No One’s Crazy

Your personal experiences with money make up maybe 0.00000001% of what’s happened in the world, but maybe 80% of how you think the world works. So equally smart people can disagree about how and why recessions happen, how you should invest your money, what you should prioritize, how much risk you should take, and so on.

Luck & Risk

Nothing is as bad or as good as it seems. Luck and risk are both the reality that every outcome in life is guided by forces other than individual effort. They are so similar that you can’t believe in one without equally respecting the other. They both happen because the world is too complex to allow 100% of your actions to dictate 100% of your outcomes. They are driven by the same thing: You are one person in a game with seven billion other people and infinite moving parts. The accidental impact of actions outside of your control can be more consequential than the ones you consciously take.

But often luck is pushed back in people’s minds because it’s nevery easy to admit it’s impact in one’s financials. If you say someone got rich because they were lucky, you’ll seem jealous. Similarly, it’s very hard to admit the same thing about your situation because it can be truly demoralizing.

Everything worth pursuing has less than 100% odds of succeeding, and risk is just what happens when you end up on the unfortunate side of that equation.

We similarly think Mark Zuckerberg is a genius for turning down Yahoo!’s 2006 $1 billion offer to buy his company. He saw the future and stuck to his guns. But people criticize Yahoo! with as much passion for turning down its own big buyout offer from Microsoft—those fools should have cashed out while they could! What is the lesson for entrepreneurs here? I have no idea, because risk and luck are so hard to pin down.

- Better understanding of what the future hold

The line between “inspiringly bold” and “foolishly reckless” can be a millimeter thick and only visible with hindsight.

Be careful when assuming that 100% of outcomes can be attributed to effort and decisions as it's very easy to disregard the luck and risk factor when looking into failed or succeeded cases. Therefore, focus less on specific individuals and case studies and more on broad patterns.

Bill Gates once said, "Success is a lousy teacher. It seduces smart people into thinking they can't lose." When things are going extremely well, realize it's not as good as you think. You are not invincible, and if you acknowledge that luck brought you success then you have to believe in luck's cousin, risk, which can turn your story around just as quickly. But the same is true in the other direction. Failure can be a lousy teacher, because it seduces smart people into thinking their decisions were terrible when sometimes they just reflect the unforgiving realities of risk. The trick when dealing with failure is arranging your financial life in a way that a bad investment here and a missed financial goal there won't wipe you out so you can keep playing until the odds fall in your favor. But more important is that as much as we recognize the role of luck in success, the role of risk means we should forgive ourselves and leave room for understanding when judging failures. Nothing is as good or as bad as it seems.

Never Enough

At a party given by a billionaire on Shelter Island, Kurt Vonnegut informs his pal, Joseph Heller, that their host, a hedge fund manager, had made more money in a single day than Heller had earned from his wildly popular novel Catch22 over its whole history. Heller responds, "Yes, but I have something he will never have … enough."

1. The hardest financial skill is getting the goalpost to stop moving.

    If expectations rise with results there is no logic in striving for more because you'll feel the same after putting in extra effort. It gets dangerous when the taste of having more—more money, more power, more prestige—increases ambition faster than satisfaction.

2. Social comparison is the problem here.

3. "Enough" is not too little.

4. There are many things never worth risking, no matter the potential gain.

    Reputation is invaluable. Freedom and independence are invaluable. Family and friends are invaluable. Being loved by those who you want to love you is invaluable. Happiness is invaluable

Confounding, Compounding

The counterintuitive nature of compounding leads even the smartest of us to overlook its power. In 2004 Bill Gates criticized the new Gmail, wondering why anyone would need a gigabyte of storage. Author Steven Levy wrote, “Despite his currency with cutting-edge technologies, his mentality was anchored in the old paradigm of storage being a commodity that must be conserved.” You never get accustomed to how quickly things can grow.

But good investing isn’t necessarily about earning the highest returns, because the highest returns tend to be oneoff hits that can’t be repeated. It’s about earning pretty good returns that you can stick with and which can be repeated for the longest period of time. That’s when compounding runs wild.

The Rule of 72:

A shortcut to estimate how long it takes for an investment to double with compounding interest is the **Rule of 72**:

$$Time\ to\ Double\ =\ 72\ /\ Annual\ Interest\ Rate$$

Getting Wealthy vs. Staying Wealthy

Not “growth” or “brains” or “insight.” The ability to stick around for a long time, without wiping out or being forced to give up, is what makes the biggest difference. This should be the cornerstone of your strategy, whether it’s in investing or your career or a business you own. It’s the state of being frugal (and paranoid to some extent) that makes survival, and hence longevity, possible.

He didn’t burn himself out and quit or retire. He survived. Survival gave him longevity. And longevity— investing consistently from age 10 to at least age 89—is what made compounding work wonders. That single point is what matters most when describing his success.

Charlie, Warren, and Rick were equally skilled at getting wealthy. But Warren and Charlie had the added skill of staying wealthy. Which, over time, is the skill that matters most. Nassim Taleb put it this way: “Having an ‘edge’ and surviving are two different things: the first requires the second. You need to avoid ruin. At all costs.”

Applying the survival mindset to the real world comes down to appreciating three things.

1. More than I want big returns, I want to be financially unbreakable. And if I'm unbreakable I actually think I'll get the biggest returns, because I'll be able to stick around long enough for compounding to work wonders.

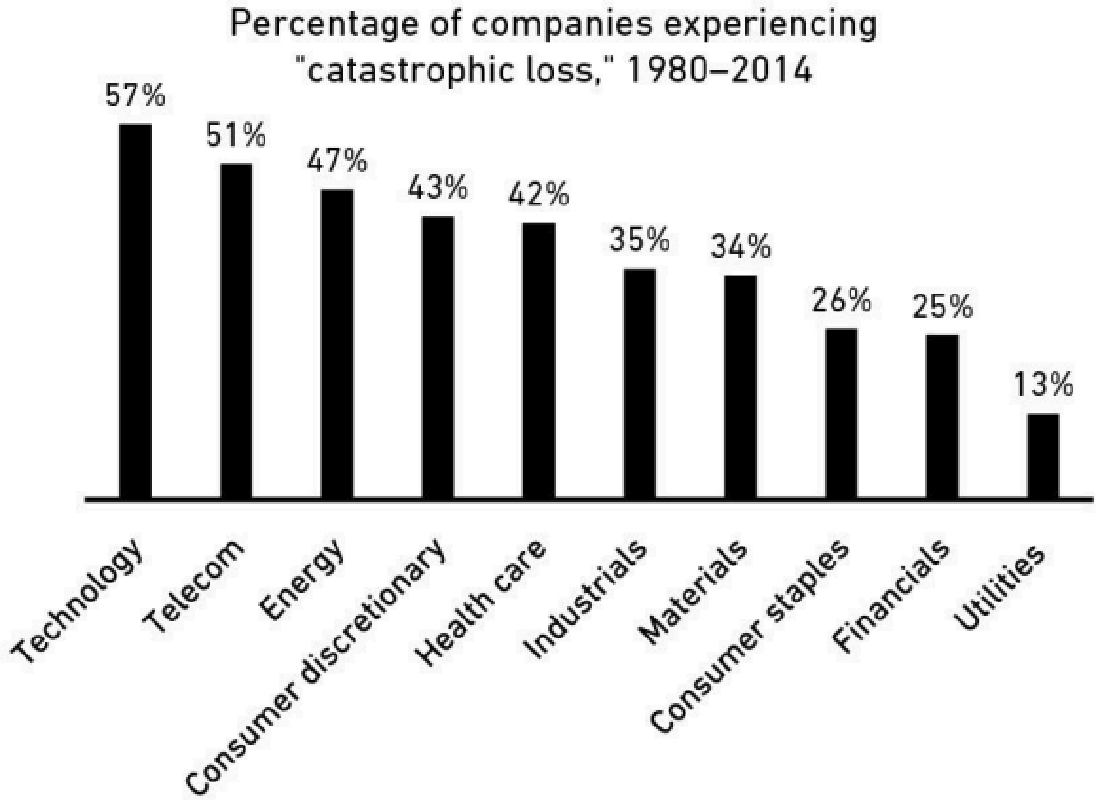
2. Planning is important, but the most important part of every plan is to plan on the plan not going according to plan.

3. A barbelled personality—optimistic about the future, but paranoid about what will prevent you from getting to the future—is vital.

Tails, You Win

A lot of things in business and investing work this way. Long tails—the farthest ends of a distribution of outcomes—have tremendous influence in finance, where a small number of events can account for the majority of outcomes. That can be hard to deal with, even if you understand the math. It is not intuitive that an investor can be wrong half the time and still make a fortune. It means we underestimate how normal it is for a lot of things to fail. Which causes us to overreact when they do.

The distribution of success among large public stocks over time is not much different than it is in venture capital. Most public companies are duds, a few do well, and a handful become extraordinary winners that account for the majority of the stock market's returns. J.P. Morgan Asset Management once published the distribution of returns for the Russell 3000 Index—a big, broad, collection of public companies—since 1980.[21] Forty percent of all Russell 3000 stock components lost at least 70% of their value and never recovered over this period. Effectively all of the index's overall returns came from 7% of component companies that outperformed by at least two standard deviations. That's the kind of thing you'd expect from venture capital. But it's what happened inside a boring, diversified index.



> The interesting thing here is that you have to have achieved a certain level of success to become a public company and a member of the Russell 3000. These are established corporations, not fly-by-night startups. Even still, most have lifespans measured in years, not generations.

There is the old pilot quip that their jobs are "hours and hours of boredom punctuated by moments of sheer terror." It's the same in investing. Your success as an investor will be determined by how you respond to punctuated moments of terror, not the years spent on cruise control.

A good definition of an investing genius is the man or woman who can do the average thing when all those around them are going crazy. Black Swans drive everything.

It's OK for Amazon to lose a lot of money on the Fire Phone because it will be offset by something like Amazon Web Services that earns tens of billions of dollars.

Tails to the rescue.

Netflix CEO Reed Hastings once announced his company was canceling several big-budget productions. He responded: Our hit ratio is way too high right now. I'm always pushing the content team. We have to take more risk. You have to try more crazy things, because we should have a higher cancel rate overall.

These are not delusions or failures of responsibility. They are a smart acknowledgement of how tails drive success. For every Amazon Prime or Orange is The New Black you know, with certainty, that you'll have some duds. Part of why this isn't intuitive is because in most fields we only see the finished product, not the losses incurred that led to the tail-success product.

It's easy to find Warren Buffett's net worth, or his average annual returns. Or even his best, most notable investments. They're right there in the open, and they're what people talk about. It's much harder to piece together every investment he's made over his career. No one talks about the dud picks, the ugly businesses, the poor acquisitions. But they're a big part of Buffett's story. They are the other side of tail-driven returns. These failures are important data points as well that you likely won't see or grasp the existence of easily.

Overall

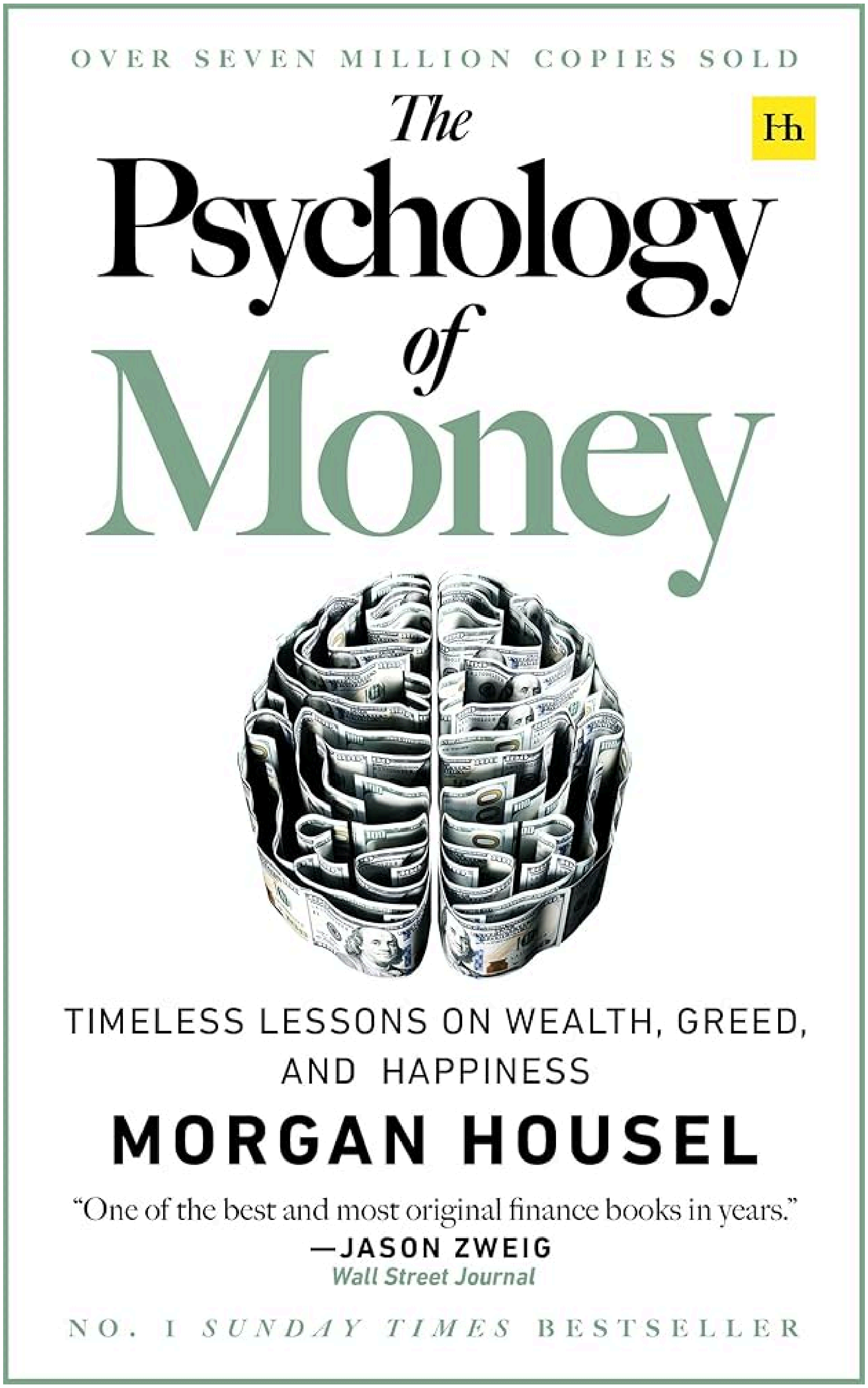
The essence is that wealth isn't solely built by brilliant decisions or endless hard work—it's also forged in the unpredictable interplay of luck, risk, and human behavior. In the end, the real secret isn't in chasing the next big win or obsessing over comparisons with others. It's about constructing a financial life that honors your own values while acknowledging the chaotic nature of the world.

Your journey is a series of small bets—each one subject to forces far beyond your control—and it's not the isolated wins but the ability to endure the losses that sets the stage for lasting success. It's understanding that while you can strive to get rich, the greater challenge is staying rich: being resilient, adapting to shocks, and continually planning for the unexpected.

This book reminds us that money is as much about our mindset as it is about numbers. It urges you to define what "enough" really means for you, to steer clear of the relentless chase for more, and instead build a legacy that's sustainable and fulfilling. In a world driven by a few monumental outliers and countless quiet failures, the power of compounding—both in finance and in personal growth—lies in your consistency and your willingness to keep playing the long game.

Ultimately, the wisdom here is a call to humility: accept that no matter how smart you are, you're always just one player in an immensely complicated game. And if you can learn to dance with both fortune and misfortune, you'll discover that real wealth isn't measured solely in dollars, but in the freedom, peace, and resilience that allow you to enjoy life on your own terms.

Sources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