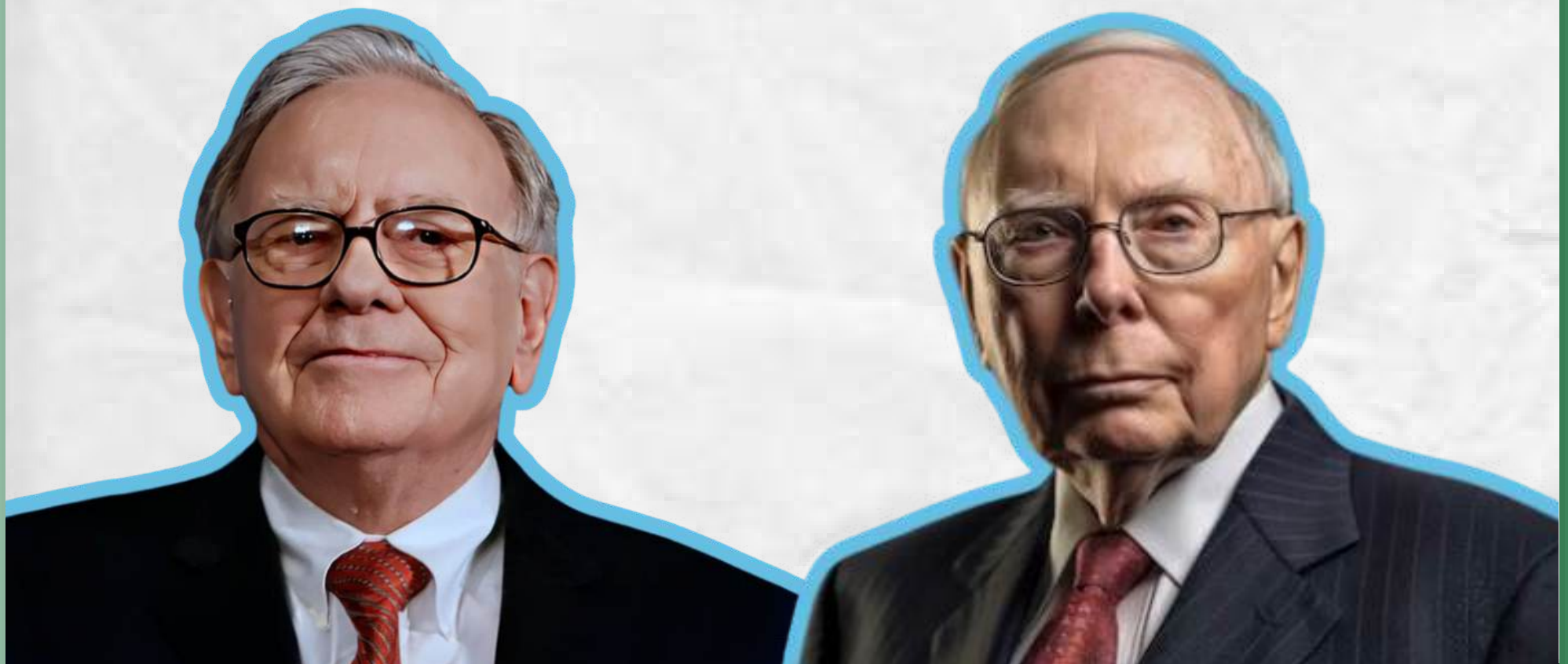


BUFFETT & MUNGER

**EXPLAINED
VISUALLY**



**BRIAN FEROLDI
BRIAN STOFFEL**

Hello and Welcome!

Warren Buffett & Charlie Munger are two of the best investors of all time.

This eBook contains a number of infographics that explain their unique investing style & principles, visually.

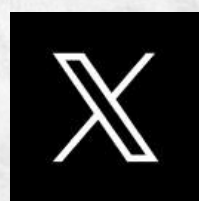
Wishing you investing success!



Brian Feroldi



Brian Stoffel



(Click The Icons To Connect)

INDEX

BUFFETT ON ACCOUNTING

[INCOME STATEMENT - WARREN BUFFETT RULES OF THUMB](#)

[BALANCE SHEET - BUFFETT'S RULES OF THUMB](#)

[CASH FLOW STATEMENT - BUFFETT'S RULES OF THUMB](#)

[FINANCIAL STATEMENTS: WARREN BUFFETT'S RULES OF THUMB](#)

BUFFETT ON INVESTING

[WARREN BUFFETT: 6 SIGNS OF A GREAT INVESTOR](#)

[WARREN BUFFETT CHECKLIST](#)

[WARREN BUFFETT - IN A NUTSHELL](#)

[WARREN BUFFETT'S INVESTING RULES](#)

[WARREN BUFFETT: 8 YELLOW FLAGS](#)

[WARREN BUFFETT - GREAT, GOOD, GRUESOME](#)

[WARREN BUFFETT - BERKSHIRE HATHAWAY - Q4 2023](#)

[BUFFETT INVESTING LESSONS](#)

[INVESTING ADVICE BY WARREN BUFFETT](#)

BUFFETT RANDOM

[WARREN BUFFETT WEALTH BY AGE](#)

[WARREN BUFFETT'S BOOK RECOMMENDATIONS](#)

[THE ESSAYS OF WARREN BUFFETT](#)

[WARREN BUFFETT: WEALTH BY AGE](#)

[WARREN BUFFETT QUOTES](#)

CHARLIE MUNGER

[CHARLIE MUNGER CHECKLIST](#)

[CHARLIE MUNGER ALAMANC](#)

[CHARLIE MUNGER - DAILY JOURNAL CORP - Q3 2023](#)

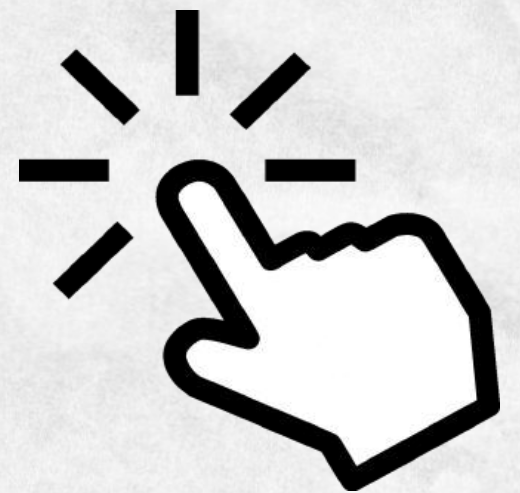
[15 MENTAL MODELS CHEATSHEET](#)

[CHARLIE MUNGER QUOTES](#)

[CHARLIE MUNGER QUOTES](#)

[CHARLIE MUNGER BOOK RECOMMENDATIONS](#)

[CHARLIE MUNGER HUMAN MISJUDGEMENT](#)



CLICK TO JUMP
TO INFOGRAPHIC



BUFFETT ON ACCOUNTING

WARREN BUFFETT'S

INCOME STATEMENT RULES OF THUMB



METRIC	EQUATION	RULE OF THUMB
Gross Margin	$\frac{\text{Gross Profit}}{\text{Revenue}}$	>40%
SG&A Margin	$\frac{\text{SG\&A}}{\text{Gross Profit}}$	<30%
R&D Margin	$\frac{\text{R\&D}}{\text{Gross Profit}}$	<30%
Depreciation Margin	$\frac{\text{Depreciation}}{\text{Gross Profit}}$	<10%
Interest Margin	$\frac{\text{Interest}}{\text{Operating Income}}$	<15%
Tax Margin	$\frac{\text{Taxes}}{\text{Pre-Tax Income}}$	Corporate Tax Rate
Net Income Margin	$\frac{\text{Net Income}}{\text{Revenue}}$	>20%
EPS Growth	$\frac{\text{Year 2 EPS}}{\text{Year 1 EPS}}$	Positive & Growing

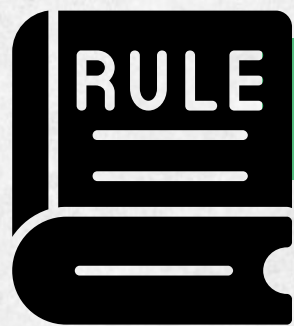
WARREN BUFFETT'S

BALANCE SHEET RULES OF THUMB



Metric	Equation	Rule
Cash & Debt	$\text{Cash} > \text{Total Debt}$	More Cash Than Debt
Adjusted Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Shareholder Equity} + \text{(Treasury Stock)}}$	Below 0.80
Preferred Stock	Preferred Stock	None
Retained Earnings	$\frac{\text{Year 2 Retained Earnings}}{\text{Year 1 Retained Earnings}}$	Recession - Proof Growth
Treasury Stock	$\text{Treasury Stock} > 1$	Exists

WARREN BUFFETT'S



CASH FLOW RULES OF THUMB

Metric	Equation	Rule
Capex Margin	$\frac{\text{Capex}}{\text{Net income}}$	<25%

A portrait of Warren Buffett, an elderly man with glasses, wearing a dark suit, white shirt, and red tie. In the bottom left corner, there is a green icon of a hand holding a money bag with a dollar sign, next to a bar chart with an upward-pointing arrow.

WARREN BUFFETT'S



FINANCIAL STATEMENTS RULES OF THUMB

	METRIC	EQUATION	THRESHOLD
INCOME STATEMENT	Gross Margin	$\frac{\text{Gross Profit}}{\text{Revenue}}$	>40%
	SG&A Margin	$\frac{\text{SG\&A}}{\text{Gross Profit}}$	<30%
	R&D Margin	$\frac{\text{R\&D}}{\text{Gross Profit}}$	<30%
	Depreciation Margin	$\frac{\text{Depreciation}}{\text{Gross Profit}}$	<10%
	Interest Margin	$\frac{\text{Interest Expense}}{\text{Operating Income}}$	<15%
	Tax Margin	$\frac{\text{Taxes}}{\text{Pre-Tax Income}}$	Corporate Tax Rate
	Net Income Margin	$\frac{\text{Net Income}}{\text{Revenue}}$	>20%
	EPS Growth	$\frac{\text{Year 2 EPS}}{\text{Year 1 EPS}}$	Positive & Growing
BALANCE SHEET	Cash & Debt	Cash > Debt	Cash > Debt
	Adjusted Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Shareholder Equity} + \text{Treasury Stock}}$	Below 0.80
	Preferred Stock	NONE	NONE
	Retained Earnings	$\frac{\text{Year 2 Retained Earnings}}{\text{Year 1 Retained Earnings}}$	Consistent Growth
	Treasury Stock	Treasury Stock > 1	Exists
CASH FLOW STATEMENT	Capex Margin	$\frac{\text{Capex}}{\text{Net income}}$	<25%

The book cover features a background of crumpled, light-colored paper. Overlaid on this is a halftone pattern of small dots that transitions from a light green at the top left to a yellow in the center, and then to a darker green at the bottom right. The title is centered in a bold, blue, sans-serif font.

BUFFETT ON INVESTING

Warren Buffett:

6 SIGNS OF A GREAT INVESTOR

1

You must have patience

Never buy a stock unless you would be happy with it if the stock exchange closed down for the next ten years.



2

You must be animated by controlled greed, and fascinated by the investment process

You must not let greed take possession of you so that you become in a hurry.

- If you are too interested in money, you will kill yourself.
- if not interested enough, you won't go to the office. And you must enjoy the game.



3

You must think independently

Jot down your reasons for buying: "XYZ is undervalued by the market at \$500 million because . . ." When you have them all down, make your decision and leave it at that, without feeling the need to consult other people: no committees.



4

You must have the security and self-confidence that comes from knowledge, without being rash or headstrong

If you lack confidence, fear will drive you out at the bottom. It's as though you bought a house for \$1 million and immediately told the broker that you that you would sell it again if you got a bid of \$800,000.



5

Accept it when you don't know something

Good investors know that the world is complex, and they can't know everything.



6

Be flexible as to the types of business you buy, but never pay more than the business is worth

Calculate what the business is worth now, and what it will be worth in due course. Then ask yourself, "How sure am I?" Nine times out of ten you can't be.



Warren Buffett's

INVESTING CHECKLIST



- Is the business understandable?
- Do you know how the money is made?
- Does the business have a consistent operating history?
- Does the company have favorable long-term prospects?
- Is there a big moat around the business?
- Is it a business that even a dummy could make money in?
- Can operations be maintained with minimal reinvestment?
- Is the company free to adjust prices to inflation?
- Have you read the annual reports of the main competitors?

Business



- Has the management demonstrated integrity?
- Has management demonstrated intelligence?
- Has management demonstrated high energy?
- Is management rational?
- Is management candid with shareholders (evidence of problems open disclosure to the shareholders)?
- Has management resisted growth by mergers?
- Has management resisted the institutional imperatives?
- Has the business been free of a merger in the last 3 years?
- Are stock options tied to management performance rather than the organization's performance?

Management



- Are stock options treated as an expense?
- Is the return on equity adequate?
- Is the company conservatively financed?
- Has the company had a track record of earnings growth in most years above the stock market average?
- Are the profit margins attractive?
- Has the company created at least one dollar of market value for every dollar of earnings retained?

Financial



WARREN BUFFETT IN A NUTSHELL



Warren Buffett



Phil Fisher

Lesson:

- Focused portfolio
- Long Term Holdings
- Keyword: Scuttlebutt Investing

Buy For Long Term



Benjamin Graham

Lesson:

- Buy Stocks at attractive valuation
- Keywords: Mr Market, Margin of Safety (MOS)

Buy at Right Price



Charlie Munger

Lesson:

- Invest in Companies with Long Term Sustainable Competitive Advantage
- Keyword: Economic moats

Buy Rights Stocks

FINAL UNDERSTANDINGS

Understandable Business Model

- Simple and Fits Within the Circle of Competence
- In Depth Analyses of Business Model from Operation to Financials, from Sustainability to Valuations

Run By Honest and Efficient Management

- Integrity
- Transparency and Accountability
- Vision, Passion and Execution Capabilities
- Efficient and Effective Utilization of Share Holder's Fund

Business with Sustainable Long Term Competitive Advantage

- Long Term Economic moats
- Strong and Clean Balance Sheets
- Fat margins, Great ROIC/ROIIC and Incremental Free Cash Flow

Attractive Valuations

- Buy with MOS
- Buy Wonderful Businesses at a Fair price rather than buying Fair Business at wonderful prices.

Free resources

- Letters to Shareholders
- Warren Buffett Partnership Letters
- Transcripts of BRK Shareholders Annual Meetings

Books

- Warren Buffett's Ground Rules
- The Warren Buffet's Way
- Buffett: The making of American Capitalist
- The Warren Buffett Portfolio
- The Snowball: Warren Buffett and the Business of Life

WARREN BUFFETT'S INVESTING RULES



WARREN BUFFETT'S 14 FINANCIAL RULES OF THUMB

1 Gross profit margin of 40% or higher.



2 Return on equity (roe) of 15% or higher.



3 Persistently growing earnings per share (eps).



4 Low debt-to-equity ratio.



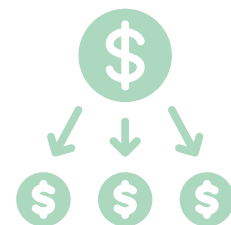
5 Adequate cash flow.



6 Strong balance sheet.



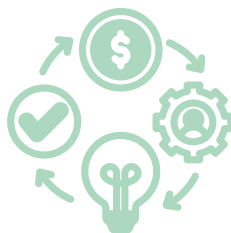
7 A history of dividend payments.



8 Management team that is honest and competent.



9 A business that is easy to understand.



10 A business that is not cyclical.



11 A business that has a moat.



12 Business that is undervalued.



13 Business that you are comfortable owning for the long term.



14 Don't be afraid to walk away from a deal.



WARREN BUFFETT

8 YELLOW FLAGS

1 Excess production capacity

If competitors can easily flood the market with supply, then you have a commodity-like product.

2 Low profit margins

If a business can barely convert its revenue into profits, it signals the company can easily become unprofitable if revenue declines.

3 Highly competitive industry

Lots of competition will eventually erode any advantage by attracting new capital.

4 No pricing power

Buffett avoids companies that would lose customers if they passed on a price increase.

5 Erratic profits

If a business has boom and bust years then it becomes impossible to predict the long-term returns.

6 Reliance on good management

If it needs a great manager to succeed, it's not a great business.

7 Low returns on capital

If a business cannot generate high returns on equity, it has no place in Buffett's portfolio.

8 No Moat

If he can't identify a moat, Buffett puts it in his "too-hard" pile.





Warren Buffett

Great vs. Good vs. Gruesome

FACTOR	GREAT BUSINESS	GOOD BUSINESS	GRUESOME BUSINESS
Competitive Advantage / Moat	High and Expanding; Extremely difficult for new companies to enter and succeed	Medium and Steady; Highly competitive, but its hard for new entrants to succeed	None; No entry barrier - Easy for new companies to enter and succeed
Pricing Power	High	Moderate	None
Earnings Growth	Moderate, but requires no new capital	Moderate to High, but requires modest reinvestment	High, but requires new capital and continuous reinvestment
Capital Intensity	Low	Moderate to High	Very High
Returns on Capital	High and Stable	Moderate and Stable	Low and Erractic
Cash	Earns significantly more than it consumes	Earns slightly more than it consumes	Burns significantly more than it consumes
Management	Low dependence on good management	Good management is required	Great management required and still performs poorly
Should You Invest?	Load up when available at an attractive price, hold "forever"	Buy when cheap, Sell when expensive	Avoid at any price
Margin of Safety for Purchase	10-20% lower than Intrinsic Value	30-50% lower than Intrinsic Value	Avoid at any price
Conclusion	Fill your portfolio with great businesses	Only buy these businesses at wonderful prices	Avoid these businesses at all costs

WARREN BUFFETT

INVESTING LESSONS



1 The longer you invest, the better

Warren Buffett's net worth is equal to more than \$100 billion. More than 95% (!) of this wealth was created after his 65th birthday.

2 Do not borrow money to invest

Charlie Munger says there are only three ways a smart person can go broke: liquor, ladies, and leverage.

3 Boring companies are usually great investments

Only invest in what you understand. Boring companies are usually great investments. Good investing is as watching paint dry.

4 Invest in companies with integer management

The interests of management and shareholders should be aligned. Companies with skin in the game outperform the market.

5 Buy quality businesses

Invest in robust companies with a healthy balance sheet and high margins which can grow their earnings attractively.

6 Be disciplined

Every investment strategy will underperform the market from time to time. As an investor, you are running a marathon, not a sprint.

7 Market fluctuations are your friend

The best thing that can happen to investors who will still be buying shares in the next 10 years is falling stock prices.

8 Organic growth is the preferred growth source

Compounding machines are companies which can reinvest their earnings in organic growth for years or even decades.

9 Give your top ideas the most weight in your portfolio

Diversification only makes sense for those who don't know what they're doing.

10 Pricing power is crucial

Pricing power is the best protection against inflation.

INVESTING ADVICE BY WARREN BUFFETT



THE BASICS

VALUE INVESTING

Buy securities for less than they're worth."

Buy when stocks are:

- Unpopular
- In Temporary Trouble
- Misunderstood
- Under the Radar

LONG -TERM FOCUS

Markets are prone to short-sightedness.

The easiest way to get a headstart is to have a long time horizon.

It doesn't require a high IQ or extra work. Just patience.

UNDERSTANDING

To invest in a company, you must understand it.

Everything else is speculation.

This is an easy but highly effective filter.

But you have to be honest with yourself.

ADVANCE

SIZE ADVENTAGES

We should learn from but not copy Buffett.

Berkshire's size limits his ability to invest in smaller companies. But they can deliver higher returns.

So, why follow him in trillion-dollar companies instead of looking at the more lucrative small businesses?

HIGH TURNOVER

Buffett is known for holding investments preferably "forever".

But he used to buy and sell more often. He invested in special situations rather than compounders.

There's no right or wrong, but investors should consider both alternatives.

MODELLING

Buffett publicly said he doesn't use Excel or models.

While I believe that he probably does these calculations in his head.

What we should take from this is that we don't need complex models.

The more assumptions, the worse.

EXTRAS

PRODUCTIVE ASSETS

Buffett focuses on productive assets - assets that produce cash flows and can grow in value over time.

Unproductive assets can only deliver returns if someone else is willing to pay more than you paid.

CAPITAL ALLOCATION

Buffett pays a lot of attention to management's ability to allocate capital.

TURNAROUNDS

Buffett avoids turnarounds in which he isn't actively involved or can place his own people in the company.

INVESTOR PSYCHOLOGY

Just like Munger, Buffett emphasized the importance of Investor Psychology.

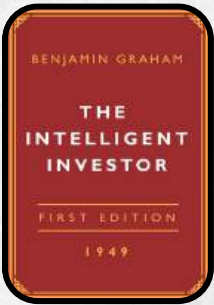
- Some of his main points are:
- Emotional Discipline
 - Contrarian Thinking
 - Patience
 - Self-Awareness



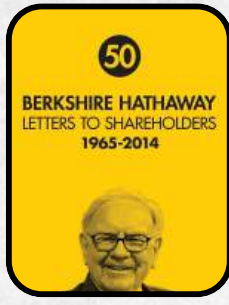
BUFFETT RANDOM

Warren Buffett's Book Recommendations

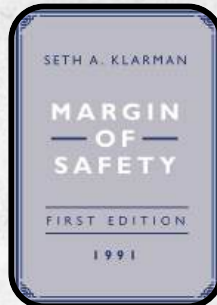
INVESTING



Intelligent Investor – Graham



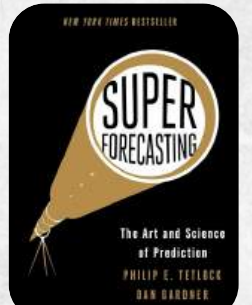
Berkshire Hathaway Shareholder Letters – Buffett



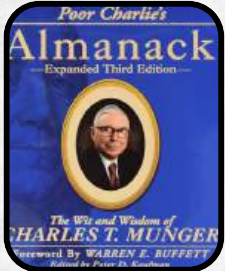
Margin of Safety – Klarman



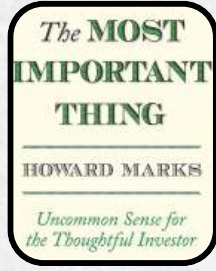
Measuring the Moat – Mauboussin



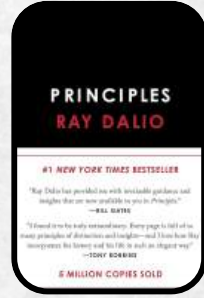
Superforecasting – Tetlock



Poor Charlie's Almanac – Kaufman



The Most Important Thing – Marks



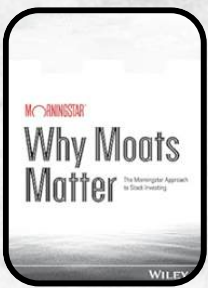
Principles – Dalio



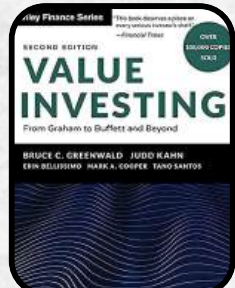
The Outsiders – Thorndike



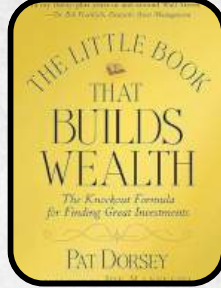
Psychology of Human Misjudgement – Munger



Why Moats Matter – Collins and Brilliant



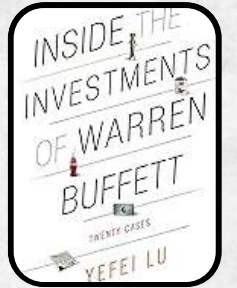
Value Investing – Greenwald



The Little Book That Builds Wealth: The Knockout Formula for Finding Great Investments – Dorsey

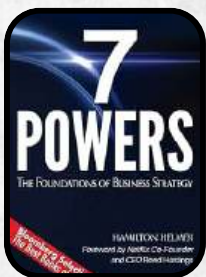


Quality Investing – Cunningham



Inside the Investments of Warren Buffett: Twenty Cases – Lu

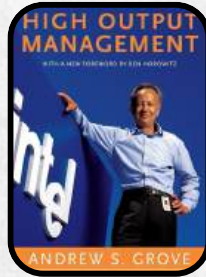
OPERATING & MANAGEMENT



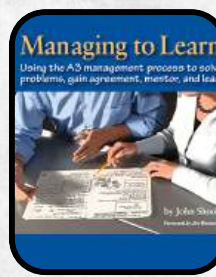
7 Powers – Helmer



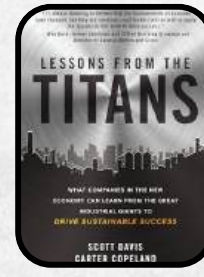
Time, Talent, and Energy – Garton



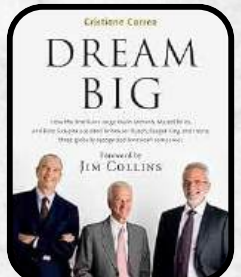
High Output Management – Grove



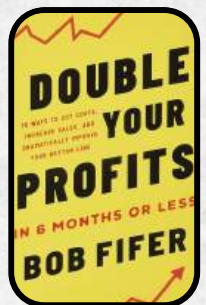
Managing to Learn – Shook



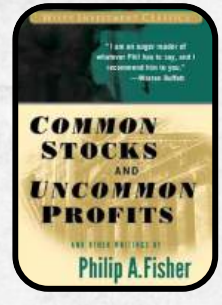
Lessons from the Titans – David



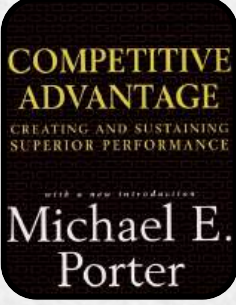
Dream Big – Correa



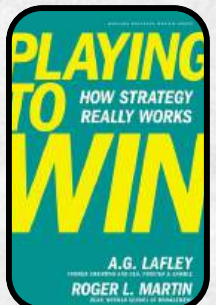
Double Your Profits – Fifer



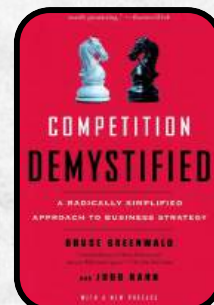
Common Stocks and Uncommon Profits – Fisher



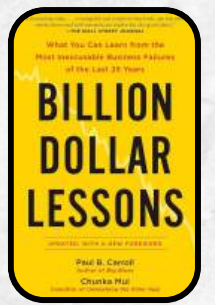
Competitive Advantage – Porter



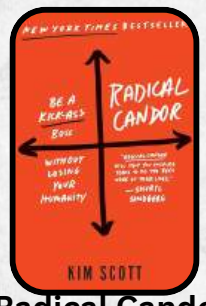
Playing to Win – Lafley



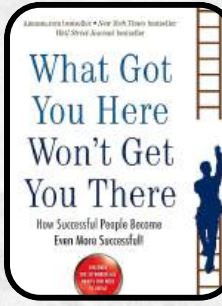
Competition Demystified – Greenwald



Billion Dollar Lessons – Carroll and Mui



Radical Candor – Scott



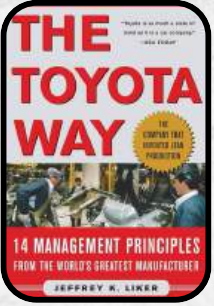
What Got You Here Won't Get You There – Goldsmith



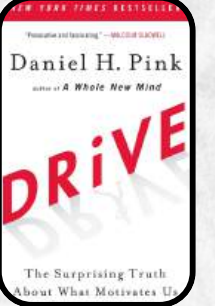
Who – Smart and Street



The Lean Startup – Ries



The Toyota Way – Liker



Drive – Pink

The Essays of Warren Buffett

Lessons for Corporate America

"We had learned from Ben Graham that the key to successful investing was the purchase of shares in good businesses when market prices were at a large discount from underlying business values."

LOOK FOR GOOD BUSINESSES

- "Over time, you will find only a few companies that meet these standards, so when you see one that qualifies, you should buy a meaningful amount of stocks."
- "A horse that can count to ten is a remarkable horse, not a remarkable mathematician."



ECONOMIC ASPECTS SIMPLE AND STABLE BUSINESS

"I would rather be certain of a good result than hopeful of a great one."



COMPETENT AND HONEST MANAGEMENT

"We've never succeeded in making a good deal with a bad person."



SENSIBLE PRICES

"Our goal is to find an outstanding business at a sensible price, not a mediocre business at a bargain price."



WITHIN THE CIRCLE OF COMPETENCE

"The size of that circle is not very important, knowing its boundaries however, is vital."



AWARE OF THE INSTITUTIONAL IMPERATIVE

1. Institution will resist any change
2. Projects and acquisitions to use available funds
3. Any business craving of the leader will be supported by his troops' studies
4. The behavior of peer companies will be mindlessly imitated



PATIENCE

"The stock market serves as a relocation center at which money is moved from the active to the patient."



DON'T DIVERSIFY

Simply add your money to your top choices, the businesses you understand best and that present the least risk, along with the greatest profit potential.



MR MARKET ALWAYS COMES BACK

"Mr. Market is there to serve you. Not to guide you."



BE AWARE OF M&A

Sometimes my horse walks just fine and sometimes he limps. No problem, when he's walking fine, sell him.

AVOID LIMITING YOUR EARNINGS

Sell off portions of your most successful investments simply because they have come to dominate his portfolio is akin to suggesting that the Bulls trade Michael Jordan because he has become so important to the team.



VALUE GROWTH

"They are integrally linked since must be treated as a component of value."



COMMODITIES COMPANIES

"It's impossible to be a lot smarter than your dumbest competitor."



IPO

"Selling shareholders are often motivated to unload only when they feel the market is overpaying"



CIGAR BUTTS

"Good jockeys will do well on good horses, but not on broken-down nags."

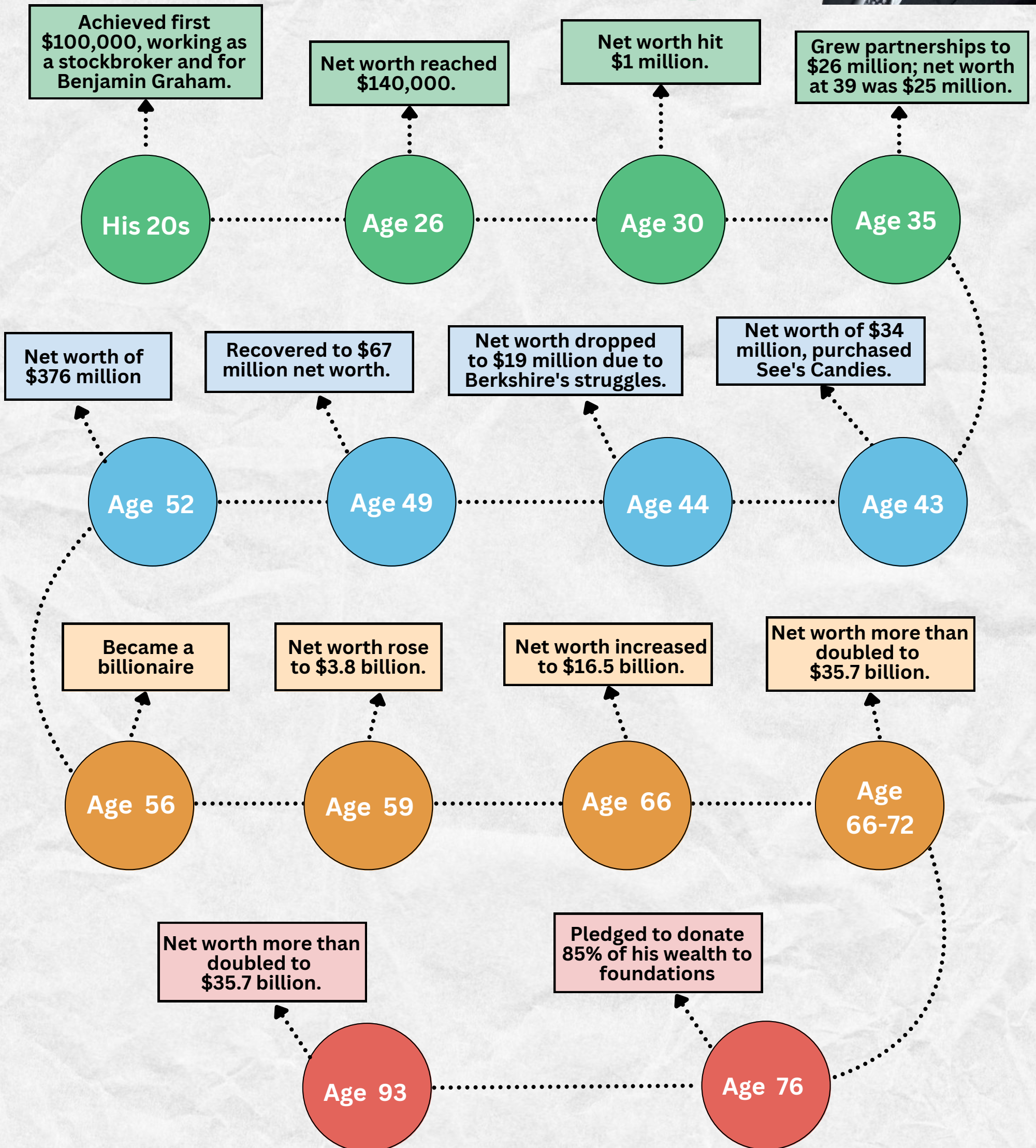
MACRO

"We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen."



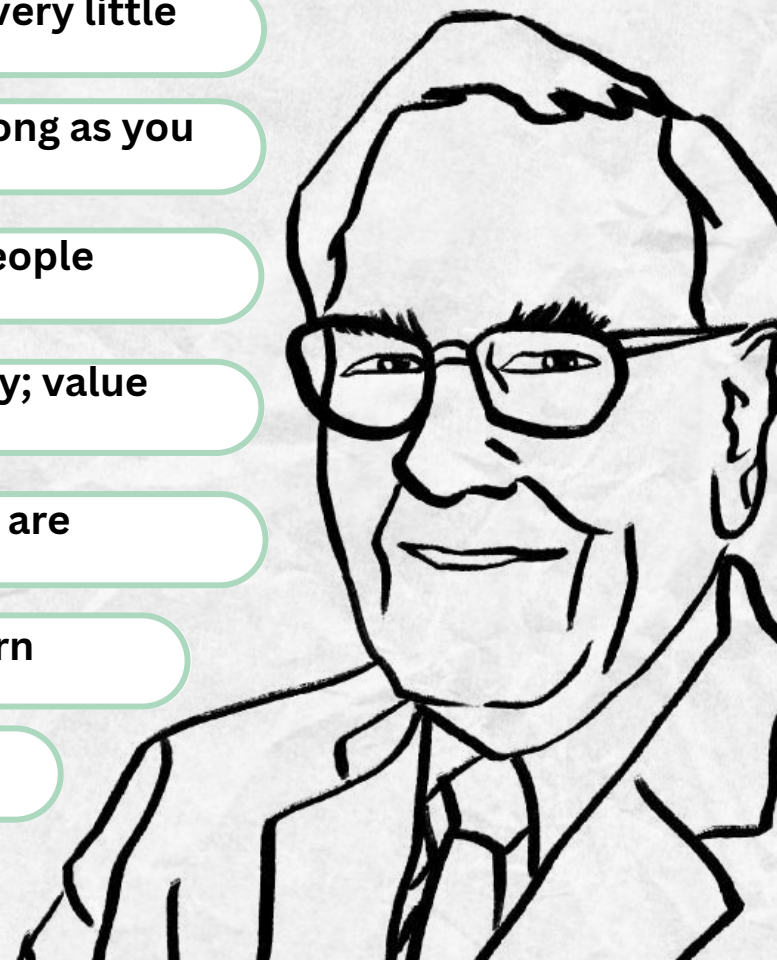
Smile when you read a headline that says "investors lose as market falls." edit in your mind to "disinvestors lose as market falls - but investors gain."


Warren Buffett: Wealth By Age



WARREN BUFFETT QUOTES

- 1 “Rule #1: Never lose money. Rule #2: Never forget rule #1.”
- 2 “It takes 20 years to build a reputation and five minutes to ruin. If you think about that, you'll do things differently.”
- 3 “If you aren't willing to own a stock for 10 years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value.”
- 4 “It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”
- 5 “The difference between successful people and really successful people is that really successful people say no to almost everything.”
- 6 “When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever.”
- 7 “It's better to hang out with people better than you. Pick out associates whose behavior is better than yours, and you'll drift in that direction.”
- 8 “Charlie and I have not learned how to solve difficult business problems. What we have learned is to avoid them.”
- 9 “You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ.”
- 10 “I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will.”
- 11 “Wall Street is the only place that people ride to work in a Rolls Royce to get advice from those who take the subway.”
- 12 “We have long felt that the only value of stock forecasters is to make fortune-tellers look good.”
- 13 “Buy into a company because you want to own it, not because you want the stock to go up.”
- 14 “Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing.”
- 15 “You only have to do a very few things right in your life so long as you don't do too many things wrong.”
- 16 “If past history was all there was to the game, the richest people would be librarians.”
- 17 “Long ago, Ben Graham taught me that price is what you pay; value is what you get.”
- 18 “Be fearful when others are greedy. Be greedy when others are fearful.”
- 19 “Tell me who your heroes are, and I'll tell you who you'll turn out to be.”
- 20 “Passive investing will make you more money than active trading.”
- 21 “Develop and build the habits you admire in others.”





CHARLIE MUNGER

Charlie Munger's

INVESTING CHECKLIST



RISK

- 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 exposure
- Avoid big mistakes; shun permanent capital loss

ALLOCATION

- 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

INDEPENDENCE

- 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 judgement
- Mimicking the herd invites regression to the mean (merely average performance)

DECISIVENESS

- Be fearful when other 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

PREPARATION

- 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 (Business, Humanities, Natural and applied sciences, Social sciences)
- If you want to get smart, the question you have to keep asking is "why, why, why, why?"

PATIENCE

- "Compound interest is the eight 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

INTELLECTUAL HUMILITY

- 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

CHANGE

- 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

ANALYTICAL RIGOR

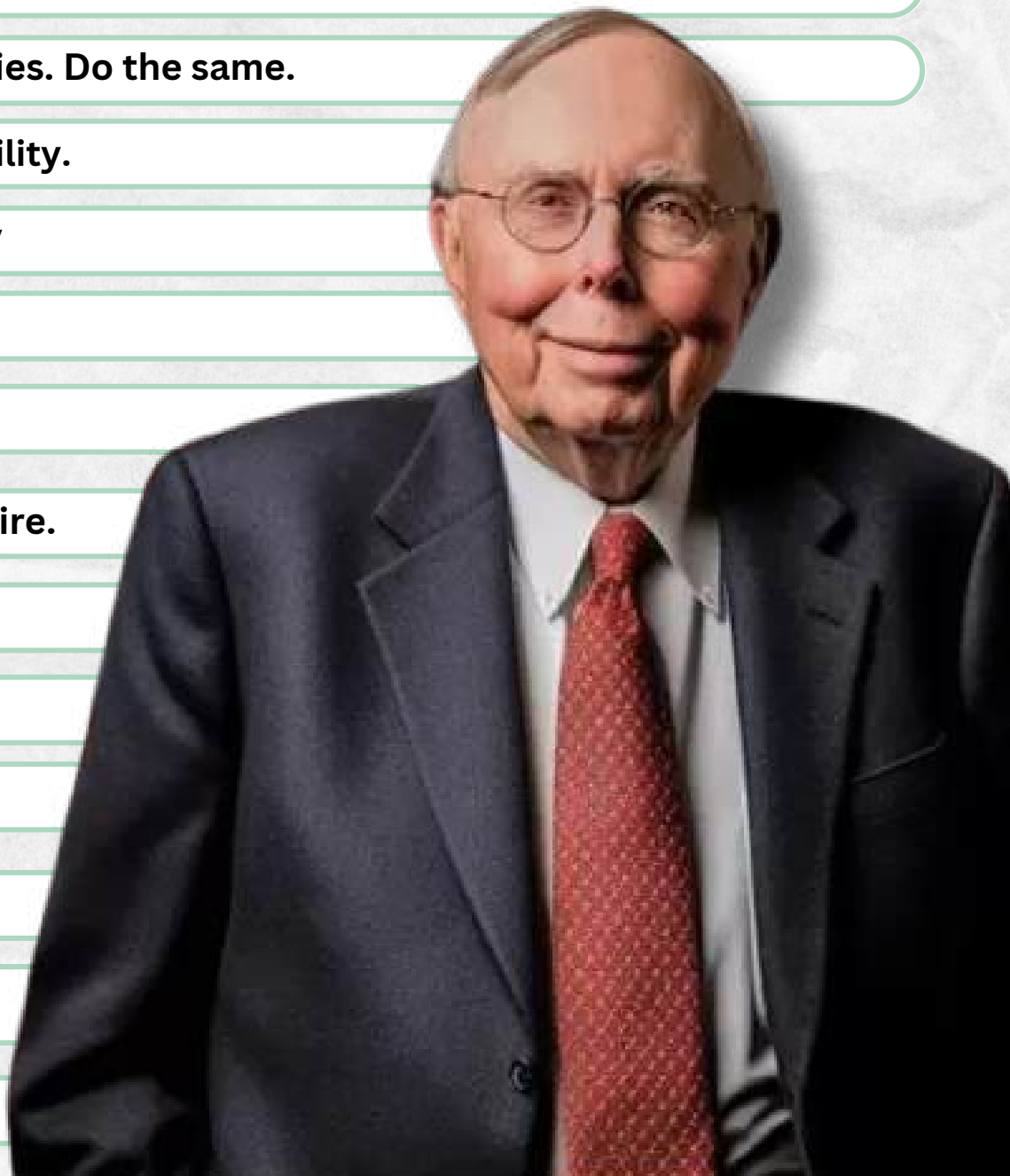
- Determine value apart from price; progress apart from activity; wealth apart from size
- It is better to remember the obvious than to gasp the esoteric Be a business analyst, not a market, macroeconomic, or security analyst
- Consider totality of risk and effect; look always at potential second order and higher-level impacts
- Think forwards and backwards - Invert, always invert

FOCUS

- Remember that reputation and integrity are your most valuable assets - and can be lost in a heartbeat
- Guard against the effects of hubris (arrogance) and boredom
- Don't overlook the obvious drowning in minutiae (the small details)
- 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

POORS CHARLIE'S ALMANACK

- 1 Find a simple idea and take it seriously.
- 2 Good ideas are rare. When you find one bet heavily.
- 3 Humans have been writing down their best ideas for 5,000 years. Read them.
- 4 Great businesses are built by going ridiculously far in maximizing or minimizing one or a few things. Think Costco.
- 5 Make friends with smart dead people. Adam Smith, Darwin, Cicero, Ben Franklin —whoever interests you. Read their writing. Steal their ideas. They don't need them anymore.
- 6 Bad things will happen to you. It's inevitable. When they do get up and keep going and remember the next maxim.
- 7 Avoiding stupid mistakes is more important than being smart.
- 8 Many hard problems are solved best when approached backwards.
- 9 Clip your business and personal expenses. Small leaks sink big ships.
- 10 Think of ideas as tools. When a better tool comes along use it.
- 11 Avoiding a bad habit is easier than breaking a bad habit.
- 12 Incentives rule everything around you. Look for them.
- 13 Charlie has read hundreds of biographies. Do the same.
- 14 Don't confuse intelligence with invincibility.
- 15 Work on your best idea. Don't diversify
- 16 Learning is changing behavior.
- 17 Do the unpleasant tasks first.
- 18 Don't work with anyone you don't admire.
- 19 Don't sell anything you wouldn't buy.
- 20 Stop multitasking. Concentrate.
- 21 Self pity has no utility.
- 22 Use money to buy freedom.
- 23 Find out what you are best at. Then pound away at it. Forever.
- 24 Self improvement has no end.



Charlie Munger's

MENTAL MODELS CHEAT SHEET



“What you need is a latticework of mental models in your head. And, with that system, things gradually get to fit together in a way that enhances cognition.”
- Charlie Munger (Poor Charlie's Almanack)



CIRCLE OF COMPETENCE

The subject area which matches a person's skills or expertise.



FALSE CAUSALITY

Correlation does not imply causation (seeing a cause-and-effect relationship with events).



FIRST PRINCIPLES THINKING

A basic proposition that cannot be deduced from any other proposition.



SECOND-ORDER THINKING

Thinking farther ahead to consequences of consequences (of consequences).



SYSTEMS THINKING

Making sense of complexity by looking at it in terms of wholes and relationships.



PROBABILISTIC THINKING

Using math/logic to estimate the likelihood of a specific outcome coming to pass.



INVERSION

Approaching a situation from the opposite end of the natural starting point.



DISCONFIRMING EVIDENCE

Look for it, and get really good at destroying your own wrong ideas.



EQUILIBRIUM/HOMEOSTASIS

Steady internal/physical/chemical conditions maintained by living systems.



PRINCIPLE OF LEAST EFFORT

People will naturally choose the path of least resistance or "effort."



LEVERAGE

Applying force or effort in a particular area can produce outsized results.



COMPOUNDING

Occurs when something begins to grow at a faster rate as it gets bigger and has more time.



MULTIPLYING BY ZERO

A failure in one area can negate great effort in all other areas.



INCENTIVES

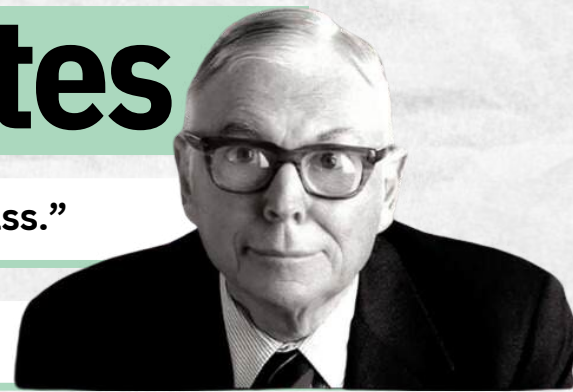
Something that motivates or drives one to do something or behave in a certain way.



EXTERNALITIES

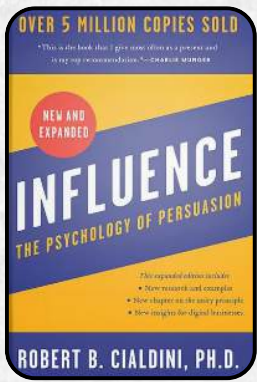
Indirect cost/benefit to an uninvolved third party as an effect of another party's activity.

20 of Charlie's best quotes

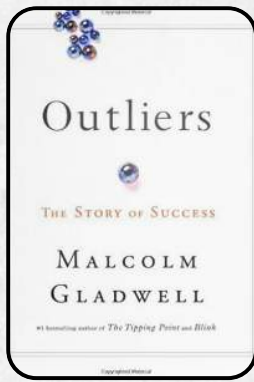


- 1 “Investing is where you find a few great companies and then sit on your ass.”
- 2 “The big money is not in buying or selling, but in the waiting.”
- 3 “Like Warren, I had a considerable passion to get rich, not because I wanted Ferrari's - I wanted the independence. I desperately wanted it.”
- 4 “We have a passion for keeping things simple.”
- 5 “Assume life will be really tough, and then ask if you can handle it. If the answer is yes, you've won.”
- 6 “Think of the basic intellectual dishonesty that comes when you start talking about adjusted EBITDA. You're almost announcing you're a flake.”
- 7 “If investing wasn't hard, everyone would be rich.”
- 8 “You don't have to be brilliant, only a little bit wiser than the other guys, on average, for a long, long time.”
- 9 “The desire to get rich fast is pretty dangerous.”
- 10 “Those who keep learning will keep rising in life.”
- 11 “There is no way you can live an adequate life without making mistakes.”
- 12 “Acknowledging what you don't know is the dawning of wisdom.”
- 13 “No wise pilot, no matter how great his talent and experience, fails to use a checklist.”
- 14 “There is no better teacher than history in determining the future. There are answers worth billions of dollars in \$30 history books.”
- 15 “A lot of people with high IQs are terrible investors because they've got terrible temperaments.”
- 16 “It's waiting that helps you as an investor and a lot of people just can't stand to wait.”
- 17 “Knowing what you don't know is more useful than being brilliant.”
- 18 “If a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with a fine result.”
- 19 “We both (Warren Buffett) insist on a lot of time being available almost every day to just sit and think. That is very uncommon in American business. We read and think.”
- 20 “Develop into a lifelong self-learner through voracious reading; cultivate curiosity and strive to become a little wiser every day.”

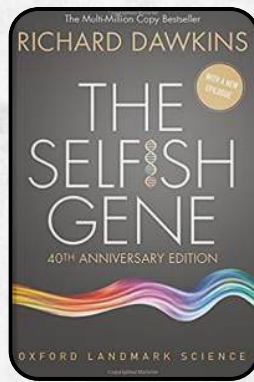
Charlie Munger's Book Recommendations



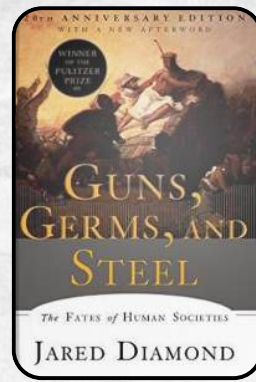
Influence - Robert Cialdini



Outliers - Malcolm Gladwell



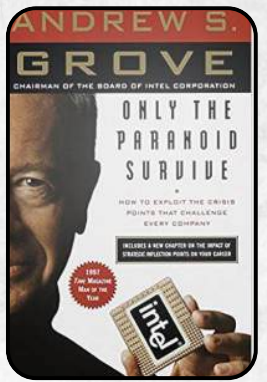
The Selfish Gene - Richard Dawkins



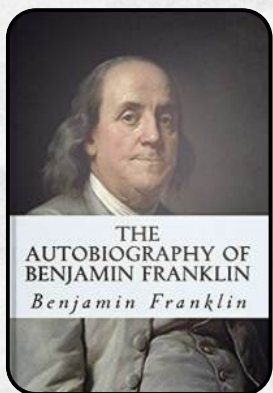
Guns, Germs, and Steel - Jared Diamond



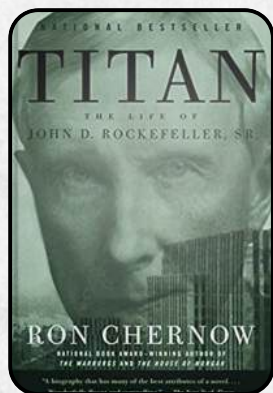
Seeking Wisdom - Peter Bevelin



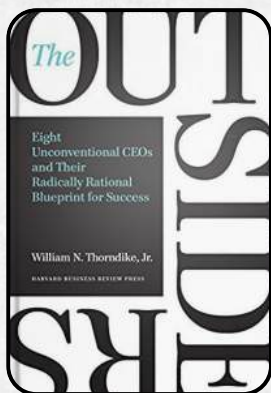
Only the Paranoid Survive - Andrew Grove



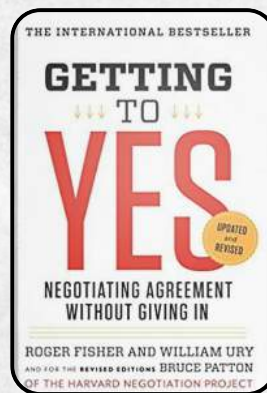
The Autobiography of Benjamin Franklin - Benjamin Franklin



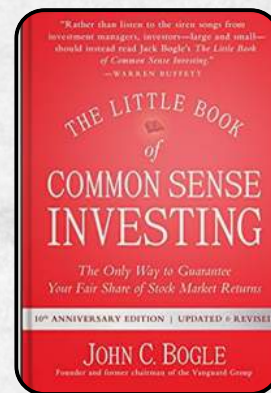
Titan Ron - Chernow



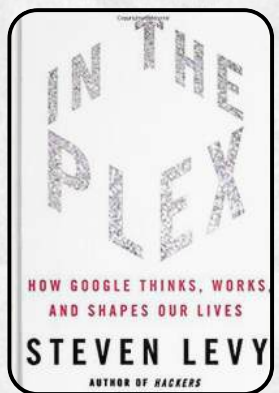
The Outsiders - William N. Thorndike



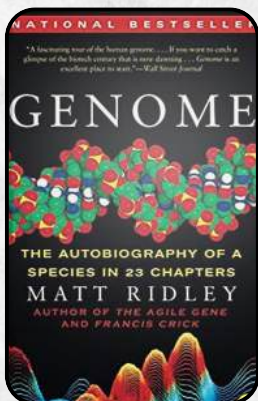
Getting to Yes - Roger Fisher



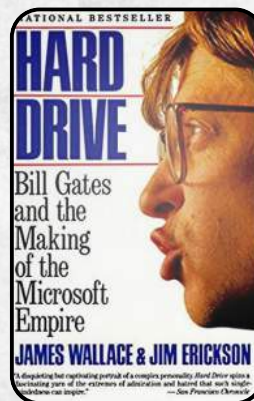
The Little Book of Common Sense Investing - Bogle



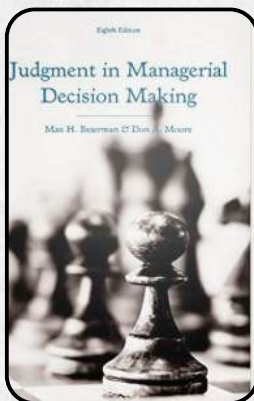
In The Plex - Steven Levy



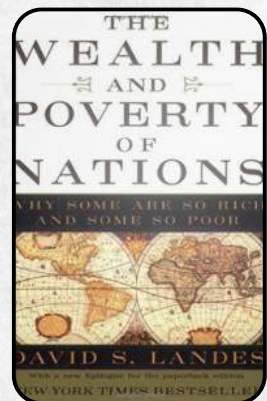
Genome - Matt Ridley



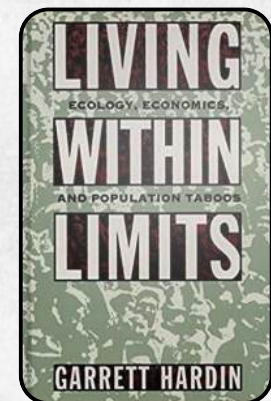
Hard Drive - James Wallace



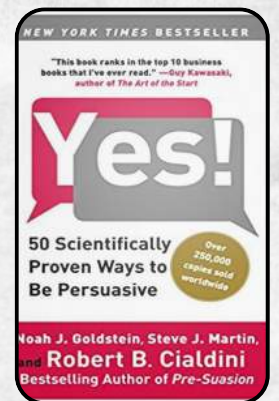
Judgment in Managerial Decision Making - Bazerman



The Wealth and Poverty of Nations - David S. Landes



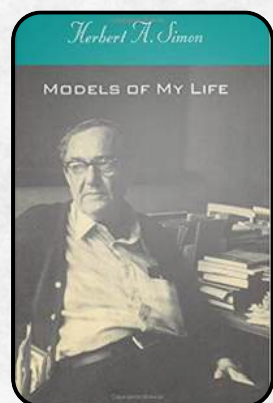
Living within Limits - Garrett Hardin



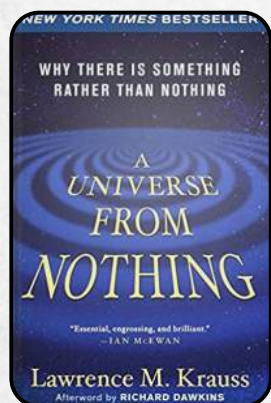
Yes! - Goldstein, Cialdini & Martin



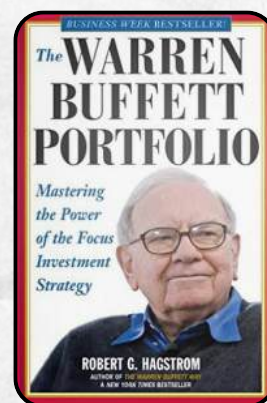
Ice Age - John Gribbin



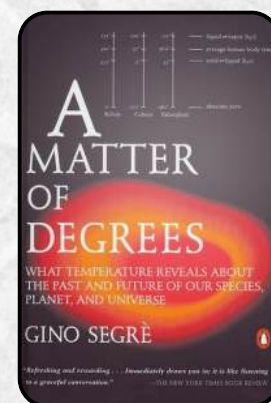
Models of My Life - Herbert A. Simon



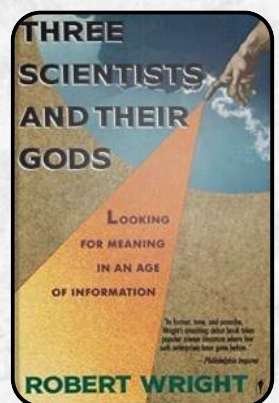
A Universe from Nothing - Lawrence M. Krauss



The Warren Buffett Portfolio - Hagstrom



A Matter of Degrees - Gino Segre



Three Scientists and Their Gods - Wright

Charlie Munger Human Misjudgement



25 PSYCHOLOGICAL TENDENCIES

1 Reward and Punishment Super Response

The power of incentives. Never, ever, think about something else when you should be thinking about the power of incentives.

2 Liking/Loving Tendency

We tend to ignore the faults of the object we like, to favor things merely associated with it and to distort facts to facilitate love.

3 Disliking/Hating Tendency

We tend to ignore the virtues of, and dislike people, products, and actions we hate. We also tend to distort facts to facilitate hatred.

4 Doubt-Avoidance Tendency

The brain is programmed to quickly remove doubt by reaching some decision.

5 Inconsistency-Avoidance Tendency

The brain conserves programming space by being reluctant to changes.

6 Curiosity Tendency

Man's curiosity is much stronger than that of our simian relatives.

7 Kantian Fairness Tendency

Man displays, and expects from others, a lot of fairness as thus defined by Immanuel Kant.

8 Envy/Jealousy Tendency

"It's not greed that drives the world, but envy."
-Warren Buffett

9 Reciprocation Tendency

The automatic tendency of humans to reciprocate both favors and disavors. The salesman offers a coffee and earns extra dollars.

10 Influence-from-Mere-Association Tendency

A conditioned reflex where in mere association triggers a response. With luxury, goods, high price is associated with high quality.

11 Simple Pain-Avoiding Psychological Denial

The reality, is too painful to bear. so one distorts the facts until they become bearable.

12 Excessive Self-Regard Tendency

Man mostly misappraise himself on the highside, like 90% of Swedish drivers that judge themselves to be above average.

13 Overoptimism Tendency

A man displays an excess of optimism even when he is already doing well.

14 Deprivation-Super Reaction Tendency

The quantity of man's pleasure from a 10-dollars gain does not exactly match the displeasure from a 10-dollars loss.

15 Social-Proof Tendency

An automatic tendency to think and act as he sees others around him thinking and acting.

16 Contrast-Misreaction Tendency

Because the brain doesn't naturally measure in absolute scientific units, it relies on the contrast in what is seen.

17 Stress-Influence Tendency

Heavy stress can cause dysfunction. But the heavy-handed, imposition of stress might be the only reversal method that would work to remedy a stolen mind.

18 Availability-Misweighing Tendency

Man's imperfect, limited-capacity brain easily drifts into working with what's easily available to it.

19 Use-It-or-Lose-It Tendency

All skills attenuate with disuse. A wise man engages in practice of all his useful, rarely used skills as a sort of duty to his better self.

20 Drug-Misinfluence Tendency

A destructive power with frequent tragic consequences for cognition and outcome of life.

21 Senescence-Misinfluence Tendency

With advanced age, there comes a natural cognitive decay. Practically no one is good at learning complex new skills when very old.

22 Authority-Misinfluence Tendency

Man was born mostly to follow leaders with only a few people doing the leader.

23 Twaddle Tendency

Man is born to prattle and pour out twaddle that does much damage when serious work is being attempted.

24 Reason-Respecting Tendency

A cognitive reflex based on a widespread appreciation of the importance of reason.

25 Lollapalooza Tendency

The tendency gets extreme consequences from confluence of psychological tendencies acting in favor of a particular outcome.

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