MONEY & INVESTING

Poor Charlie's Almanack

by Charles T. Munger (edited by Peter D. Kaufman)

Buffett's partner teaches his latticework of mental models for thinking clearly about money and life.

BEST POINTS FROM THE BOOK

01 **Build a latticework of mental models.**

Master the big ideas of the big disciplines - psychology, math, economics, physics, biology - and hang them together in your head, so experience lands on a framework instead of a pile.

02 **To a man with a hammer, everything looks like a nail.**

One discipline's models will badly mangle reality. The first rule of learning, Munger says, is to take all the easy, big ideas - not just the ones from your own field.

03 **Invert, always invert.**

Borrowed from the mathematician Jacobi: flip hard problems backward. Ask what would guarantee failure or misery, then systematically avoid it - avoiding stupidity is easier than seeking brilliance.

04 **Know the edge of your circle of competence.**

Carefully map what you truly understand and stay inside it. Munger: knowing where the fence is matters far more than the size of the circle - and what's outside goes in the 'too hard' pile.

05 **Show me the incentive and I'll show you the outcome.**

Incentives are tendency number one in Munger's psychology talk - the Reward and Punishment Superresponse Tendency. Even he, after a lifetime of watching them, says he still underestimates their power.

06 **Learn the 25 tendencies of human misjudgment.**

His famous talk catalogs the built-in mental tendencies that bend judgment - envy, reciprocation, social proof, denial, overoptimism. You can't fix a bias you can't name, so he hands you the checklist.

07 **Watch for the lollapalooza effect: biases don't add, they multiply.**

The 25th tendency: when several tendencies push the same direction at once, they produce extreme, nonlinear outcomes - bubbles, cults, panics. Ordinary analysis misses this because it studies one cause at a time.

08 **The world is not driven by greed, but by envy.**

Envy tops Munger's recipe for guaranteed misery, alongside resentment, revenge, and self-pity. Comparing yourself to others makes you miserable regardless of what you actually have.

09 **Spend each day trying to be a little wiser than you were when you woke up.**

From his USC commencement address: wisdom acquisition is a moral duty, not just an advantage. The people who rise in life, he says, are not the smartest - they are learning machines.

10 **To get what you want, deserve what you want.**

The world is not yet crazy enough to reward a bunch of undeserving people. And be reliable: Munger's Harvard talk warns that unreliability overrides and cancels out every other virtue you have.

11 **Take a simple idea - and take it seriously.**

Munger's edge is not genius; it is elementary worldly wisdom applied with total consistency. He uses checklists and a two-track analysis: first the rational forces at work, then the psychological tendencies bending them.

12 **The big money is not in the buying and selling, but in the waiting.**

His 'sit on your ass' investing: buy a wonderful business at a fair price and hold it. Opportunities that matter come rarely - when the odds are overwhelming, that is the time to bet heavily.

THE BOOK, IN SHORT

Edited by Peter D. Kaufman - who calls Munger this generation's Benjamin Franklin, hence the nod to Poor Richard's Almanack - this oversized volume gathers biographical portraits, highlights from Berkshire Hathaway and Wesco annual meetings, and, at its core, eleven talks Munger delivered between 1986 and 2007. It is not a single argument but a complete operating system for thinking, assembled over a lifetime of reading.

The centerpiece idea is worldly wisdom: a latticework of mental models. Take the big, proven ideas from every major discipline - psychology, mathematics, economics, biology, physics - and weave them into one framework, because the world doesn't sort its problems by department. Work from a single discipline and you become the proverbial man with a hammer, to whom everything looks like a nail.

Around the latticework sit his working tools. Inversion: turn problems backward and avoid what guarantees failure. A clearly drawn circle of competence, with everything else filed in a 'too hard' pile. Checklists and two-track analysis - rational forces first, psychological forces second. And above all, incentives: the superresponse tendency he ranks first among the forces that actually move human behavior.

The book's most famous talk, 'The Psychology of Human Misjudgment,' names 25 psychological tendencies that reliably warp judgment - envy, social proof, reciprocation, denial, excessive self-

regard - and climaxes with the lollapalooza effect, where several tendencies acting together produce extreme outcomes no single cause could explain. It remains the book's most quoted and most taught chapter.

The investing counsel follows from the thinking: wait patiently for the rare fat pitch, buy wonderful businesses at fair prices, and sit still. And the life counsel is just as blunt - keep learning every day, deserve what you want, be reliable, and refuse the guaranteed-misery recipe of envy, resentment, revenge, and self-pity.

DO THIS WEEK

This week, run one real decision through Munger's two-track analysis. On paper: first list the rational forces - the numbers, the facts, the incentives on every side (show me the incentive). Then list which of the classic misjudgment tendencies might be bending you - envy, social proof, denial, overoptimism. If a goal is involved, invert it too: write down what would guarantee failure, and turn that list into rules to avoid. Twenty minutes, one decision, far fewer stupid mistakes.

By Charles T. Munger, edited by Peter D. Kaufman, first published 2005. Read it if you want one book that teaches you how to think, not just what to buy.