

An Investing Principles Checklist

“No wise pilot, no matter how great his talent and experience, fails to use his checklist.”

We have now examined Charlie’s approach to thinking in general and to investing in particular. In keeping with our intent to observe “how he seems to do it,” we will recap his approach by using the “checklist” methodology he advocates. (For Charlie’s own words of wisdom on the value and importance of checklists, see Talk Five.) Note, however, that the following principles are most certainly not employed by Charlie in a one-by-one or one-time fashion as the checklist format might seem to imply. Nor can they necessarily be prioritized in terms of any apparent or relative importance. Rather, each must be considered as part of the complex whole or gestalt of the investment analysis process, in much the same way that an individual tile is integral to the larger mosaic in which it appears.

- Risk—All investment evaluations should begin by measuring risk, especially reputational
 - Incorporate an appropriate margin of safety
 - Avoid dealing with people of questionable character
 - Insist upon proper compensation for risk assumed
 - Always beware of inflation and interest rate exposures
 - Avoid big mistakes; shun permanent capital loss
- Independence—“Only in fairy tales are emperors told they are naked”
 - Objectivity and rationality require independence of thought
 - Remember that just because other people agree or disagree with you doesn’t make you right or wrong—the only thing that matters is the correctness of your analysis and judgment
 - Mimicking the herd invites regression to the mean (merely average performance)

Compound Interest



“...’tis the stone that will turn all your lead into gold.... Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more.”

—Benjamin Franklin

“If you took our top fifteen decisions out, we’d have a pretty average record. It wasn’t hyperactivity, but a hell of a lot of patience. You stuck to your principles and when opportunities came along, you pounced on them with vigor.”

“There are worse situations than drowning in cash and sitting, sitting, sitting. I remember when I wasn’t awash in cash—and I don’t want to go back.”

—Munger