Book Review:

Fooled By Randomness: by Nassim Nicholas Taleb

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Fooled By Randomness

Fooled By Randomness - The Hidden Role of Chance in the Markets and in Life

By Nassim Nicholas Taleb

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"Corporations and financial institutions have recently created the strange position of risk manager, someone who is supposed to monitor the institution and verify that it is not too deeply involved in the business of playing Russian roulette...

Their focus becomes to play politics, cover themselves by issuing vaguely phrased internal memoranda that warn against risk-taking activities yet stop short of completely condemning it, lest they lose their job. Like a doctor torn between the two types of error, the false positive (telling the patient he has cancer when in fact he does not) and the false negative (telling the patient he is healthy when in fact he has cancer), they need to balance their existence with the fact that they inherently need some margin of error in their business. For my part, I resolved the problem long ago by being both the risk manager and the boss at my current operation."

- Nassim Nicholas Taleb, in "Fooled by Randomness"

It's intriguing to read a financial book which actually strikes a direct chord with my own outlook on many aspects of life. Admittedly, Nassim Taleb is a maths dude so his thinking has been refined through more formulae than I ever knew in the first place, thanks to a mathematical upbringing which was largely untroubled by any tuition and indeed, therefore, much learning of the practical execution of tricky sums either. However, even beyond those skin deep aspects to which one can't help relate, "Fooled by Randomness" struck a distinct chord as the author seemed to have various wonderful and illuminating insights with which I could readily identify.

Here is an author who holds an MBA but is an avowed MBA sceptic (I don't hold such a degree but I do occasionally lecture such students). He tends to ignore reading newspapers as they are too riddled with
He tends to ignore reading newspapers as they are too riddled with noise to be of benefit to a trader and he avoids television (an item which neither he nor I currently possess). Moreover, his preferred list of dinner party guests includes the simply divine Isabelle Adjani, and the fascinating Richard Dawkins (whose books are more useful to traders than many explicitly dealer-oriented tomes, despite Dawkins never once mentioning the stock market in his writings). True, I can't stomach the Times food writer Michael Winner, but then again that just goes to show that while we may share some inclinations, there are serious differences between this Irish economic refugee turned renaissance spiv and the impeccably qualified Mr. Taleb. Then again, while I'm not sure I am so uncritical of the Economist, I do read it regularly to remain pleasantly misinformed about the state of world affairs and I fully subscribe to Taleb's enjoyment of the likes of Tatler, Paris Match and Vanity Fair for news analysis in its most enjoyable form (although alas some perverse side effect of the globalisation versus regionalisation conflict means that outside the USA we are tragically afflicted by a poor relation of Vanity Fair with too much anglo-tosh making for a watered down stablemate to the far superior US edition which truly extemporizes in a format which is the ideal).

The key aspect to "Fooled by Randomness" is that it comes closest to demonstrating a wondrous insight into markets by an evidently successful trader while also being almost like an insider's guide to atheism written by a practicing parish priest (think Don Cupitt with larger trading limits and you're probably some way towards where I'm trying to take this metaphor).

"True traders, I believe, dress sloppily, are often ugly and exhibit the intellectual curiosity of someone who would be more interested in the information-revealing contents of the garbage can than the Cezanne painting on the wall." (Taleb, who else?)

Taleb doesn't appear to shirk away from anything in this tome. His descriptions are crisp and often brutal. His attacks on various aspects of the financial firmament, stinging and brilliantly argued. Many will find him infuriating. I found "Fooled by Randomness" to be a heartening breath of fresh air. On the other hand, you may be infuriated by this review, as it is but the briefest of semi-random walks through what is the book which can teach you more about trading than almost any other, yet, can be read as an interesting aside, by those with no interest in or intention to understand, financial markets.

True, there are some unanswered issues. Taleb exhibits a withering contempt for investment managers selling themselves on their track record which hugely cheered this reviewer and persistent track record sceptic. However, Taleb then mentions tantalizingly that he himself is beginning to open his hedge fund to outside investors. Can he achieve this successfully without discussing his track record? If he can, then this author's future career in hedge fund management may yet be for an earlier start than he had previously bargained for.

"Heros are heros because they are heroic in behaviour, not because they won or lost."

Nassim Nicholas Taleb, in "Fooled by Randomness"
Fooled by Randomness is an instant classic. Readable and remarkable at every turn. If nothing else, learn from the final chapter where we are exhorted to "Exhibit sapere vivere ("know how to live") in all circumstances. If you come away from this book with only one insight, then remember perhaps the cardinal rule by which all traders must live:

"Be extremely courteous to your assistant when you lose money (instead of taking it out on him as many of the traders I scorn routinely do)."

If you can manage that then you will find this book a worthwhile purchase, but there is so much more within its covers you will find it difficult not to read it from start to finish in one sitting. You might find it infuriating, but it is quite, quite, brilliant.

Patrick Young  Our Rating: - AAA -

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