

What's in an Economic Checkup?

In order to properly understand the big picture, everyone should fear becoming mentally clouded and obsessed with one small section of the truth.

—Xunzi, Confucian philosopher, third century BC

If you've got a full list of tools and go through them in your mind, checklist-style, you will find a lot of answers that you won't find any other way.

—Charlie Munger, investment philosopher, twenty-first century AD

FROM THE RULES of chapters 6, 8, 10, and 12, we have the makings of an approach to evaluating economic risks. A rules-based approach might be the best we can do when it comes to sorting through the complexities of a modern economy. It surely beats the pretend world of mainstream modeling. It also allows more flexibility from one analyst to the next. Even if you don't find my rules convincing, you can still build a framework for flagging the most important risks—by combining the rules you like with others you may have worked out independently.

In this chapter, I'll discuss how we can convert the rules into a simple checklist. Of the various tricks, tools, and techniques that people use to aid decision making, checklists may be the most powerful. All but the

simplest tasks are made easier by precisely listing and then checking off the items that demand attention. Medical checklists, for example, combine testing of the body's critical functions with other considerations, such as diet and medication. Doctors discovered long ago that you need an organized process to evaluate something as complex as the human body, and the same applies to our topic here—well-constructed checklists can help us manage complexities as we evaluate the economy.

My most basic checklist has eleven parts . . .