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"Poor Charlie's Almanack" about Charlie Munger is a phenomenal book that should be read by all investors at least once. Excellent summary of that book by [@allenxcheng](#)■

cc: [@dmuthuk](#) [@Gautam__Baid](#)

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Key points ■■

The Key Points of Poor Charlie's Almanack

- Strive to be objective. Force yourself to consider arguments on the other side, and argue them better than the other side can. Learn to handle mistakes. Be OK with being wrong. Seek to destroy your favorite ideas.
- Invert, always invert. Turn a situation around. How can you best destroy your own life right now? How can your company best fail if that were your aim? Then invert the answer to find what to do.
- Be interdisciplinary. Take the best ideas from the major fields. This avoids "man with a hammer" syndrome where you have one hammer and everything looks like a nail.
- Build a latticework of mental models to understand phenomena. Mental models include psychological biases, opportunity cost, autocatalysis.
- Know your circle of competence. If you're outside of it, wait and learn more before acting.
- To succeed in investing, don't make a lot of bets. Because of pari mutuel, it's hard to tell whether something is a great deal immediately. Wait to find great deals, then bet huge.
- Learn vicariously from other people's mistakes, rather than make them yourself.
- Our brains are faulty. Use checklists to analyze decisions and recognize biases.
- Remember the exercise of how to build a trillion dollar company. Be able to explain the success of a company from first principle, using major mental models, inversion, psychological biases. This will help you avoid mistakes that undo your work.

Mental Models suggested ■■

Mental Models Suggested

These are mental models suggested directly in [Poor Charlie's Almanack](#). It's not a complete set of mental models you should know, but is a good start to build off of.

- General
 - 2nd, 3rd order effects
- Math
 - Numbers, quantities, basic arithmetic
 - Compound interest
 - Permutations and combinations
 - Accounting
 - Decision Trees
 - Gaussian distribution
- Psychology
 - Incentive-caused bias
 - Hammer-and-nail bias
 - Appealing to person's self-interest
 - Consistency principle
 - Social proof
 - Sunk cost
 - Deprivation super-reaction
 - First conclusion bias
 - Crowd folly
 - Reciprocity
 - Five Ws - Who, What, Where, When, Why
- Engineering
 - Backup system
 - Breakpoints
 - Margin of safety
- Physics
 - Critical mass
 - Autocatalysis
 - Equilibrium
- Economics
 - Free market economy is an ecosystem where specializers can occupy a niche
 - Advantages of scale
 - Disadvantages of scale
 - Balances of advantages and disadvantages
 - Wealth effect
 - Opportunity cost
 - Incentives
 - Tragedy of the commons
 - Comparative advantage in trade
 - Specialization
- Markets
 - Technology can help or kill you
 - Competitive destruction with technology
 - Pari-mutuel system
 - Mr Market
 - A stock is a piece of business
 - Margin of safety
 - Cancer surgery formula
 - Cut out everything in a business that doesn't work, and you're left with something that does.
 - Management
 - Checklists
 - Big "no-brainer" questions
 - Patents and trademarks
 - Biology
 - Natural selection
 - Feedback loops
 - Statistics
 - Philosophy
 - History

On Constant learning ■■

Constant Learning

- **“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.** You’d be amazed at how much Warren reads — and at how much I read. My children laugh at me. They think I’m a book with a couple of legs sticking out.”
- “Spend each day trying to be a little wiser than you were when you woke up. Discharge your duties faithfully and well. Slug it out one inch at a time, day by day. At the end of the day— if you live long enough— most people get what they deserve.”
- “I am a biography nut myself. And I think when you’re trying to teach the great concepts that work, it helps to tie them into the lives and personalities of the people who developed them. I think you learn economics better if you make Adam Smith your friend.”
- “He wants to get to the bottom of everything, whether it’s something of serious interest to him or not. Anything that comes to his attention, he wants to know more about it and understand it and figure out what makes it tick.” – Roy Tolles
- **“When a better tool (idea or approach) comes along, what could be better than to swap it for your old, less useful tool?”**
- **“You need to have a passionate interest in why things are happening.** That cast of mind, kept over long periods, gradually improves your ability to focus on reality. If you don’t have that cast of mind, you’re destined for failure even if you have a high I.Q.”
- “Rapid advance of civilization came only when man “invented the method of invention.” He was referring to the huge growth in GDP per capita and many other good things we now take for granted. Just as civilization can progress only when it invents the method of invention, you can progress only when you learn the method of learning.”
- “If you want to improve, be content to be thought foolish and stupid.” –Epictetus
- “Curiosity, concentration, perseverance, and self-criticism.” – Einstein

Few more of my fav pts ■■

Learning from Charlie Munger

Objectivity and Changing One's Mind

- "I think that one should recognize reality even when one doesn't like it; indeed, especially when one doesn't like it."
- "Any year that you don't destroy one of your best-loved ideas is probably a wasted year."
- "We all are learning, modifying, or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side."

Invert, Always Invert

- "What's the flip side? What can go wrong that I haven't seen?"
- "Invert, always invert. Many hard problems are best solved only when they are addressed backwards."

Circle of Competence

- "Knowing what you don't know is more useful than being brilliant."
- "People are trying to be smart—all I am trying to do is not to be idiotic, but it's harder than most people think."
- "You have to figure out what your own aptitudes are. If you play games where other people have the aptitudes and you don't, you are going to lose."
- "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."
- "We have three baskets for investing: yes, no, and too tough to understand."

Learning Vicariously from Others' Mistakes

- "The more hard lessons you can learn vicariously, instead of from your own terrible experiences, the better off you will be."
- "I believe in the discipline of mastering the best that other people have ever figured out. I don't believe in just sitting down and trying to dream it all up yourself."
- "I sought good judgment mostly by collecting instances of bad judgment, then pondering ways to avoid such outcomes."

Finally, the phenomenal checklist ■■

Charlie's Investment Checklist

1. MEASURE 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

2. BE INDEPENDENT

Only in fairy tales are emperors told they're naked.

- 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)

3. PREPARE AHEAD

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?"

4. HAVE 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

5. ANALYZE RIGOROUSLY

Use effective checklists to minimize 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

6. ALLOCATE ASSETS WISELY

Proper allocation of capital is an investor's No. 1 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

7. HAVE 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

8. BE DECISIVE

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 comes
- Opportunity meeting the prepared mind; that's the game

9. BE READY FOR 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

10. STAY FOCUSED

Keep it 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

During times like these, it's easy to get carried away by the hype, FOMO, quick gains and over-confidence, but a solid foundation in timeless principles (like mentioned in this book) will help with survival and resilience with whatever the Market throws your way later.

/END.