

“It’s very easy to misweigh the vivid evidence, and Gutfreund did that when he looked into the man’s eyes and forgave the colleague.” -Charlie Munger

*This article is part of a [multi-part series](#) on human misjudgment by Phil Ordway, managing principal of [Anabatic Investment Partners](#).*

Munger cites the example of Belridge Oil where turned down a large block of shares because he “just mis-weighed it” based on his assessment of an extraordinarily peculiar CEO. That decision cost him a short-run profit of more than \$5 million that mushroomed into the hundreds of millions of dollars on an opportunity-cost basis over the ensuing decades.

Belridge was the first of the oil company megadeals that began as a little-known California producer. It was forced onto the auction block in July 1979 when the descendants of its three land-speculator founders, owning a collective 55%, got an attempted squeeze-out offer from the Mobil/Texaco JV that owned 34%. “The two majors attempted to buy out the other shareholders, negotiations with each shareholder individually so as to gain the company on the cheap. However, the members of the founding families, mostly in their sixties and seventies, would not be pushed around, and instead decided to run an auction.”<sup>[52]</sup> The market price at the time was around or slightly above \$110 million, and the company rarely if ever traded on the Pink Sheets. In 1978 had posted \$43.9 million in profit on a book value of roughly \$177 million. Profits in the first half of 1979 were up 50%.<sup>[53]</sup>

The auction resulted in Belridge’s acquisition by Shell for \$3.6 billion in late 1979. At the time it was thought to be the biggest cash takeover in American history.<sup>[54]</sup> Shell reportedly topped the next highest bid by \$500 million, shocking all observers.<sup>[55]</sup> The per share takeout price of more than \$3,600 compared with the Munger’s price of \$115. The auction result even got an eventual mention in a Buffett shareholder letter, noting that Belridge was sold for \$3.6 billion against its book value of \$177 million, while LTV and Baldwin-United showed audited book values of \$652 million and \$397 million, respectively, just before they went bankrupt.<sup>[56]</sup>

As noted above, I often think about this in the context of the many investors/allocators still fighting the War of 2008.

A more recent example is a “quiz” on violence I often give to friends. Chicago has had a lot of attention in this regard, and some of it is deserved; every shooting is one too many. But the vivid evidence cited in some prominent tweets - and the contrast phenomenon that ignores Chicago’s absolute size - can play tricks. The facts are that Chicago’s murders per 100,000 residents spiked from 15-17 in 2005-2013 to more than 25 in 2016...but in the early/mid-1990s it was over 30.<sup>[57]</sup> And its murder rate ranked 8th among big U.S. cities in 2016. St. Louis was at nearly 60, and Baltimore was over 51.<sup>[58]</sup>

The same is true for America generally. The annual murder rate per 100,000 people

bounced between eight and 10 from 1970 to ~1995 before declining sharply through ~2014 near 4.5. It has since ticked up above 5.5.<sup>[59]</sup> To keep the size in perspective, that is an extra 3,000+ Americans killed per year at the higher rate of 2016 vs. 2014's but almost 15,000 fewer Americans killed at the lower rate of 2016 vs. 1994's. Nonetheless, concern about violent crimes was at or near all-time highs in many surveys/polls of Americans.<sup>[60]</sup>

Even more broadly, from 1945-2011 the global violent death rate fell from 22 people per 100,000 to 0.3, but by 2014 it had ticked back up to 1.4.<sup>[61]</sup>

**Mental confusion caused by "why" - Also, mis-influence from information that apparently but not really answers the question "Why?" Also, failure to obtain deserved influence caused by not properly explaining why.**

Munger: "Well we all know people who've flunked...they try and memorize and they try and spout back and they just...it doesn't work. The brain doesn't work that way. You've got to array facts on the theory structures answering the question "Why?" If you don't do that, you just cannot handle the world." "You want to persuade somebody, you really tell them why."

- Fuerstein at Salomon
- Karl Braun's communication practices

### Update

- Real knowledge requires the ability to explain why to a novice
- History's greatest leaders all explained why
- Unraveling short ideas usually requires asking "Why?" ad infinitum. Chanos has said that many of his best analysts were
- journalism students and practicing investigative journalists, not MBAs.
- Everyone knows what they do; most know how; but few know why. Concentric circles with "Why?" at the core.<sup>[62]</sup>
- Success ≠ straight A's in school

<sup>[52]</sup> <https://goo.gl/Qzdz8k>

<sup>[53]</sup>

<http://www.nytimes.com/1979/09/29/archives/shell-appears-to-win-belridge-bidding-contest-just-550-shareholders.html>

<sup>[54]</sup>

[https://www.washingtonpost.com/archive/politics/1979/09/30/shell-to-purchase-calif-oil-land-for-365-billion/2dda0dcd-78b7-4288-92a8-81b183837cda/?utm\\_term=.e685015f3115](https://www.washingtonpost.com/archive/politics/1979/09/30/shell-to-purchase-calif-oil-land-for-365-billion/2dda0dcd-78b7-4288-92a8-81b183837cda/?utm_term=.e685015f3115)

<sup>[55]</sup> <https://goo.gl/Qzdz8k>

<sup>[56]</sup> <http://www.berkshirehathaway.com/letters/1987.html>

<sup>[57]</sup>

<https://fivethirtyeight.com/features/chicagos-murder-rate-is-rising-but-it-isnt-unprecedented/>

<sup>[58]</sup>

<https://fivethirtyeight.com/features/u-s-cities-experienced-another-big-rise-in-murder-in-2016/>

<sup>[59]</sup>

<https://fivethirtyeight.com/features/u-s-cities-experienced-another-big-rise-in-murder-in-2016/>

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<https://www.brennancenter.org/publication/crime-2016-preliminary-analysis#Executive%20Summary>

[61] Joshua Goldstein and Steven Pinker:

<https://www.bostonglobe.com/opinion/2016/04/15/the-decline-war-and-violence/lxhtEplvppt0Bz9kPphzkL/story.html>

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