

Hagstrom, Robert - Investing: The Last Liberal Art

Columbia University Press, 2013 2nd ed, [Equity Investing] Grade ★★★★★

In the last chapter, the author writes something that perfectly sets the context for this in my mind slightly overlooked investment book (1st ed 2000): “*Improving the resource condition of our System 2 thinking – that is to say, deepening and broadening our reserves of relevant information – is the principal reason this book was written*”. Writing that in 2000, two years before Daniel Kahneman received the Swedish Riksbank’s economic prize in memory of Alfred Nobel for a lifetime’s effort to put System 2 in people’s System 1 (so to speak), the timing was impeccable. However, Robert Hagstrom’s elegant book had one drawback: the title. Named *Latticework: The New Investing* it failed to catch attention. This was however resolved the next year with the paperback edition. Scholars populating the world of Benjamin Franklin, Charlie Munger and the Santa Fe institute are certainly familiar with the reference point of the original title: Munger’s presentation to the students at USC in April of 1994, where he spoke under the header *Stock Picking As a Subdivision of The Art of Worldly Wisdom*. This speech, and Hagstrom’s book shoot off from the assumption that uniting the mental models from several disciplines – physics, biology, psychology, philosophy etc. – to create a figurative latticework of understanding is a powerful tool to build a richer life and achieving superior investment results along the way.

The journey towards worldly wisdom travels through two equally important territories. Firstly, learning significant concepts from the different disciplines (“the big ideas”). Secondly, learning to recognize patterns of similarities among them. *Investing: The Last Liberal Art* deals with the former, by way of educating and stimulating the reader of the starting points to the big ideas within seven disciplines. Perfectly fitting to the idea of interconnectedness and understanding X due to seeing the similarities with Y, Hagstrom is the obvious hand-in-glove author of this book. Being intimately familiar with the Buffett and Munger worldly views via several previous books (*The Warren Buffett Way* as the standout), he also works at Legg Mason Investments whose collaboration with the

Mungeresque multi-disciplinary Santa Fe Research Institute, gives him a continuous and re-enforcing education on the topic.

But then how is the world of economics and finance related to physics, biology and philosophy et al? For starters, what is supply and demand if not the (physics) law of equilibrium at work? The chapter on physics overall is a gem, where I personally am most intrigued by the importance of the cumulative nature of human knowledge – a backbone of the latticework model. There would be no “Sir” in Isaac Newton without Kepler, Galilei and Descartes. And furthermore would there have been a Eugene Fama without Newton, Bachelier and Samuelson? As for biology: “*Natura non facit saltum*” (the motto of *The Origin of Species*). Nature does not make leaps. And neither does capitalism, explaining why certain businesses generate “über-profits” without extra competition for prolonged periods of time (and vice versa). Great companies in good industries tend to stay that way, an obvious early-age Munger-realization. In one of the more intricate twists of irony, Sir Isaac Newton himself was made poster boy for another important piece of the latticework puzzle; sociology, via the infamous South Sea Company mania. How can sociology be important to one’s reference points? By interlinking biology’s adaptive systems with psychology, it explains the simultaneous brilliance and madness of crowds. The key separator of course is societies needing to be diverse and independent (i.e. individuals independent of each other), which of course is not the case in financial markets with everybody watching the same CNBC.

As the author aptly suggests, let’s give Charlie Munger – who bizarrely could be one of the more underappreciated figures in finance outside a tiny cult-clique – the last word: “*What I’m urging on you is not that hard to do. And the rewards are awesome. It’ll help you in business... It’ll help you in life. And it’ll help you in love...It makes you better able to serve others and...yourself, and it makes life more fun*”. Loollapalooza, Munger-style!

Mats Larsson, November 18, 2013