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# Charlie Munger and The Latticework of Mental Models

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Many of you heard Charlie Munger's expression "the latticework of mental models".

What does it mean? What is this latticework? Why do investors need it?

To understand it, one must first understand the idea of reductionism.

Scientists reduce complex processes and problems to smaller, simpler components. They do it because it makes it much easier to do the research.

Being a wise person, Charlie Munger understood that the reductionist approach is not enough to succeed in the markets. And here we come to the difference between science and art.

Consider modern art. Modern artists implement the same principles but approach the problem from an opposite direction. They start with simple and reduced elements of visual representation and force us to move towards more complex ideas.

Picasso destroyed the form. Rothko reduced everything to color. Pollock integrated chance and accident into painting.

Because of these "techniques" and the biological mechanisms underlying our visual perception, abstract modern art enacts a powerful influence on us: we become more creative, and our imagination starts to function better.

It is not hard to draw parallels with the world of investing. Quantitative models, algorithmic trading, and factor-based strategies all aim to achieve the same. They reduce complex processes, in this case, the economy and the stock market, to a simple, or relatively simple formula.

Factors can describe the portfolio, for example. The implicit idea here is that if we reverse engineer the approach of a successful investor such as Buffett or Munger, and find these factors we can, without much effort, replicate it and achieve similar results.

But the truth is that successful investors, as well as artists, do not start from a reduced model. The artists force us to start the perception of art with the help of a reduced model, and their genius lies partially in the ability to create and develop one, but techniques and models are the means, not the ultimate objective.

Artists do not start from the model. And they do not finish with it. Otherwise, their paintings would not be worth tens of millions of dollars.

They start from a different place: from a complex and unique vision of the world. From the depth and strength of feelings they want to share with us. From philosophical, religious, or cultural concepts they want us to understand.

Modern artists just feel that it is very hard, if not impossible, to relay their vision without a reduced and simplified form. But it remains our task to use it as a starting point and move towards a deeper understanding.

David Bohm, an American scientist who has been described as one of the most significant theoretical physicists of the 20th century, once explained this idea well:

"A good picture is not only an integral whole, but even more, it achieves this wholeness by expressing something having universal significance. In other words, while it is something specific, particular, limited in its existence, etc., its relationships to its parts are rich enough and of the right character to suggest the universe and its relationships to its parts. Thus, it is "universal" in the sense that somehow its structure reflects that of the universe. In other words, it makes a kind of "world in itself".

I think Charlie Munger understood this very well.

He understood that all reductionist models contain certain aspect of truth.

But they do not capture complex reality entirely.

Markets and economy are dynamic social processes. Objective reality constantly changes and evolves. So, when one adopts a religious attitude to following these "fixed" models, achievement of satisfactory results becomes impossible.

To address this complex reality, Charlie Munger coined the term "the latticework of mental models".

It is not a coincidence that Munger used a metaphor to describe this concept.

Jerome Bruner, in this book "Actual Minds, Possible Worlds", explains that metaphors and metaphorical thinking influence creativity, and we can come up with new ideas. Metaphorical thinking facilitates the discovery of similarities and in the end, helps define new names or describe things better.

It becomes very helpful when one has a task of understanding complex and interconnected system such as economy and stock market.

Charlie Munger considered investing and stock picking to be a "subdivision of the art of worldly wisdom".

To achieve this "worldly wisdom" one needs to learn and possess a broad understanding of main ideas from different disciplines, instead of focusing narrowly on a single discipline such as finance or economics.

But the broad knowledge and erudition is not enough. One must be able to draw connections between the dots.

And while the first task is purely intellectual, the second one requires creativity on part of the practitioner.

Charlie Munger was one of the people in finance who not only understood this but actively practiced the creative aspect of investing.

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