

Foreword to the Chinese Edition of *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger*

By Louis Li

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Twenty years ago, I came alone to the United States as a young student. I would never have guessed that I would later become a professional investor, nor did I foresee the fortuitous circumstances that led me to becoming acquainted with the contemporary investment guru, Mr. Charles T. Munger. In 2004, Mr. Munger became my investment partner and has since become my lifelong mentor and friend—an opportunity I would never have dared to dream about in the past.

Like millions of Warren Buffett and Charlie Munger admirers around the world, the teachings of these two teachers and Berkshire Hathaway's amazing performance have shaped my investment career. I have benefited over the years from closely studying Mr. Munger's own words and actions. As such, I have come to a deep appreciation for his profound thoughts.

I have always hoped to share my knowledge with other like-minded individuals. Peter Kaufman's book is the best effort in this regard. Peter is a long-time friend of Charlie's, an outstanding entrepreneur, and a "professional bookworm." His book, *Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger*, is by far the most comprehensive publication that captures the essence of Charlie's philosophy.

Since Peter happened to be a good friend of mine as well as an investment partner, I paid close attention to the publication of this book from the very beginning. When the first edition was published in 2005, I treated the book as a treasure and read it cover to cover multiple times. Each time I read it, I learned something new. At that point, I wanted to carefully translate the entire book for Chinese readers, a wish that took another five years to fulfill.

In 2009, Charlie turned 85 years old. A friend helped me to realize that translating the book into Chinese would be the best way to thank my respected mentor and, at the same time, complete my long-time wish to share Charlie's wisdom with my fellow Chinese.

Now that the Chinese edition is about to be released, I would like to offer my personal experience with learning, practicing, and understanding Charlie's philosophy. I hope that sharing my journey will help readers to better acquire the wisdom contained within this book.

Part One: Starting in Investments and Meeting Charlie Munger

I was first introduced to the theory of value investing advocated and practiced by Warren Buffett and Charlie Munger 20 years ago. At that time, I had just arrived in the United States. I had no family or friends here and was familiar with neither the local culture nor the English language. Fortunately, I was enrolled at Columbia University for my undergraduate studies. I immediately faced the problem of paying for tuition, fees, and the high cost of living. While I did receive some scholarship and grant money, the amount of my debt appeared astronomical to the penniless student I was at the time. I worried about my future, which was filled with confusion and anxiety, and about when I could pay off the loans. Many Chinese students studying abroad in the United States, especially those who depend on loans and part-time jobs to pay for tuition, fees, and living expenses, share similar experiences.

Growing up in the 1970s and 1980s in China, I knew little about business or investing. At that time, business was not important in China. One day a classmate at Columbia said to me, "If you want to know how to make money in America, there will be a speech at the Business School that you must hear." The name of the speaker, Buffett, was a little weird and sounded like "buffet." Intrigued by this interesting name, I attended the speech. Because Warren Buffett was not as famous then as he is now, not many students attended, but the lecture was an enlightening experience for me.

Buffett's lecture was about how to invest in the stock market. Prior to this, my impression of the stock market was that of Shanghai in the 1930s as depicted by Cao Yu's play "Sunrise" - full of cunning deceits, luck, and bloodshed. But here stood a successful and wealthy businessman who made money from the stock market. He looked decent, friendly, and intelligent, even scholarly. In short, he was completely different from the stereotypically ruthless, cruel, and crooked businessman that I had imagined.

Buffett's lecture was concise, logical, and convincing. In the hour-long talk, he clearly explained the principles of the stock market. Buffett said that stocks are, in essence, part-ownership of a business. The stock price is determined by the intrinsic value of the underlying business, which should be judged by the business's profitability and net assets. Although the volatility of the stock price might be unpredictable in the short term, the price will be based on the intrinsic value of the business in the long run. Therefore, intelligent investors need only to buy a stock when its price is far below the company's intrinsic value and sell as its price approaches or exceeds its intrinsic value. In this way, a lot of money can be made with very little risk.

At the end of the speech, I felt that I had grasped a life-saving straw. Could an intelligent, upright, and educated person, without needing family support or managerial skills, without inventing or creating new products, build a company from scratch and

become successful and wealthy in America? Here was Buffett, a living example for me to follow, standing before my eyes. Back then I did not think I was suitable for management because I didn't understand the American society and culture. I was not confident about becoming an entrepreneur, either. But what if studying the value of a company, its complicated business data and financial reports, was my specialty? If what Buffett said was true, then couldn't a new immigrant like me, who had no connections or experiences of any kind, still make a fortune from the stock market? That sounded very enticing.

After listening to the lecture, I went back and immediately found all the books written about Buffett, including his annual letters to Berkshire shareholders and articles about him. I also learned that Charlie Munger was Buffett's decades-long partner. I spent nearly two years studying them, and everything that I read reinforced my first impression at Buffett's speech. Having completed this research process, I was confident that this industry was a feasible choice for me.

One or two years later, I bought the first stock in my life. Although my personal net worth was still negative at the time, I had saved some cash to invest. The 1990's began an era of globalization that positioned U.S. companies across all industries for growth, thus there were many undervalued stocks in the market. By the time I graduated from Columbia University in 1996, I had earned a considerable return from my stock market investments.

After graduating, I worked at an investment bank while continuing to invest in stocks on my own. In my first year, I participated in the initial public offering of a large firm and received a large bonus. However, I did not like my investment-banking job. In addition, I realized that my salary and bonus from the investment bank were no more than my stock market returns from investing in my spare time. I then realized that investing was not only a life-saving straw or a spare-time hobby, but it could also become a lifelong career. After one year, I quit my investment-banking job and started my career as a professional investor. At that time, my family and friends were very concerned about my seemingly abrupt decision, and I was unsure about my future as well. Frankly, for me, the courage to start a business also came from Buffett and Munger's influence.

In January 1998, I started my own company. I had very few supporters, but was able to pool together a small sum of money with the help of a few close friends. I wore many hats, acting as the chairman, fund manager, secretary, and analyst, and used only a cell phone and a laptop. The timing coincided with the 1997 Asian financial crisis and the price of oil dropping below \$10 per barrel. I started buying the stocks of many excellent Asian companies as well as the stocks of oil companies in the U.S. and Canada, but the volatility of the stock market that followed created a 19% paper loss that year. This caused some investors to become concerned about future operating conditions and they dared not invest more. One of my largest investors decided to withdraw his

investments the following year. Coupled with the high operating costs of the previous period, my company was struggling to survive.

Losing the first battle put me under great pressure to live up to my investors' trust. This psychological burden affected my investment decisions. I dared not commit to action even when presented with a good opportunity. Yet that period of time presented the best investment opportunity. At that moment, Buffett and Munger's philosophy and examples were a great support for me. During the 1973-1974 recession in the U.S. both of them had similar experiences. At my lowest point, I used their examples to encourage myself to always take the long-term view.

Then, in the second half of 1998, I withstood the pressure and had the courage to make a few important investment decisions. It was these investments that brought my investors and me exceptional returns during the next two years. Looking back, I know I was lucky with the timing, but Buffett and Munger's examples, books, and ideas were important influences on me.

However, the outstanding performance did not bring me any new investors. From then until now, the vast majority of investors, especially institutional investors, still follow investment philosophies that are based on theories that do not make sense to me. For example, they believe in the efficient market hypothesis, and therefore judge performance by volatility-adjusted returns, as if price volatility is equated to real risk. It seemed like we spoke different languages when I talked to them.

In my view, the biggest risk in investing in the stock market is not the volatility of prices, but whether you will suffer a permanent loss of capital. Not only is the mere drop in stock prices not a risk, but also it may present an opportunity. Where else would you find cheap stocks? If your favorite steak restaurant cuts its prices by half, you will enjoy eating there more. Buying stocks at a discounted price should make the seller uncomfortable while you, as a buyer, should be pleased.

I explained to prospective investors that my investment principles followed the investment philosophy of Buffett and Munger. Then I realized that while Buffett and Munger were very successful, the actual practices of individual and institutional investors were diametrically opposed to Buffett and Munger's investment philosophies. On the surface, famous fund managers appear to accept the theories of Buffett and Munger and show great respect for their performance, yet in practice they do the exact opposite because their clients' behavior is also the exact opposite of Buffett and Munger's. They still accepted theories that claimed, "volatility is risk" and "the market is always right," but to me, those theories were completely absurd.

In order to retain and attract more investors, I had to make compromises for a period of time. For a few years' time, I had to adopt an equity long-short strategy to manage the volatility of the funds under management. Compared with a long approach, short selling

could hardly be used for long-term investment. There were three reasons for this. First, for short selling, the upside potential is capped at 100%, but the potential downside is unlimited—the exact opposite of going long. Second, shorting must be accomplished by borrowing. So, even if the short-sell decision is correct, if the timing isn't right, the investor could face losses or even bankruptcy. Third, the best short investment opportunities are generally due to frauds and manipulation. But fraudulent activities are usually covered up and disguised really well and require a long time to be exposed. For example, disgraced former investment manager Bernard Madoff's fraudulent activities went undetected for several decades. Because of these three reasons, short sellers must keep a close eye on the ups and downs of the market and be constantly trading.

The long-short approach I used for a couple of years significantly reduced the volatility of the investment portfolio. During the financial crisis in 2001-2002 following the Internet bubble, we did not suffer any loss and even earned a small return. Meanwhile, our assets under management increased significantly. A legendary figure in the hedge fund industry became one of my major investors and another invited me to set up a joint investment fund for Asia. Everything appeared great on the surface, but, deep down, I was very frustrated. By simultaneously going both long and short, I needed to manage the risks of short selling and trade constantly. But to be constantly trading meant that I didn't have the time to really study the long-term investment opportunities. Although the volatility of the fund was better than before, the returns weren't good. In fact, there were a number of great investment opportunities at that time. Frankly speaking, the biggest mistakes of my entire career were not losses due to bad decisions (of course, I made some of these mistakes too), but rather the inability to invest heavily in my best-quality ideas. The returns I failed to capitalize on are still increasing to this day.

That period of time was a low point in my professional career. I even once thought about shutting down the fund because I spent most of my time on activities that weren't my main business.

Right at this crossroads, a serendipitous opportunity led me to meet my lifelong mentor and friend, Mr. Charlie Munger.

Charlie and I first met at a mutual friend's house while I was working for an investment bank in Los Angeles after graduating from college. Charlie struck me as someone distant and absent-minded, only focused on his own topics. But the wisdom sparked by his words was inspiring. At that first meeting, Charlie was, to me, a respectful, wise gentleman far beyond my reach. He probably had no impression of me then.

Thereafter, we met a couple of times and had a few chats. At a Thanksgiving gathering in 2003, seven years after we first met, we had an in-depth, sincere discussion. I introduced every single company I had invested in, researched, or was interested in to Charlie and he commented on each one of them. I also asked for his advice on the

problems I've encountered. Toward the end, he told me that the problems I've encountered were practically all the problems of Wall Street. The problem is with the way Wall Street thinks. Even though Berkshire Hathaway had been such a success, there wasn't any company on Wall Street that truly imitates it. If I continued on this path, my worries would never be eliminated. But if I was willing to give up this path right then, to take a path different from Wall Street, he was willing to invest with me. This really flattered me.

With Charlie's help, I completely reorganized the company I founded. The structure was changed into that of the early investment partnerships of Buffett and Munger (note: Buffett and Munger each had partnerships to manage their own investment portfolios) and, at the same time, all the shortcomings of a typical hedge fund were eliminated. The investors who agreed to stay signed long-term lock-up agreements and we also stopped accepting new investors. The new fund retained a portion of the original investment portfolio, including our investment in BYD.

Thus, I entered another golden era in my investment career. I was no longer restricted by the various limitations of Wall Street, and our investment returns proved the correctness of the decision to transform the fund structure. The numbers still fluctuate as before, but the eventual result was a substantial growth in returns. From the fourth quarter of 2004 to the end of 2009, the new fund achieved an annual compound return of 36% net of all expenses. Since the inception of the fund in January 1998, the fund achieved an annual compound return in excess of 29%. Over a 12-year period, the capital grew more than 20-fold.

Putting aside those figures, the work became smoother over the years, and I enjoyed a much better life running the fund. I was no longer bothered by the ups and downs of the stock market nor the incessant trading and shorting. On the contrary, I could devote all my time to researching and understanding companies. My investment experience clearly demonstrated that the value investing theory adopted by Buffett and Munger could lead to great success over time. However, because of their own limitations, most investors do not use this method. Therefore, it creates a great competitive advantage for those who do, and this is an advantage that will not disappear anytime soon.

Part 2: The Uniqueness of Charlie Munger

Buffett has said that despite the countless people he has met in his life, he has never encountered anyone else like Charlie. After years of getting to know him, I couldn't agree more. Even after considering all the biographies that I've read, which includes characters from ancient to modern times, I have yet to find anyone similar to him. Charlie is so special and unique in his thinking and personality.

For example, when Charlie thinks, he always starts by inverting. To understand how to be happy in life, Charlie will study how to make life miserable. To examine how businesses become big, strong, and successful, Charlie first studies how businesses decline and fail. While most people care only about how to succeed in the stock market, Charlie is most concerned about why most have failed in the stock market. His way of thinking comes from the saying in the farmer's philosophy: "All I want to know is where I'm going to die so I'll never go there."

Throughout his life, Charlie has been constantly collecting and researching the notable failures in each and every type of person, business, government, and academic research. He then arranges the causes of failures into a checklist for making the right decisions. Because of this, he has avoided major mistakes in his decision making over his life and career. The importance of this on the performance of Buffett and Berkshire Hathaway over the past 50 years cannot be emphasized enough.

Charlie's mind is original and creative. It is never restrained by rigid rules or doctrines. He has the insatiable curiosity of a child and possesses the qualities of top-notch scientists and their scientific methodologies. He has had a strong thirst for knowledge throughout his life and is interested in practically everything. To him, with the right approach, any problem can be understood through self-study. Further innovations can be built on the foundations laid by the intellectual forefathers. In this matter, he is very much like Benjamin Franklin.

Most modern, first-class experts and academics can maintain relative objectivity within their own areas of specialty. But once they leave their area of specialty, they become subjective, dogmatic, or rigid, and perhaps even lose their capacity for learning. Thus, like the story of the blind men and the elephant, they are unable to see the whole picture.

Charlie's mind is never restrained by any fixed doctrines. His unique thinking is applied to every corner of his career, life, and learning. In his view, everything in the universe is an interactive whole, and all of human knowledge is just pieces of the comprehensive whole. Only by combining this knowledge through a latticework of mental models can it become useful in decision-making and in developing a proper understanding. So he advocates studying all the truly important theories in all disciplines and building on this foundation—the so-called "worldly wisdom"—as a tool for studying the important issues in business and investments. In this book, Charlie gives a detailed description of how to acquire this worldly wisdom.

Charlie's way of thinking is based on being honest about knowledge. He believes that, in this complex and changing world, there will always be limitations to human cognition and understanding. Therefore, you must utilize all available tools and constantly uncover evidence to disprove and adjust your existing knowledge or beliefs; hence the

Confucian saying, “Real knowledge is to know the extent of one’s ignorance.” In fact, everyone has blind spots in their thinking. We might be objective in our own specialty, with others, or with one single subject matter, but maintaining objectivity with all the issues of the world is very difficult and may even be against human nature. And yet, Charlie can maintain objectivity about everything. In this book, Charlie also talks about training and cultivating the spirit of objectivity. To cultivate this way of thinking will enable you to see things others do not see and predict the future that others cannot predict, thus leading to a happier, more independent, and more successful life.

But even with objectivity, the real knowledge that one can acquire through life is still limited. So we also need to stay within our circles of competence. A “competence” that has no defined borders cannot be called a true competence. How do you define your own circle of competence? Charlie once said that he was not entitled to have an opinion on a subject unless he could state the arguments against his position better than the people who support the arguments against his position. As a result, once Charlie establishes an opinion, it is almost always creative, unique, and seldom wrong.

A beautiful lady once insisted that Charlie use one word to sum up the source of his success. Charlie said it was “rationality.” However, he has a more stringent definition of rationality. It is his kind of “rationality” that grants him sensitive and unique vision and insight. Even in completely unfamiliar territory, with just one look, he can see through to the essence of the subject. Buffett calls this characteristic of Charlie the “two-minute effect”—he said that Charlie could, in the shortest time possible, unravel the nature of a complex business and understand it better than anyone else. The process of Berkshire’s investment in BYD Auto is an example. I remember when I first discussed BYD with Charlie in 2003. He had never met Wang Chuanfu (Chairman of BYD), never visited BYD’s factory, and was relatively unfamiliar with the Chinese market and culture. Yet the questions and comments he made at that time remain to this day the most pertinent questions to investing in BYD.

Everyone has blind spots, and even the brightest people are no exception. To quote Buffett, “Benjamin Graham taught me to only buy statistically cheap stocks, and Charlie allowed me to change my thinking. That’s the real impact Charlie had on me. I needed a powerful force to break the well-entrenched limitations imposed by Graham’s theories. Charlie’s mindset was that source of power. He expanded my horizons.” I have also had this profound experience. With at least two important issues, Charlie pointed out the blind spots in my thinking. If it weren’t for his help, I would still be in the process of evolution from ape to human. Over the past 50 years, Buffett has emphasized repeatedly that Charlie’s impact on him and Berkshire is irreplaceable.

Charlie spent his entire life studying disastrous human mistakes and is particularly fond of catastrophic errors caused by human psychological tendencies. The most valuable contribution is that he predicted the disastrous consequence of the spread of financial

derivatives and the loopholes in the accounting and auditing system. Back in the late 1990s, he and Mr. Buffett had already warned about the disastrous potential of financial derivatives. They escalated their warnings with the proliferation of these products, calling them “financial weapons of mass destruction,” as they would have a devastating impact on the economy and society if they were not stopped and regulated in time. The financial tsunami and global economic recession in 2008 and 2009 unfortunately validated Charlie’s far-reaching vision and insights. On the other hand, Charlie’s research into these catastrophic events has provided valuable experience and knowledge to help prevent similar disasters from occurring and is especially worthy of the attention of governments, the financial industry, businesses, and academia.

Compared to Buffett, Charlie has a more diverse range of interests. For instance, he has extensively studied almost every field in both the hard and soft sciences. Integration of the interdisciplinary studies has formed the original and unique Munger ideology. Compared to anything coming from within the ivory towers’ system of thinking, Munger’s doctrines are built to solve practical problems. For instance, as far as I know, Charlie was the first to propose and systematically study human psychological tendencies and their huge impact on decision-making processes in investing and business. Now, decades later, behavioral finance has become a popular topic in economics research, with a practitioner recently winning the Nobel Prize. The theoretical framework Charlie describes in the final chapter of this book, “The Psychology of Human Misjudgment,” will provide helpful guidance to people in better understanding the role of psychology in decision-making.

Charlie’s interest is not limited to the philosophy of thinking. He also likes to work with his hands and focus on details. He owns the world’s largest catamaran, which he designed himself. He is also a great architect. He built his house according to his own preferences, fully participating in every detail from the initial design to the finished product, and he designed all of the buildings that he has donated money for, including the student dormitories of Stanford University, the Munger Science Center at Harvard-Westlake School, and the Munger Research Center at the Huntington Library.

Charlie is naturally full of energy. He was 72 years old when I first met him in 1996. He is 86 years old this year. In the decade and a half I have known Charlie, his level of energy has never changed. He is always energetic and is an early riser. Breakfast meetings always begin at 7:30 AM. At the same time, because of dinner events, he spends less time sleeping than the average person, but that does not affect his exuberant energy level. His memory is also amazing. He still remembers BYD’s operating figures I discussed with him many years ago while my memories have already blurred; the 86-year-old man has a better memory than this young man! These are his innate competitive advantages, but he acquired through hard work the unusual qualities that contributed to his success.

To me, Charlie is not only a partner, a mentor, a teacher, and a friend, but also a role model toward leading a successful career and life. Apart from the principles of value investing, I also learned from him how to live life. He made me understand that a person's success is not accidental. Timing and opportunities are important, but the inherent character of a person is even more important.

Charlie likes to meet people for breakfast, usually starting at 7:30 AM. I remember the first time I had breakfast with him. I arrived on time and found Charlie sitting there, finished with the day's newspapers. It was only a few short minutes before 7:30, but I felt bad letting an older man I respected wait for me. For our second meeting, I arrived about fifteen minutes earlier and still found Charlie sitting there, reading the newspaper. For our third meeting, I arrived thirty minutes earlier and Charlie was still reading the newspaper, as if he had been waiting there all year round and had never left the seat. At the fourth meeting, I arrived an hour early and sat there waiting at 6:30 AM. At 6:45, Charlie strolled in with a pile of newspapers and sat down, not even looking up, completely unaware of my existence. Thereafter, I came to understand that Charlie always arrives early for meetings. However, he does not waste time either, because he reads the newspapers he brought along. Now I also arrive early, with a newspaper in hand, to keep him company until we start our breakfast meeting at 7:30 AM.

Occasionally, Charlie may be late. Once I was to introduce a young Chinese entrepreneur to him, and Charlie ran half-an-hour late from another lunch meeting. The moment he arrived, Charlie apologized profusely for being late and explained in detail what had caused his delay. During the conversation, he even proposed a few methods to improve the valet parking system to be more efficient so as not to cause customer delays with a 45-minute waiting time. This young Chinese man was both surprised and touched as he could hardly imagine anyone in the world as well established and regarded as Charlie that would keep apologizing to a junior for being late.

There was another event that made a huge impact on me. One year, Charlie and I were attending an out-of-state meeting. After the event, I was hurrying to get back to New York and unexpectedly bumped into Charlie again at the airport terminal. When he passed through the security detector, it repeatedly set off. Charlie returned again and again for the security check. He finally passed through the security checkpoint after a long and laborious effort, but by then, his plane had already departed.

Charlie did not seem upset. He took out a book he carried with him and sat down to read while he waited for the next flight. Incidentally, my flight was also delayed so we waited for our flights together.

I asked Charlie, "You have your own private jet and so does Berkshire. Why do you bother going through the hassles of flying commercial?"

Charlie replied, “Firstly, it is a waste of fuel for me to fly in my private jet. Secondly, I feel safer flying in a commercial aircraft.” However, Charlie’s third reason is the real one: “I want to live an engaged life. I don’t want to be isolated.”

The last thing that Charlie wants to happen in his life is to lose contact with the world because of money and wealth. To isolate yourself in a large office occupying the entire floor, to require layer after layer of approvals to set up meetings, and to hide behind a complicated bureaucracy so you become hard to reach for anyone—alone, isolated, and inaccessible—that is how you become out of touch with the realities of life.

“As long as I have a book in my hand, I don’t feel like I’m wasting time.” Charlie always carries a book with him. Even if he is sitting in the middle seat in economy class, as long as he has a book, he will have no complaint. Once he went to Seattle to attend a board meeting, taking the economy class as usual. He sat beside a Chinese girl who was doing her calculus homework throughout the flight. He was impressed with her because he has difficulty imagining American girls her age having such intense concentration to ignore the noise and chaos on the aircraft and concentrate on studying. If he were aboard a private jet, he would never have had the opportunity to come into close contact with these stories of ordinary people.

Although strict with himself, Charlie is extremely generous with those whom he cares about and loves. He is not stingy with money, hoping others will benefit more. For his own travels, Charlie always flies economy, but when he is traveling with his wife and family, he will take the private jet. He explained that his wife deserved a better treatment because she had been so devoted in raising their kids and taking care of the family. Now that her health is not as good as it used to be, he takes good care of her.

Charlie is not a graduate of Stanford University, but he donated more than \$60 million to Stanford just because his wife is a Stanford alumna and also a former board member of the University.

Once Charlie has found something he wants to do, he can carry it on for the rest of his life. For example, he has been a board member of the Harvard-Westlake School and of a charity hospital in Los Angeles for more than 40 years. Charlie is a very generous sponsor of the charities he’s engaged in. He not only donates money, but also devotes a considerable amount of his time and energy to these charities to make sure they run successful operations.

Charlie spent his lifetime studying the causes of human failures, resulting in a profound understanding of the weaknesses of human nature. Because of this, he believes people must be strict and demanding of themselves, continuously improving their discipline in life in order to overcome the innate weaknesses of human nature. To Charlie, this way of life is a moral requirement. To an outsider, Charlie might seem like a monk; but to

Charlie, this process is both rational and pleasant and it leads to a successful and happy life.

Charlie is such a unique person. But if you think about it, if Munger and Buffett weren't so unique, how could they have built Berkshire's performance over 50 years into one that is unprecedented in the history of investments and has yet to be replicated? Over the past two decades, interest in Buffett and Munger has been increasing worldwide, and it's likely to be intensified in the future. There are an immense number of books about them in both Chinese and English and there is no lack of original insights. To be honest, it is still too early for me to assess the entire value of Mungerisms, because every time I talk to Charlie and reread his lectures, I learn something new. On the other hand, this shows that my understanding of his philosophies is still insufficient. However, having the good fortune to be exposed to Charlie's philosophy and character with a more direct and personal experience, I am honored to share my personal observations and experiences with the readers. I sincerely hope that the audience will have a deeper understanding of the essence of Munger's philosophies after reading this book and be greatly encouraged to improve their own careers and lives.

I know that Charlie himself is also fond of this book, which has pulled together all the wisdom and experiences of his life. In his later years, Charlie has often concluded his speeches with one of his favorite quotes, which is a line from the old Mr. Valiant-for-Truth in the Christian Classic, *The Pilgrim's Progress*, "My sword I leave to him who can wear it." With the publication of this book, I hope that more readers will have a chance to study and understand Munger's wisdom and character. I believe every reader can, through learning and practice, become the lucky valiant wearing the sword.

Part 3: Charlie Munger and the Traditional Chinese Literati

Over the years that I've known Charlie, I have often forgotten that he is an American. In my mind, he is more similar to the traditional Literati (scholar-officials) of Imperial China. In my 20 years of living in America, I often ask myself, "What is the soul and essence of Chinese culture?" Objectively speaking, as a Chinese growing up after the "May Fourth Movement," I generally adopt a negative attitude toward Chinese traditions. After arriving in the United States, I was fortunate to be able to systematically learn about all the classic literature that shaped Western civilization in my studies at Columbia University, covering areas such as literature, philosophy, science, religion, and the arts. The studies started from Greek civilization, extended to Europe, and ended with modern civilization. Later, because Columbia offered a number of courses on Confucian philosophy and Islamic civilization, I renewed my understanding and knowledge of the Confucian philosophy. At that time, most textbooks were in English, and since I was not

adept in ancient Chinese prose, I was left with no choice but to start my root-seeking journey for ancient Chinese philosophy through English versions of these books.

The more I read and think about it, the more I feel that the soul of Chinese culture lies in the traditional Chinese Literati culture. The value system of the Literati was presented as one of self-improvement, the process of surpassing one's self. Confucius wrote in *The Higher Education*, "When the heart is right, the personal life is cultivated. When personal lives are cultivated, families become harmonious. When families are harmonious, government becomes orderly. And when government is orderly, there will be peace in the world." This set of values was widely expounded upon by the various schools of thought under Confucianism and should be where the true core value of Chinese culture lies. The ancient Imperial examination system was a primary platform to identify the Literati. It allowed followers of Confucianism to pursue their journey of personal cultivation and, at the same time, provided a platform for them to utilize their talents. Through passing the exams and becoming Imperial officers, thus reaching the highest hierarchy of their society, they could make use of their knowledge and realize their own values.

Hundreds of years after the Imperial examination system ended, the spirit of the Literati has now been lost. Especially in these modern times of highly developed commercial society, the Chinese scholars who bear the spirit of the Chinese Literati are often perplexed by the value and ideals of their own existence. In this modern world where tradition has been lost, is the spirit of the Literati still applicable or useful? In the late Ming Dynasty, capitalism began to sprout in China, and the merchants raised the ideals of "a businessperson with a Confucian soul." Today, commercial markets have become the driving force of the modern society, thus improving the chances for this ideal to become a reality.

Charlie can be said to be the best role model of "a businessman with a Literati's soul." First of all, Charlie is extremely successful in business. What he and Buffett have achieved is unprecedented and will never be replicated. However, in the in-depth interactions I have had with Charlie, I have found him to be essentially a moral philosopher and a scholar. He reads widely, is knowledgeable over a broad range of topics, is truly concerned about his own moral cultivation, and is ultimately concerned about society. Like Confucius, Charlie's value system, from the inside out, promotes self-cultivation and self-development to become one of the "saints" who help others.

As described earlier, Charlie is very strict with himself. Despite his extraordinary wealth, he lives life like a monk. He is still living in the same ordinary house he bought several decades ago, only flies economy on trips, always arrives 45 minutes early for meetings, and will specially apologize on the few occasions when he is late. Having achieved huge success professionally and financially, he then devotes his efforts to charity to benefit the people of the world.

Charlie was completely dependent on his wisdom in achieving his success, and he is undoubtedly an exciting role model for Chinese scholars. His success came from investing, which came from self-cultivation and learning—completely different from the power-for-money deals and “unwritten law” transactions we see in China today. Having the utmost integrity, Charlie used the purest method and made full use of his own wisdom to achieve his success. Today, in the market economy, can Chinese scholars be filled with the spirit of the Literati and, by improving themselves through learning and self-cultivation, achieve the successes of the secular society while realizing the value of their own ideals?

I sincerely hope that Chinese readers will be interested in Charlie and this book. Charlie is a great admirer of Confucius, especially Confucius’ teaching spirit. As with Confucius, Charlie is also a great teacher, happy to share his wisdom patiently and tirelessly. This book contains all of the knowledge and wisdom Charlie collected over his lifetime to be shared with the world without any reservation. Charlie is full of hope for China’s future and admires the Chinese culture. The successful application of Confucianism in the modern Asian business world has helped to build more confidence in the renaissance of Chinese philosophy and culture. Nearly one century after the May Fourth Movement, we probably no longer need to struggle between the applications of *Chinese-* versus *Western-style* learning. All we need is to be liberal minded, keep ourselves open to all useful worldly knowledge, and place ourselves within the moral value system that has been respected and abided faithfully by the Chinese for thousands of years.

I sometimes think that if Confucius were to be reborn in America today, Charlie would likely be the ideal incarnation. If Confucius returned 2,000 years later to today’s commercialized China he would probably teach: “Be righteous with a good heart, cultivate one’s moral character, harmonize one’s family, enrich society, and help the world.”

Part 4: Contents and Acknowledgements

The first three chapters of the book introduce the life of Charlie and his famous quotations, and summarize the main ideas of his views on life, career, and learning. Chapter 4 contains Charlie’s 11 most representative speeches. Many readers will be most interested in the following four of these presentations: The first speech uses humor to explain how to avoid pains in life. The second and third speeches explain how to obtain Worldly Wisdom and how to apply that wisdom to the practice of successful investing. The final speech, recording Charlie’s most original study of psychological systems, elaborates on the 23 most important psychological causes of human misjudgments.

Over the past year, many friends have contributed to the publication of the Chinese version of this book. Mr. Li Jihong, a Chinese translator, undertook the majority of the work. His dedication and superb writing style left a deep impression on me. My long-time friend, Mr. Chang Jing, put in a lot of work proofreading, translating, and annotating. Without his help, I cannot imagine the book finishing on time. I am more familiar with Charlie's ideas and language style, and naturally took on the work of the final check. Of course, if the book's translation contains errors, I will bear the responsibility for them. The elegance, patience, fidelity and generosity of Mr. Hung-Chun Shih of the Shanghai Century Publishing Group make him a rare collaboration partner. Miss Zhang Xin played a crucial role in driving the book's translation, proofreading, editing and publication. These distinguished colleagues made the translation and publication of this book a meaningful and enjoyable experience. In addition, I need to thank many friends in China, especially in the value investing community, for their encouragement and support for the publication of this book.

Louis Li

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