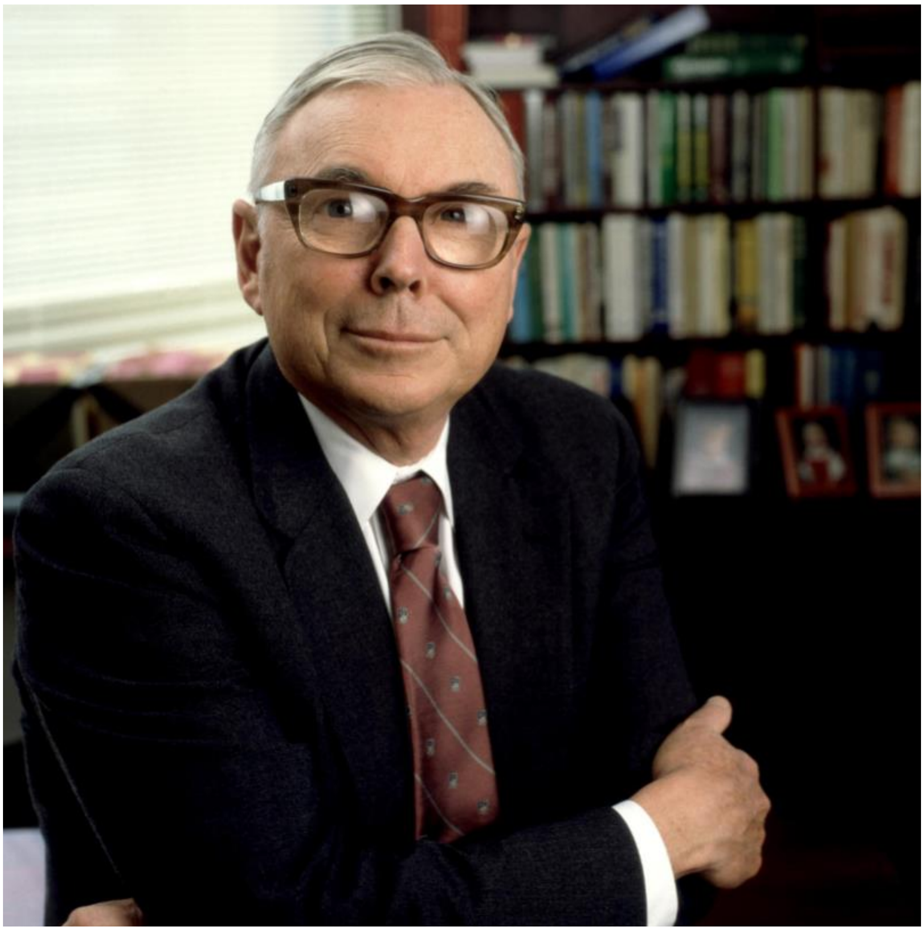


RIP Charlie Munger

To commemorate the great Charlie Munger after his passing this week at the age of 99, allow me the indulgence to list some of his greatest quotes.

The man, heralded for setting Warren Buffett on the path of ditching his famed strategy of buying out of favour companies he called ‘cigar butts’ and waiting for the market to re rate them and instead set him up for the glory that is the Berkshire Hathaway investment behemoth utilising Charlie’s “don’t buy fair businesses at wonderful prices, instead buy wonderful businesses at fair prices”.

- “Always take the high road, it’s far less crowded.”
- “It’s waiting that helps you as an investor and a lot of people just can’t stand to wait. If you didn’t get the deferred-gratification gene, you’ve got to work very hard to overcome that.”
- “I think part of the popularity of Berkshire Hathaway is that we look like people who have found a trick. It’s not brilliance. It’s just avoiding stupidity.”

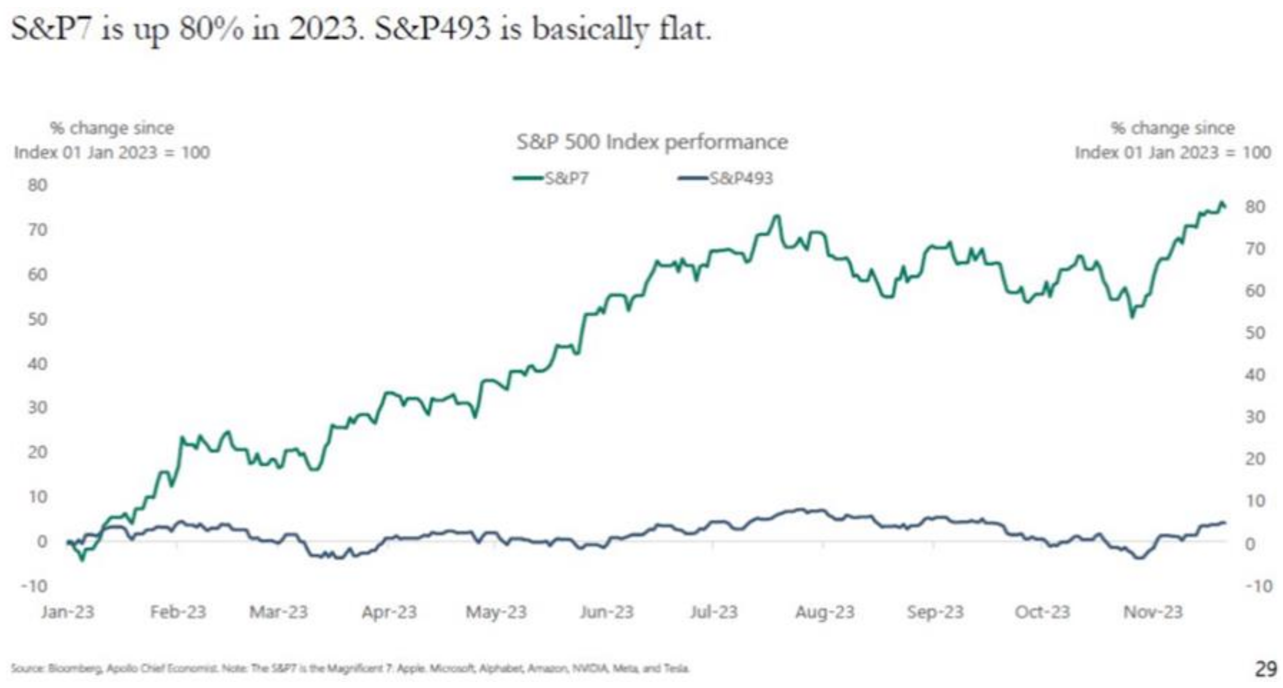
- “The world is not driven by greed. It’s driven by envy… I have conquered envy in my own life. I don’t envy anybody. I don’t give a damn what someone else has. But other people are driven crazy by it.”
- "Another thing, of course, is life will have terrible blows, horrible blows, unfair blows. Doesn’t matter. And some people recover and others don’t. And there I think the attitude of Epictetus is the best. He thought that every mischance in life was an opportunity to behave well. Every mischance in life was an opportunity to learn something and your duty was not to be submerged in self-pity, but to utilize the terrible blow in a constructive fashion. That is a very good idea."
- "Without the method of learning, you're like a one-legged man in an ass-kicking contest. It's just not going to work very well."
- “In my whole life, I have known no wise people (over a broad subject matter area) who didn’t read all the time — none, zero. You’d be amazed at how much Warren reads — and at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.”
- “Acquire worldly wisdom and adjust your behaviour accordingly. If your new behaviour gives you a little temporary unpopularity with your peer group then to hell with them.”
- “Mimicking the herd invites regression to the mean (merely average performance).”
- “I have a friend who’s a fisherman. He says, ‘I have a simple rule for success in fishing. Fish where the fish are.’ You want to fish where the bargains are. That simple. If the fishing is really lousy where you are you should probably look for another place to fish.”
- “The world is full of foolish gamblers and they will not do as well as the patient investors.”
- “Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things.”
- "A cryptocurrency is not a currency, not a commodity, and not a security. Instead, it’s a gambling contract with a nearly 100% edge for the house, entered into in a country where gambling contracts are traditionally regulated only by states that compete in laxity."
- “Capitalism without failure is like religion without hell.”

What a legend

Looking Overseas

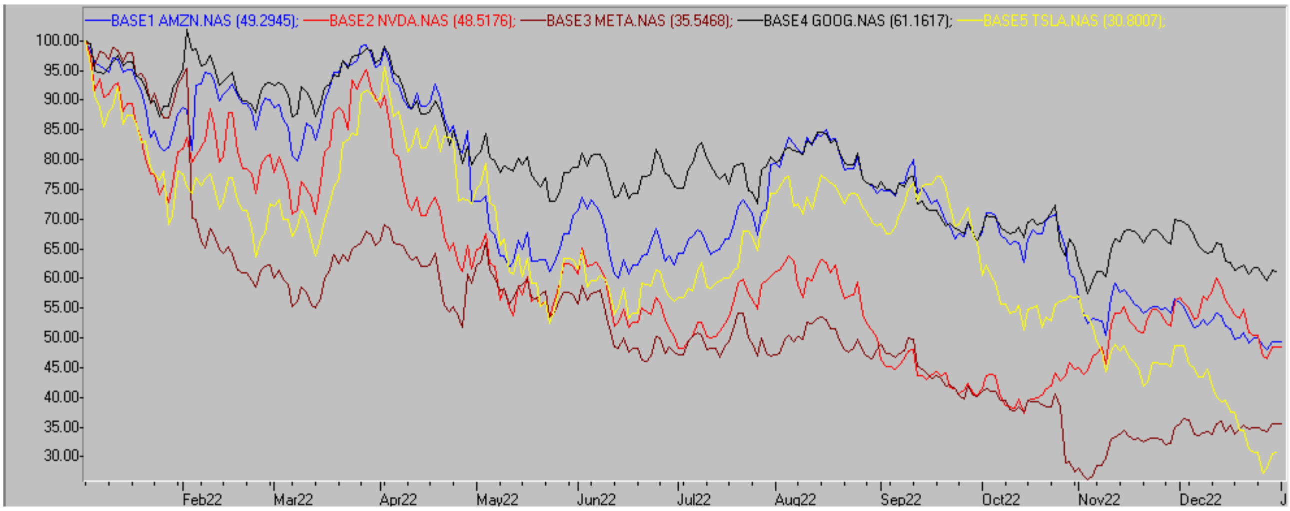
I saw an interesting series of charts reproduced this week by famed tech investor, Chamath Palihapitiya on X (Twitter) where he points out the performance of the massive Magnificent 7 (M7); Apple, Microsoft, Amazon, Nvidia, Meta, Google, and Tesla this calendar year; up a staggering 80%. What makes this all the more jaw dropping is the sheer size of these businesses. These US$ Trillion businesses have been the major reason for the rise in the S&P 500 and the NASDAQ. As the M7 accounts for over 30% of the S&P 500, and 44% of the NASDAQ, where they go, so goes the market.

Take a look at the performance of the M7 versus the other 493 stocks in the S&P 500: completely flat.



What does this tell you or what lessons can be learned from this performance?

1) Check the previous period of performance. These stocks were down between 30% and 70% the previous calendar year, and of course to reverse the total loss of 50% is not plus 50%, it is plus 100%.



2) Big stocks can show growth. This point will be lost on us Australians as our major stocks haven't grown for 16 years; hence the index sitting where it was 16 years ago. Our market represents an unmitigated example of over allocating capital to a handful of businesses and under allocating capital to worthy recipients.
   NB; I've left Apple and Microsoft out of this chart.
3) Look beneath the headlines, ignore the noise. Does this mean that the only stocks in the US to perform this calendar year are the M7? Of course not, but the poor performance by the vast majority of the other 493 S&P 500 stocks drowns out the diamonds elsewhere.
4) Check the valuations. I've always struggled to justify the valuations of some of these growth stocks as they trade well outside my ranges. The table below illustrates the average price to

earnings ratios (P/E) during other notable high valuation periods being the Tech bubble and the Nifty Fifty from 1972. The M7 look expensive on a trailing P/E basis, but of course that ignores the growth expected in the coming periods. Check out Nvidia's P/E of 115x for a US$ trillion business. They'd want to meet expectations or their price will get smacked.

S&P7 stocks are as overvalued as the Nifty Fifty and tech in 2000

S&P7	Trailing P/E	Tech bubble	March 2000 P/E	Nifty Fifty	1972 P/E
Meta	22	Intel	41	Coco-Cola	46
Amazon	68	Cisco	100	McDonalds	71
Apple	31	Dell	57	Texas Instrument	40
Google	25	Microsoft	51	IBM	36
Microsoft	36			Xerox	46
Nvidia	115			Polaroid	95
Tesla	75				
Average P/E ratio	53	Average P/E ratio	62	Average P/E ratio	56

5) Don't be scared of investing abroad. I'm probably more guilty of this than anyone because I found it extremely difficult to gain access to management, key personnel, and data, but there are those who can do the job for us. T. Rowe Price, Alliance Bernstein, Schafer Cullen and Shaw's own partner EFG can provide access to excellent fund managers that operate in these markets. They can find the diamonds I'm talking about.

CPI

The October CPI figures were released on Wednesday this week and surprised on the downside at 4.9% versus expectations of 5.2%. The underlying figure (ex volatiles of fuel, fresh food, school fees, etc) also weakened and was below expectation at 5.1%, previously 5.5%.

Click on the link below to read Martin Crabb's assessment.

Australian Economics - October CPI dropped to 4.9%, tracking below forecasts, rates on hold - 29 Nov 2023

Have a good weekend,

Ben and the team.

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