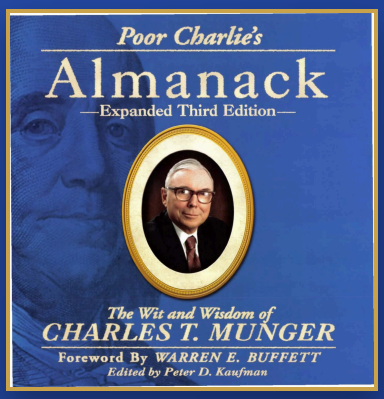
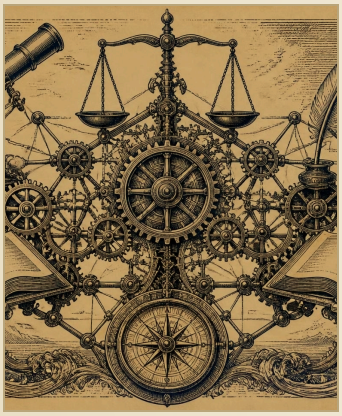


Poor Charlie's Almanack

The Wit and Wisdom of Charles T. Munger

Berkshire Hathaway's vice chairman and Warren Buffett's partner, in a portrait, his sayings and eleven talks. The method, in the book's own suggested title: *"Quickly Eliminate the Big Universe of What Not to Do, Follow Up with a Fluent, Multidisciplinary Attack on What Remains, Then Act Decisively When, and Only When, the Right Circumstances Appear."*

i. The Latticework of Mental Models



"What you need is a latticework of mental models in your head."

Facts that don't hang together on a latticework of theory aren't usable. Learn the big ideas of the big disciplines and use them routinely: **"eighty or ninety important models will carry about ninety percent of the freight."**

- **Math:** compound interest; permutations and combinations.
- **Accounting:** "the language of practical business life."
- **Engineering:** backup systems, breakpoints; **physics:** critical mass.
- **Biology:** Darwin. **Psychology:** the causes of misjudgment.

Otherwise, *"to the man with only a hammer, every problem looks like a nail."*

ii. Invert, Always Invert

Jacobi, the algebraist: *"Invert, always invert."* His 1986 commencement speech gave Johnny Carson's *prescriptions for guaranteed misery:* mood-altering chemicals, envy and resentment. Munger added four:

1. **Be unreliable.** You'll be outrun by "mediocre turtles."
2. **Learn only from your own experience,** never vicariously from others, living and dead.
3. **Go down and stay down** after your first severe reverses.
4. **Ignore the rustic** who said, *"I wish I knew where I was going to die, and then I'd never go there."*

Ask what would ruin you, then don't do it.

iii. The Investing Principles Checklist

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

Risk. Start here, especially reputational; demand a margin of safety.

Preparation. Read voraciously; keep asking "why, why, why?"

Analytic rigor. Value apart from price; think forwards and backwards.

Patience. Resist the bias to act; never interrupt compounding needlessly.

Change. Challenge your "best-loved ideas."

Independence. Others agreeing doesn't make you right.

Intellectual humility. Stay in your circle of competence; never fool yourself.

Allocation. Measure every use against the next best use.

Decisiveness. When the odds are greatly in your favor, bet heavily.

Focus. Reputation and integrity first; face big troubles.

Three baskets: *"yes, no, and too tough to understand." "If you have competence, you pretty much know its boundaries already."*

iv. Human Misjudgment *his checklist of 25 tendencies*

1. Reward and Punishment Superresponse
2. Liking/Loving
3. Disliking/Hating
4. Doubt-Avoidance
5. Inconsistency-Avoidance
6. Curiosity
7. Kantian Fairness
8. Envy/Jealousy
9. Reciprocation
10. Influence-from-Mere-Association
11. Simple, Pain-Avoiding Psychological Denial
12. Excessive Self-Regard
13. Overoptimism
14. Deprival-Superreaction
15. Social-Proof
16. Contrast-Misreaction
17. Stress-Influence
18. Availability-Misweighing
19. Use-It-or-Lose-It
20. Drug-Misinfluence
21. Senescence-Misinfluence
22. Authority-Misinfluence
23. Twaddle
24. Reason-Respecting
25. **Lollapalooza:** several pulling the same way

Number one, in practice: *"Perhaps the most important rule in management is 'Get the incentives right.'"* FedEx's night shift only ran on time once it was paid by the shift, not the hour.

v. Use It Monday

- **Invert** your next decision: list how it could fail.
- **Run the 25 tendencies** as a checklist on one big choice; look for combinations.
- **Sort ideas** into yes, no and too hard.
- **Destroy one best-loved idea** a year; hunt disconfirming evidence like Darwin.
- **Check your incentives**: what are people really paid to do?
- **Wait for the fat pitch,** then act big; otherwise "sit on your ass."
- **Deserve what you want:** deliver what you would buy if you were on the other end.
- **Read every day.**

vi. Mungerisms

"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."

"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."

"Any year that you don't destroy one of your best-loved ideas is probably a wasted year."

"It takes character to sit there with all that cash and do nothing."

"Envy is a really stupid sin because it's the only one you could never possibly have any fun at."

vii. What He Admits

- **Mistakes of omission** are Berkshire's worst: missing Wal-Mart was *"a $10 billion mistake."*
- **See's Candy** nearly fell through over $100,000: *"that's how dumb we were."*
- **Belridge Oil:** a deprival-superreaction error cost about $5.4 million.
- **USAir:** the preferred stock went *"right to the brink of going broke." "But it was a mistake."*
- **1973–74:** his partnership fell 31.9% and 31.5%.
- **His psychology** came from skimming three textbooks, and the talk "almost surely" has errors.

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