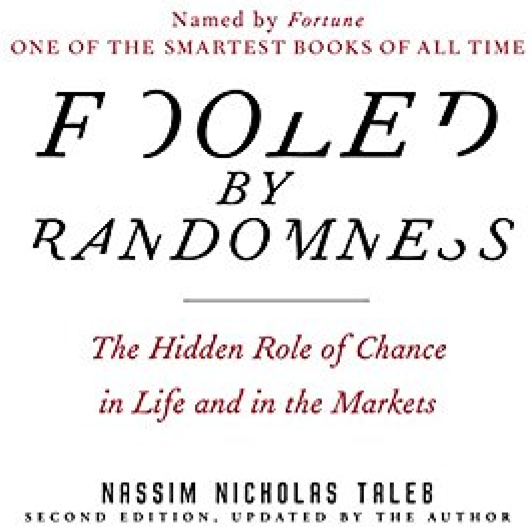
Fooled By Randomness: The Hidden Role Of Chance In Life And In The Markets



Synopsis

Fooled by Randomness is a standalone book in Nassim Nicholas Talebâ ™s landmark Incerto series, an investigation of opacity, luck, uncertainty, probability, human error, risk, and decision-making in a world we donâ ™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 Talebâ “veteran trader, renowned risk expert, polymathic scholar, erudite raconteur, and New York Times bestselling author of The Black Swanâ “has written a modern classic that turns on its head what we believe about luck and skill. This book is about luckâ “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 skillâ “the world of tradingâ “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 worldâ ™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 unnamedâ “the lucky fool who happens to be in the right place at the right timeâ “he embodies the â œsurvival of the least fit.â • Such individuals attract devoted followers who believe in their guruâ ™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 â œ[Fooled by Randomness] is to conventional Wall Street wisdom approximately what Martin Lutherâ ™s ninety-five theses were to the Catholic Church.â • â “Malcolm Gladwell, author of Blink â œThe book that rolled down Wall Street like a hand grenade.â • â “Maggie Mahar, author of Bull! A History of the Boom, 1982â ”1999 â œFascinating . . . Taleb will grab you.â • â “Peter L. Bernstein, author of Capital Ideas Evolving â œRecalls the best of scientist/essayists like Richard Dawkins . . . and Stephen Jay Gould.â • â “Michael Schrage, author of Serious Play: How the Worldâ ™s Best Companies Simulate to Innovate â œWe need a book like this. . . . Fun to read, refreshingly independent-minded.â • â "Robert J. Shiller, author of Irrational Exuberance â œPowerful . . . loaded with crackling little insights [and] extreme brilliance.â • â "National Review --This text refers to the Paperback edition.

Book Information

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Customer Reviews

A nice introduction to practicing some healthy skepticism. What we every day is not always as it seems, and the quest to produce a narrative is strong. This was a fun book to read and makes questioning the status quo easier.

Great book. Not too technical, in fact, it's not going to automatically make you a better trader, but it's a good intro to other more technical aspects of investing & human behavior. I'm now buying his other books to get deeper into that and hopefully a little of his investing genius will rub off on me :)

I found the idea that when working in a field with a lot of variability, randomness can make an average, or worse person perform like a genius, until there is inevitably a day of reckoning. The book raises interesting questions about what the typical investor is doing in the stock market and how to behave so as not to lose your shirt. Taleb goes to great pains to avoid extending the notion of randomness to the prayers and religions, but it is hanging out there, just out of touch..

Interesting read about the unpredictability of events, and hence of markets. Market events that are supposed to be "Multiple Sigma" -- ie, less than once in several lifetimes -- have in fact occured several times within the lifetime of current market participants. The assumption that they happen less often than, in fact, they do, explains much of the instability of markets -- and much of our recent economic pain. This book isn't, as other reviewers have noted, an academic exploration, and it is (as others have also noted) highly personal in tone. Still, the topic is so critical -- and Taleb so important bringing the topic to the financial community's mind set -- that this is very definitely required reading for those with money at risk.

As stated by the author in the prologue, the main premise of the book is: "More generally, we underestimate the share of randomness in about everything, a point that may not merit a book - except when it is the specialist who is the fool of all fools...In my experience (and in the scientific literature), economic "risk takers" are rather the victims of delusions (leading to overoptimism and overconfidence with their underestimation of possible adverse outcomes) than the opposite. Their "risk taking" is frequently randomness foolishness."Below are key excerpts from the book that I found particularly insightful:1- "I start with the platitude that one cannot judge a performance in any given field (war, politics, medicine, investments) by the results, but by the costs of the alternative (i.e., if history played out in a different way). Such substitute courses of events are called alternative histories. Clearly, the quality of a decision cannot be solely judged based on its outcome, but such a point seems to be voice only by people who fail (those who succeed attribute their success to the quality of their decision...And like many platitudes, this one, while being too obvious, is not easy to carry out in practice."2- "It is a fact that our brain tends to go for superficial clues when it comes to risk and probability, these clues being largely determined by what emotions they elicit or the ease with which they come to mind. In addition to such problems with the perception of risk, it is also a scientific fact, and a shocking one, that both risk detection and risk avoidance are not mediated in the "thinking" part of the brain but largely in the emotional one (the "risk as feelings" theory). The consequences are not trivial: It means that rational thinking has little, very little, to do with risk avoidance. Much of what rational thinking seems to do is rationalize one's actions by fitting some logic to them."3- "There is an important and nontrivial aspect of historical thinking, perhaps more applicable to the markets than anything else: Unlike many "hard" sciences, history cannot lend itself to experimentation. But somehow, overall, history is potent enough to deliver, on time, in the medium to long run, most of the possible scenarios, and to eventually bury the bad guy...Mathematicians of probability give that a fancy name: ergodicity. It means, roughly, that (under certain conditions) very long sample paths would end up resembling each other."4- "1) Over a short time increment, one observes the variability of the portfolio, not the returns. In other words, one sees the variance, little else...2) Our emotions are not designed to understand the point...3) When I see an investor monitoring his portfolio with live prices on his cellular telephone or his handheld, I smile and smile."5- "...It is not how likely an event is to happen that matters, it is how much is made when it happens that should be the consideration. How frequent the profit is irrelevant, it is the magnitude of the outcome that counts."6- "...Brian Arthur, an economist concerned with nonlinearities at the Santa Fe Institute, wrote that chance events coupled with positive feedback rather than technological superiority will determine economic superiority - not some abstrusely defined edge in a given area of expertise."7- "Causality can be very complex. It is very difficult to isolate a single cause when there are plenty around. This is called multi-variate analysis...People might ask me: Why do I want everybody to learn some statistics? The answer is that too many people read explanations. We cannot instinctively understand the nonlinear aspect of probability."8- "I am just intelligent enough to understand that I have a predisposition to be fooled by randomness - and to accept the fact that I am rather emotional. I am dominated by my emotions - but as an aesthete, I am happy about the fact. I am just like every single character who I ridiculed in this book...The difference between me and those I ridicule is that I try to be aware of it."9- "People confuse science and scientists. Science is great, but individual scientists are dangerous. They are human; they are marred by the biases human have. Perhaps even more. For most scientists are hard-headed, otherwise they would not derive the patience and energy to perform the Herculean tasks asked of them...It was said that science evolves from funeral to funeral. After the LTCM collapse, a new financial economist will emerge, who will integrate each knowledge into his science. He will be resisted by the older ones, but, again, they will be must closer to their funeral date than he."10- "It took me an entire lifetime to find out what my generator is. It is: We favor the visible, the embedded, the personal, the narrated, and the tangible; we scorn the abstract. Everything good (aesthetics, ethics) and wrong (Fooled by Randomness) with us seems to flow from it."

The examples to illustrate his points were by far the best part of the book. He’s really pretty funny. Other than that, it got a bit heady at times as he explained his lines of logic following PhD level research and whatnot. Overall I liked the book. Definitely some great takeaways to be applied to all aspects of life. Biggest takeaway: understanding that if you are successful, it doesn’t necessarily mean that it was from your hard work and perseverance. In fact, there a large probability (most used word in book) that luck was involved.

I really liked this book. The notion that we are all significantly fooled by randomness (in short, we attribute our successes completely to skill when in fact luck often plays a role: this short-sighted analysis then sets us up for failure) is worth understanding. The author makes his case persuasively and in great detail.Yes, as many of the other reviewers note, Taleb is excessively critical of journalists, economists and MBAs, however I didn't find it off putting. Rather, it gives his writing personality and makes it more interesting.

If you are invested in the stock market you need to read this. One of the best books I have read on understanding risk - really understanding it. Risk is not symmetrical with reward, it can be far worse. Nassim has a tedious writing style but the information and insights are golden. I'll add a 5th star when Nassim recognizes he does need an editor :-))