form in the near future, and they continue to collaborate. They speak on the phone at least once or twice a week from their respective offices -- Mr. Buffett in Omaha, Mr. Munger in Pasadena, Calif.

"Charlie understands the essence of a lot of businesses probably better than people in those industries do," Mr. Buffett said. "He gets right to the point of it quicker than anyone I've seen."

Mr. Munger grew up in Omaha and joined the U.S. Army during World War II, serving as a meteorologist in Alaska. After the war, he earned a degree from Harvard Law School and became an attorney at a California firm.

He also became a serious investor. He met Mr. Buffett in an Omaha restaurant in 1959. After working together on a number of investments for many years, the two joined forces full time at Berkshire in 1978, when Mr. Munger became vice chairman.

One of their early deals is one of Berkshire's best-known brands. In 1972, Mr. Munger helped persuade Mr. Buffett to participate in a joint purchase of See's Candies, a California boxed-chocolate maker, for \$25 million. While the price seemed steep by some measures, the deal was wildly successful, producing more than \$1 billion in pretax earnings.

Without such investments, it isn't likely that Berkshire could have grown as large as it has, says Whitney Tilson, manager of T2 Partners LLC, a New York money manager that owns Berkshire stock. He says: "Munger helped Buffett appreciate some of the higher-quality investments that lead to multibillion-dollar outcomes several decades later."

Financially, Mr. Buffett has done better. He boasts a net worth of \$37 billion in 2008, according to Forbes magazine's list of the world's wealthiest people, putting him at No. 2 in the world behind Microsoft Corp. founder Bill Gates. Mr. Munger placed 522 on the list, with a net worth of \$1.4 billion.

Mr. Munger has won the respect of Mr. Gates, who sits on the company's board. When the Justice Department accused Microsoft of abusing monopoly power with its Windows operating system in the late 1990s, Mr. Gates says he sought out Mr. Munger for legal advice. He also consulted Mr. Munger when considering how to set up his charity, the Bill & Melinda Gates Foundation.

"Warren wouldn't have done nearly as well without his help," Mr. Gates said in an interview.

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