Book Reviews by Ian Robertson

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Title: ***Poor Charlie's Almanack***

Author: **Peter Kaufman**

Publisher: **Donning Company (2008)**

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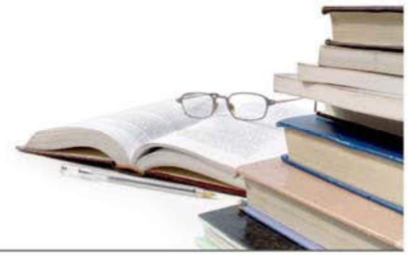

"Munger relays a framework for life & investing."

Rating:
★★★★
Out of 5 Stars

Best known as Warren Buffett's long-time and media-shy investment partner, and as the progenitor of pithy wisdom at Berkshire Hathaway's AGMs, "Poor Charlie's Almanack - The Collected Wit and Wisdom of Charles T. Munger" is an entertaining, gorgeous and worthwhile coffee table book for finance philosophers and biography aficionados alike. The title is drawn from Ben Franklin's similarly titled Poor Richard's Almanack, whom Mr. Munger references liberally.

The early pages cover Munger's family history, his framework for investing – such as waiting for the "fat pitches" and assessing each opportunity using rational, rigorous frameworks drawn from multiple disciplines (and not finance theory!) - and even some warm testaments from family, friends and colleagues. The next section, assembled by leading investor Whitney Tilson, is well edited and benefits from Tilson's massaging of quotations made over time into logical sub-headings. The bulk of the text is, as the subtitle suggests, the wit and wisdom of Mr. Munger as conveyed through various speeches in the last couple decades or so before 2006.

On the false precision of Wall Street quants, and on life in general, Munger says, "People calculate too much and think too little."

On derivatives: "The system is almost insanely irresponsible... I'll be amazed if we don't have some kind of significant [derivatives-related] blowup in the next five to ten years."

For investors unable or unwilling to follow his central (and repeated) advice and develop multiple mental models through which to assess risks and opportunities, indexing is his preferred option. In his opinion, both academic theory and Wall Street fail retail investors, and while indexing is far better than the alternative flawed approaches (which mostly benefit Wall Street and not investors), he has specific advice for those wishing to best the averages.

"The idea that it is hard to find good investments, so concentrate in a few, seems to me to be an obviously good idea... But 98% of the investment world doesn't think this way." "Beta and modern portfolio theory and the like - none of it makes any sense to me... The idea of excessive diversification is madness."

"One of the worst examples of what physics envy did to economics was cause adoption of hard-form efficient market theory." A pithy summary of how off-track stock market valuations ultimately became in the CDS, CDO and other acronym fuelled excesses of the housing bubble; false precision based on physics envy destined to recur and a central reason why the two percent, like Munger and Buffett, are able to beat the market.

Munger's 2000 speech predicting "The Great Financial Scandal of 2003" is both witty and insightful about the then recent excesses of the dot-com boom and what eventually brought down companies such as Enron and WorldCom.

The book concludes with a longer text, weaving together Mr. Munger's ideas, and finally an interesting and appropriately esoteric reading list. Though it will likely have a narrow readership, this book is a rare combination of insight, wit, and achievement, strung together with very capable editing and an interesting and visually appealing layout.