

Poor Charlie's Almanac

By Charlie Munger

This book has just as much advice about life as it does as investing. The following key takeaways focus on those that are investment related, but the notes cover the book in more detail. The book includes a number of speeches by Munger including [The Psychology of Human Misjudgment](#), which I recommend reading even if you don't have time to read the whole book. It is a good complement to Kahneman's book Thinking, Fast and Slow in regards to behavioral finance.

Key Takeaways

Setting Yourself Up for Success

The most important qualities of an investor are: preparation, patience, discipline, objectivity, and decisiveness. He explained that "all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience". He explains that "poor outcomes are excusable, but sloppy preparation and decision making are never excusable because they are controllable".

Using Mental Models

"Most people are trained in one model and try to solve all problems in one way". He believes that analysis should be multi-factorial and that "multiple models from a variety of disciplines, applied with fluency, are needed to understand that system. 80 to 90 mental models carry ninety percent of the freight". For example, redundancy/backup system from engineering, compound interest from mathematics, breakpoint/tipping point/autocatalysis models from physics and chemistry, and cognitive misjudgment from psychology.

Focus First

"Focus first on what to avoid, eliminate unpromising portions of the chess board, avoid physics envy to reduce complex system to single formula, 'should be as simple as possible, but no simpler'". He gave the example of Ted Williams "who divided strike zone into 77 cells, swinging only at his best cells".

Mispriced Gambles

"You're looking for the mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. Look for more value in terms of discounted future cash flow than you are paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor. Any damn fool can see that a certain horse is more likely to win. But if you look at the damn odds, the bad horse pays 100 to 1 and the good horse pays 3 to 2. The wise bet heavily when they have the odds. The rest of the time they don't. It's just that simple. And yet in investment management, practically nobody operates that way".

Sit on Your Ass Investing

"If you buy something because it's undervalued, then you have to think about selling it when it approaches intrinsic value. That's hard. But if you buy a few great companies, then you can sit on your ass. Look for an easy to understand, dominant business franchise that can sustain itself and thrive in all market environments". This is "sit on your ass investing". It results in "paying less to brokers, listening to less nonsense, and the tax system gives you an extra percentage point per annum". Regarding taxes: "15% over 30 years taxed at end is 13.3% compounded, taxed annually is 9.75% annually; if you sit on your ass for long, long stretches in great companies, you can get a huge edge from nothing but the way income taxes work".

Importance of Return On Capital

"If a business earns six percent on capital over forty years, you're not going to make much different than a six percent return, even if you originally buy it at a huge discount".

Fooling Yourself

Never fool yourself and remember that you are the easiest person to fool. Apply logic to help avoid fooling yourself. Don't accept anything just because someone said it.

Danger of Precision

"Everybody overweighs things that can be numbered because it yields to statistics. Hard to measure stuff may be more important. Better roughly right than precisely wrong".

Riding a Wave

"Extreme success from (i) extreme maximization or minimization of one or two variables (ii) catching and riding a big wave".

Inversion

"Think forward and reverse, concentrate on what wants to happen and what he does not want to happen". Force yourself to consider different perspectives. This will help you avoid trouble. You can acquire a "long-term advantage by trying to be consistently not stupid, instead of trying to be very intelligent". For example, instead of thinking about what could go right, you can think about what could go wrong.

The Psychology of Human Misjudgment

"I sought good judgement mostly by collecting instances of bad judgement, then pondering ways to avoid such outcomes". Examples: include the power of incentives and the need to "fear professional advice when it is especially good for the advisor, double check, disbelieve, or replace much of what you're told", doubt avoidance such as quickly reaching a decision, inconsistency avoidance such as being reluctant to change (aka consistency bias), deprivation super-reaction such as a loss seeming to hurt much more than a gain seems to help, and availability mis-weighting such as overweighing what's easily available/recallable/vivid. "A quickly reached conclusion, triggered by doubt avoidance, combined with tendency to resist change will cause a lot of errors in cognition". "Deprivation super-reaction and inconsistency avoidance often combine" for instance "people miss opportunities because they don't want to sell, even for a better opportunity".

Key Notes By Chapter

Forward

- Important values: thrift, duty, hard work, simplicity, lifelong learning, intellectual curiosity, sobriety, avoidance of envy and resentment, reliability, learning from the mistakes of others, perseverance, objectivity, willingness to test one's own beliefs

Chapter 1: A Portrait of Munger

- 1961 partnered with Otis Booth to build condos near Caltech, they earned \$300k on a \$100k investment and by 1964 had earned \$1.4M from real estate
- Munger set up an investment partnership with Jack Wheeler and eventually Al Marshall
- From 1962 to 1975 the partnership compounded at 19.8% gross, 13.7% net (including 31.9% and 31.5% drawdowns in 1973 and 1974 respectively)
- Grandfather's advice: concentrate on the task immediately in front of you and control spending
- Attracting clients: do well with what you already have and more will come in
- Honesty, integrity, always doing more than his share, not complaining about what the other person does
- Relentless focus on understanding and solving the clients problems
- You don't need to take the last dollar, choose clients as you would friends

Chapter 2: Praising Old Age

- A Republican, albeit one of his chief causes is Planned Parenthood
- Cicero had deep and realistic cynicism about human nature, distaste for mob rule, and demagogues
- Cicero argues against miserly conduct by the elderly rich "more senselessly absurd than that the nearer we are to our journey's end, we should still lay in more provision for it?"
- Only life worth living is dedicated in substantial part to good outcomes one cannot possibly survive to see
- If you live right, the inferior part of life is the early part
- Handling a low outcome with the right morality and diligence is just as admirable as handling a high outcome
- Life employed in pursuit of useful knowledge, in honorable actions and the practice of virtue, in which he who labors to improve himself from his youth, yields an unspeakable comfort to the soul
- Ben Franklin: when you are finished changing, you're finished
- If telling others what they should think or how they should behave, more acceptable through use of insightful humor
- If you borrow a man's car, you always return it with a full tank of gas
- Morality tale: someone faced with an ethical problem and choose the correct path
- Downward spiral tale: someone made the wrong choice and suffered an inevitable series of catastrophic personal and professional losses
- Example: officer of bank made a mistake and immediately admitted it. "This was a terrible mistake, and we don't want you ever to make another one like it. But people make mistakes, and we can forgive that. If you had tried to hide the mistake, or cover it up for even a short time, you would be out of this company."
- In tennis, Charlie mastered the well-placed, easy to put away volleys. Working on the tennis version of golf's short game. Gave him a fair, if maddening, competitive advantage.
- Charlie is able to wall off even the most intrusive distractions from whatever mental task he was engaged in
- Told funny stories of people who either followed the group too blindly or lashed out too reflexively

Chapter 3: Munger Approach to Life, Learning, and Decision Making

- Franklin had an appetite for hard work, but also an insatiable curiosity and patient demeanor
- Preparation, patience, discipline, objectivity, and decisiveness

- All that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience
- Successful investing is a by-product of a carefully organized and focused approach to life
- You must know the big ideas in the big disciplines and use them routinely, all of them, not just a few.
- Most people are trained in one model and try to solve all problems in one way. This is a dumb way of handling problems.
- Just as multiple factors shape almost every system, multiple models from a variety of disciplines, applied with fluency, are needed to understand that system
- "Faced with the choice between changing one's mind and proving there is no need to do so, almost everyone gets busy on the proof" Galbraith
- A willingness, even an eagerness, to identify and acknowledge his mistakes and learn from them
- Any year that you don't destroy one of your best loved ideas is probably a wasted year
- Models: redundancy/backup system from engineering, compound interest from mathematics, breakpoint/tipping point/autocatalysis models from physics and chemistry, Darwinian synthesis from biology, cognitive misjudgment from psychology
- Factors which reinforce and greatly amplify each other is the Lollapalooza Effect
- Sit on your ass investing: paying less to brokers, listening to less nonsense, and the tax system gives you an extra percentage point per annum
- Big money is not in the buying and selling but in the waiting "Livermore"
- It takes character to sit there with cash and do nothing
- You must act with discipline whenever you see something you truly like
- Ted Williams divided strike zone into 77 cells, swinging only at his best cells; investors tend to swing too often
- Focus first on what to avoid, eliminate unpromising portions of the chess board, avoid physics envy to reduce complex system to single formula, "should be as simple as possible, but no simpler"
- Two track analysis (i) what are the factors that really govern the interests involved, rationally considered (ii) what are the subconscious influences where at a subconscious level is automatically forming conclusions in various ways which can malfunction (psychological factors)
- You're looking for the mispriced gamble. That's what investing is. And you have to know enough to know whether the gamble is mispriced. That's value investing.
- Look for more value in terms of discounted future cash flow than you are paying for. Move only when you have an advantage. It's very basic. You have to understand the odds and have the discipline to bet only when the odds are in your favor.
- Look for an easy to understand, dominant business franchise that can sustain itself and thrive in all market environments
- I'm smart in spots and stay around those spots (Watson)
- If you cannot respond legitimately to the next question, you lack true mastery and are likely outside of your circle of competence
- It's easy to talk ("parrot") but must be able to answer hard questions (figure out what those hard questions are)
- Factors: current and prospective regulatory climate; state of labor, supplier, and customer relations; potential impact of changes in technology; competitive strengths and vulnerabilities; pricing power; scalability; environmental issues; presence of hidden exposures; looking for those with few risks and risks that are easily understandable
- Assesses true impact of current and future stock options, pension plans, and retiree medical benefits
- Understand competitive advantage in every respect: product, markets, trademarks, employees, distribution channels, societal trends, durability
- Apply logic to help avoid fooling yourself. Don't accept anything just because someone said it.
- Never fool yourself and remember that you are the easiest person to fool
- Reduce to most salient elements, ignore insignificant details

- Poor outcomes are excusable, but sloppy preparation and decision making are never excusable because they are controllable
- Checklist (i) risk – avoid big mistakes, shun permanent capital loss (ii) independence – only thing that matters is correctness of analysis and judgement (iii) preparation – why, why, why (iv) intellectual humility – circle of competence, identify disconfirming evidence, resist the craving for false precision, false certainties (v) analytic rigor – scientific method and effective checklists, invert (vi) allocation – don't fall in love with an investment (vii) patience – resist the bias to act, never interrupt compound interest unnecessarily, avoid unnecessary transactional costs (viii) decisiveness – be fearful when others are greedy, and greedy when others are fearful, opportunity meeting the prepared mind (ix) change – challenge best loved ideas, recognize reality even when you don't like it (x) focus – guard against effects of hubris and boredom, don't overlook the obvious, exclude unneeded information or slop, face your big troubles
- If you buy something because it's undervalued, then you have to think about selling it when it approaches intrinsic value. That's hard. But if you buy a few great companies, then you can sit on your ass.
- Taking advantage of a cheap stock price on a stock exchange is one thing, but taking advantage of partners and old ladies is something else
- Should be all kinds of things you won't do even though they're perfectly legal

Chapter 4: Mungerisms

- Long-term advantage by trying to be consistently not stupid, instead of trying to be very intelligent
- Two thirds of acquisitions don't work. We wait for no-brainers
- The best investing decision I ever made was keeping my hands in my pockets for all these years
- Charlie realizes that it is difficult to find something that is really good. So if you say no ninety percent of the time, you're not missing much in the world
- Success means being very patient, but aggressive when it's time
- Insistence on trying to ascertain the consequences of consequences (of consequences)
- Asking how to produce undesired results
- Rigorously challenge one's most cherished ideas
- Non-sense that a stock's volatility is a measure of risk
- We're partial to putting out large amounts of money where we won't have to make another decision
- You are going to make some investments where you don't have all the experience you need, but if you keep trying to get a little better over time, you'll start to make investments that are virtually certain to have a good outcome
- The average person is going to get creamed on IPOs
- Serpico effects, where everyone rationalizes that it's okay because everyone else is doing it
- Indexing can't work well forever if almost everybody turns to it. But it will work all right for a long time.
- EBITDA, you should substitute the words bullshit earnings
- How many legs does a dog have if you call the tail a leg? Four. Calling a tail a leg doesn't make it a leg.
- A stock option is both an expense and dilution
- In engineering, people have a big margin of safety. But in the financial world, people don't give a damn about safety.
- The ethos of not fooling yourself is one of the best you could possibly have
- A lot of success in life and business comes from knowing what you want to avoid: early death, a bad marriage, etc.
- Avoid evil, particularly if they're attractive members of the opposite sex
- If your new behavior earns you a little temporary unpopularity with your peer group, then the hell with them
- If you're comfortably rich and someone else is getting richer faster than you by, for example, investing in risky stocks, so what. Someone will always be getting richer faster than you. This is not a tragedy.

- Envy is a really stupid sin because it's the only one you could never possibly have any fun at.
- Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Step by step you get ahead, but not necessarily in fast spurts.
- In my whole life, I have known no wise people who didn't read all the time, none, zero
- Go through life making friends with the eminent dead who had the right ideas
- One of the great defenses is to not to have a lot of silly needs
- Absolute commitment to honesty, ethics, and integrity; unyielding patience, discipline, and self-control

Talk 1: Harvard Commencement Speech

- Prescriptions for guaranteed misery in life (i) ingesting chemicals to alter mood or perception (ii) envy (iii) resentment (iv) be unreliable (v) learn everything from your own experience (vi) go down and stay down when you get your first, second, or third severe reverse in the battle of life (vii) minimize objectivity
- Addiction can happen through a subtle process, I have yet to meet anyone whose life was worsened by fear and avoidance of addiction
- We can give advice, but we cannot give conduct (Ben Franklin)
- Darwin always gave priority attention to evidence tending to disconfirm whatever cherished theory he already had
- Einstein said that his successful theories came from "curiosity, concentration, perseverance, and self-criticism (testing and destruction of his own well-loved ideas)"

Talk 2: Wisdom to Investment Management and Business

- Grandma's Rule – eat the carrots before you get the dessert
- 80 to 90 mental models carry ninety percent of the freight
- Permutations and combinations
- Decision tree theory: your brain uses crude shortcut-type of approximation. It's not good. Need to learn and use routinely in life, just the way if you want to become a golfer, you can't use the natural swing evolution gave you.
- Without elementary probability into your repertoire, giving a huge advantage to others (one-legged man in an ass-kicking contest)
- Buffett automatically thinks in terms of decision trees and elementary math of permutations and combinations
- You have to know accounting. It is the language of business. Understand its limitations.
- Braun Company 5 Ws: who, what, where, when, and why. Fired if you don't explain why. If you always tell people why, they'll understand better, they'll consider it more important, and they'll be more likely to comply.
- Basics of Gaussian distribution
- Engineering idea of a backup system
- Critical mass from physics is very powerful model
- Psychology of misjudgment is terribly important to learn
- Two track analysis: (i) factors that govern the interests involved, rationally concerned (ii) subconscious influences (which often mis-function)
- Economy as an ecosystem
- Absence of change is often the friend of the investor. Try to leave life's more unpredictable things to someone else.
- We've tried to figure out why the competition in some markets gets sort of rational from the investor's point of view, so that the shareholders do well, while in other markets there's destructive competition that destroys shareholder wealth. Why are cereals so profitable?
- All kinds of inventions give you nothing as owners, except the opportunity to spend a lot more money in a business that is still going to be lousy. Determine how much will stay with the business and how much is going to flow through to the customer.
- Competitive destruction: you either get into another business or you're dead. It happens again and again and again.

- Huge advantages for the early birds. There's a model I call surfing, when a surfer gets up and catches the wave and just stays there, he can go a long, long time
- Every person is going to have a circle of competence and it's going to be very hard to enlarge that circle. If you play games where other people have the aptitudes and you don't, you're going to lose. You have to figure out where you've got an edge.
- Developing a circle of competence, which results partly from what you were born with and partly from what you slowly develop through work. Some edges can be acquired.
- Any damn fool can see that a certain horse is more likely to win. But if you look at the damn odds, the bad horse pays 100 to 1 and the good horse pays 3 to 2. (Need 2nd level thinking to spot mispriced "horses")
- The wise bet heavily when they have the odds. The rest of the time they don't. It's just that simple. And yet in investment management, practically nobody operates that way.
- Getting the incentives right is a very, very important lesson
- If a business earns six percent on capital over forty years, you're not going to make much different than a six percent return, even if you originally buy it at a huge discount
- If I were a young man, I would try to find them small, get them when they're little
- Management matters, some of it is predictable (e.g. Simon Marks, Patterson, Sam Walton, Welch, Eisner and Wells).
- Averaged out, betting on the quality of a business is better than betting on the quality of management
- Effect of taxes: 15% over 30 years taxed at end is 13.3% compounded, taxed annually is 9.75% annually; if you sit on your ass for long, long stretches in great companies, you can get a huge edge from nothing but the way income taxes work
- Trying to minimize taxes too much is one of the great standard causes of really dumb mistakes, anytime somebody offers you a tax shelter, my advice would be don't buy it
- Anytime anybody offers you anything with a big commission and a 200 page prospectus, don't buy it, occasionally you'll be wrong, but over a lifetime, you'll be a long way ahead
- Since it's so obvious that investing in great companies works, it gets horribly overdone from time to time, in the nifty fifty days everybody could tell which companies were the great ones, so they got up to fifty times earnings, a large investment disaster resulted from too high prices, you've got to be aware of that danger. Nothing is automatic and easy.
- There are businesses that can raise their return enormously just by raising prices. They have huge untapped pricing power that they're not using. That is the ultimate no-brainer (See's Candies, Coca-Cola)
- Gillette and Coke make fairly low-priced items and have a tremendous marketing advantage all over the world
- Business "cancer surgery": company is a mess, figure out if there is anything sound left that can live on its own, cut away everything else
- GEICO was a wonderful business combined with a bunch of foolishness; people were coming in who were going to cut it out. That is a model you want to look for.
- Spend less than you make; always be saving something. Put it into a tax-deferred account.
- 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 it going? What is the expected cash flow?
- Rules (i) don't sell anything you wouldn't buy yourself (ii) don't work for anyone you don't respect and admire (iii) work only with people you enjoy
- Life and its various passages can be hard, brutally hard
- Coping (i) have low expectations (ii) have a sense of humor (iii) surround yourself with the love of friends and family (iv) live with change and adapt to it

Talk Three: Elementary, Worldly Wisdom

- You don't have to know it all. Just take in the best big ideas from all these disciplines.
- Our brain can do automatic differential equations at fast speed (e.g. judging acceleration) and yet people are total klutzes at dealing with ordinary probability

- Ideology can screw the head up, distorts cognition, Buffet's father was an ideologue, he decided ideology was dangerous, pounds ideas in better than it convinces out, it's a very dangerous thing to do. A holy construct where you know you're right, makes you a bit nuts. Beware of ideology based mental misfunctions.
- You can have ideology in favor of accuracy, diligence, and objectivity.
- "What man wishes, that also will he believe" (Demosthenes)
- Miscognition from denial overwhelmingly pervades the reality of life.
- Pay special attention to combinatorial effects that create lollapalooza consequences
- Very important to create human systems that are hard to cheat
- Big incentives will create incentive-caused bias and people will rationalize that bad behavior is ok.
- If somebody else does it, now you've got social proof plus incentive-cause bias.
- Serpico effects: if enough people are profiting in a general social climate of doing wrong, then they'll turn on you and become enemies if you try and blow the whistle
- Failure to handle psychological denial is a common way for people to go broke; consistency principal makes you think, now it has to work, if I put in just a little more
- Deprivation super-reaction syndrome prevents from stopping and thinking "can I afford to write this one off and live to fight again"
- You have to adapt your strategy to your own nature and your own talents. Mine works for me, in part, because I'm good at taking losses.
- You must have confidence to override people with more credentials than you, whose cognition is impaired by incentive-caused bias
- When you don't know and you don't have any special competence, don't be afraid to say so
- I try to get rid of people who always confidently answer questions about which they don't have any real knowledge
- Successful businessman: if he gets involved with a psychotic, he quickly walks over to where the psychotic is and works out an exit as fast as he can.
- Because I had to reach for it, I held it better (learning). Good literature makes the reader reach a little for understanding.
- Come up with a little humorous example. Vivid examples that pound the point home can really work.
- Appealing to someone's interests is likely to work better than appealing to anything else.
- Remedial Worldly Wisdom: math, physics, chemistry, engineering, accounting, history, psychology, philosophy, statistics, biology, and economics
- I'm passionate about wisdom. I'm passionate about accuracy and some kinds of curiosity. I have a desire to serve values that transcend my brief life. I believe in the discipline of mastering the best that other people have ever figured out.
- I merely sought to (i) learn from my betters a few practical mental tricks that would help me avoid some of the worst mis-cognitions common in my age cohort (ii) pass on my mental tricks only to a few people who could easily learn from me because they already almost knew what I was telling them.

Talk Four: Practical Thought About Practical Thought

- Best to simplify problems by deciding big no-brainer questions first
- Classical conditioning (Pavlovian conditioning) is advertising
- Operant conditioning: behavior followed by consequence and the nature of the consequence modifies the organism's tendency to repeat the behavior
- Operant conditioning with Coca-Cola: food value, flavor, texture, aroma, sugar, caffeine stimulus, cooling effect
- Deprivation super-reaction syndrome makes take-aways so hard to get in any type of negotiation
- Everything should be as simple as possible, but no more simple; example: teacher who tries to simplify school work by rounding pi to three
- Tact is the art of making a point without making an enemy (Newton)
- We build too many walls and not enough bridges (Newton)

Talk Five: Need for More Multidisciplinary Skills

- Biases: incentive cased bias, man with a hammer tendency
- Alfred Whitehead
 - Fools act on imagination without knowledge; pedants act on knowledge without imagination
 - True courage is firm resolve of virtue and reason
 - Ignorance of ignorance is the death of knowledge
 - The silly question is the first intimation of some totally new development
 - No one who achieves success does so without acknowledging the help of others
- Pilot education (i) broad (ii) practice based fluency, even with multiple hazards at once (iii) must think forward and reverse, concentrate on what wants to happen and what he does not want to happen (iv) most important get most focus (v) checklist routines are mandatory (vi) forced maintenance routine
- Checklists: (i) two track analysis: factors that govern the interests (rationally considered) and subconscious influences (ii) investing checklist (iii) problem solving notions: decide no brainers first, numerical fluency, invert, never rely entirely on others, combination of factors (iv) causes of misjudgment

Talk Six: Investment Practices of Charitable Foundations

- Costs of investment management, consultants, trading, etc. can reach 3% and don't show up in conventional accounting
- I think indexing is the wiser choice for the average foundation
- Ben Franklin required investment concentration in what he admires and loves in his endowment

Talk Seven: Philanthropy Roundtable

- Febezzlement: layers of unnecessary investment managers and consultants
- Multiplier effects by increases in bezzle
- Wasting 3% while managing rising stock portfolio, still feel richer
- Credit is like fire, if you once extinguish it, you will find it an arduous task to rekindle it again. The way to gain a good reputation is to endeavor to be what you desire to appear. (Socrates)

Talk Eight: Financial Scandal of 2003

- A moderate dollop of phony earnings in any single year would be less likely to be notices than a large dollop (dollop by dollop system)
- Compare annual report with income taxes actually being paid (cash income taxes paid footnote)
- I will give you one of the following, but you can't change your mind later, so think carefully before you decide. I will give you \$1,000 per day for thirty days that you can begin spending immediately. Alternatively I will give you a penny on day one, double it on day one and then double that sum on day two, and continue doubling every day for thirty days, but you may not spend a single cent until the 30th day. Over \$5M vs \$30k.
- Bad accounting will more easily spread than defective construction
- Stock option accounting costs are usually far less than the total cost incurred
- Pleasure is the greatest incentive to evil (Plato)

Talk Nine: Academic Economics

- Appeal to interest and not to reason if you want to change conclusions
- Two hundred years ago real output per capita started going up at two percent per year, previously it had only barely gone up
- Tragedy of commons: spoil a resource via collective action due to optimization for self
- Everybody overweighs things that can be numbered because it yields to statistics
- Hard to measure stuff may be more important
- Craving for false precision is a problem
- Extreme success from (i) extreme maximization or minimization of one or two variables (ii) catching and riding a big wave

- When you raise the price, the volume you can sell goes down. Is that right? (i) luxury goods (ii) non-luxury goods where higher price conveys information (iii) using higher price to make the product work better (iv) using higher price to bribe (e.g. mutual fund commissions)
- Not enough attention to the effects of embedded Ponzi Schemes at the microeconomic level, like unfunded pension plans
- I don't think it's necessary to spend your life selling what you would never buy. Even though it's legal, I don't think it's a good idea.
- The people that design easily gameable systems belong in the lowest circle of hell
- Even if a manager can perform the full range of tasks better than an employee, it is still mutually advantageous to divide them up
- Economic systems work better when there's an extreme reliability ethos (e.g. double entry bookkeeping, cash register)
- Directors should be large shareholders and get zero pay
- Ben Franklin didn't want high executives of government to be paid
- To function best, morality should sometimes appear unfair, craving for perfect fairness causes a lot of terrible problems, some systems should be made deliberately unfair to individuals because they'll be fairer to all of us
- It's not bringing the new ideas that's so hard. It's getting rid of the old ones.
- Better roughly right than precisely wrong
- Where there is no bread there is no law; where there is no law, there is no bread
- Ethical practices aren't good because they pay; they pay because they are good

Talk Ten: The Psychology of Human Misjudgment

- Man is a social animal greatly and automatically influenced by behavior observed around him
- I sought good judgement mostly by collecting instances of bad judgement, then pondering ways to avoid such outcomes. I became an avid collector of instances of bad judgement.
- Man is easily fooled, either by cleverly thought out manipulation, by accident, or by practices stumbled on through evolution and kept in place because they work so well
- Perception is so easily fooled by mere contrast. For example, a pickpocket puts pressure on one wrist and steals a watch or you put your hands separately in hot and cold water and then stick both hands in water of the same temperature (one feels hot and one feels cold).
- #1 Reward and Punishment Superresponse Tendency: power of incentives, appeal to interest and not to reason.
- We repeat behavior that works and prompt rewards work better than delayed rewards in changing and maintaining behavior
- Random withdrawal pattern kept reflexive behavior in place the longest
- Incentive caused bias: decent person drifts into immoral behavior (e.g. surgeon and gallbladders)
- Cognitive drift: think they are doing the right thing, but really acting in our own self-interest
- Fear professional advice when it is especially good for the advisor, double check, disbelieve, or replace much of what you're told
- Cost-plus-a-percentage causes a lot of ghastly abuse
- Bad behavior is intensely habit forming when it is rewarded
- Strong tendency of employees to rationalize bad conduct in order to get rewards requires many antidotes
- Whose bread I eat, his song I sing
- Sales force living only on commissions will be much harder to keep moral than one under less pressure, on the other hand, a purely commissioned sales force may be more efficient per dollar spent.
- Man tends to game all human systems, often displaying great ingenuity in wrongly serving himself at the expense of others.
- Dread and avoid as much as you can, rewarding people for what can easily be faked
- People also change their behavior and cognition for sex, friendship, companionship, advancement in status, and other non-monetary items

- Granny rule: force yourself to do the unpleasant and necessary task before rewarding yourself with the pleasant tasks
- Punishments also strongly influence behavior and cognition, although not so flexibly and wonderfully as rewards
- #2 Liking/Loving Tendency: follow the first creature that is nice to it. Makes the liker (1) ignore faults of and comply with the wishes of the object of his affection (2) to favor people, products, and actions merely associated with the object of his affection (3) distort other facts to facilitate love
- A person that loves admirable people and ideas has huge advantage in life
- Can also cause deliberate self-destruction to help what is loved
- #3 Disliking/Hating Tendency: born to dislike and hate as triggered by normal and abnormal forces. Makes hater (1) ignore virtues in the object of dislike (2) dislike people, products, and actions merely associated with the object of dislike (3) distort other facts to facilitate hatred
- #4 Doubt Avoidance Tendency: we quickly remove doubt by reaching a decision. Triggered by a combination of (1) puzzlement and (2) stress
- One antidote: force a delay before making decisions
- #5 Inconsistency Avoidance Tendency: being reluctant to change is a form of inconsistency avoidance
- Quickly reached conclusion, triggered by doubt avoidance, combined with tendency to resist change will cause a lot of errors in cognition
- It was not the intrinsic difficulty of new ideas that prevented their acceptance, but instead the new ideas were not accepted because they were inconsistent with old ideas
- People tend to accumulate large 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
- Darwin trained himself to consider any evidence tending to disconfirm any hypothesis of his, more so if he thought his hypothesis was a particularly good one
- Confirmation bias: tendency to search for, interpret, favor, and recall information in a way that confirms one's preexisting beliefs or hypotheses
- Ben Franklin would maneuver people to doing some unimportant favor, like lending a book. Thereafter the person would admire and trust Franklin more because a non-trusted Franklin would be inconsistent with the appraisal implicit in lending him a book.
- When one is maneuvered into deliberately hurting some other person, one will tend to disapprove or even hate that person
- #6 Curiosity Tendency: innate curiosity
- #7 Katian Fairness Tendency: expect fairness of others (so system works best for everybody), courteous lining up, strangers voluntarily share equally, hostility occurs when fair sharing is expected yet not provided
- #8 Envy/Jealousy Tendency: comes from evolution in wanting often-scare food, creates conflict when something is seen in the possession of another member
- It is not greed that drives the world, but envy
- Labeling some position as driven by envy/jealously will be regarded as extremely insulting
- #9 Reciprocation Tendency: automatic tendency of humans to reciprocate both favors and disfavours. Facilitates group cooperation.
- One antidote: train yourself to defer reaction. "You can always tell the man off tomorrow, if it is such a good idea."
- Salespeople use this tendency by dispensing minor favors; try to oppose the tendency in purchasing by not letting them accept favors from vendors (e.g. Walmart); often subconscious
- Ask strangers to devote a big chunk of time to volunteer, 100% said no, follow-up with ask for one afternoon, increased acceptance from 17% to 50%. Making a small concession, which was reciprocated by a small concession from the other side
- #10 Influence from mere association Tendency: new habit is directly triggered by rewards previously bestowed (e.g. trained to believe that the highest price will have the highest quality, Coca Cola ads picture life as happier than reality)

- Antidotes (1) carefully examine each past success, looking for accidental, non-causative factors associated with such success that will tend to mislead as one appraises odds implicit in a proposed new undertaking (2) look for dangerous aspects of the new undertaking that were not present when past success occurred
- Commonly see people under appraise the competency and morals of competitors they dislike
- Sometimes lawyers, knowing their clients will hate them if they recommend an unwelcome but wise settlement, will carry on to disaster (Persian Messenger Syndrome)
- Develop a habit of welcoming bad news. "Always tell us bad news promptly. It is only the good news that can wait."
- Influence From Mere Association helps swamp Reciprocation Tendency if receive the favor when your condition is unpleasant, may trigger an envy driven dislike
- Bad associations can come from classification stereotypes (e.g. age discrimination). Normal and common, but wrong. Average dimension in some group will not reliably guide one to the dimension of a specific item.
- #11 Simple, Pain Avoiding Psychological Denial: one distorts facts until they become bearable; addicted person tend to believe they remain in a respectable condition, with respectable prospects
- #12 Excessive Self Regard Tendency: mostly misappraise oneself on the high side. One spouse usually over appraises the other spouse
- Once owned they suddenly become worth more than one would pay if they were offered for sale (endowment effect)
- Tendency makes people strongly prefer people like themselves
- Diminishes one's ability to appraise one's relative degree of talent
- Academic research shows poor predictive value of impressions from face-to-face interviews
- Worst criminals don't appraise themselves as all that bad
- Fixable but unfixed bad performance is bad character and a negative feedback loop; excuses shouldn't be tolerated, behave as you should
- Antidotes (1) fair, meritocratic, demanding culture plus personnel handling methods that build morale (2) severance of the worst offenders
- "Son it would be better for you to simply take all you want and call yourself a thief every time you do it"
- 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
- "Never underestimate a man who overestimates himself"
- Of all forms of useful pride, perhaps the most desirable is a justified pride in being trustworthy
- #13 Over Optimism Tendency: "What a man wishes, that also will he believe". Denial plus excessive optimism, even when already doing well
- Antidote is trained, habitual use of probability math
- #14 Deprivation Superreaction Tendency: loss seems to hurt much more than the gain seems to help. If man almost gets something he greatly wants and has it jerked away at the last moment, he will react much as if he had long owned the reward and had it jerked away.
- Affects possessed and almost possessed rewards.
- He will compare what is near instead of what really matters (e.g. wealthy individual extremely irritated by accidentally losing \$20 from his wallet)
- Ordinarily react with irrational intensity to small loss, or threatened loss, of property, love, friendship, territory, opportunity, status, or any other valued thing.
- Extremes of ideology are maintained with great intensity due to inconsistency avoidance and deprivation superreaction
- Antidotes to groupthink are an extreme culture of courtesy and deliberate effort to bring in able and articulate disbelievers
- Contributor to labor standoffs that lend to bankruptcies, to gambling compulsions (passion grows with loss), danger of open outcry auctions where social proof convinces people that the last price was reasonable

- Deprivation superreaction and inconsistency avoidance often combine (e.g. use up all good assets trying to rescue a bad venture)
- In reverse people miss opportunities because they don't want to sell, even for a better opportunity
- Berkshire shareholders never selling, partly rational, and partly (1) reward Superresponse (2) status quo bias from inconsistency avoidance tendency (3) endowment effect from excessive self-regard (4) fear of missing gains from deprivation superreaction tendency
- #15 Social Proof Tendency: automatic tendency to think and act like others around him
- Causes people to make large and ridiculous measurement errors
- Children have superrespect for their peers, parents will get more from manipulating the quality of peers than their own exhortations (Judith Harris)
- Triggering most readily occurs in the presence of puzzlement or stress and particularly when both exist (manipulate targets into isolation and stress)
- In the presence of doubt, inaction by others becomes social proof that inaction is the right course
- Interacts in a perverse way with Envy/Jealousy and Deprivation Superreaction
- Learn to ignore the examples from others when they are wrong
- #16 Contrast Misreaction Tendency: we don't measure in absolute scientific units, we measure in contrast (e.g. \$1,000 leather dashboard when buying a \$65,000 car, real estate showing three awful overpriced houses to make a bad moderately overpriced house look good, or discounted high prices)
- Few psychological tendencies do more damage to correct thinking
- Being aware of psychological ploys is not a perfect defense
- Small steps taken towards disaster will often let a person go too far
- Cognition, misled by tiny changes involving low contrast, will often miss a trend that is destiny
- "A small leak will sink a great ship"
- #17 Stress Influence Tendency: makes social proof more powerful. Light stress can improve performance whereas heavy stress can cause dysfunction
- #18 Availability Misweighing Tendency: we overweigh what's easily available/recallable
- Antidote is checklist/procedures, emphasize factors that don't produce reams of easily available numbers instead of only considering factors that produce numbers, find skeptical articulate people to advocate for opposite notions
- Extra-vivid evidence is more available and should be consciously underweighted while less vivid evidence should be overweighed
- #19 Use It or Lose It Tendency: all skills attenuate with disuse. Wise men engage in practice of all useful, rarely used skills, many of which are outside one's discipline
- Assemble skills into a checklist that you routinely use
- Skills of very high order can be maintained only with daily practice
- Some important skills you must continue until really fluent
- #20 Drug Misinfluence Tendency
- #21 Senescence Misinfluence Tendency: with age there is cognitive decay, hard to learn complex new skills, but can maintain intensely practiced old skills
- #22 Authority Misinfluence Tendency: natural follow the leader tendency of man
- Suffer greatly when the leader is wrong or when the leader's ideas don't get through properly
- Be careful whom you appoint to power because an authority figure is often hard to remove
- #23 Twaddle Tendency: some people produce copious amounts of twaddle and others very little. Keep prattling people far away from the serious work.
- #24 Reason Respecting Tendency: ideas get through best when reasons are meticulously laid out
- Think through reason before giving orders but also communicate these reasons
- Even meaningless or incorrect reasons will increase compliance (e.g. copier with a line, explain "I have to make some copies" and go to the front of the line)
- #25 Lollapalooza Tendency: extreme consequences from confluences of tendencies acting in favor of an outcome.
- The tendencies are probably more good than bad, but knowing the tendencies can help prevent trouble

- Some paradox in cognition change that works even when the manipulated person knows he is being manipulated
- Make heavy use of inversion, use checklists, and be aware of combinations of tendencies

Other Munger

- The trick in coming out well was seizing a few opportunities
- The opportunities that were important, that we're gonna come to me were few. And that the trick was to prepare myself for seizing the few that came.
- They think if they study a million things they can know a million things and of course the result is almost nobody can outperform an index.
- Where as I sit here was my Daily Journal stock. My Berkshire Hathaway stock. My holdings in Li Lu's asian fund. My Costco stock... and of course I'm outperforming everybody. I'm ninety five years old. I practically never have a transaction.

Poor Charlie's Almanack book. Read 313 reviews from the world's largest community for readers. EXPANDED THIRD EDITION includes Charlie's 2007 USC Law Sch... Start by marking "Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger" as Want to Read: Want to Read savingâ€¦| Want to Read. Poor Charlie's Almanack is a collection of speeches and talks by Charlie Munger, compiled by Peter D. Kaufman. First published in 2005. (ISBN 1-57864-303-1), it was released in an expanded edition. Reviews. In November 2005, Kiplinger's Newsletter wrote "Munger, 81, has always been media shy. That changed when Peter Kaufman compiled Munger's writing and speeches in a new book, Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger "[4]. Poor Charlie's Almanack: has been added to your Cart. Add to Cart. Buy Now. Verified Purchase. Poor Charlie's Almanac has been on my reading list for the last couple of years. It took me a six-month sabbatical (and then some) to get through it. This is a testament to the information, lessons, references and stories from Charlie Munger.