Meme Management
The Importance of Ideas in Investing

“The first thing each morning, and the last thing each night, suggest to yourself specific ideas that you wish to embody in your character and personality. Address such suggestions to yourself, silently or aloud, until they are deeply impressed upon your mind.”

Grenville Kleiser
The Book of Positive Quotations

The Meme is More Powerful than the Lightsaber

Jedi knights can do a lot of cool things. But the Jedi mind trick is one of the coolest. When encountering weak-minded individuals, the Jedi states what he or she wants with a wave of a hand. The statement is replicated in the mind of the target individuals, and they go along with whatever the Jedi suggests. The Jedi achieve their goal using only their minds, without ever having to wield a lightsaber.

A mental virus at some point has infected us all. We’ve all had the experience of having a commercial jingle or popular tune rattling around in our head all day or sharing a funny joke with our friends. What we imbibe from a sea of ideas influences the thoughts we have, the decisions we make, and the notions we impart to others.

The minds and bodies of most animals (humans included) are largely the product of Darwinian evolution. What makes us different from the rest of the animal world is our ability to imitate. Facilitated by language, humans have socially transmitted behavior patterns—or culture. Language and ability to imitate are instinctual for humans.1

So our current human condition reflects a combination of genetic and cultural evolution.2 Since our genetic makeup hasn’t changed much in the past 50,000 years, our hard wiring still plays a significant role in our emotions and how we see the world (both figuratively and literally). We can attribute many of the cognitive traps that impede investor performance to this hard wiring.

Despite this genetic consistency, today we have an inescapable sense that we’re hurtling down a path of extraordinary technological change. Some businesses that dominated their space half-a-dozen years ago are now bruised, bloodied, or dead. Disruptive technologies loom. If anything, the rate of change is picking up. For this, we can thank cultural evolution.

In 1976, zoologist Richard Dawkins coined the term meme (rhymes with beam) to define a unit of cultural transmission.3 Memes include tunes, ideas, fashions, recipes, and scientific findings. We are the only species that can effectively create and pass on lots of memes.

Memes are to cultural evolution what genes are to genetic evolution. Both are replicators: genes propagate through the reproduction of an organism while memes propagate themselves through their transmission from one mind to another. Both are subject to recombination and mutation. And both operate through differential selection, which means that some are more successful at reproducing than others. While most species deal solely with genetic evolution, humans deal with both genetic and memetic evolution. And what’s good for the memes is not always good for the genes.4
Why should investors care about memes? There are two reasons. First, an understanding of cultural evolution provides crucial insights into the process of change. Second, a heightened awareness of how ideas get into our minds allows us to become better meme managers. Understanding change and managing our minds are critical to successful stock picking.

The Meme Machine and Innovation

Studies show that innovation is rarely the result of a unique and isolated idea, but is typically the product of combining existing idea building blocks, or memes, in a new way. (See Figure 1.) Since memes are not just passed on from generation to generation (like genes) but also from person to person, people today have access to nearly all the fit ideas from the past and the present.5 The more idea building blocks that exist to solve problems, the more potential opportunities there are to find solutions through recombination. In turn, today’s solutions are tomorrow’s building blocks.

Here’s an example. With four building blocks to create solutions, the number of possible combinations is 24, or $4 \times 3 \times 2 \times 1$. Increase the number of building blocks from four to six, and the number of possible combinations is 720, or 30 times higher—$6 \times 5 \times 4 \times 3 \times 2 \times 1$. As the body of idea building blocks grows, we see a non-linear rate of change as blocks are mixed and matched in new ways.6

Figure 1: Building Blocks and Innovation

A glance back at the past century shows a period of astonishing change, with the advent of airplanes, automobiles, radio, television, computers, and the Internet. Advances in healthcare were equally amazing, as science effectively eradicated major scourges like polio and smallpox in the US and birth control became safe and widely available. But it now looks like the 1900s were only a warm-up for what’s to come. Some estimates suggest that we might see as much change in the next 25 years as we did in the past 100.7 If accurate, this prediction is equivalent to a seismic wave for the business world.

What is on the horizon? Scientists are already making important advances in nanotechnology, including faster and smaller computers and cheaper storage devices. Informed estimates suggest that Moore’s Law is likely to continue for at least another 20 years, and that we may reach “the singularity”—the point at which machine intelligence matches or exceeds human intelligence—by 2030.8 The intersection of genomics and information technology promises significant changes in healthcare.9 Practically speaking, these changes suggest that still-unknown challengers will eclipse today’s business elite with greater frequency than we’ve ever seen before.

Attendant upon this dizzying rate of change are some not-so-attractive byproducts, including a torrent of information and waning investor attention spans. Both are antithetical to successful long-term investing. Investing is not about juggling more-and-more information but rather about creating and using workable mental models, or frameworks, to make intelligent investment decisions.
“It’s All Invented”
Because memes have multiple modes of effective transmission (personal contact, TV, radio, books, Internet) and can move horizontally (from person to person) as well as vertically (from generation to generation), they can spread rapidly. Successful memes are able to replicate themselves; success is not a matter of whether or not they are helpful. Said differently, there are very successful memes that may not be very good ideas.

Roz and Ben Zander open their uplifting book *The Art of Possibility* with a chapter entitled “It’s All Invented.” While they don’t use memetic terms, they make the point that the memes we chose define, and in some cases confine, how we perceive the world. Their advice is to select or entertain the memes that offer you the greatest possibility.

The burgeoning science of memetics has some precedent. For example, the selective meme concept appears well aligned with the philosophy of pragmatism. Louis Menand notes the commonality of pragmatism’s founding fathers:

*They believed that ideas do not develop according to some inner logic of their own, but are entirely dependent, like germs, on their human carriers and the environment. And they believed that since ideas are provisional responses to particular and un reproduce circumstances, their survival depends not on their immutability but on their adaptability.*

The investment world is filled with memes. Rumors and rules of thumb are rampant in markets. Some memes are useful, many are not. Intelligent investors should be aware of their memes, and should try to be judicious about which memes they embrace. The Zanders challenge their readers to answer a simple question:

*What assumption am I making, That I’m not aware I’m making, That gives me what I see?*

**Managing Memes**
Changes in our world are increasingly the result of cultural evolution, not genetic evolution. An understanding of the basic mechanism of memetic evolution provides an intelligent investor with a foundation to contemplate technological change and self-awareness of the (often hidden) assumptions that underlie their investment process.

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2 This discussion is based on the foreword to: Stephen R. Waite, *Quantum Investing* (New York: Texere, 2002).
5 Estimates suggest that the current generation of scientists constitutes 90% of all the scientists who have ever lived.
7 Waite.
8 See [http://www.kurzweilai.net/meme/frame.html?m=1](http://www.kurzweilai.net/meme/frame.html?m=1).
9 See [http://www.boomernomics.net/VitaminB/jun2502.htm](http://www.boomernomics.net/VitaminB/jun2502.htm).
11 Of course the memes we have influence the memes we select. So we may never be independent in the meme selection process.

Further reading:
- [http://library.thinkquest.org/C004367/home.shtml](http://library.thinkquest.org/C004367/home.shtml)
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