

MimeticArbitrage.com

Where does value come from?

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How Investors and Leaders Make Decisions

Decision Making is the #1 purpose of any leader.

- ❖ Concerns
 - ❖ Maximize profits
 - ❖ Minimize losses
- ❖ Mental models
 - ❖ Tools for decision making
 - ❖ Frameworks for how the world works



Using Mental Models to Make Decisions

1. Notice fundamentally lasting ideas.
2. Acquire a long list of them.
3. Apply them as heuristics when solving problems.

Mental model example—network effects:

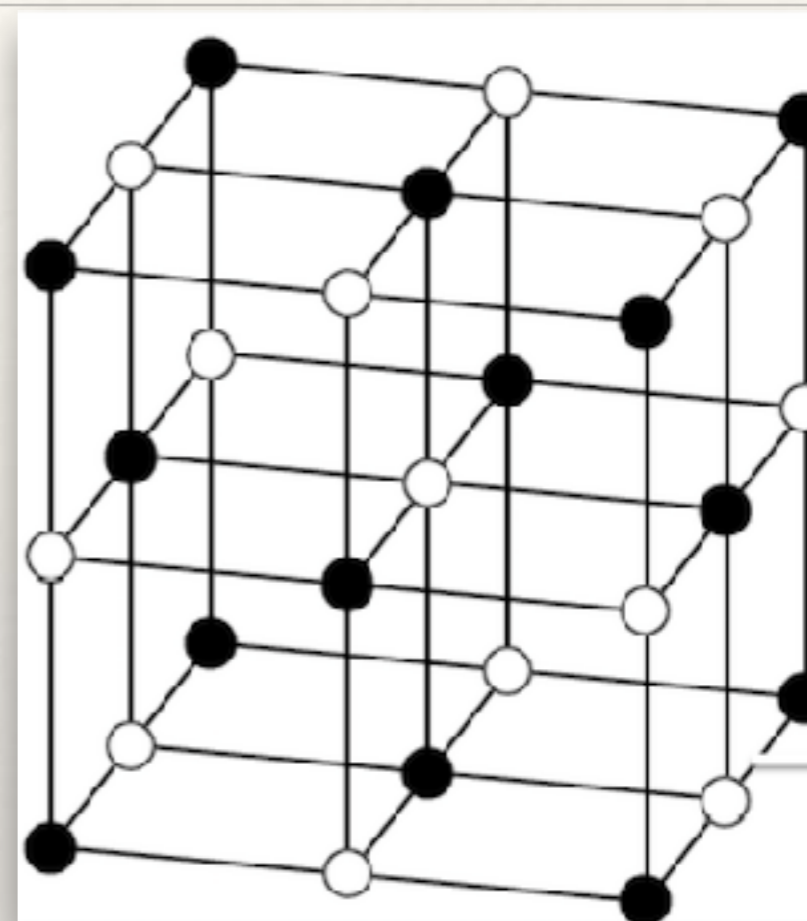
Cryptocurrencies and social media companies gain value as more people join the network. Facebook is not useful if you only have 1 friend, but with 5000 friends, it can be a key part of your marketing strategy.



Lattice of Mental Models



Charlie Munger and Warren Buffett, Vice Chairman and Chairman of Berkshire Hathaway



“There will be immense worldly rewards in a more multidisciplinary approach to many problems, common or uncommon.” – *Charlie Munger*

My goal: most comprehensive multidisciplinary understanding of value.

4 Mental Models of Value

Lollapalooza effect - multiple biases, tendencies or mental models acting at the same time in the same direction.

Let's consider the lollapalooza effect of these 4 mental models:

- ❖ Mythology (Archetypes and Sacrifice)
- ❖ Antifragility and Skin in the Game
- ❖ Psychological (Dis)incentives
- ❖ Network Effects

How are these mental models connected?



Mental Model 1: Mythology

“I will utter things hidden since the foundation of the world.”

– *Gospel of Matthew, 13:35*



Myth Busters

- ❖ The idea and business plan are more important than the founding team.
- ❖ Standard Operating Procedures are more important than the company culture.
- ❖ **Character flaws are always bad for the startup founder.**

Ironically, to bust these myths, we need to study mythology at a deeper level.



Why is Steve Jobs Worshipped?

Steve Jobs as god



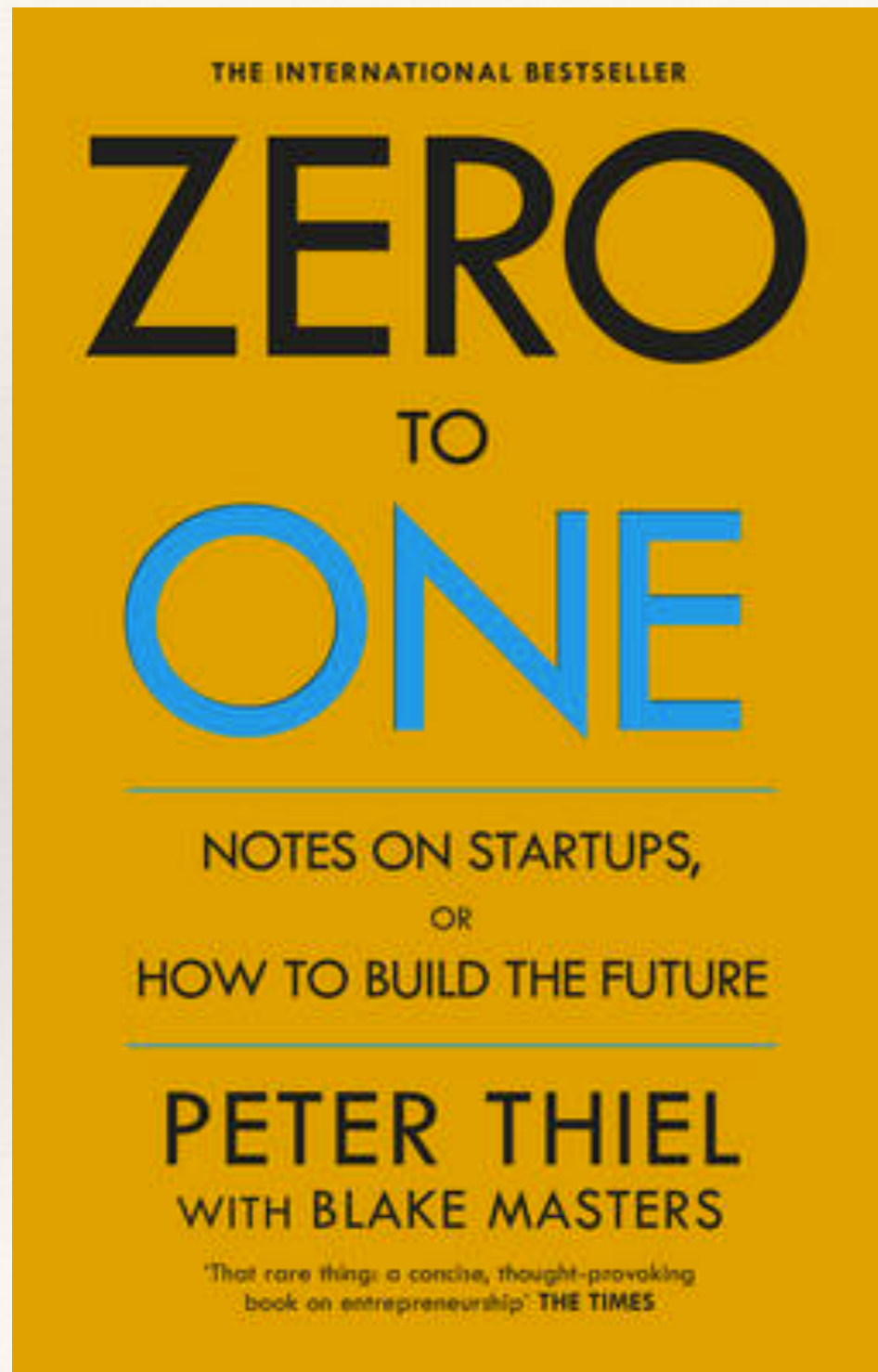
Steve Jobs as victim



"It was the greatest comeback since Lazarus."
-The Guardian



What important truth do very few people agree with you on?



Mythologies are the most valuable signals which survived after stressors filtered out the noisy data over time; their meanings have been encrypted by black box algorithms of the unconscious mind into symbolism.



Mythology and the Origin of Science

- ❖ Chaos drives the progress of knowledge. Science was only possible because irrational impulses were unrestrained.
- ❖ The theories of Darwin and Einstein were not supported by available evidence at their times of conception.
- ❖ Copernicus, Galileo, Newton, Brahe, and Kepler defended religion.
- ❖ The foundation of modern science was embedded in a mythological worldview.
- ❖ Galileo won not because he had the most rational arguments, but because he invented and marketed a social trend.



Archetype of the Mythological Hero

Archetype	Monkey King from <i>Journey to the West</i>
Unusual birth	Leapt out of a rock
Leaves family and home	Leaves mountain lair
Traumatic event leads to call to adventure	Punished by gods for wreaking havoc in Heaven. Trapped under a mountain for 500 years. Buddha sent him on a journey to retrieve the Sutras for redemption.
Special weapon that only he can use	Size transforming staff
Receives supernatural help	Received help from Guanyin Bodhisattva
Prove himself on the journey	Defeated many monsters
Experiences atonement	Became a Buddha at the end



Steve Jobs as the Archetypal Hero

Archetype	Steve Jobs
Unusual birth	Adopted
Leaves family and home	Drops out of university, takes LSD, goes to India to learn meditation
Traumatic event leads to call to adventure	Fired from Apple, founds Pixar and NeXT, then asked to return to Apple.
Special ability that only he can use	Unique talents in design aesthetics and charisma
Receives special help	Received help from Steve Wozniak
Prove himself on the journey	Founded multiple successful companies
Experiences atonement	Success of iPhone upon return to Apple.



The Hero is the Monster

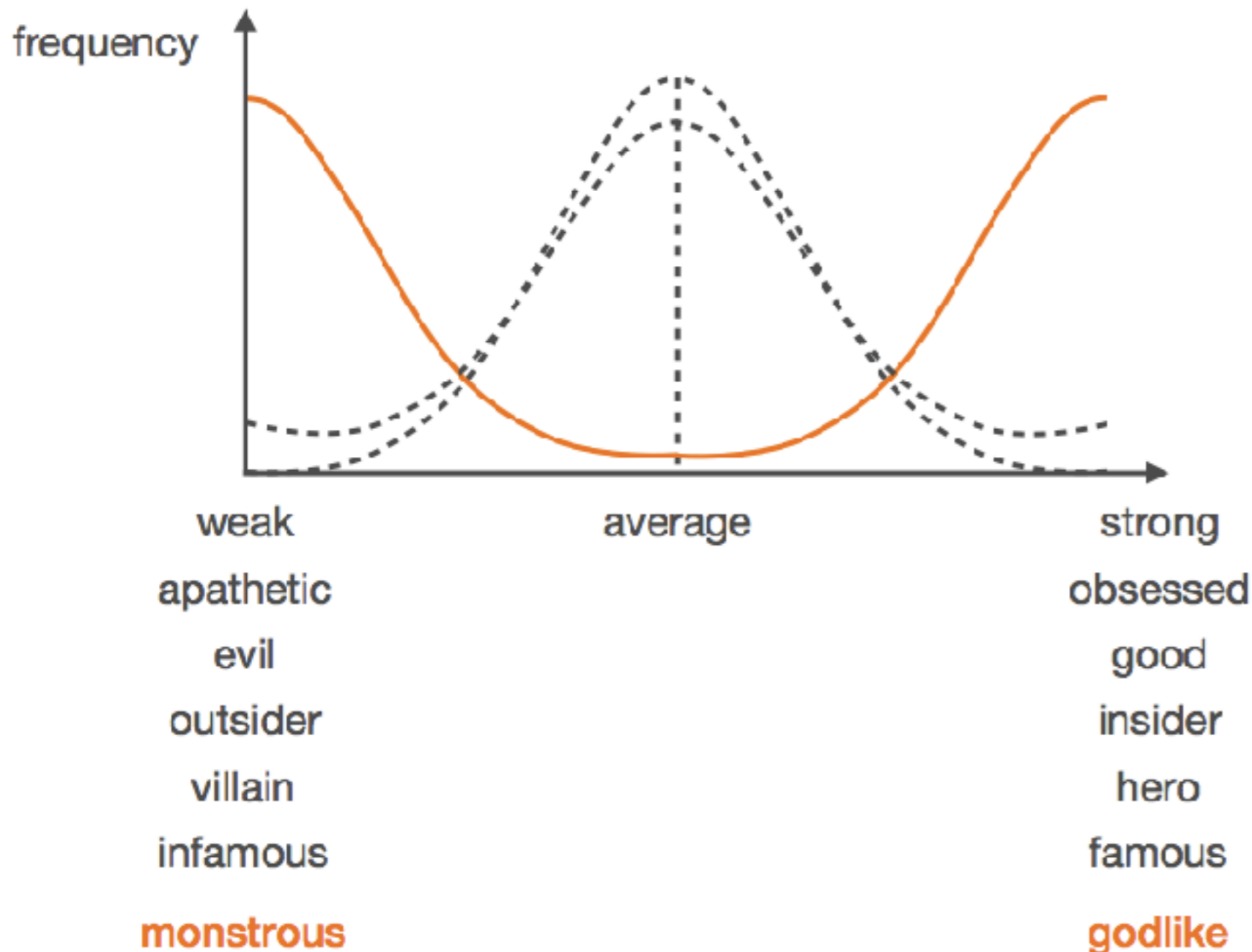
- ❖ Many of the monsters the Monkey King fought were actually Taoist gods who were rivals of the Buddhist gods.
- ❖ The Buddha chose sinful monsters to go on the Hero's Journey. Only monsters can become heroes.
- ❖ The protagonist monsters became Buddhas after they completed their Hero's Journey.



Heroic monsters of *Journey to the West*

Founder Traits: God and Monster

mythology distribution of traits

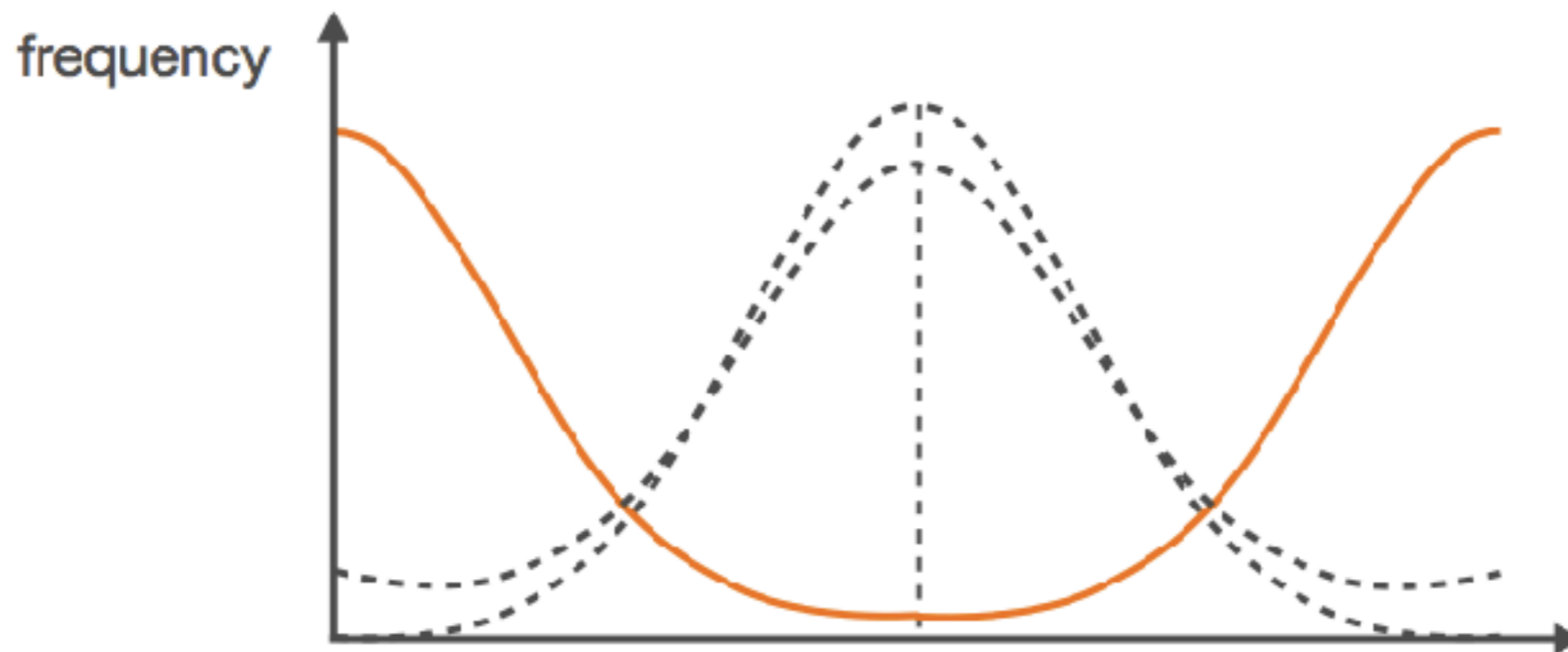


- ❖ Flaws and scars signal “skin in the game”. They make you more real and relatable.
- ❖ Innovations come from the extremes, not the average person.



Steve Jobs Trait Distribution

mythology distribution of traits



Extreme Outsider

Adopted

Disagreeable

Fired

College dropout

average

Extreme Insider

Charismatic

Visionary

CEO

Talented



Original Entrepreneur as a Hero: Prometheus

- ❖ Prometheus means “fore-thinker”.
- ❖ Created humans with Demeter.
- ❖ Stole fire from the gods and gave to it to humans.
- ❖ Chained to a rock where an eagle eats his liver everyday.



Lessons to Heroes

Lessons:

1. Work with danger and value—symbolized by fire.
2. Accept the unintended consequences of your actions—symbolized by gods chaining Prometheus to the rock.

High risk, high reward! The hero's burden allows society to be antifragile. See lecture on Antifragility to learn more.

“The weak shows his strength and hides his weaknesses; the magnificent exhibits his weaknesses like ornaments.” - Nassim Taleb

The entrepreneur must have “skin in the game”, accepting risks to bring value back to society from the unknown chaos. He is both god and victim—protagonist of the classical tragedy.



Things Hidden Since the Foundation of the World

- ❖ How did monsters become gods historically?
- ❖ Why do you need to be both a god and a monster to found a company culture?
- ❖ Why is it so important to pick a founder who is both god and monster?



Peter Thiel's Startup Secret: Mimetic Theory

- ❖ Peter Thiel's startup investment success rate is 95%, including 4 IPOs. The success rate of the average VC fund is only 20%.
- ❖ His methods are greatly influenced by René Girard's mimetic theory, which combined literature and anthropology.
- ❖ Innovations occur when someone with an unique background transfers skills from one domain to another.
- ❖ Thiel realized that *Zero to One* innovations are about managing your own mimetic desires while capitalizing on the mimetic desires of others.
- ❖ Thiel also realized that the founding of a company and the founding of a culture or religion are similar.

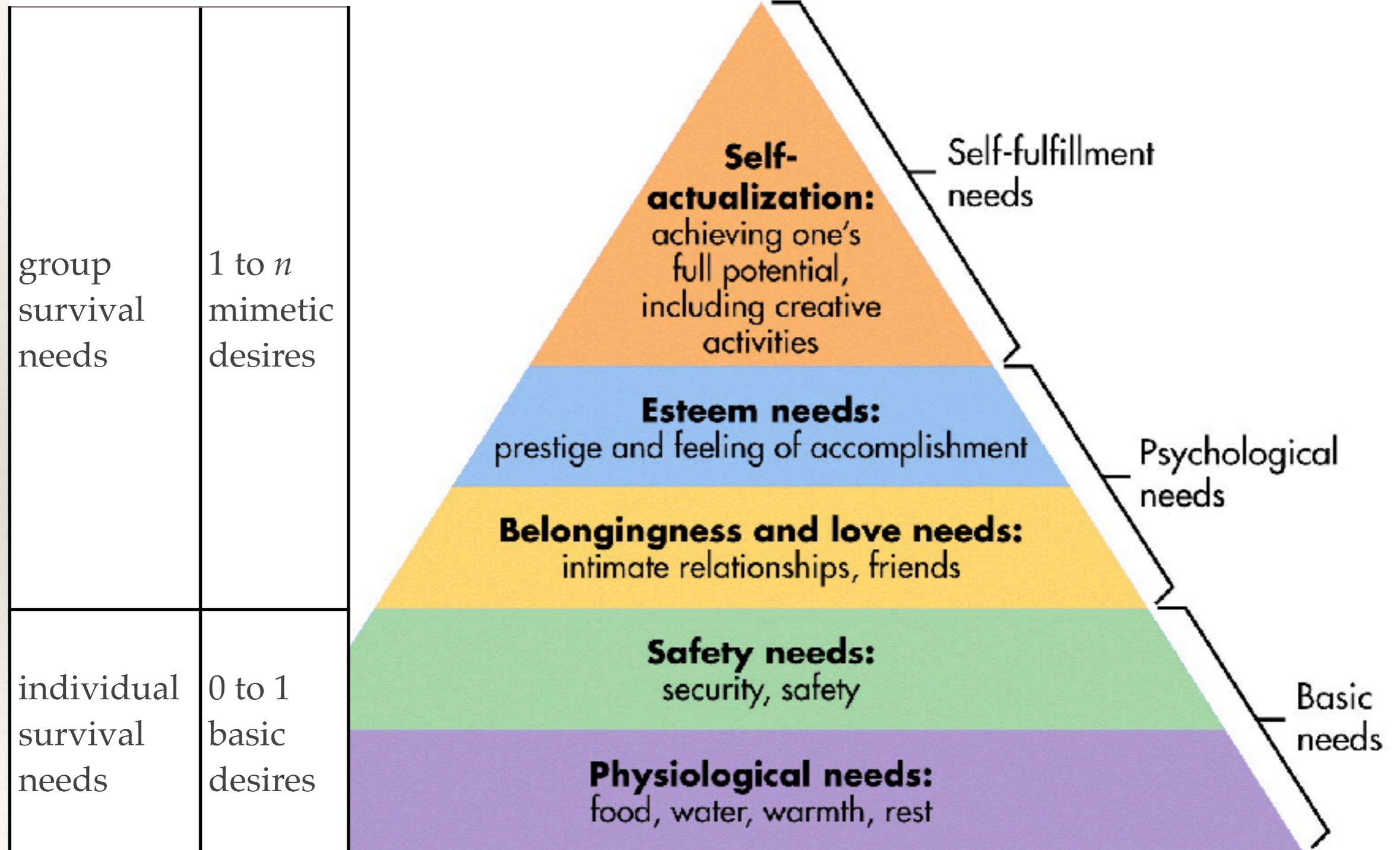


Mimetic Theory Summary

- ❖ Imitation is the fundamental mechanism of human behavior.
- ❖ Human learning is based on imitation.
- ❖ Mimetic desire - after basic needs are met, humans imitate each others' desires.
- ❖ Mimetic conflict - conflicts arise out of envy when people share the same desires.

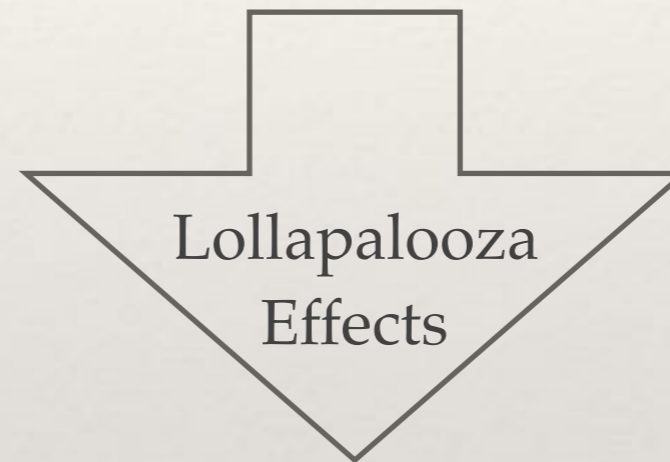


Mimetic Desires and Maslow's Hierarchy of Needs

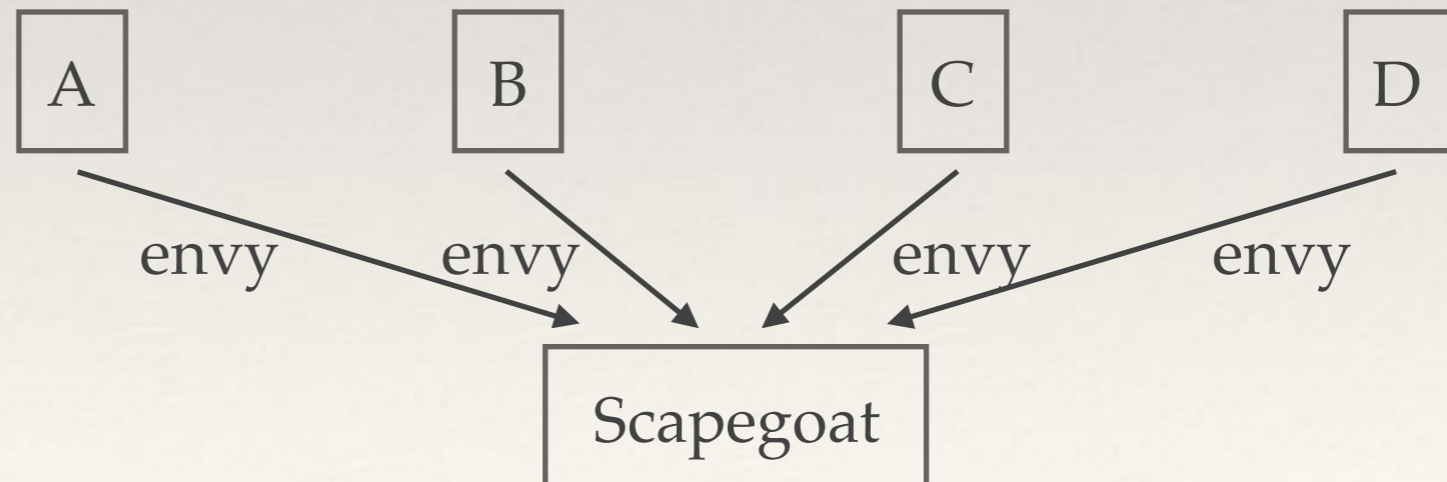


Mimetic Theory Mechanisms 1

**Mimetic
Conflicts:
War of all
against all**

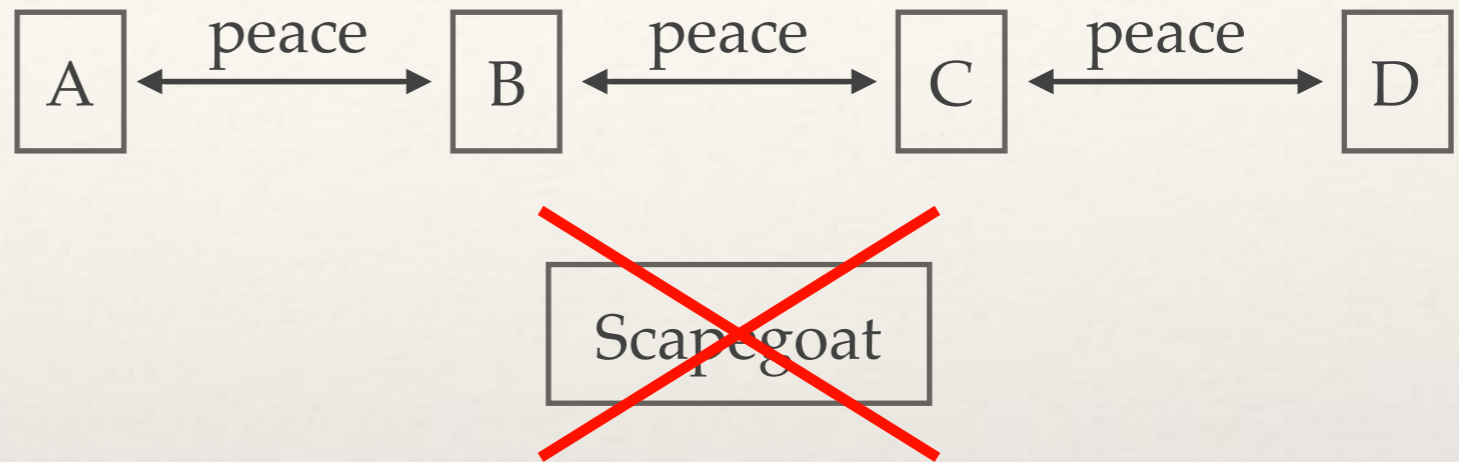


**Mimetic
Contagion:
War of all
against one**

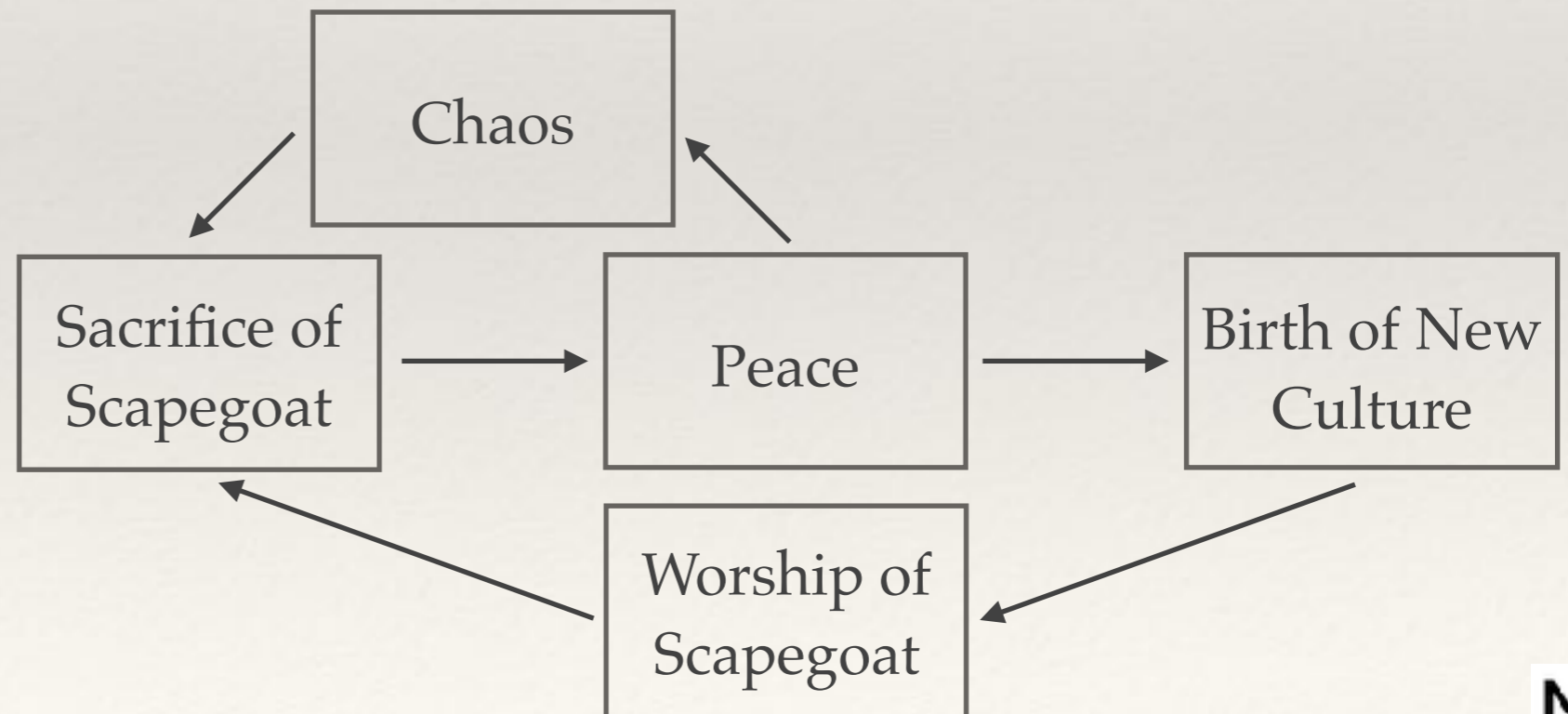


Mimetic Theory Mechanisms 2

Sacrifice of Scapegoat



Origin of Ritual Sacrifices and Founding of Cultures

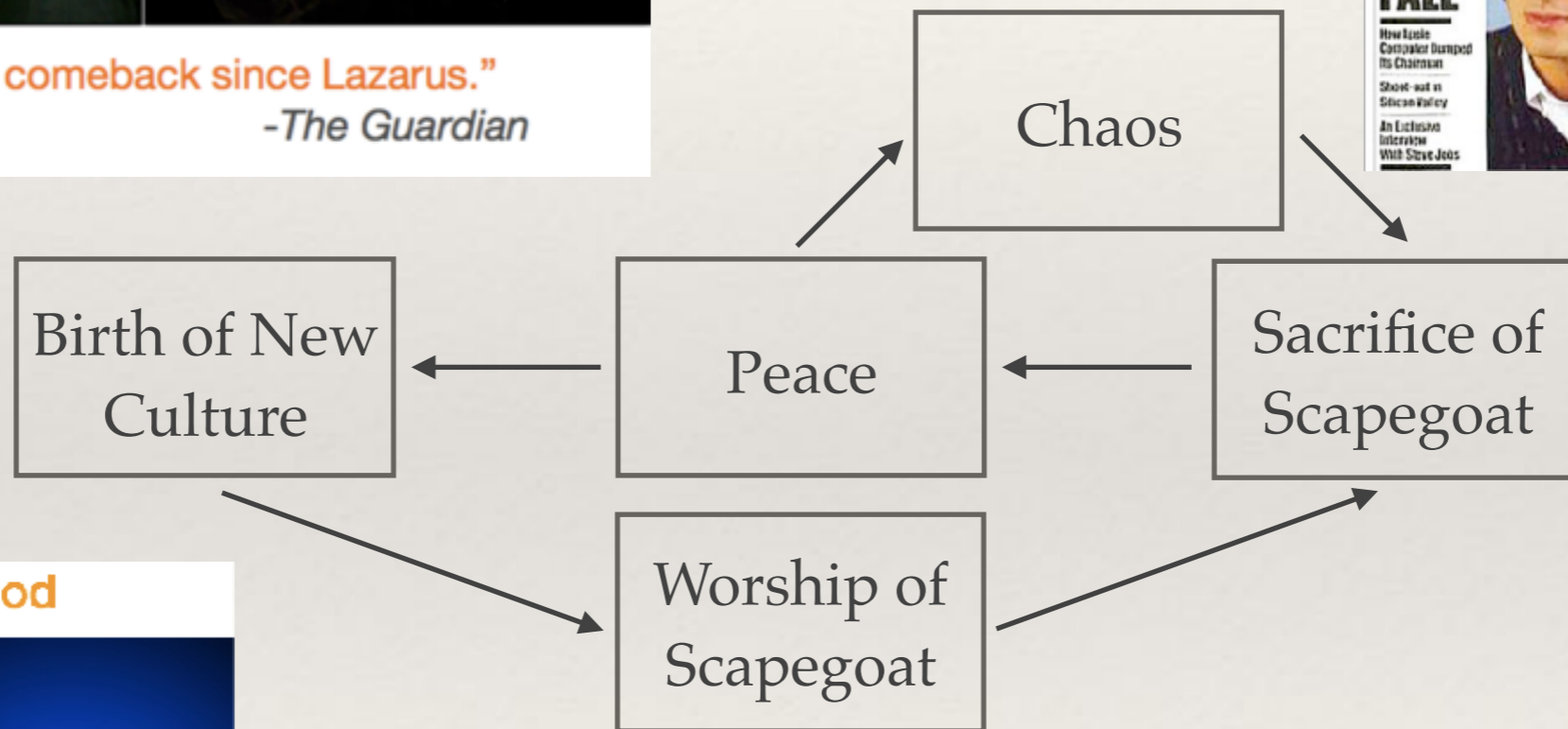


The Sacrifice, Resurrection, and Worship of Steve Jobs



"It was the greatest comeback since Lazarus."
-The Guardian

Steve Jobs as victim



Steve Jobs as god



Sacrifice of the Founder

- ❖ The founding of a startup culture requires the founder to be god and victim.
- ❖ Like Prometheus, entrepreneurs are playing with fire.
- ❖ The founder must embody traits on the fat-tails to have the unique background for exponential value.
- ❖ If you really don't want to be sacrificed or exposed to high risks, you shouldn't sit on the throne. The founder must have "skin in the game".
- ❖ The scapegoat is a martyr. Ancient people know what they are willing to die for. Founders must have this religious zeal towards their startup.



Warren Buffett Understands Mimetic Theory

“It’s not greed that drives the world, but envy.”

“Culture, more than rule books, determine how an organization behaves.”

“Our trust is in people rather than process.”

“We try to avoid any kind of imitation of other people’s behavior.”

–Warren Buffett



Mimetic Theory in Practice

- ❖ Mimetic Theory is the namesake for my consulting company Mimetic Arbitrage LLC (mimeticarbitrage.com).
- ❖ Using these mental models, I have developed a proprietary model for the evaluation of startups and teams.

