



## Steal These 3 Timeless Investing Tips From Warren Buffett's Right Hand Man

### Description

While the **Berkshire Hathaway** annual meeting gets all the attention, each February, one of the participants holds a much smaller version. Instead of 40,000 people attending, only a few hundred make the journey to Los Angeles for the **Daily Journal Corporation** annual meeting.

That man isn't Warren Buffett, of course, or else the event would make headlines. Buffett's right hand man Charlie Munger is the star of the show, which includes a few solid hours of questions from the audience. Munger's internal filter isn't quite as developed as Buffett's, which can make for some pretty entertaining sound bites.

The result is some of the best investing commentary you'll find. Here are three of Munger's top tips from the 2017 edition.

### Diversification

Am I comfortable with a non-diversified portfolio? Yes. The Mungers have three stocks: Berkshire, **Costco**, and Li Lu's fund.

Diversification is something I constantly struggle with. It isn't just Munger that advocates putting a large percentage of your net worth into a handful of stocks. Many other investing experts suggest the same thing. To paraphrase Warren Buffett, what's the point of investing in your 11th best idea when you could just add money to your top position?

But at the same time, my portfolio is quite diversified. I don't want to run the risk of losing 50% of my capital if one company misses earnings expectations or has a scandal. I'll gladly take a little less potential upside to minimize the chance of my portfolio blowing up.

I wasn't always like this, however. When I was 18 I put 100% of my net worth into a rental property, which has more than doubled in value. I've successfully raised the rent to the point where I have a 15-20% yield on cost, depending on other expenses.

Portfolio concentration can work wonders, assuming you get the bet right.

### Knowing when to swing

Berkshire succeeded on two decisions a year.

While this isn't exactly true — naysayers have pointed out that Berkshire was more aggressive than two decisions a year — the spirit still holds true. Munger is an advocate of waiting until you stumble upon a great opportunity and then pouncing.

Take **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) as an example. Shares trade hands at \$58.38 as I write this, flirting with a 52-week low. Many investors are taking a serious look at BCE, since it isn't very often a company this fine trades at such depressed levels. The 4.9% dividend also provides a nice consolation prize for waiting.

BCE has made countless investors rich over the years, and there's no indication that's going to change in the future. I suspect Munger would be a fan of loading up on a great company suffering from momentary weakness.

### Deferred gratification

I lived my whole life with people who have deferred gratification. They don't have fun, but they get wealthy.

As much fun as it is to drive a brand-new car, live in a big house, or run up big bar tabs every night, the time to do that is when you're already wealthy. Not when you're first starting out.

Compound interest is a truly magical thing. If someone can maximize their investment capital in their 20s, it'll really pay off in their 50s and 60s. Munger understands this better than anybody. After all, he's had a front row seat to Warren Buffett's success over the years and became a billionaire himself.

Look at it this way. In the first part of 1997, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) traded at about \$25 per share and paid a quarterly dividend of \$0.20 per share. Now, 20 years later shares trade hands at over \$100 each and the quarterly payout is \$0.88 per share.

Thus, Bank of Montreal's yield on cost is an eye-popping 14.1%. That's the power of compound interest.

### The bottom line

Charlie Munger is one of the finest investors of all time. In fact, if Buffett hadn't met Munger in 1959, he likely wouldn't be as rich as he is today. It was Munger who convinced Buffett to buy great businesses rather than cigar-butt stocks.

One of the best things about being an investor today is that it's easy to learn from the masters. Pay attention to guys like Munger and you will end up richer. It's that simple.

### CATEGORY

1. Dividend Stocks
2. Investing

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