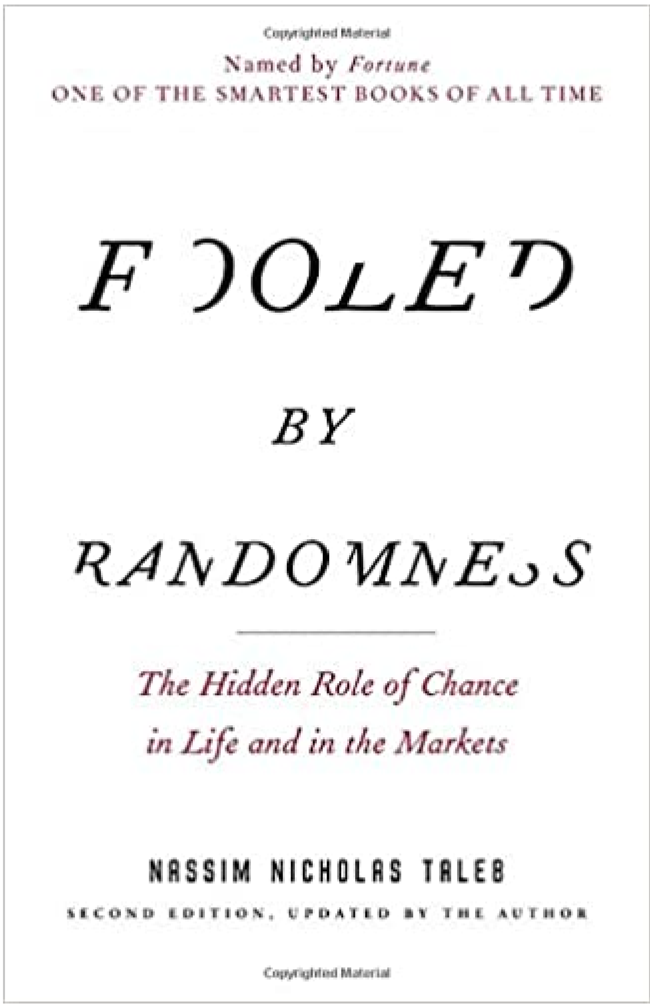
Fooled By Randomness: The Hidden Role Of Chance In Life And In The Markets (Incerto)



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. â œ[Taleb is] Wall Streetâ ™s principal dissident. . . . [Fooled By Randomness] is to conventional Wall Street wisdom approximately what Martin Lutherâ ™s ninety-nine theses were to the Catholic Church.â • â "Malcolm Gladwell, The New Yorker Finally in paperback, the word-of-mouth sensation that will change the way you think about the markets and the world.This book is about luck: more precisely how we perceive luck in our personal and professional experiences.   Set against the backdrop of the most conspicuous forum in which luck is mistaken for skillâ "the world of businessâ "Fooled by Randomness is an irreverent, iconoclastic, eye-opening, and endlessly entertaining exploration of one of the least understood forces in all of our lives.

Book Information

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Customer Reviews

If the prescriptions for getting rich that are outlined in books such as The Millionaire Next Door and Rich Dad Poor Dad are successful enough to make the books bestsellers, then one must ask, Why aren't there more millionaires? In Fooled by Randomness, Nassim Nicholas Taleb, a professional trader and mathematics professor, examines what randomness means in business and in life and why human beings are so prone to mistake dumb luck for consummate skill. This eccentric and highly personal exploration of the nature of randomness meanders from the court of Croesus and trading rooms in New York and London to Russian roulette, Monte Carlo engines, and the philosophy of Karl Popper. Part of what makes this book so good is Taleb's ability to make seemingly arcane mathematical concepts (at least to this reviewer) entirely relevant in evaluating and understanding everything from the stock market to the success of those millionaires cited in the aforementioned bestsellers. Here's an articulate, wise, and humorous meditation on the nature of success and failure that anyone who wants a little more of the former would do well to consider. Highly recommended. --Harry C. Edwards --This text refers to an alternate Paperback edition.

In this look at financial luck, hedge fund manager Taleb (Dynamic Hedging) addresses the apparently irrational movement of money markets around the world. Using his own investing experience and examples of others' successes and disappointments, he discusses theories like Monte Carlo math (easy; considered cheating by purists) and the concept of Russian roulette. Taleb tells interesting, well-wrought stories about individual behavior: "While Nero has succeeded beyond his wildest dreams, both personally and intellectually, he is starting to consider himself as having missed a chance somewhere." While serious investors and mathematics enthusiasts will be intrigued, readers looking for practical investment strategies will be disappointed by this rambling intellectual discourse. Tables. 40,000-copy first printing; $150,000 marketing budget. Copyright 2001 Cahners Business Information, Inc. --This text refers to an alternate Paperback edition.

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 :-))