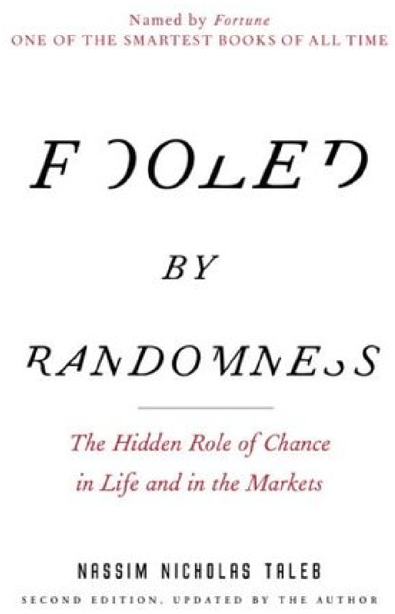

Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets

Nassim Nicholas Taleb

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Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets Nassim Nicholas Taleb ***Fooled by Randomness*** **is a standalone book in Nassim Nicholas Taleb's landmark Incerto series, an investigation of opacity, luck, uncertainty, probability, human error, risk, and decision-making in a world we don't understand. The other books in the series are** ***The Black Swan, Antifragile,*****and** ***The Bed of Procrustes*****.**

Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets Details

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From Reader Review Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets for online ebook

Marin says

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Jan-Maat says

I'm not certain if it was this book I read or Black Swan by the same author. Importantly I was not convinced by the blurbs or the reviews that there is any great significance in which one, if any, of these two books you may read.

It is one of those books with an interesting premise that grows steadily less interesting as you read. And as I read I had the growing feeling that the book could have been conveniently summarised in a dozen and a half bullet points with a few anecdotes tacked on for amusement. This naturally led me to resent both the time I spent reading it and the author for stretching a good magazine article into book length.

What the author has to say is interesting (view spoiler) and it has to be said that skill is required to repeat your ideas repetitively in repetition and to repeatedly stretch repetitively those repeated ideas that would have been enough for a ten or fifteen page article repetitively over three hundred plus pages of repetition. Having said that I did have a warm feeling of *Schadenfreude* at the plight of the broker who lost everything and was last seen in his string vest smoking a cigarette to death as his few unreprocessed chattels were loaded on to the back of a very small van.

The notion of the black swan sums up his argument ie until Europeans arrived in Australia none of them had any idea that there was such a thing as a black swan. In the same way in the markets, or more generally in any activity, you can't calculate the risk or probability of an event if it's never happened - or as in the case of a black swan, if you can't even conceive of the very possibility of the event, the kind of things famously described by Donald Rumsfeld as the 'unknown unknowns'.

Reading one gets the impression that Taleb is modestly impressed by his own brilliance, one could well believe that he talks about himself in the third person like Caesar in *Asterix*, and that he is something of what might be technically described as an arsehole.

Borrow don't buy. Even better - borrow the *Reader's Digest* version.

Philip says

I love the theses that he has in the book, but jesus christ, this is horribly written.

I think the powerful ideas could have been condensed down to a New Yorker length article:
1. We tend to see the "survivors"; by hiding those who have failed, our understanding of many systems is skewed.
2. Leveraged betting on conventional wisdom provides consistent returns in the short run, but can explode when something weird happens (his "black swan idea").
3. You can reproduce the results of many systems by simulating randomness. These simulations produce clear "winners" - winners that we would have a hard time believing are due to randomness alone.

#3 has a lot of implications for wall street: sets of investment vehicles as a whole underperform the averages after fees (which I was surprised that he didn't bring up...)

Another idea I really liked is how he describes opportunity sets. He talks about how, for instance, in an upscale neighborhood a janitor who won the lottery may live next to a dentist. Many of us take this information and attribute the likelihood for success as a janitor and a dentist to be closer than it actually is. But being a janitor provides an individual with an opportunity set, with, say a 1% chance of having a high standard of living and a 99% chance of having a low standard living. The dentist opportunity set may be 95% for high standard of living and 5% for low standard of living. But if there are many more janitors than dentists and you live in an upscale neighborhood (where you only see the survivors), that relationship becomes muddled.

Anyway, if you believe the preceding ideas, the book doesn't offer much else.

Carolyn Stein says

This is the best book I have read all year, closely followed by his other book, The Black Swan. Fooled by Randomness is one of that select group of books that changes your mind entirely. Once I read it I could never look at the world the same again, nor could I take my old assumptions for granted.

We are so accustomed to looking at the world and seeing patterns that we do not always understand that we may be seeing randomness and imposing a pattern where none belongs. Taleb talks about the various ways we fool ourselves and why we cannot help but be wrong much of the time. He branches out from probability and mathematics to explain why our minds work as they do and what the recent psychological and neuroscientific studies as well as evolutionary psychology have to say about how we think and why we are so easily fooled by randomness.

His writing is lively and peppered with anecdotes. It is an easy read but he never condescends to the reader nor dumbs down the subject. A great read!

Santhosh says

The author says right at the beginning in his 20+ page preface that the book is intentionally left unstructured so that it may resemble the flow of his thoughts as and when they popped up. And that I believe is the problem. He seems to go around in circles repeating his ideas and thoughts, coming back to the same points, pulling in unrelated anecdotes while already inside one, leaving thoughts hanging without any form of closure, and generally ensuring you end up doing exactly what he says you shouldn't be doing: making sense of random noise.
(view spoiler)

In all, a decent read, though I thought way too lengthy and cluttered for what he had to say. And the fin-hater in me had to plough through all these pages on investments and trading.

Daniel Clausen says

Again, I'm astounded by the quality of Taleb's writing. His theory is both scientific and poetic, his insights are always useful and reflect what I often experience in my life...the one thing that really impressed me in this book, however, was his ability to tell a great story. That's something I had forgotten about.

Before I can truly judge this book, however, I do think I need to read it a second time. Taleb always has sharp provocative ideas, but they do need to be reflected on and digested. Since this is the third book I've read of his and since I've read them in reverse order, I probably don't need a thorough second reading. I would recommend all readers, however, to highlight key passages with a pencil and come back to them periodically to reflect on them.

A key lesson that comes out of this book is this, you should always be asking yourself "How can I not blow up?" How can I not be an acute successful randomness fool? In other words, how can I not take risks so enormously stupid that I never recover from them?

Another key lesson: survivorship bias...we consider rich people successful; however, we do not see the people did the exact same things (took enormous risks) and blew up as a result. We only worship the lucky idiots.

And here's a lesson on intellectual humility: "My lesson from Mr. Soros is to start every meeting at my trading boutique by convincing everyone that we are a bunch of idiots who know nothing and are mistake prone, but happen to be endowed with the rare privilege of knowing it."

Another wonderful book, another wonderful afternoon spent!

Marvin chester says

You can't learn anything from this book; it's just a rant. The author's message is an incessant din of, 'I'm smart. They're stupid'

"trading rooms were populated by people ..devoid of any introspection, flat as a pancake..." p28

"these scientists ... devoid of the smallest bit of practical intelligence" p 30

The author likes the word 'devoid'.

"I was saved from the conversation of MBAs."

"but i could not conceal my disrespect ... as he could not make out the nature of my conversation" p.31

"a journalist ... is merely to sound smart and intelligent to the hordes" p 35

He could have enlightened us about financial trading by giving us examples of how traders think on specific trades. Instead he reverts to generalization using fantasy scenarios. He deprecates losers without seeking to explain and understand those loser minds he excoriates. Nor does he explain winner thinking for that matter; except for the generality of praising caution.

I stopped reading this book because the probability of finding anything enightening was approaching zero as the pages I read increased.

Perry says

Don't Be Fooled

The author is a Legend in his Own Mind, and he reminds the reader of his brilliance every few pages.

I'd rather have a waxen image of me stuck repeatedly in my tiny black eyes with voodoo pins than read another book by this man.

Gordon says

This is a book by a trader with an intellectual streak -- although he might say he’s an intellectual with a trading streak. Nassim Taleb's book is highly idiosyncratic and personal, which is both what lends it a lot of its interest and what occasionally makes it irritating. Overall, he does not seem like a likeable man, and in fact is probably proud of that fact. But, it does get kind of tiresome to be told for the 5th or 10th time how unimpressed by wealth he is. In fact, he is clearly impressed by wealth, but counteracts it by stressing how little he works, how much time he devotes to intellectual pursuits and how much smarter he is than the typical wealthy person. But, all that’s just literary style -- and apparently a very popular one, judging by the sales of the book. It remains a fascinating book nonetheless.

Key ideas: We do not gauge causation, probability and risk very well, and hence we do not act according to a rational model of behavior, a la homo economicus. His heroes are Nobel Prize-winner Daniel Kahnemann and Amos Tversky, whom Taleb sees as the greatest thinkers in modern economics, since they re-wrote the book about how we actually decide as opposed to how economists and other rationalists think we ought to decide. Based on their work and that of a host of other researchers in behavioral economics/finance, he catalogs many of the systematic biases that strongly affect our behavior, such as:
o Hindsight bias: We fit the explanation to the events after the fact, as if we knew it at the time. And, we see patterns where there are none – or we see the wrong pattern. Mistrust the predictions of experts – they will almost always be trumped by an evidence-based analysis, since they tend to mis-remember the past. They remember their successes and forget their failures.
o Attribution bias: Beautiful people are more virtuous than ugly people. Tall people are more likely to be leaders than short people. A man in a suit is more trustworthy than a man in t-shirt and jeans. And so on.
o Small number bias: We extrapolate wildly from small samples.
o Asymmetric pain/pleasure from losses or gains: The pain of a loss is roughly twice as much as the pleasure from an equivalent-sized gain. So we sell our winners but keep our losers (to avoid having to feel the pain).

In short, life is more random than you think and your ability to navigate it rationally is more limited than you think.

What do I think of all this? He's right that it's a good idea to keep an open mind and to be ready to change your mind when you come up with a better interpretation and/or a more accurate set of facts. So far, so good. But his core world view is the product of the only profession he's ever known: Wall Street trading. As such, he does not shape let alone control events -- he simply bets on their outcome. That's not the kind of perspective that makes you see the world as a highly deterministic place, or one where, if you hope to survive long enough to get a few gray hairs, you can think of yourself as a "master of the universe" or even captain of your ship. He doesn't want to be captain of the ship; he just wants to bet on whether the ship will sink in the next storm or not, and turn a profit on the bet.

'Izzat Radzi says

Buku yang dipilih untuk dibaca bagi memahami subjek aktuari (teori kebarangkalian, kewangan, pengurusan risiko, ekonomi).

Perbincangan penulis banyak berkisar tentang pasaran (saham) selain aspek lain dalam kehidupan.
Dapat dilihat juga mengapa (telah lama) sarjana dan ilmuan matematik tulen bergeser dengan sarjana matematik aplikasi hasil cerapan cara fikir dan kerja penulis.

Turut diperhatikan bahawa, kritik penulis di dalam buku ini, yang ada pemberat yang tertentu, membuka sisi pandang baru, walaupun ada penulisannya tentang perkara-perkara lain, yang kita kurang bersetuju, buat masa ini.

Tuntasnya, walaupun ada beberapa istilah yang merujuk secara langsung dengan ilmu teori kebarangkalian, saya yakin buku ini masih boleh dibaca dan dihadam oleh orang awam yang berminat dengan tema perbahasan.

Perlu juga direnung tentang aspek rezeki, takdir, nasib, iktiar dsb selepas ini.
Dan buku ini membuatkan saya berkira-kira laluan kerjaya mana yang akan dipilih, melihatkan aspek-aspek yang ada dalam prospek kerjaya sekarang.

Bacaan lanjutan dari nota kaki :

A Treatise on Probability (John Maynard Keynes)
Against the Gods: The Remarkable Story of Risk (Peter L. Bernstein)
Empire of Chance: How Probability Changed Science and Everyday Life (Gerd Gigerenzer)
Inefficient Markets: An Introduction to Behavioral Finance (Andrei Shleifer)

Bacaan lanjutan luar :

The Black Swan: The Impact of the Highly Improbable (Nassim Nicholas Taleb)
The Drunkard's Walk : How Randomness Rules Our Lives (Leonard Mlodinow)
Future Babble: Why Expert Predictions Fail - And Why We Believe Them Anyway (Dan Gardner)

Sarah Clement says

This book is a lot of painful reading for little reward, as there was nothing truly remarkable or revelatory about Taleb's insights. Most of what can be said of this book has already been said by other reviewers on GoodReads, so I will just briefly recap here: he is incredibly unlikeable, and infuses the book with anecdote and a general disdain for most of humanity, while exemplifying many of the characteristics he rails against. His insights will not be news to anyone who has read even a little bit about statistics, decision making under uncertainty, and behavioural economics. Part II is markedly better than Part I because he finally delves into what I (foolishly?) thought that the book was supposed to be about, but you have to make it through 130 pages of arrogance and badly composed narrative. Part II would have been pretty good if I hadn't read a lot of other books on the topics, and for those who are interested in economic markets, I think this would interest you if you can move past the constant interjections of Taleb's personal philosophy. Personally, my eyes glaze over when I read about trading, and I much prefer books like The Drunkard's Walk, which illustrates many of the same (but also many more) concepts. I was happy to read the section on Tversky and Kahneman, but I find their work infinitely more interesting and readable than his summary, and you are spared the normative commentary. Ironic for a man who criticises the normative dimensions of economics, Taleb certainly pushes a strong view of the world. When Taleb does delve into intriguing concepts, I was frustrated with the fact that he explained them poorly and incompletely, and quickly moved on to another topic. Much of the anecdote in the book could have been removed to make way for the real substance of the book. I don't really disagree with his criticisms of MBAs, economists, traders, journalists, etc., but I also don't think anything he says is especially revealing of insightful for most of us who aren't involved in the trading world. All in all, I am really puzzled by the popularity of this book, and I would strongly recommend against bothering with this one. If you're really interested in randomness, I would recommend The Drunkard's Walk.

Trevor says

Yeah, you see. I’ve just checked and most of the other reviews of this book do pretty much what I thought they would do. They complain about the tone. This guy is never going to win an award for modesty and he probably thinks you are stupid and have wasted your life. And it gets worse – like that quote from Oscar Wilde that has tormented me for years: “Work is the refuge of people who have nothing better to do”, this guy reckons that if you work for more than an hour or so per day you are probably too stupid to know (or deserve) any better.

Do you hate him yet? I didn’t. I found him very amusing. Admittedly, I probably wouldn’t want to be stuck beside him on a long flight somewhere – but I don’t really go on long flights anywhere, so it doesn’t make too much sense using that as a criterion for anything.

Let’s make a proper start. I’m going to tell you something about Heraclitus. Probably best known for some pithy little quotes about change that he made up all by himself a very long time ago. “You can never stand in the same river twice” – “All is flux”. Heraclitus’s vision of the world was that what is important is change, everything else is transitory and impermanent.

Bertrand Russell claims that Heraclitus came from an aristocratic family that ended up dashed agains the rocks of change and not nearly so well off. The other thing you might need to know about Heraclitus was that he was known as ‘The Obscure’.

I was reminded constantly of Heraclitus while reading this book. The author was also from a well off family that lost everything in the Lebanese War. This also made him focus on change and the nature of unpredictable events. Hardly surprising then that Popper is his favourite philosopher – there is no ultimate truth, rationality is more or less prejudice, everything is awaiting falsification.

I have a love/hate relationship with Karl Popper. I can never work out if he is incredibly naïve (as Taleb proudly boasts that he is) or if he is terribly profound. I do like his idea that we should constantly seek to prove our most beloved theories wrong – but I also think that this level of scepticism is somewhat overstated. There is a line in this book in which we are informed (well, twice actually) that Newton was proven wrong by Einstein. Oh, was he just? I guess all those people shot through the head by guns aimed after the careful application of Newton’s laws of motion suddenly came back to life again then did they? I guess Neil Armstrong, who got to the moon on Newtonian physics, not on the front seat of one of Einstein’s light rays, might also have been a bit surprised at this remarkable over-throw.

Okay, I know, I’m nitpicking, but then again, Taleb does ask for it. He is so contemptuous of the ignorance and foolishness of others that it does become a bit of a sport for him. The one thing you can say about Taleb is that he is not like Heraclitus when it comes to being obscure. He is always very clear, very comprehensive and very interesting.

We should now do some of the people he particularly hates. And in the first rank of those he hates are probably Journalists. Now, it is hard not to agree with him there. He sees Journalism as basically part of the entertainment industry and believes they only really go ‘wrong’ when they start to think they serve some purpose beyond entertainment. Then there are business people, who he believes are mostly thick. One of the main contentions of his book is that successful people are often successful by pure chance. As such their abiding emotion should be gratitude. However, as he repeatedly points out, we all tend to believe our successes are proof of our own genius, and that it is only our failings that are the result of bad luck and chance.

This book gives a wonderful introduction to many of the fallacies we humans are all too prone to make. He makes a cogent argument that we can never be ‘purely rational’ because we need our emotions to short-circuit the endless decision loop that each ‘purely rational’ decision would involve. This book is also a great introduction to probability theory without too many numbers – to the theory without the calculus. Some of his verbal explanations of mistakes are remarkably clear – so clear they virtually jump from the page.

One of the constant themes that I found particularly interesting was that we all suffer from hindsight bias. This is something I will definitely be taking from this book. The idea is that because what has happened in the past has ‘happened’ we think it is the only thing that could have happened and then use it to predict what will happen in the future. We forget that events in the past were also the culmination of probabilistic situations that have resolved one way and not another. We forget that these events could just as easily have resolved in another equally probable outcome - one that merely did not occur. The range of fallacies that he shows spring from this one bias is quite remarkable.

Now, I was recommended this book by someone called Yuri and the funniest story in the book also starred someone called Yuri. It is when he is discussing Stock Market people applying for jobs with him. One of the things they tend to put on their CVs is that they play chess. They do this because playing chess means they are both ‘analytical’ and ‘strategic’. These are obviously good things to be - in fact, I think I would like to be both of these things. Since you can be both of these things just by declaring yourself to be them, we shall take it as read from now on that I am both of these. Taleb tends to prefer to associate with Russian Physicists, not just because they think like him, but also because they can give him lessons in chess and teach him to play piano. When one of these new stock market trader types applies for a job and says that they play chess – Taleb brings this up and then says, “And this is Yuri who will now continue the interview”. And here Yuri appears with a chess board in front of him…

I once watched a Russian playing a non-Russian at chess. The Russian spent the entire time laughing his head off after every move. I don't know if it was because the moves made by his opponent were so useless that he truly found them funny or because this was all part of the psychological warfare - but he did slaughter his non-Russian opponent, so perhaps a bit of both.

This is another book inspired by behavioural economics (like *Freakonomics* and *Predictably Irrational* - I'm becoming a bit of a fan of behavioural economics.

If you take this book in good humour, if you allow yourself to listen and not get worked up about his ‘inappropriate tone’ (god save us from those who complain about inappropriate tone) you will learn something from this book and maybe even have a good time.

And I can do a two word review of this book - Shit Happens!

Tara says

One of my business school professors raved about this book. I expected to get an entertaining and informative investment professional's take on how our irrational tendencies keep us from applying basic probabilities that would help us make better decisions.

Instead, this book read like a pretentious, ranting diary. In the introduction, the author brags that he ignored nearly all of the suggested changes his book editors made (he labels book editors along with journalists, MBAs, and most social scientists as dimwits). I think with significant editing, this book could have been quality. There are several good anecdotes that illustrate how we ignore rational information and simple probabilities in daily life. This would have been fun to read about without the author's smug self-absorption and his personal attacks (the author takes at least four pages to rant about the "incompetence" of journalist George Will and even takes a few punches at Warren Buffett... I mean Warren Buffett?).

I was barely able to bring myself to finish this book but did because I wanted to be able to give it a fair review. My advice - skip it!

Yousif Al Zeera says

Deep.

Kai Schreiber says

A nice thesis (humans are unable to correctly assess risk and probability and therefore fall into all kinds of traps) wrapped in pompous and befuddled writing. At times the logic and flow is so jumpy and flawed that I thought there was something wrong with my copy.

There is something wrong almost constantly, but the biggest WTF moment came for me, when Taleb, who constantly reminds the reader that everybody else is a fool and it's just him who has insight and the tools to master probability, talks about scientific study of medication and the absence-of-evidence-cliché. It makes him furious that so many of the idiot journalists out there misunderstand absence of evidence for evidence of absence, and he cites studies where despite numerous subjects no significant benefit can be shown for a medication over placebo treatment. This is not evidence that there is no effect of the medication! he yells, and completely fails to understand the difference between significance and effect size. Yes, it may well come out later that the medication indeed does have an effect. But no, it is not at all likely that that effect will be very relevant, as its size must be tiny or the original study methodically flawed (as otherwise it would have found it).

To reiterate, Taleb does not distinguish between significance and effect size in an argument where he calls everyone else a fool for not getting probabilities right. Sums up the book quite nicely.

(In addition, it is very annoying when his constant reminding the reader that he is no expert on something does not stop him from talking about it, just from giving any evidence for what he is talking about whatsoever. This is mainly true for evolutionary psychology, but threads throughout. "I'm not a scientist, but a humble trader, so I'll just make shit up now" does not really work as captatio benevolentiae).

Nicholas says

"Expect the unexpected" -- an aphorism that almost completely summarises the book. Cliches exist for a reason, but 196 pages later I feel the point has been well made.

Taleb is a stock market trader. As a trader, he believes that there is no way in general to predict the stock market -- that there are so many variables that the resulting stock price is indistinguishable from pure noise. Unfortunately, his profession is filled with people who believe that they *can* predict the market. In fact, some of these people trade very successfully for a while. Taleb belives that no trader can stay ahead of the market forever. The success of a small number of traders for a short amount of time can simply be explained by statistics: after all, given a large enough group of traders, some are bound to be successful some of the time even if their trades are entirely random.

This point is well illustrated with many examples, and this is where the book falters for me. Some of the examples are great (he goes into a lot of detail about various Monte Carlo simulations he has constructed), but some just seem like strawmen (he goes to a lot of trouble to describe the fancy cars, extravagant house, impulsive trading strategy, and hubris of a hypothetical trader, setting him up for his inevitable fall at the hands of the "unexpected rare event").

Some examples are just plain wrong, or at least misleading. For example, he goes into detail describing the work of Karl Popper, a philosopher who was interested in the question "how do you tell the difference between science and non-science?" Popper proposed several theories of science to answer this question.

The first, naive falsificationism, essentially states two things: firstly, that a theory is scientific if it can be falsified; and secondly, that a theory which has been falsified should no longer be used.

The second, sophisticated falsificationism, was a response to both the negativity of naive falsificationism and also a response to the criticism that science doesn't work that way (by immediately discarding theories the moment they contradict any evidence). Sophisticated falsificationism again states two things: that a theory is scientific if it leads to the discovery of novel (ie, new) facts; and that a theory is falsified by a new theory if the new theory can accurately predict everything the old theory could but *also* can accurately predict novel facts. General relativity is the canonical example of this: it incorporates Newtonian mechanics at low speeds but also explains things that Newtonian mechanics cannot at near-light speeds.

Anyway, Taleb's summary of all of this was "Popper's detractors called him a naive falsificationist." They did not, or at least not disparagingly, because Popper himself proposed the term, and labeled himself accordingly! I can understand why Taleb might not have wanted to include a huge explicative paragraph on Popper, but the book would have been just fine without the dubious example.

Another example of sloppiness occurs later, when Taleb talks about the QWERTY keyboard layout as an example of "the vicious dynamics of winning and losing in an economy" and repeats the old saw that the QWERTY layout was designed to slow typists down, and that it succeeded anyway because of a "snowball effect" of popularity. This claim is highly contentious (in fact one way to both speed typists up and prevent mechanical key jams is to put commonly-used letter combinations on opposite sides of the keyboard, something that QWERTY does to some extent but that Dvorak does much better), and once again the book would have been just fine without it.

Taleb is best when he is covering his area of expertise -- probability -- and the chapters dealing with probability are great. There are also several enjoyable and illustrative personal anecdotes which are a fun and memorable read.

Overall I enjoyed the book. I just wish he'd put more thought into his examples.

Steve says

Renowned statistician George Box once said, “All models are wrong, but some are useful.” The author of *Fooled by Randomness* is all over the first part of this statement, but apparently doesn’t consider it part of his job as an iconoclast to say anything about the second. Taleb goes to great lengths to point out how some of the original assumptions made in investments and finance have blown up in people’s faces. Yes, unusual events do happen more often than a normal distribution suggests. Yes, relationships among securities can change in meltdown scenarios. And yes, people are regularly fooled into thinking luck is skill. However, some market participants are clear-sighted enough to see those shrouded risks for what they are and make better assumptions about how they should be traded off against expected returns. These more enlightened investors don’t get the print, though, since they’re not the straw men Taleb can knock down.

Don’t get me wrong. We all like debunking stodgy, established wisdom when we see the holes. If you’re like Taleb, though, and see only holes, what you’re left with is nothing. What might there be in its place? Some models, when tweaked, are still useful.

In a brief moment of modesty, Taleb confesses to psychological weaknesses that can lead him to mistake noise for signal. He seems rather smug about it all, though. It’s like he figures his ability to recognize himself as a fool puts him on a higher plane. For the most part, his ego is openly displayed. It’s also coupled with an axe to grind – an aggressive combination. His fund has consistently underperformed (though he would counter that he’s positioned just right for the coming holocaust). His investment strategy boils down to buying lots and lots of insurance contracts against rare occurrences that he thinks will be slightly less rare. (In actuality, he buys stock options, but the insurance metaphor illustrates the point.) The problem is he’s so firm in his belief that the insurance companies have underestimated risks that he thinks all premiums are too low. However, those selling options, armed with models that account for rare events appropriately, will charge more than enough to cover those risks.

Who will be fortune’s fool? Time will tell, but a provocateur like Taleb will in all probability be better known for his quasi-epistemological exposition on unanticipated variability than for any true investment success.

S.Ach says

Success of some people is nothing but pure luck. Some people get elated when the find some kind of pattern in randomness, when there is none. Probabilities are misconstrued as certainties. And thus people get fooled by randomness and create theories of success. - This is precisely the belief of Nassim Taleb who goes on and on and on and on to prove it throughout the book.

The tone of the book is dismissive and i-am-intelligent-you-are-stupid pedantic. The author lacks clearly the skills of providing an captivating narrative. Talks on finance bore me. Talks on stock market dynamics doubly bore me. The author having spent big part of his life in finance market, gives 100s of examples to prove his theory, but alas all in stock market and finance.

The author tries hard to appear very intelligent, which he manages by esoteric references and illustrations. But what is the point in intelligent blabber that confuses the reader.

However, there are more than one occasion you will find yourself nodding your head while reading some of the conjectures, especially in the places where the author brings in what you have been always thinking, but rarely talked in the fear of being branded 'jealous' - 'How come that incompetent idiot who can't distinguish between a Picasso and a picture of bull's testicles, is driving a Mercedes, and I am stuck with this Fiat?' with a divine prophecy:

> Those who were unlucky in life in spite of their skills would eventually rise. The lucky fool might have benefited from some luck in life; over the longer run he would slowly converge to the state of a less-lucky idiot. Each one would revert to his long-term properties.

Riku Sayuj says

> The modern world regards business cycles much as the ancient Egyptians regarded the overflowing of the Nile. The phenomenon recurs at intervals, it is of great importance to everyone, and natural causes of it are not in sight.
>
> ~ John Bates Clark, 1898

> Yeah, right!
>
> ~ Nassim Nicholas Taleb, 2001

Greg Linster says

Using his trademark aphoristic bent, Friedrich Nietzsche wrote: “Arrogance in persons of merit affronts us more than arrogance in those without merit: merit itself is an affront”. I’ve come to realize that some people find Nassim Taleb’s arrogance quite repugnant, but, personally, I find it rather charming. I suspect that the same people who find Taleb’s arrogance off-putting are the people who wish they possessed a shred of his erudition. Nietzsche was certainly on to something; it’s hard to avoid being offended by your betters.

I think I first read *Fooled By Randomness* circa 2006. Recently, I felt a longing to reread Taleb’s first non-technical book again. Wow, what a wise decision that was! I actually digested more from the rereading than I did from the initial reading (and I digested quite a bit from the first reading). Both times, I focused on reading the book very, very slowly. Obviously, the fact that I spent the time to reread this book is indicative of how valuable I think it is.

Known for his great wit, the baseball pitcher Vernon Louis “Lefty” Gomez was fond of saying that, “I’d rather be lucky than good.” This phrase, in essence, is one of the central themes of the book. Although it sounds like a hackneyed platitude, Gomez, understood the role of randomness in our lives. However, due to myriad biases, we humans often tend to attribute our successes to our skill and blame bad luck for our failures. Is your rich neighbor or your boss really as skilled as she thinks she is?

Parts of the book are also about the hindsight bias and the narrative fallacy. We humans are great at fabricating post hoc narratives about our world. It’s how we understand (and misunderstand) the world, but we must remember not to take our stories too seriously. “A mistake is not something to be determined after the fact,” writes Taleb, “but in the light of the information until that point.”

One of Taleb's favorite philosophers is Karl Popper. However, Taleb wasn't always enthralled with the man who espoused the beauty of empirical falsification. Prior to rediscovering the great philosopher, Taleb went through a self identified anti-intellectual phase early in his career as a trader. He feared becoming a corporate slave with "work ethics" (a term which he interprets to mean inefficient mediocrity). "Philosophy, to me," Taleb writes, "became something rhetorical people did when they had plenty of time on their hands; it was an activity reserved for those who were not well versed in quantitative methods and other productive things. It was a pastime that should be limited to late hours, in bars around the campuses, when one had a few drinks and a light schedule — provided one forgot the garrulous episode as early as the next day. Too much of it can get a man in trouble, perhaps turn one into a Marxist ideologue." As they say, the dose determines the poison.

Speaking of poison, another interesting idea that Taleb espouses is that being too attached your beliefs is poisonous. As he puts it: "Loyality to ideas is not a good thing for traders, scientists, — or anyone". I like to think about it this way, there are times we shouldn't trust experts precisely because they are experts. This is because they are no incentives to be brutally critical of your own ideas. A scientist or a preacher who has built their career on a certain idea obviously has a lot invested in that idea. How likely are they to be critical of their own position when their livelihood depends on it being accepted? What if they are putting out pseudo-scientific nutritional guidelines that cause harm, but help them keep their job?

According to Popper there are only two types of theories:

1) Theories that are known to be wrong, as they were tested and adequately rejected (he calls them falsified).
2) Theories that have not yet been known to be wrong, not falsified yet, but are exposed to be proved wrong.

If you accept Popper's epistemology, like I also do, you can never claim that you know a theory to be true. In other words, we can only gain knowledge through proving that things are false. For instance, when I accidentally find myself in a theistic debate, people often challenge me to tell them how the universe came into existence. When I say 'I don't know', they become infuriated. How dare I have the gall to dismiss some of their religion's claims as not true without projecting my own claim to reality? Yet, that's exactly the point. I gain knowledge through knowing what's wrong, not through making claims about what I think is right.

So what should we make of Taleb's extreme and obsessive Popperism in a more practical sense? How does he recommend we apply to it our lives? I think it can be summarized in the following passage:

> I speculate in all of my activities on theories that represent some vision of the world, but with the following stipulation: No rare event should harm me. In fact, I would like all conceivable rare events to help me. My idea of science diverges with that of the people around me walking around calling themselves scientists. Science is mere speculation, mere formulation of conjecture.

The following thought experiment really helped me internalize this message. Assume you participate in a gambling game that has 999/1000 chance of winning $1 [Event A] and a 1/1000 chance of winning $10,000 [Event B]. Using some straightforward calculations the expectation of a loss is roughly $9 (multiply the probabilities by the outcome for each event and then sum them) Which event would you bet on? I suspect that most people consider the frequency or probability in their decision, but this is totally irrelevant. According to Taleb, even people like MBAs and economists with some statistical training fail to understand this point. The magnitude of the outcome should be the only relevant factor in the decision. Think of a trader who focuses on event B, sure, he is likely to bleed slowly for long periods of time, but when the rare event happens the payoff is astronomical compared to the losses. Most of us, however, are schooled in environments that focus on games with symmetrical outcomes (e.g., a coin toss). The great psychologist and father of behavioral economics, Daniel Kahneman, also reminds us that we are loss averse and psychologically struggle with idea of bleeding out small losses for extended periods of time, even if there is eventually the opportunity for a huge payday.

Once you realize that life is full of scenarios with asymmetrical payoffs, you’re thinking (if you’re anything like me anyway) will be permanently altered. In fields like, say, writing, the outcomes are asymmetrical. In other words, there is not a linear relationship with the number of hours spent writing and the amount of income one makes. One may spend a long time writing for free and then finally catch a huge book deal. For me, this is somewhat of a moot point because I’d write for free without any other justification other than the fact that it’s fun and makes me happy. However, if all other things were equal, and I could also make money doing something I love, I would be very happy.

Here’s another piece of practical wisdom that I really enjoyed: “stay away from people of a competitive nature, as they have a tendency to commoditize and reduce the world to categories, like how many papers they publish in a given year, or how they rank in the league tables.” These are the same kinds of people who think that their GPA reflects their intelligence. Or that the number of hours they spend running on a treadmill reflects their fitness. Or that their inherited wealth says something about their genetic fitness. Or that their expensive clothes make them beautiful. I could continue on and on, but I think you get the point.

I often hear those around me complaining about how life will be better when they achieve “X”. Alas, I’m human and guilty of making claims like this on occasion too. The trouble is that, for most of us anyway, we won’t really experience long-term improvements in our happiness when we achieve “X”. Throughout the book, Taleb devotes a fair amount of time alerting readers of what the literature in behavioral economics tells us about our irrational tendencies and biases.

For example, there’s the social treadmill effect: you get rich, move to rich neighborhoods, then become poor again once you compare yourself to your new peers. Then, you may work your ass off and get rich again, only to repeat the cycle. If you want to feel worse about yourself, then the best piece of positive advice I know of is to hang around people who are wealthier than you. I often try to remind myself that I’m living a life that is materially better than 99.9% of all humans that have ever existed and yet I still have the audacity to claim that I don’t have enough sometimes. Pathetic.

At one point in the book, Taleb writes: “I see no special heroism in accumulating money, particularly if, in addition, the person is foolish enough to not even try to derive any tangible benefit from wealth (aside from the pleasure of regularly counting the beans)”. In other words, money is only valuable if you use it as a tool to extract enjoyment from life.

If it isn’t clear, I think he is making reference to the likes of Warren Buffett, whom people tend to see as being virtuous simply for the fact that he has been able to accumulate hordes of money. What I think many people fail to understand is that there is nothing virtuous about having money just for the sake of having it. How someone earned what they have tells you a lot more about them than how much they have. We generally tend to think that having money signals other traits about a person, but I’ll remind you that there is a lot of noise in those signals (think inheritance). Having money doesn’t necessarily signal any superior traits.

Those who want to make a lot of money are greedy and shouldn’t try to deny that motivation. Greed, however, is not necessarily a bad thing. As Adam Smith taught us, another mans’ greed can create more wealth for society as a whole (provided the individual’s wealth is ethically obtained).

Do cigarette smokers understand probabilities? If so, how can they rationally understand the ills of cigarettes and yet be foolish enough to smoke them anyway? When I go for walks near hospitals I’m always surprised by the number of people in scrubs (perhaps some of whom are doctors and nurses) who I assume are well aware of how harmful cigarettes are, but smoke them anyway. Apparently, intellectually understanding something and being able to put it into practice are two different things.

One thing Taleb also writes about is the selection bias in blogging and book reviewing. The cover of my edition of *Fooled By Randomness* has an excerpt praising Taleb as one of the “hottest thinkers” in the world. While I certainly agree, I couldn’t help but smirk after reading that line — can you say selection bias?

Any book that is worth reading twice is worth reading more than twice. When you love a writer, you want to hear his opinion on just about everything.

- See more at: http://coffeetheory.com/2010/05/25/bo...
