

Poor Charlie's Almanack

By Charlie Munger, Peter Kaufman



Summary

1. A truly eye-opening book into the world and thought processes of [Charlie Munger](#). He describes how and why he thinks the way he does, stresses the importance of learning the basics in the fundamental disciplines in order to avoid becoming "the man with a hammer who sees everything as a nail," and how this has translated into the enormous success that is [Berkshire Hathaway](#).

Key Takeaways

1. This book is designed to help you make better decisions, invest better and get a better understanding of life through mastering basic truths, human nature and core principles from a wide range of disciplines
2. Munger's values - lifelong learning, perseverance, intellectual curiosity, sobriety, avoidance of envy and resentment, reliability, learning from the mistakes of others, objectivity, willingness to test one's own beliefs and many more
3. Successful investing is simply a byproduct of his carefully organized and focused approach to life
4. Looks at both internal workings as well as larger, integrated "ecosystem" in which it operates before investing - must use multiple mental models in broad fields such as history, psychology, physiology, math, engineering, biology, physics, chemistry, statistics, economics and so on. Enables Charlie to reduce the inherent chaos and confusion of a complex investment problem into a clarified set of fundamentals. Everything is linked and interconnected
5. Knowing what to avoid more important than making great decisions
6. Judge yourself by your preparation and decision making, not by the outcome
7. "We try more to profit from always remembering the obvious than from grasping the esoteric. It is remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."
8. Learn vicariously from others mistakes as much as possible
9. People don't think about the consequences of the consequences. So important to consider these secondary and tertiary effects
10. Getting the incentives right is a very, very important lesson.

11. In a career look for 3 things - don't sell anything you wouldn't buy yourself, don't work for anyone you don't respect or admire, work only with people you enjoy
12. Learning how to "invert" problems/decisions cannot be more important. Figure out exactly what you *don't* want to happen and avoid those things at all costs
13. Psychology may be the most important mental model to grasp. The misery-caused mental misdirection and incentives should both be highlighted
14. Lollapalooza effects, very big effects, tend to only come from large combinations of factors
15. If you can get really good at destroying your own wrong ideas, that is a great gift
16. The acquisition of wisdom is a moral duty.
17. "I feel that I'm not entitled to have an opinion unless I can state the arguments against my position better than the people who are in opposition."
18. Independence is the end that wealth serves for Charlie, not the other way around
19. Focus on the task immediately in front of you and control spending
20. Munger a big fan of [Cicero](#) - lifelong learning, get better with old age, patience and no complaining
21. Do the job right the first time no matter how small and be responsible
22. Munger able to focus completely on the task at hand - zoning out anything else going on around him
23. Values durability, ritual and tradition ([Brooks Brothers](#))
24. In anything he does, he wants to understand and **get to the bottom of everything** - whether he's interested in it or not
25. Find out what you're best at and keep pounding away at it
26. Many of these mental models are self taught - part of the reason he considers [Ben Franklin](#) a role model of his
27. "Simplicity is the end of long, hard work, not the starting point." - [Frederick Maitland](#)
28. Makes only a handful of very large bets when he is very sure and it falls within his circle of competence
29. Attempts to understand beyond all else a company's competitive advantage and its durability - it's "moat"
30. A great business at a fair price is superior to a fair business at a great price
31. **Far more time is dedicated to reading and thinking than doing**
32. His most basic guiding principles, his fundamental philosophy of life: preparation, discipline, patience, decisiveness
33. **Honesty and integrity are vital and in the long run pay amazing dividends**
34. "I would argue passion is more important than brainpower."

35. "I think it's dangerous to rely on special talents - it's better to own lots of monopolistic businesses with unregulated prices."
36. "It's [their investment approach] is not difficult, but it looks difficult because it's unconventional."
37. **Temperament is extremely important. But so too is being aggressive when it's time.**
38. "Our game is to recognize a big idea when it comes along, when one doesn't come along very often. Opportunity comes to the prepared mind."
39. "Beta and modern portfolio theory and the like - none of it makes any sense to me. We're trying to buy business with sustainable competitive advantages at a low, or even a fair, price."
40. **"...there are some things you should pay up for, like quality businesses and people."**
41. Learn to take criticism constructively and learn from it.
42. The biggest mistakes they've made at Berkshire have been mistakes of omission.
43. Munger advises that if you're young, go work with very small stocks, searching for unusual mid priced opportunities but warns that it's such a small world
44. Don't utilize the popular cost of capital - they measure every investment against the alternatives
45. **"The ethos of not fooling yourself is one of the best you could possibly have. It's powerful because it's so rare."**
46. "Organized common (or uncommon) sense - very basic knowledge - is an enormously powerful tool...Part of [having uncommon sense] is being able to tune out folly, as opposed to recognizing wisdom. If you bat away many things, you don't clutter yourself."
47. If your behavior brings some unpopularity with your peer group, then the hell with them

The 25 Tendencies of Human Misjudgment

1. Reward & Punishment Super-response Tendency

1. **Incentives are superpowers** - The power that incentives and disincentives have on changing cognition and behavior in others cannot be overstated
2. Munger says this should be obvious but so many people don't understand the how important incentives are for shaping people's motivation to complete a task
3. Appeal to people's interests, not their rationality in order to get your point across

4. **Prompt rewards much more effective than delayed rewards in changing and maintaining behavior**
 5. Incentive-caused bias - man slowly drifts into immoral behavior in order to get what he wants if the incentives are improper. Man can rationalize anything
 - Should often distrust or at least take with a grain of salt whatever is being sold to you when the salesman has a lot to gain
 6. Behavior, whether good or bad, is intensely habit-forming when it is rewarded. Make sure you reward what you want
 7. Man "games" every system he can - avoid as much as possible rewarding people for what can easily be faked
 8. **Granny's rule** - first do the unpleasant and necessary tasks before rewarding yourself by proceeding to the pleasant tasks
2. **Liking/Loving Tendency**
9. We ignore the faults of other people, products or companies that we admire and distort other facts to facilitate love
 10. Man often likes and loves what likes and loves him
 11. Admiration also causes or intensifies liking or loving
 12. Those who like love admirable people, virtues, good books, etc. have a huge advantage
3. **Disliking/Hating Tendency**
1. Ignore virtues in the objects, products, companies, people we dislike and distort other facts to facilitate this hatred
4. **Doubt/Avoidance Tendency**
1. If we are unsure about a decision we try to quickly remove any doubt by making an ill-informed, quick decision.
 2. **Institute a "delay before decision" rule** into your life and you will thank yourself over and over
 3. Puzzlement and stress often trigger doubt-avoidance tendency
5. **Inconsistency-Avoidance Tendency**
1. We have a reluctance to change. Eliminating bad habits is a rare trait.
 2. Form good habits as early as possible
 3. Also tend to be maintained in place - previous conclusions, human loyalties, reputational identity, commitments, accepted role in a civilization, etc.

4. Consider skillful counterarguments to any position you hold before making a decisions
 5. "...people tend to accumulate large mental holdings of fixed conclusions and attitudes that are not often reexamined or changed, even though there is plenty of good evidence that they are wrong."
 6. Must intensively consider any evidence tending to disconfirm any hypothesis you might have, especially one you think is particularly good
 7. Tough initiation ceremonies which are often public serve to make the new member even more loyal
6. **Curiosity Tendency**
1. Take a curious, lifelong learning approach to life and it is hard to be unhappy or unsuccessful
7. **Kantian Fairness Tendency**
1. Tolerating a little unfairness should be okay if it means a greater fairness for all. The example Munger uses is letting in other drivers on the freeway knowing they will reciprocate in the future.
8. **Envy/Jealously Tendency**
1. "It is not greed that drives the world, but envy." - Warren Buffett
 2. So much of what we do and how we react is driven by envy/jealous but it has become such a taboo that even though it is so ubiquitous, it is rarely talked about and is even left out of most psychology textbooks.
9. **Reciprocation Tendency**
1. The automatic tendency to reciprocate both favors and disfavours
 2. "The standard antidote to one's overactive hostility is to train oneself to defer reaction."
 3. Reciprocation is built into us that it often operates at a subconscious level, allowing others to easily mislead us if they want to
 1. If you want to protect yourself as much as possible, avoid favors, especially from vendors, at all costs
 4. Guilt is caused by wanting to be consistent and reciprocate but also being pulled in the opposite direction by the reward super response tendency
10. **Influence-From-Mere-Association Tendency**
1. We can be easily manipulated by mere association. It can be a group of people, the quality of a product, advertising, etc.

2. "some of the most important miscalculations come from what is accidentally associated with one's past success, or one's liking and loving, or one's disliking and hating, which includes a natural hatred for bad news."
 3. Carefully examine each past success, looking for accidental, non-causative factors associated with the success that might mislead you to making correlative assumptions and look for dangerous aspects of the new undertaking that were not present when past success occurred
 4. Hating and disliking cause equally many miscalculations based on mere association
 1. Undervalue the competency and morals of people/businesses/products you dislike
 5. Must develop a habit of welcoming bad news in order to live in reality
 6. Be cautious of using classification stereotypes to judge others
- 11. Simple, Pain-Avoiding Psychological Denial**
1. Distort reality until they become bearable to us because they are too painful to deal with
- 12. Excessive Self-Regard Tendency**
1. We all think we're above average. This is where overconfidence comes from. Also tend to over-appraise our belongings (endowment effect)
 1. If allow people to personalize anything (choose own numbers in the lottery, make own speculative bet) they will believe much more wholeheartedly that they will win
 2. The greatest type of pride should be taking pride in being trustworthy to avoid developing an ego
 3. Tend to like people more who are similar to ourselves and this leads to cliques
 4. Underweight face-to-face encounters and overweight an applicant's past record.
The past is the strongest indicator of future results
 5. Fixable but unfixed bad performance is bad character and tends to create more of itself
 6. Do not give excuses, simply perform and behave as you should
 7. "The best antidote to folly from an excess of self-regard is to force yourself to be more objective when you are thinking about yourself, your family and friends, your property and the value of your past and future activity."
 8. "Of all forms of pride, perhaps the most desirable is a justified pride in being trustworthy."
- 13. Over-Optimism Tendency**

1. People tend to exhibit an excess of optimism when they are already doing well
2. "One standard antidote to foolish optimism is trained, habitual use of the simple probability math of Fermat and Pascal..."

14. **Deprival-Superreaction Tendency**

1. Loss aversion - having something taken away hurts more than being given something feels good
 1. Applies to things we already possess and those things we nearly possess
 2. Applies to property, love, friendship, territory, opportunity, status, anything that is valued
2. One antidote to intense, deliberate maintenance of groupthink is an extreme culture of courtesy, kept in place despite ideological differences (Supreme Court) and the other is to deliberately bring in able and articulate disbelievers (devil's advocates)

15. **Social-Proof Tendency**

1. Herd mentality - people tend to think and act like those around us
2. Triggering most easily occurs in the presence of puzzlement and stress, especially so when both are present
3. Important therefore to stop bad behavior before it spreads and foster and display any good behavior
4. **Not only action, but also inaction that leads to social proof**
5. One of the most important skills you can foster is learning to ignore the examples of others when they are wrong

16. **Contrast-Misreaction Tendency**

1. As perception goes, so goes cognition. What we see tends to be what we believe
2. When something crappy is compared to something even crappier, it seems less crappy
3. Small steps tend to be disastrous precisely because we can't contrast them to our current position

17. **Stress-Influence Tendency**

1. Adrenaline tends to produce faster and more extreme reactions. Some stress can improve performance but heavy stress often leads to dysfunction
2. Pavlov found that he could classify dogs to predict how easily they would breakdown, the dogs hardest to break were also the hardest to return to pre-breakdown state, any dog could be broken and he couldn't reverse a breakdown without reimposing stress

18. **Availability-Misweighing Tendency**

1. We overweight what's easily available
 2. Checklists or a set of rules can help with this tendency.
 3. Embrace disconfirming evidence
 4. Surround yourself with people who are skeptical and who oppose your views
 5. Vivid evidence should be underweighed and less vivid evidence should be overweighed
 6. **An idea or a fact is not worth more merely because it is easily available to you**
- 19. Use-It-or-Lose-It Tendency**
1. Consistently practice skills that you can't afford to lose
 2. Create checklists to routinely use
 3. If you truly understand the skill, instead of just cramming it in, you will lose it more slowly and it will come back quicker when refreshed
- 20. Drug-Misinfluence Tendency**
1. Avoid drugs at all costs
- 21. Senescence-Misinfluence Tendency**
1. As we age there is a natural loss of certain skills and abilities. Continuous thinking and learning helps to slow the decay.
- 22. Authority-Misinfluence Tendency**
1. Following orders just because someone says so
 2. Be careful who you put in power because they will be hard to remove and have a lot of influence over their followers
- 23. Twaddle Tendency**
1. Certain people tend to do very little actual work and disturb those who are productive. Limit the twaddlers
- 24. Reason-Respecting Tendency**
1. Few practices are wiser than not only thinking through reasons before giving orders but also communicating these reasons to the recipient of the order
 2. Must tell Who was to do What, Where, When and Why
 3. Continuously ask "Why?" of everything and everyone
 4. Reasons, even poor/meaningless reasons, will increase compliance in others
 5. Some people just want the answers, not the reasons or a better understanding.
- 25. Lollapalooza Tendency**
1. The tendency to get extreme consequences when you combine a number of these misjudgments when trying for a particular outcome.

Charlie's Talks

[Harvard School Commencement Speech 1986 - A Guide to Misery](#)

- **Munger "inverts" as he often does and instead of offering tips for a happy life, offers sure fire ways to be miserable, namely** - ingest chemicals, envy others, resent others, be unreliable, don't learn from others mistakes, give up after getting knocked down one, two or three times, do not look at problems backward (do not invert), do not look for evidence that disconfirms your beliefs, don't aim to minimize objectivity.

[A Lesson in Elementary, Worldly Wisdom as it Relates to Investment Management and Business - USC 1994](#)

- **Can't simply know isolated facts, they must hang together on a "latticework" of theory**
- Must have multiple mental models to draw upon in order to avoid the fallacy of "everything looking like a nail to the man who has a hammer."
- In investing, need the mental models of math, accounting, always communicate the why with yourself and others, engineering, biology/physiology, psychology (especially of misjudgment)
- **He uses a two track analysis - thinks of factors that really govern the interests involved as well as the subconscious influences**
- Microeconomics, advantages of scale are ungodly important (geometry, information advantage, social proof, specialization)
- As you get bigger though, you also get bureaucracy and other limiting factors, Pavlovian association (dislike those who being bad news)
- The absence of change is often the friend of investors (Wrigley's gum...)
- **You've got to figure out where you've got an edge. And you've got to play within your own circle of competence**
- "It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is a given to human beings who work hard at it - who look and sniff the world for a mispriced bet - that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time they don't. It's just that simple."
- **Getting the incentives right is a very, very important lesson.**

- The trick is getting into better businesses since over the long term you will not make a return much different than what the underlying business earns. Recommends trying to find great businesses when they're still small - something he might do if he were young but BRK can't do that
- Management matters but if you have to bet on business momentum or the managers, bet on momentum
- **Great companies that can raise prices but haven't, pricing power, are no brainers.** For a while, Disney was an example of this
- How Warren and Charlie evaluate a possible acquisition - "We're light on financial yardsticks; we apply lots of subjective criteria. Can we trust management? Can it harm our reputation? What can go wrong? Do we understand the business? Does it require capital infusions to keep going? What is the expected cash flow? We don't expect linear growth; cyclically is fine as long as the price is appropriate."
- **In a career look for 3 things - don't sell anything you wouldn't buy yourself, don't work for anyone you don't respect or admire, work only with people you enjoy.**
- To cope with challenges - set expectations low, have a sense of humor, learn to live with change and adapt to it and surround yourself with the love of friends and family

[A Lesson on Elementary, Worldly Wisdom, Revisited](#) - Stanford Law School 1996

- **Speaks again of the importance of learning and utilizing many different mental models in your decision making process**
- Heavy ideology is one of the most extreme distorters of human cognition
- Life is one damn relatedness after another - hence, the importance of utilizing many mental models
- **Psychology may be the most important mental model to grasp. The misery-caused mental misdirection and incentives should both be highlighted**
- **Must develop a mental model checklist.** Having this to rely upon will save you when others are losing their minds
- It's much better to let some things go uncompensated - to let life be hard - than to create systems that are easy to cheat.
- **If you want to change behavior you have to change motivations**
- We simply look for no brainers....we've succeeded by making the world easy for ourselves, not by solving hard problems.

- "I'm just trying to give you a method you can use to sift reality to obtain an occasional opportunity for rational reaction."
- Both Warren and I are very good at changing our prior conclusions. We work at developing that facility because, without it, disaster often comes
- **"I don't want you to think we have any way of learning or behaving so you won't make a lot of mistakes. I'm just saying that you can learn to make fewer mistakes than other people - and how to fix your mistakes faster when you do make them."**
- "In life you've got to know what you know and what you don't know. What could possibly be more useful in life than that?"
- **When you don't have any special competence, don't be afraid to say so**
- If you're forced to reach a bit in your thinking, the idea gets pounded in better
- What works best in most cases is to appeal to a man's interests
- The human mind is not constructed so that it works well without having reasons
- **Is there something you [Munger] are irrationally passionate about? - "yeah, I'm passionate about wisdom. I'm passionate about accuracy and some kinds of curiosity...I believe in the discipline of mastering the best that other people have figured out. I don't believe in just sitting down and trying to dream it all up yourself. Nobody's that smart..."**
- Aim to make human systems as cheating-proof as possible even if it leaves some human misery unfixed

Practical Thought About Practical Thought?

- **The first helpful notion is that it is usually best to simplify problems by deciding big "no-brainer" questions first**
- The importance of numerical fluency cannot be overemphasized
- Invert, always invert. Many problems cannot be solved thinking forward, you just approach them by thinking backwards. What must you avoid because you don't want it?
- The best and most practical wisdom is elementary academic wisdom but you must think in a multidisciplinary manner
- **Lollapalooza effects, very big effects, tend to only come from large combinations of factors**
- The best way to avoid envy, recognized by Aristotle, is to plainly deserve the success we get

The Need for More Multidisciplinary Skills From Professionals: Educational Implications - 1998

- Multidisciplinary approach helps alleviate incentive caused bias (what good for professional is not necessarily good for the client) and it gives you more tools to work with
- Uses pilot training as the gold standard for training multidisciplinary skills. It covers 6 elements - wide enough to cover practically everything useful in piloting, learned knowledge must reach practice based fluency, must be able to think in forward and reverse fashions, most important training gets the most time, checklist routines are mandatory, consistent and specific training to prevent atrophy
- Schools must interweave classes so that they combine multiple disciplines in their teachings to give students a more complete education
- **The fundamental organizing ethos - use and rank disciplines in order of fundamentals, master to rested fluency and routinely use the truly essential parts of chemistry, math, physics and engineering, must explain things in the simplest way (may not be the discipline you are most comfortable with), if step 3 doesn't work you must hypothesize and test to establish new principles**
- To be successful must take a simple idea and take it very seriously

Investment Practices of Leading Charitable Foundations - 1998

- **An excess of professionalism may hurt you horribly precisely because the careful procedures themselves often lead to overconfidence in their outcome**
- It is a law that half the population is below average yet 90% think themselves above it
- Biological creatures ordinarily prefer minimization in routine activities and don't like removals of long-enjoyed benefits
- Most good things have undesired side effects and thinking is no exception. Must be extremely self critical - you must not fool yourself and you are the easiest person to fool (Feynman)
- **Pari-mutuel analogy to stock market** - a horse (company) may clearly be a favorite but the odds (price) are such that decision in which horse to bet on (invest) is not so obvious

Breakfast Meeting of the Philanthropy Round Table - 2000

- Has never tried to make a single dollar, ever, from foreseeing macroeconomic changes
- I think that one should recognize reality even when one doesn't like it, indeed, especially when one doesn't like it. Also, I think one should cheerfully endure paradox that one can't remove by good thinking
- Wealth effects have some disgusting effects on spending and aren't taken into account. Most foundations are unwise through failure to understand their own investment operations, related to a larger system
- "Febezzlement" from excessive investment costs has significant macroeconomic effects

The Great Financial Scandal of 2003 - 2000

- Quant Tech thought experiment - never let improper accounting start (stock options should be accounted for as expenses)
- The social system is fair enough that almost all massive cheating ends in disgrace
- Standard accounting treatment for stock options is functionally equivalent to simpler types of promotional fraud
- Moral - honesty is the best policy

Academic Economics: Strengths and Faults After Considering Interdisciplinary Needs - 2003

- Speaks about the weaknesses of economics and proposes a multidisciplinary focus instead
- "I also was born with a huge craving for synthesis. And when it didn't come easily, which was often, I would rag the problem, and then when I failed, I would put it aside, and I'd come back to it and rag it again."
- **You've got to know all the big ideas in all the disciplines more fundamental than your own**
- **Taking opportunity costs into consideration and understanding the nature of incentives are superpowers**

- Practically everyone overweighs the stuff that can be numbered because it yields to the statistical techniques they're taught in academia and don't mix in the hard to measure stuff that may be more important
- Use all knowledge plus extreme reductionism when possible
- **I'd rather be generally right than precisely wrong**
- Extreme success is likely to be caused by some combination of the following factors - extreme maximization or minimization of one or two variables (Costco and Nebraska furniture mart), adding success factors so that a bigger combination drives success and often in a nonlinear fashion, an extreme of good performance over many factors (Toyota and Les Schwab), catching and riding some big wave (oracle)
- **You must take into consideration second and third order consequences**
- All human systems are gamed - [Niederhoffer](#)
 - Niederhoffer got to Harvard and didn't want to work very hard for A's. Noticed that the grad students who worked so hard always got A's in their classes, so he only signed up for the hardest grad student classes and of course earned all A's
- [Ricardo's law of comparative advantage](#) is very important - even if can do all the work more cheaply, main focus should be on why you can make cheaper/better than anybody else
- The craving for perfect fairness causes a lot of terrible problems in system function. Some systems should be made deliberately unfair to individuals because they'll be fairer on average for all of us
- There is not enough attention placed on virtue and vice effects - set up the system so that it is hard to cheat
- It's a myth that once you've got some capital market, economic considerations demand that it has to be fast and efficient as a casino. It doesn't. After the south sea bubble, England didn't have publicly traded stocks and the economy did just fine
- **If you can get really good at destroying your own wrong ideas, that is a great gift**
- Trust is absolutely essential. "Ethical practices aren't good because they pay; they pay because they're good." - Elbert Gary

[USC Gould School of Law Commencement Address - 2007](#)

- **The safest way to get what you want is to try to deserve what you want**
- There is huge pleasure in life to be obtained from getting deserved trust

- There's no love so right as admiration based love and such love should include the instructive dead (stand on the shoulders of giants)
- **The acquisition of wisdom is a moral duty.** It's not something you do just to advance in life. You must be hooked on lifetime learning
- **"I feel that I'm not entitled to have an opinion unless I can state the arguments against my position better than the people who are in opposition."**
- "Generally speaking, envy, resentment, revenge and self pity are disastrous modes of thought...self pity is always counterproductive. It's the wrong way to think. And when you avoid it you get a great advantage over everybody else..."
- You must eliminate the self serving bias and take it into account when dealing with others. Appeal to people's interest and not their reason, even when your motives are lofty
- Avoid perverse incentives and being around people you wouldn't want to be associated with
- **Aim to be working for people you admire**
- Engage in routines that help you maintain objectivity
- "If at all feasible, you want to maneuver yourself into doing something in which you have an intense interest."
- Use each terrible blow that life deals you in a constructive fashion
- In your life what you want to maximize is a seamless web of deserved trust

The Psychology of Human Misjudgment

- Charlie's magnum opus on why we behave the way we do
- Very important to recognize patterns to determine how humans behave, both rationally and irrationally
- **"I sought good judgment mostly by collecting instances of bad judgment, then pondering ways to avoid such outcomes." Invert!**
- **Big problems in real life touch on many different realms - not enough to focus on just one discipline when many are interacting.** Must have many tools in the toolkit
- Cognition is ordinarily situation dependent so that different situations often cause different conclusions, even when the same person is thinking in the same general subject area
- There will always be paradox - eliminate as much as possible and then manage as best as possible

- The object is to buy a non dividend paying stock that compounds for 30 years at 15% and pay only a single tax of 35% at the end of the period. That comes out to 13.4% annual rate of return
- Buffett is the stock picker and Munger is the doubter, the skeptic, the devils advocate, against whom Buffett tests his ideas.

Charlie's Checklists

1. The Two-Track Analysis

- What are the factors that really govern the interests involved, rationally considered? (macro and micro-level economic factors?)
- What are the subconscious influences, where the brain at a subconscious level is automatically forming conclusions? (influences from instincts, emotions, cravings and so on)

2. Investing and Decision Making Checklist

- 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 - always look for disconfirming evidence
 - 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)
- Preparation - the only way to win is to work, work, work and hope to have a few insights
 - Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day
 - More important than the will to win is the will to prepare

- Develop fluency in mental models from the major academic disciplines
 - If you want to get smart, the question you have to keep asking is why, why, why?
- Intellectual humility - Acknowledging what you don't know is the dawning of wisdom
 - Stay within a well-defined circle of competence
 - Identify and reconcile disconfirming evidence
 - Resist the craving for false precision, false certainties, etc.
 - Above all, never fool yourself, and remember that you are the easiest person to fool
- Analytic rigor - use of the scientific method and effective checklists minimizes errors and omissions
 - Determine value apart from price; progress apart from activity; wealth apart from size
 - It is better to remember the obvious than to grasp the esoteric
 - Be a business analyst, not a market, macroeconomic, or security analyst
 - Consider totality of risk and effect; look always at potential second order and higher level impacts
 - Think forwards and backwards - invert, always invert!
- Allocation - proper allocation of capital is an investor's number one job
 - Remember that highest and best use is always measured by the next best use (opportunity cost)
 - Good ideas are rare - when the odds are greatly in your favor, bet (allocate) heavily
 - Don't "fall in love" with an investment - be situation-dependent and opportunity-driven
- Patience - Resist the natural human bias to act
 - "Compound interest is the eighth wonder of the world" - Einstein; never interrupt it unnecessarily
 - Avoid unnecessary transactional taxes and frictional costs; never take action for its own sake
 - Be alert for the arrival of luck
 - Enjoy the process along with the proceeds, because the process is where you live
- Decisiveness - when proper circumstances present themselves, act with decisiveness and conviction

- Be fearful when others are greedy, and greedy when others are fearful
- Opportunity doesn't come often, so seize it when it does
- Opportunity meeting the prepared mind: that's the game
- Change - live with change and accept unremovable complexity
 - Recognize and adapt to the true nature of the world around you; don't expect it to adapt to you
 - Continually challenge and willingly amend your "best-loved" ideas
 - Recognize reality even when you don't like it - especially when you don't like it
- Focus - keep things simple and remember what you set out to do
 - Remember that reputation and integrity are your most valuable assets - and can be lost in a heartbeat
 - Guard against the effects of hubris and boredom
 - Don't overlook the obvious by drowning in minutiae
 - Be careful to exclude unneeded information or slop: "A small leak can sink a great ship"
 - Face your big troubles; don't sweep them under the rug
- 3. Ultra-Simple, general Problem-Solving Notions
 - Decide the big "no-brainer" questions first
 - Apply numerical fluency
 - Invert (think through the problems in reverse)
 - Apply elementary multidisciplinary wisdom, never relying entirely upon others
 - Watch for combinations of factors - the Lollapalooza Effect

What I got out of it

1. Munger's clarity of thought and insight into how to make better decisions and live a more meaningful life are life changing. The concept of having a checklist to draw on from all disciplines (mathematics, engineering, psychology, physics, etc.) in order to make better decisions is tedious and daunting but will no doubt lead to great success. This book is legendary for obvious reasons after reading it and it will be something I refer back to often. Cannot overstate how important and impactful this book can be if taken seriously and properly applied. A must read!



T·H·E L·O·L·L·A·P·A·L·O·O·Z·A E·F·F·E·C·T

"Of course, the term Munger has coined for factors which reinforce and greatly amplify each other is 'Lollapalooza Effect.'"

—Henry Emerson, Editor, *Outstanding Investor Digest*