

The man who saw tomorrow: Nassim Taleb, walking a lone path as ever, photographed for GQ by Jason Joyce at the World Economic Forum in Davos, February 2009

Note that NUMBERS are wrong. This is not a business/finance, but a philosophy article written by a literary person the novelist Will Self. So read the article for the ideas. Janet Tavakoli used the errors as a platform for her (failed) smear campaign.

I have very very stupid enemies. The correspondence with GQ reporting errors (before publication) was send to a Felix Salmon.

'I'm not interested in money, I wanted to teach the banks a lesson'

THE THINKER

He's the Wall Street trader turned philosopher of the unknown – as well as a man who late last year shorted the plunging markets for billions of dollars. As the financial world collapsed around us, **WILL SELF** travelled to New York to meet **NASSIM TALEB**, author of the bestseller **THE BLACK SWAN** – and visionary predictor of the credit crunch

I was in Midtown Manhattan, two days after Thanksgiving, 2008. The previous day had been so-called Black Friday, the term originated in Philadelphia to describe the mark-down frenzy that begins the stateside Xmas wallet-fuck. Out in suburban Long Island a Wal-Mart employee had been trampled to death by a stampede of bargain-hunters. Opinions are divided as to what the "black" in Black Friday refers to – some say it's the dreadful traffic congestion caused by the punters, others that it's the black of the stores getting into credit. This year there'd been a consensus that no matter how black Friday was it wouldn't be able to disperse the red cloud of toxic debt billowing across America.

On West 23rd Street I hailed a cab and asked the driver to take me to Grand Central Station. I'm a New Yorker on my maternal side, and usually the city doesn't hype me up the way it does many Brits, but on this particular bright and wintry morning every little shard of thought pricked me portentously. I recalled one scene of *The Polar Express*, which my seven-year-old son had been watching in the hotel room the evening before: standing in the saccharine snowfall, the Tom Hanks avatar punched inspirational slogans into the kids' train tickets. "Believe", one read; "Lead", the next. Could the resonance of this banality have been because I was on my way to see Nassim Taleb, the man who in my estimation – and that of several serious thinkers I respect – had a better handle on the turmoil gripping the world economy than any of the so-called leaders, let alone the believers in the jujitsu of economic policy?

As we sped past the Flatiron Building and humped over Broadway, the seatback Cab TV clicked into action and Mayor Bloomberg urged me to belt up. Bloomberg – ha! Bloomberg who established the eponymous worldwide financial information service – funny how *he* didn't see the red cloud coming. I once had dinner with him and a few other members of the London commentariat. He seemed a nice enough guy, liberal, sincere and wide-eyed about the possibility of GM foods eliminating famine in the Third World; at the end of the meal he exclaimed: "You guys are the most left-wing people I've ever met!" At the time I supposed he couldn't have got out much – now I was certain of it.

That late November weekend the "Big Three" American car makers were locked in talks with the outgoing president, desperate for an injection of the only fuel that could stop their clunker of an industry from driving clear off the freeway: high-octane cash. Meanwhile, that repository of all Hope, the president elect, was on the verge of announcing his all-important Treasury appointments. In the event

these turned out to be not that hopeful at all – merely the gaggle of so-called "Rubinistas" that swam around Robert Rubin, Bill Clinton's old treasury secretary.

After his time in office during the Nineties boom years, Rubin fetched up as one of the Citibank grandees responsible for the bank's disastrous policy of high-income, fixed-growth trading. Even the august – and unashamedly Hopeful – *New York Times* described Rubin as "the essence of the Washington-New York finance axis of power", and as a man who had presided over "a buckling financial system".

On that Saturday morning – with weeks still to go until President Obama took office – there was already a gnawing sense of tedium vitae in American body politic; the shocked aftermath of the crash, a wreck that while some had seen it coming, only a handful had possessed the wisdom to swerve around – let alone profit from. But one of these was Nassim Taleb, and an hour later I was sitting in the comfortable – if utilitarian – study of his house in a tony neighbourhood of suburban Westchester County, and listening to him explain how he shorted the plunging market for millions of dollars.

"The weather I can't predict mathematically," Taleb said, "but from the satellite you can see the cloud coming. The problem with these guys is that they didn't know how to fly the plane! I went for the jugular – we went for the max. I was interested in screwing these people – I'm not interested in money, but I wanted to teach them a lesson, and the only way you can do it is by trying to take it away from them. We didn't short the banks – there's not much to be gained there; these were all these complex instruments, options and so forth. We'd been building our positions for a long while... when they went to the wall we made \$20bn for our clients, half a billion for the Black Swan fund. Now," an expressive shrug, "I'm back to normal life."

Error: We "made 20 billion for our clients" SHOULD BE "we had an exposure of 20 billion for our clients", i.e. 20 billion notional exposure in FV of options. We made "between a quarter and half a billion for the Black Swan Funds". The errors were reported to Will Self on Dec 17 2008 (by email).

A cuddly looking man, balding, with a greying beard and sensitive mobile features, Nassim Taleb, 49, is the Wall Street derivatives trader who ostensibly wound down his lucrative career to become an academic specialising in the study of randomness and probability. A distinguished professor of risk engineering at the Polytechnic of New York University, he is also – and this takes some doing in this current age – a genuinely significant philosopher; and by this I mean someone who is able to change the way we view the structure of the world through the strength, originality and veracity of his ideas alone.

John Gray, the English philosopher, author of *Straw Dogs* and former Thatcherite guru turned anti-Enlightenment sceptic, is a big fan: "I think Taleb is the real thing," he told me. "He has this sensibility, shaped by his childhood experience, which has some analogies with that of George Soros – but unlike Soros he isn't a liberal rationalist. Taleb takes the long view: he really understands these very early sceptical thinkers. But most importantly, his work shows the disastrous consequences of what – to the layman – appear as recondite intellectual errors. Taleb rightly understands that what's brought the global banking system to its knees isn't simply greed or wickedness, but – and this is far more frightening – intellectual hubris."

Taleb's first publication – his doctoral thesis, in fact – was the fiendishly technical *Dynamic Hedging: Managing Vanilla And Exotic Options*. Interestingly it's still in print, and regarded as the definitive work on the subject; however, such dry productions were never going to fully express the restless – and essentially narrative – dynamism of his thinking. Taleb's turbulent upbringing in the war-torn environment of Seventies Beirut bolstered his innate scepticism about the capacity of humans to alter their fate, but he didn't enter the financial world for any other reason than: "To gain independence. I wanted to be a philosopher, an essayist, but I looked around me at people who worked as journalists and so forth, and they weren't free."

Taleb gained his freedom from the material pressures and organisational tedium of Wall Street during the 1987 crash; moreover, he gained it in a way that vindicated his radically original worldview: at a time when the financial markets were being governed more and more by economists who used statistical analysis to stress the predictability of rates of return on investment vehicles, Taleb took the view that "the share of the rare event in the total is... monstrous".

These rare events were the so-called "swans" – ranging in tone from grey, through to black – that Taleb believes influence the course of human destiny, both individually and collectively, far more than the steady wing-beats of their innocuous cousins, the eminently predictable white swans. The swan riff derives from the observation that no matter how many white swans have ever been witnessed in the world, it won't allow you to anticipate the existence of a black one; it is, restated, the problem of induction that has troubled philosophers since Socrates dangerously debauched Athenian youths with his intoxicating speculative thought.

Taleb had the leisure and the means to write his first philosophical work *Foiled By Randomness*, a survey of the ways in which our minds are poorly structured to deal with the agency of luck in human affairs. He then put it out on the web. In due course it was taken up by a small publishing house, placed between hard covers, and in the ensuing five years snowballed into an international bestseller. So far, so business book; for, while quirkily different, there was still a sense that Taleb was a writer read by the sort of MBA suits who thought they were mavericks, even as they carefully knotted their ties and prepared their next PowerPoint presentation. What lifted the Taleb out of the airport bookstand and drew his philosophy into the vortex of the *Zeitgeist* was a genuine black swan: the Islamist terrorist attacks on the Twin Towers of 11 September 2001.

In early 2002, Donald Rumsfeld – the then American secretary of defense – gave a departmental briefing, and referring to 9/11 uttered the immortal lines: "There are known knowns. There are things we know that we know. There are known unknowns. That is to say, there are things that we now know we don't know. But there are also unknown unknowns. There are things we don't know we don't know." Widely derided at the time, Rumsfeld's rhetoric – which reads like

symbolist poetry – has come to be perceived as expressing a vital truth about the nature of the unforeseen, and while the administration he served was hoisted by this black swan and dropped from a great height into the shitty quagmire of Iraq, Taleb began work on his own: *The Black Swan*, a work that fuses recondite philosophical speculation, fictional vignettes, personal musings and hard-nosed mathematics into something remarkable – a book at once profound and yet oddly accessible. Behind his message – not of doom, but deference to the awesome unpredictability of life – there lurked the author himself: impish, wry and impassioned.

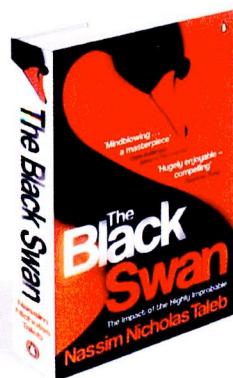
I had read *The Black Swan* in the spring of 2007, in advance of its UK publication, and had been struck then by its percipience about the instability of the global financial system. However, I can't claim to have dwelt particularly on the footnote in which Taleb not only foresaw the credit crunch, but even covertly identified where its first bite would be taken: the rotten apples of the American government mortgage providers Fannie Mae and Freddie Mac, both of which were overripe with bad debt. Of course, had I had this much foresight, I might've been still more self-righteous when the crisis gathered pace and possibly, like Taleb himself, a hell of a lot richer.

The streets surrounding the Taleb household were piled high with swept-up leaves the colour of money. Taleb picked me up from the station driving a boat-like Lexus with cream upholstery. "It's eight years old!" he

expostulated as he yawed this way and that through the sleepy sun-dappled Saturday streets, one hand clutching a BlackBerry against the steering wheel. He was keen to stress that he himself only retained a percentage of the half-billion dollars the Black Swan hedge fund he set up condensed from the toxic red cloud.

"My only indulgences are books – travel. I have the house here – an apartment in Lebanon. I travel for three or four days a week – I go to Athens next week. I work perfectly well in cafés – typically on the Bohemian side of town. I stay in boutique hotels – not with business people. I walk between appointments. I have a strict rule: if I have allocated a period of time to do a job, and I do that job quicker, then the rest of the time I will do nothing – you see, that time spent doing nothing, it will help me to think more clearly, deeply, about the problem. Besides, doing nothing makes you more intuitive, quicker, more decisive." Unusually for ▶

The swan riff derives from the fact that no matter how many white swans there are, you can't anticipate the existence of a black one



► a thinker, it also matters to Taleb what someone wears; for him the standard business uniform is a disguise, purpose-designed to deceive. One of his maxims is “never trust anyone wearing a tie”, while he himself favours soft-collared shirts, jeans and blazers.

As to derivatives trading, while Taleb conceded that he was still very much involved in the business: “It is just a few minutes a day – no more; that’s all I need.” By now we were

sitting in his study – one of two he has in his home. The upstairs one has an old knee-hole desk, old bookshelves, leather-bound volumes and is in the bosom of family life. “Here,” he explained, “I do my reading.” By contrast, the downstairs study is functional and modern – not that there was much evidence of hi-tech. I asked him where his Bloomberg machine was – or whatever gizmo he used to see how the markets were doing. “I don’t need one!” He

cried. “I don’t even have threads on my computer. I mean, I don’t do the actual trading – they just update me on the position each morning and I tell them whether it’s conforming to the paradigm. That’s all!”

Taleb’s aestheticised lifestyle reminded me of *sprezzatura*, the concept, elaborated by Castiglione in his *The Book Of The Courtier*, of the effortless nonchalance that the true aristocrat should exhibit in the face of the world’s vicissitudes.

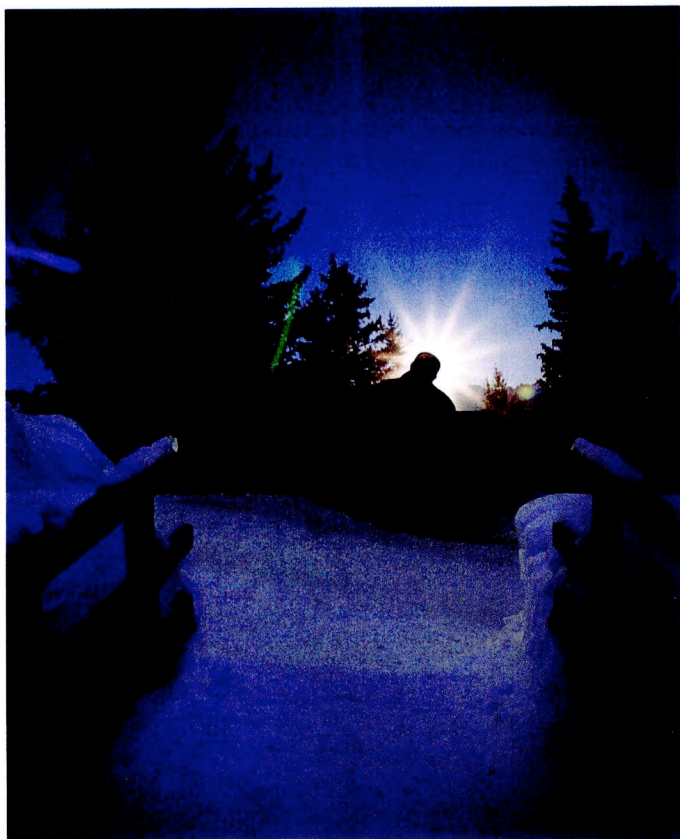
Taleb’s father was a doctor, but there are Lebanese deputy prime ministers and other notables in the family tree – certainly, there’s a loftiness to his perspective you wouldn’t expect from someone who’d spent several years in the bear pit of the Chicago stock exchange. An experience that had left Taleb, as John Gray reminded me, “With the ability to tell if a man had made or lost money simply by looking at his face.”

I also knew from mutual acquaintances that Taleb had survived throat cancer a few years previously – an experience he fictionalises in *Foiled By Randomness* – and it seemed likely that this had tempered his core steeliness still more. I say “core”, because just one aspect of Taleb’s charm is that superficially he’s anything but nonchalant; on the contrary, he’s skittish, abstracted – almost a tiny bit hysterical. When he – very kindly – drove me back to the station a couple of

hours later, he was clutching the Google Maps directions in one hand, while talking in rapid-fire bursts. We stopped at an intersection for some minutes while Taleb made a point – then he looked up and saw there was no traffic light. “I cannot,” he explained, “talk and drive at the same time.”

Talk and drive, or talk in drive-time platitudes. For those British television viewers unfamiliar with the name Nassim Nicholas Taleb, the *Newsnight* programme that went out on 10 October last year must have been

‘I tell you one thing. You tend to think that the current crisis is in the middle or toward the end. I think we may be in the very beginning’



Prophet warning: a sceptical empiricist, Nassim Taleb believes the world’s frozen credit markets may not thaw for some time yet, Davos, February 2009

a little bewildering. You can see the round-table discussion with Taleb on YouTube, although I suspect that primed by this piece you may find him rather less disconcerting than the other two guests, Linda Yueh, the rather vacuous global economics expert, and Kenneth Rogoff, a Harvard economist of precisely the “tie-wearing” school that Taleb despises. I was watching the programme live and alerted my wife to Taleb: “This guy’s great,” I said. “Listen carefully to what he says – he actually understands what’s happening with the financial crisis.”

Yet what followed was less an exercise in easy comprehension of Taleb’s ideas, than a perfect example of how truly avant-garde he is: what he said just wasn’t capable of assimilation to the bland format of such discussions. While Rogoff and Yueh offered the kind of post hoc (after the fact) arguments that are typical of pundits, Taleb, waving his hands about – and in the process percussively bashing his bracelet against the desk – delivered a series of impassioned rants. At the time I was a little deflated, yet when I looked at the clip again I saw that in fact Taleb had both remained completely true to his stance as “a sceptical empiricist”, by refusing to comment on things that he couldn’t possibly know – such as whether the financial crisis would usher in an era of political extremism – while offering a completely cogent explanation of what had happened, who the culprits were, and what they had done wrong.

In a nutshell, Taleb’s view was that not only had the world’s bankers – led by those of America and the UK – neglected to guard against extreme events such as the growing amplitude of sub-prime mortgage defaults, but they had also swallowed wholesale – and promoted to business and the political class an ideology of spurious quantitative analysis that banished the realities of risk from their calculations. “Value-at-risk,” thwack! “Mean variants,” thwack! “I would stop fidelity investments from disclosing something called quantitative measures of risk portfolio,” thwack! Taleb’s specificity about some things was only matched by his willingness to say the unsayable for a talking head: “I don’t know.” And to compound it: “I wake up every morning knowing that I don’t understand what’s going on.”

Naturally, such genuine humility and intellectual honesty simply couldn’t be assimilated by the pundits or the presenter, so they swerved the discussion around him. It must have infuriated. On watching the clip again it struck me that there was a great – and distinctively – modern paradox in all this: Taleb, the man who refuses to make

prophecies, had become the most prophetic voice of all. After outlining the continuing presence of toxic debt in the system, explaining how the bankers had overreached themselves, and observing that the same people were in control of policy who had brought about this mess, he concluded: “I tell you one thing, you tend to think that the crisis is in the middle or toward the end. I think we may be in the very beginning.”

Back in suburban New York, Taleb couldn’t sit still for long. He would fling himself down in his leather swivel chair for a few minutes at a time, his toe – sheathed in a suede training shoe – tapping the carpet. Then he’d spring up to fetch a book from a shelf that he wanted to show me, or tap the keys of his laptop. Taleb is a polyglot, who speaks four languages and reads several more. Talking to him in English I had the sense of how confined he felt – there was a fuzziness at the edge of his statements that implied he’d have been happier if he could’ve swerved into French or Arabic.

We discussed his new book – provisionally entitled *Tinkering* – which will take his thinking on the problem of induction towards an analysis of the problem of knowledge. Taleb was much exercised by the analogy that medicine offers to the pseudo-science of economics: “In medicine,” he said, “you’d go to jail if you had drugs that worked on a sample but didn’t replicate outside of it.” And yet he also despaired of the paradigm that conventional medicine represents: “Just think,” he exclaimed. “In order for a drug to be licensed by the FDA [the US Food and Drug Administration], it only has to outperform water!”

In an hour’s talk Taleb ranged the realm of ideas like a tiger pacing a cage. On evolution, he criticised Richard Dawkins and the other neo-Darwinians for their misunderstanding of probability theory – as well as damning him for his crude reasoning in *The God Delusion*. Perhaps somewhat surprisingly for a sceptic, Taleb still observes the Orthodox faith he was brought up in, although I doubt the priests of that church would altogether appreciate his view of religion as a “dirty heuristic” – or practical way of coping with black swans.

Again and again, he veered back to the current crisis: “Most people who use naive evolutionary theory don’t understand that we will evolve not into the fittest, but that those who survive will embody the highest amount of hidden risk. You can understand this if you realise that the turkeys are at their strongest just before Thanksgiving.” Again and again Taleb came up with pithy and aphoristic remarks; here’s a brief selection:

“The rituals the ancients performed before their battles weren’t that serious – they were designed to reduce anxiety.” “Astrology is much less harmful than economics because it doesn’t increase confidence; nobody does anything crazy based on astrology.” “I myself am superstitious – I want to be human in the small things.” “I want to attack policy makers – they hide behind the political system in order to benefit from it.” “My product line is coming up with a systematic and unified way to deal with what we don’t know.”

Before I’d gone to meet with Nassim Taleb I’d had the idea of asking him to invest money on my behalf, but listening to his damning remarks on investment strategists and other professional advisors, I reconsidered: “The typical charlatan gives positive advice,” he said to me. “The idea of giving advice is anathema to me – I can only tell you what not to do.” His Black Swan funds are actually managed according to his own philosophical principles, the biggest percentage being invested as safely as possible, while a much smaller amount is gambled on Rumsfeld’s “unknown unknowns”.

As to the current imbroglio, while Taleb eschews the idea of offering policy suggestions, he did concede to me that, “I’m getting very interested in Islam.” What specifically engages him is Islam’s prohibition on debt: “With leverage for one person to make money the other must lose. It is the paradox of Buridan’s ass – financially stated.” And while there is still so much toxic debt in the system, he was forthright about the need to nationalise banks: “It’s OK for a local water company to be privatised – but these are national utilities, you cannot trust a local business to run them.” While supporting his view with a good deal of scepticism about the role of the nation state itself: “The Iraq war was a classic case of misunderstanding the world we live in. If a bank collapses in Switzerland it can affect people in London far more than those in Zürich.”

My head was spinning – and that was before we got back into Taleb’s eight-year-old boat of a car to tack our way along the riverine freeway to Yonkers Station, from where I was taking the train upstate. I left Nassim Taleb confused – almost bamboozled – but just as with his *Newsnight* interview, and with his books, the more I thought about what he had said the more it came into focus. Ever since the credit crunch began to mount towards a full-scale recession the policy makers have been talking about the need for a radical rethink, sadly I doubt they have the balls to pay attention to the Black Swan man, not even while the goose that laid the golden eggs is choking to death on the floor of the stock exchange. 