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Fooled By Randomness: The Hidden Role Of Chance In Life And In The Markets

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F O O L E D *BY* *R A N D O M N E S S*

*The Hidden Role of Chance
in Life and in the Markets*

NASSIM NICHOLAS TALEB
SECOND EDITION, UPDATED BY THE AUTHOR



Synopsis

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. Now in a striking new hardcover edition, Fooled by Randomness is the word-of-mouth sensation that will change the way you think about business and the world. Nassim Nicholas Taleb "veteran trader, renowned risk expert, polymathic scholar, erudite raconteur, and New York Times bestselling author of The Black Swan" has written a modern classic that turns on its head what we believe about luck and skill. This book is about luck "or more precisely, about how we perceive and deal with luck in life and business. Set against the backdrop of the most conspicuous forum in which luck is mistaken for skill "the world of trading "Fooled by Randomness provides captivating insight into one of the least understood factors in all our lives. Writing in an entertaining narrative style, the author tackles major intellectual issues related to the underestimation of the influence of happenstance on our lives. The book is populated with an array of characters, some of whom have grasped, in their own way, the significance of chance: the baseball legend Yogi Berra; the philosopher of knowledge Karl Popper; the ancient world's wisest man, Solon; the modern financier George Soros; and the Greek voyager Odysseus. We also meet the fictional Nero, who seems to understand the role of randomness in his professional life but falls victim to his own superstitious foolishness. However, the most recognizable character of all remains unnamed "the lucky fool who happens to be in the right place at the right time "he embodies the "survival of the least fit." • Such individuals attract devoted followers who believe in their guru's insights and methods. But no one can replicate what is obtained by chance. Are we capable of distinguishing the fortunate charlatan from the genuine visionary? Must we always try to uncover nonexistent messages in random events? It may be impossible to guard ourselves against the vagaries of the goddess Fortuna, but after reading Fooled by Randomness we can be a little better prepared.

PRAISE FOR FOOLED BY RANDOMNESS: Named by Fortune One of the Smartest Books of All Time A Financial Times Best Business Book of the Year " [Fooled by Randomness] is to conventional Wall Street wisdom approximately what Martin Luther's ninety-five theses were to the Catholic Church. • "Malcolm Gladwell, author of Blink "The book that rolled down Wall Street like a hand grenade. • "Maggie Mahar, author of Bull! A History of the Boom, 1982 "1999 "Fascinating . . . Taleb will grab you. • "Peter L. Bernstein, author of Capital Ideas Evolving "Recalls the best of scientist/essayists like Richard Dawkins . . . and Stephen Jay Gould. • "Michael Schrage,

author of *Serious Play: How the World's Best Companies Simulate to Innovate* • "We need a book like this. . . . Fun to read, refreshingly independent-minded." • "Robert J. Shiller, author of *Irrational Exuberance* • "Powerful . . . loaded with crackling little insights [and] extreme brilliance." • "National Review --This text refers to the Hardcover edition.

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Customer Reviews

REVIEW: This book tends to elicit very strong opinions about its quality (both very good and very bad) so it is important to know which camp you are in before you purchase it or you may be very disappointed. I found that both the very bullish and the very bearish reviews have significant merit. On the plus side Taleb aggressively addresses a topic that many readers will be interested in - randomness in our daily lives. He discusses many important concepts that are not known or at least not very well understood by the general public and experts alike. These include: 1) that uncertainty and luck play a large role in the outcomes of human activities (much more than most people think); 2) that a correlation between two types of events does not necessarily mean that one causes the other; 3) that statistics and the rare random event are poorly understood by almost everyone; 4) that small differences in performance and ability can cause very large differences in the rewards or difficulties that people obtain in life; and 5) that humans are very irrational beings and are not very good at thinking probabilistically and understanding the probabilities of even everyday events rationally. All of these are important points that I commend Taleb for bringing to our attention. However, there are significant drawbacks to this book, which to some readers will make the book significantly unenjoyable or even impossible to read. While it did not significantly bother

me, Taleb does have an attitude or style which at times tends to the snobbish. The author repeatedly reminds readers that he is well traveled, is a "voracious" reader, pursues his exercise routines "assiduously", and is from upper class Mediterranean roots. Further, at some points in the book, he writes from a bitterness and contempt (which he admits) for journalists, economics, others in his profession, and generally those who are not "literate persons". In general, I would have preferred that Taleb left most of these personal issues out of the book and that he have written it with a little more rigor. But in fairness Taleb clearly warns the reader that his book is a personal memoir and not a treatise. Unfortunately, I believe this is mostly a cop-out to avoid addressing his critics on the merits. The book has the look and feel of a treatise, and I was hoping for a treatise, but it doesn't deliver.

STRENGTHS: Addresses an important topic not well understood and not written about enough; most people will benefit from a better understanding of the major concepts brought out in this book; the author is well read and not afraid to offend and pursue the material aggressively.

WEAKNESSES: I hate to say it because I find the author likeable in many ways, but too much of the author's personality comes through and what it suggests to me is that he may have significant insecurities and passive aggressive issues that may even be pathological; many readers will have a hard time getting past the author's aggressive style or perceived "bad attitude", some readers may even see the book as political; the book is "a personal memoir and not a treatise" and thus lacks the rigor that many would expect; the author takes great pains to try to avoid addressing any substantial criticism (this is the first book I've read where the author feels the need to attack the credibility of reviewers calling them "unqualified" to comment on his book)

This is an tough book to review. I give it 3 stars because the points he makes are valid and should be more widely understood. Unfortunately you must wade through much rambling to find them. He seems more interested in proving that he's as arrogant as people expect him to be than in discussing the key points at any length. With a fairly strong background in probability assessment and risk evaluation I was able to follow his arguments reasonably well but I suspect anyone who does not already understand probabilities and Monte Carlo modeling will not understand the points he is trying to make. This is because the explanatory points are almost always one sentence buried in a rambling paragraph. Our society would be better off if every citizen understood his points but I don't think this book will enlighten many people. On a side note - I don't know what book several of the other reviewers read but it wasn't this one. Nowhere does this book discuss specific trading strategies or approaches or taxes. Several reviewers also clearly didn't follow the discussion. The point of survivorship bias is not that it proves LUCK is responsible for a given individuals success in

any of the many areas where it holds. The point is that you don't KNOW the source (luck or skill) and you can't PREDICT future results.

Anyone who holds any doubts in regards to the validity of this book must read Edward Chancellor's 'Devil Take the Hindmost,' which provides a history of financial markets from the dawn of the Roman Empire up to now. After reading such a sweeping historical account, one sees the financial markets for exactly what they have always been: one vast bubble machine where people have even invested in, according to Chancellor, a company that refused to explain anything about what it did but simply assured the investors that it had a great idea for making money. Sounds rather similar to some of the dot coms in recent years. Through a compilation of both anecdotes and thoughts, Taleb provides an explanation as to why the markets work in this way, why so many fail to realize this, and how these issues are mirrored in our everyday lives. He addresses many issues that everyone should understand in order to view the world in a realistic manner. Evolution is not a one way road to nirvana but rather the process through which those adapted to the current situation fare better, and they may not be best adopted when things change. When judging the validity of any strategy in business or in life one must consider that the winners write the history books; you can only talk to survivors of war but that certainly doesn't mean that everyone survives it. When deducing anything from viewing a sample you must consider the forces that created that sample: should you consider yourself unintelligent because you're behind your classmates at a top law school? Are a good outcome and a good decision the same thing, and likewise for a bad outcome and a bad decision? And the list goes on. While Taleb does not fully dive into this issue until later in the book, the primary conjecture of the piece is that human beings are psychologically prone to misinterpret random events. We need to explain things, whether it be in the social sciences, art and literature, or the natural sciences, so we find ways to explain them. Considering the infinite quantities of data at our disposal, no statistician denies that extremely powerful correlations will occur simply out of chance. Certain aspects of an author's life will be almost identical to passages in his or her novels, certain stocks will share perfect correlations, and we are creatures in need of explanation, and whole industries have been created to mine the data and tell us why things occur. Prior to this book, Taleb had already written 'Dynamic Hedging,' considered by many, including myself, to be one of the best books ever written on exotic and vanilla options. That book is not for anyone who has not spent years studying (or preferably practicing) options, but in 'Fooled by Randomness' he illustrates his ideas in terms that anyone could understand. In 'Dynamic Hedging' he provides more insights into his trading strategies than he would have done had he been solely

profit motivated, and likewise, as the boss of a fund that profits from other people's misconceptions of probability, he cannot have any reason to try to increase people's awareness of how the world really works other than a genuine desire to play the role of the teacher. Many have attacked the book as arrogant, but it must be remembered that anyone who goes against the common ways of thinking is essentially suggesting that he or she understands things better than do most people and therefore cannot help but come off as arrogant. Several times in the book Taleb specifically states that he falls victim to the tendencies that he condemns, and that the main difference that he sees between himself and others is that he is at least aware of it. Considering the fact that Taleb blatantly argues that many who consider themselves the rulers of the universe were in fact a group of lucky fools, it is inevitable that many will come away from it with a sense of anger and a refusal to believe it. I am therefore almost surprised that the book has not drawn harsher reviews than it has, for Taleb was certainly not seeking to make friends through the publication of it. I suspect that those who rate the book as poor fall into two general categories: those who were troubled by the thought that a considerable portion of their success may have resulted from luck, and those who are attached to their current views on the workings of the markets and are hostile to any new views on them. These two categories naturally overlap quite often. An important thing to remember is that even if you work very hard, not only are the outcomes of your projects the result, to varying extents, of chance, but chance also played a role in getting you to the position where you can work hard and actually see it pay off. Considering the complexity of the world we live in, and the infinite forces that push and pull on our lives, this book is critical to anyone who desires an objective view of how things come to be...

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