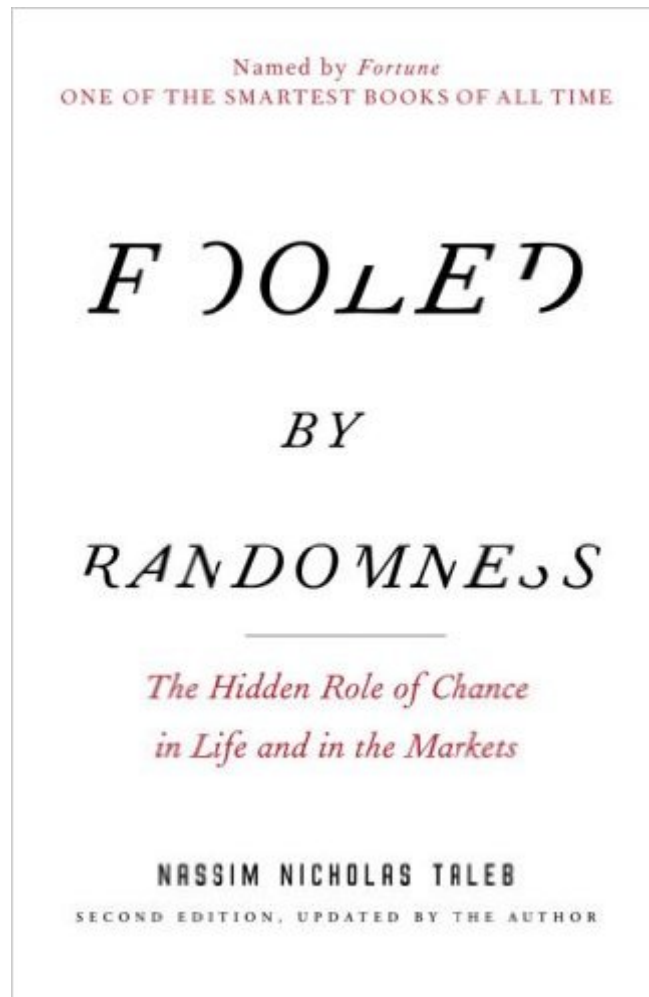


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Fooled By Randomness: The Hidden Role Of Chance In Life And In The Markets (Incerto)



Synopsis

Fooled by Randomness is a standalone book in Nassim Nicholas 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. [Taleb is] Wall Street's principal dissident. . . . [Fooled By Randomness] is to conventional Wall Street wisdom approximately what Martin Luther's ninety-nine theses were to the Catholic Church. • "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 skill "the world of business" "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

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.

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.

I bought FOOLED BY RANDOMNESS after reading the Malcolm Gladwell profile on Nassim Nicholas Taleb in the April issue of the New Yorker. Like others who have reviewed this book, I found that Gladwell captured the most important details of Taleb's thoughts in a shorter, more entertaining way. However, I thought that this book can be a worthwhile read for those with a passion for this type of book. FOOLED BY RANDOMNESS is an introduction to the difficulties human beings have at reasoning around probability. Taleb argues that human beings are genetically hardwired to misattribute the results of human endeavors to skill and knowledge that are, in fact, just coincidental, random events. Taleb discusses the results of this embedded flaw in human reasoning in three areas. In part 1, Taleb discusses impacts of 'rare events' on both financial markets and on human history. Taleb argues we should beware seemingly successful strategies if they are not proven by the test of history. In particular, we should examine human history in the long term for general trends and treat skeptically claims that humanity has reached 'the end of history' or 'a new economic model' where the old, proven rules do not apply. In part 2, Taleb discusses the 'survivor effect', or mistaking success based on luck for success based on skill. In particular, Taleb warns against judging a strategy by its actual results. Instead, we should judge strategies based upon a sum of all possible outcomes. In part 3, Taleb briefly discusses 'tricks' he has developed to try and derail his flawed, ingrained, statistical reasoning and live a rational and, to a great degree, classical life based upon a good understanding of the effect of randomness on our lives.

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