

Same as Ever

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Book Notes by Bruce Kelm

The dead outnumber the living 14 to 1, we ignore the accumulated experience of a majority of mankind AT OUT PERIL

INTRO

An infinite number of ways your life could have turned out and you just happen to be living this version of it. This question naturally follows: What would be true in every version of the above? In a thousand parallel universes what stays true about me and the way I intersect with my world? Another way to think about it, what works for me 999 out of 1000 no matter which version I am living? This book is an effort to codify what behavior and thinking NEVER CHANGES, both mine and the people around me and throughout the world.

HANGING BY A THREAD/ A FEW LITTLE PUFFS OF NOTHINGNESS

“In a New York minute, everything can change” - New York Minute by Don Henley

We have to appreciate this fact, that our collective or personal world can change FUNDAMENTALLY in an instant. This means that focusing on things that never change is a worthwhile pursuit. Every big story could have turned out differently “if a few little puffs of nothingness” went the other way.

On 8-28-1776 during the Revolutionary War and the Battle of Long Island IF the British ships had sailed up the East River then the war would have been over and England victorious. Why? Because the beleaguered colonial troops would have been completely surrounded by vastly superior forces. One reason the British did not sail up the river was because the wind was coming from the wrong direction and stayed that way. Think of it, no USA for the last 250 years, done OVER! Due to a few puffs of random wind direction.

BIGGEST RISK IS WHAT YOU DO NOT SEE COMING

Risk is what's left over after you have thought of absolutely everything else. The dynamic is: either everyone in the past was blinded by delusion OR everyone in the present is fooled by

hindsight AND it can't be ONE OR THE OTHER because it is always some combination of the two. Therefore, risk must be accepted for what it is and can never be mastered. Even asking someone to describe the biggest risk facing them is the wrong question akin to asking what do you expect to be surprised about in the future. If you knew the answer, you would do something to mitigate and lower risk exposure, but you can't see the risk coming, so all of that doesn't work. Key takeaway: the biggest news story of the next 10 years will be something that no one is thinking or talking about now (think Covid in 2010). Therefore, invest your time in preparedness and not prediction. Just know that risk will arrive, we won't know when or where and we will all need to deal with it then. This creates a dual mindset when applied to personal savings and debt:

Savings rate should make you wince once in a while and should be more than feels comfortable, even feel excessive in a risky world

Debt incurred should be less than a comfortable level, under the amount you feel you could comfortably handle

EXPECTATIONS AND REALITY

Montesquieu quote

If you only wished to be happy, this could be easily accomplished BUT WE WISH TO BE HAPPIER THAN, very difficult, for we believe others to be happier than they are (think Will Smith)

Charlie Munger, partner of Warren Buffett in Berkshire Hathaway, has it right:

People are driven by envy not greed

Be careful what you wish for because:

Money buys happiness in the same way that drugs bring pleasure

Incredible if done right, dangerous if used to mask a weakness, disastrous when no amount is enough

It comes down to this:

Wealth + Happiness = what you have against what you need/expect

People who spend more time on expectations which they can control tend to be happier

“To want what I have, to take what I'm given with grace” For My Wedding by Don Henley

WILD MINDS

People who think about the world (outside the box) in unique ways you like also think about the world in unique ways that you won't like

Therefore, take people as a whole and take all the built in contradictions

Elon Musk

Visionary? Self-driving electric cars?

Madman? Colonizing Mars?

WILD NUMBERS

People don't want accuracy, they want certainty.

The crux of the issue:

Something can be likely and not happen or be unlikely and still happen - that is the world's trickiest of tricks being played out every day.

So, you can be smart and end up wrong or dumb and end up right and that is precisely how luck and risk work in the real world. There is NEVER A YES OR NO answer to the future, just nuance and gradation.

This creates anxiety which is normal, the probabilities are endless and uncertainty permanent.

Where the numbers are wild:

Everyone sees things 1 per second every moment they are awake = 30,000 "things" per day, 1,785,000 things per month

If a miracle occurs 1 in million "sightings" then everyone will "see" one miracle per month, will we even know or recognize that we saw it? Maybe we should be more present in our waking moments?

If there's a 1 in 1 million chance, then that occurs to 8,000 people per day on the planet.

Even if there's a 1 in 1 billion chance, that will occur hundreds of thousands of times during my normal life span.

Our inability to foresee the past has no impact on our desire to forecast the future or at least try to ease our anxiety around it. In a world of wild numbers where long odds events happen with regularity, this is a fools errand.

BEST STORY WINS

This is true especially when the message is complex. Best to remember the importance of the information being conveyed is NOT EQUAL TO the receipt of information by audience. A good story gives tremendous leverage to an idea and effectively communicates the idea. Most personal stories are what you want to be true or an extension of first hand experience.

Fact checks:

Who has the right answer or story BUT I ignore because they are inarticulate?

What do I believe to be true BUT it is just really good marketing or storytelling?

DOES NOT COMPUTE

Logic is an invention of man and is often ignored by the universe.

The attitude of what you can't measure isn't worth knowing and implies your knowledge is meager and unsatisfactory - VERY DANGEROUS - because it relegates the unknown variable as UNIMPORTANT and it could be ultimately important.

Ex: During Vietnam war, body counts and rising numbers of Vietnamese dead DID NOT reflect the morale of the Vietnamese people which was very high, "we will lose 10 for every one of you and you will feel it more" was the attitude of the country which led to them winning.

The psychological need for certainty is the greatest disease the mind faces. Constant uncertainty, misunderstanding how events are unfolding and inability to know what people will do next is the world we live in.

CALM PLANTS THE SEEDS OF CRAZY

Stability is de-stabilizing:

Economy is stable, people get optimistic, go into debt, economy becomes more unstable with rising debt, people get pessimistic, stop hiring, buying things, economy is unstable

Rinse and repeat over and over and over again.

"Surprise" has 6 common characteristics:

Incomplete information, uncertainty, randomness, chance, unfortunate timing, poor incentives

The life cycle of a typical business:

Paranoia of failure leads to success, everyone on their toes.

Paranoia is stressful and readily abandoned as things going well, which plants the seeds of decline which is also stressful.

Markets have to overdose on pessimism and optimism, so no behavior is crazy (think crypto currency or meme stock trading), the market is just searching for boundaries about what others believe – how far can they go? Always a pendulum swinging back and forth, few people have confidence in the concept of a pendulum when on either extreme.

TOO MUCH, TOO SOON, TOO FAST

Adage – Stocks pay a fortune in the long term but seek excess punitive damages in the short term, the key is to slow down and be patient.

Concept of “convenient size” which is a proper state where things work well but break when you try to scale them to a different size or speed. A flea can jump two feet in the air, an athletic man four, a flea as large as a man could NOT jump several hundred feet in the air.

A business that grows too quickly acts just like a boy who gets money too quickly or an adult who inherits a lot of money, spending frivolously as if it will never end.

The greatest impediment to long term creativity is one’s own impatience. Most great things in life – love, careers, investing, family – come from patience and scarcity.

Often an “early on” great thing becomes an act of faster and bigger and proper state and convenient size never attained and failure results.

WHEN MAGIC HAPPENS

When humanity performs its best, big fast changes only when FORCED BY NECESSITY.

1930s depression, WW II, US productivity up +40%

WW II started on horseback in 1939, ended with nuclear fission bomb in 1945, 6 years!

NASA began in 1958 after Russia launched Sputnik, landed man on the moon 1969, 11 years!

OVERNIGHT TRAGEDY AND LONG TERM MIRACLES

Good news takes time, bad news travels and occurs instantly.

It took:

200 years to discover germs and determine germs cause disease

30 more years to discover antisepsis

60 more years to discover penicillin

Any American older than 50 years old has seen the US real GDP double (after inflation), progress is invisible.

Bad news is visible: Pearl Harbor, 9/11, Covid turned everyone's life upside down in 30 days.

Human body is complex to make, simple to break

Birth result of 100 billion neurons and 250 trillion synapses coming together

Death is either blood or oxygen deficiencies, lack of oxygen to the brain

Progress and good news = invisible things that didn't happen, like deaths that didn't happen

The odds of average American being twice as rich as today in 50 years? 100% at 1.4% annual GDP growth.

TINY AND MAGNIFICENT

A question always asked by investors: how can I earn the highest returns?

Not the right question for those investors striving to be financially "unbreakable"

Better question is: what are the best returns I can sustain for the longest period of time?

Constant theme – little things combine into bigger things because low probability events occur and compound into bigger things enough to cause a chain reaction in the world – so the world "breaks" about once per decade. The odds are high and inevitable that this will lead to panic and crisis (think Covid pandemic)

Answering second question above: if I can sustain and add to my investment plan for a very long period of time I can overcome the drought periods that will inevitably come and experience the compounding effects of dynamic markets when things are going well and that will give me the best chance to create sustainable returns.

ELATION AND DESPAIR

Progress requires optimism and pessimism to co-exist.

Individually, we must balance the two and this becomes life's most important skill.

An excellent financial plan is to save like a pessimist (more than you think you need) and invest like an optimist (stocks with higher risk). Also, plan like a pessimist and dream like an optimist. Caveat: you can only be an optimist in the long run IF you are pessimistic enough to survive the short runs that occur over time. Therefore, a rational optimist is the only way to be.

CASUALTIES OF PERFECTION

Must take time off every day to think = curious wandering and uninterrupted thinking means a little inefficiency is the sweet spot. It is always better to be approximately right than precisely wrong. The more perfect you try to become, generally the more vulnerable you are.

IT'S SUPPOSED TO BE HARD

Charlie Mungerisms:

The safest way to get what you want is to try to deserve what you desire. Always deliver to the world what you would buy if you were on the other end.

Ultimately, personal progress means dealing with stress, uncertainty, quirky people, bureaucracy, conflicting incentives, etc.

Learn to put up with the bare minimum of BS, but you must put up with some.

THE WONDERS OF THE FUTURE

A bunch of little inventions bouncing off each other produce the amazing great things we see as the world progresses.

INCENTIVES – THE MOST POWERFUL FORCE IN THE WORLD

These can get people to justify any behavior. The worst incentives are the perverse ones that you want or “need to be” true.

Two truisms

Easier to recognize other mistakes than our own.

If you would persuade appeal to interest rather than to reason. Ben Franklin

The downside:

With wrong incentives, people do things they know are wrong and NOT TRUE.

The moral boundary of what people are willing to do can be extended indefinitely with perverse incentives.

Good question to ask oneself: which of my current views would change if my incentives were different?

NOW YOU GET IT

Only what you experience firsthand is ultimately real to you – you never know how your future self will react to things cascading down around you.

TIME HORIZON

“I am in it for the long run” many investors exclaim. The long run is just an endless series of short runs you have to put up with and a never-ending parade of nonsense that you have to endure.

Patience can often be stubbornness in disguise. Long term thinking is less about time horizon than it is about flexibility of choice in one's future.

Most important facts are found in books because knowledge is permanent and explains why things happened, history books best at this.

The daily news is expiring knowledge, what happened without hindsight or explanation.

Wise to read more books and less news as one ages, if read more books then you will be able to better understand what news to pay attention to and to follow.

TRYING TOO HARD

Kids always provide the most useful information according to Mark Twain:

They tell all they know and then they stop.

Stop is the operative word, needless complexity is alive and well and will not serve you well.

EX: how to get ahead financially?

Spend less than you make, save and invest the difference, be patient. 90% of the time this is all you have to do to be financially independent and retire worry free.

Why does the financial industry make things so complex and complicated?

Complexity is comforting (he knows more than I do) and conveys a sense of control (my planner will make sure things turn out right for me). Things not well understood convey expertise and status on the advisor and since client does not understand leads to taking advice at face value. Length of explanations conveys effort and thoughtfulness, two other good things.

Simplicity is hard to distinguish from simple mindedness, possible laziness or uninformed view. Keeping things simple with rules of thumb as above can be very comforting to most people who don't need to understand all the complexities manufactured by the financial services industry. This isn't Olympic gymnastics, no points awarded for degree of difficulty, it is possible to try too hard sometimes.

WOUNDS HEAL, SCARS LAST

WW II survivors everywhere craved security from bitter experience of inflation, war, depression, unemployment. They kept their savings in the bank and were slow to borrow money. Comparing this to today's generation, the following questions come to mind:

What have you experienced that I haven't that makes you behave like you do? Even boomers and millennials would do well to ask themselves this question.

Would I think about the world like you do if I experienced what you have? Deserving of some serious contemplation.