

# Don't Trust Anyone In A Tie

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Trader turned philosopher Nassim Nicholas Taleb would probably be the first to admit the role that chance played in his recent market gains. Though he no longer actively trades himself, the Santa Monica, California-based hedge fund he advises, Universa, has posted gains of between 50 and 110 percent in recent months, even as the S&P is down 40 percent. The author of the bestselling books "Fooled by Randomness" and "The Black Swan" bases both his trading strategies and his world view on the notion that extreme events—9/11, Iraq, the financial crisis—are the norm rather than the exception. Taleb, who predicted the current global-credit debacle several years back, shares his distrust of bankers and his advice to individual investors with NEWSWEEK's Rana Foroohar.

**FOROOHAR: You come from a Greek Orthodox Lebanese family that suddenly lost its position and wealth during the war. Did this have an impact on your theories?**

**TALEB:** I think it simply made me realize that the world is crazier than we think it is. For example, who would have guessed a few years ago that we'd have a Republican president nationalizing banks? Yet we'll go on, and not expect anything that crazy to happen in the future. And the more educated people are, the more likely they are to have those sorts of assumptions.

**So how did we get into this financial mess?**

It's 100 percent down to the shifts that occurred during the '70s and '80s, during the Reagan-Thatcher era, when Wall Street got big and pushed a culture obsessed with the bottom line, and convinced everyone to buy more stocks. Equities are good over the long run, but right now we are overexposed. People thought so much about the bottom line that they didn't put anything away as insurance. Along with a more dynamic economy came a culture of wild capitalism, and also a shift toward more computerized trading and financial modeling, which people think is scientific (because the guys who invented it won Nobel Prizes), but it really isn't. The risk models these hedge funds run aren't reliable. Business schools should stop teaching them.

**Are M.B.A.s the problem?**

The New York Times is the problem. High-frequency data is the problem, because we can't interpret it correctly. Our environment is increasingly complicated, and the data that we choose to single out and interpret isn't always relevant [to the problem we are trying to understand]. You can always find correlations if you look. I could find a correlation between your father's blood pressure and some aspect of the market. Any number that you hear can act as an anchor for your beliefs. If I ask you your Social Security number, then ask you how you think the market will perform, the numbers will be correlated. So you have the idea that you are charting the world of randomness, but you aren't. This goes for funds as well—a lot of the metrics they use are ridiculous.

**So what advice do you have for people trying to navigate increasingly complex and volatile markets?**

Learn to benefit from the fact that the markets are manic-depressive. Unexpected events, or "black swans," can be dangerous, but they can also be good for you. So I recommend a very strange strategy, which is to put a lot of money—80 or 90 percent—in very safe assets like T-bills or cash, and then put the rest in highly risky assets. Even if you don't earn enough on the bulk to offset inflation, eventually you'll make it up on the risky assets, and what's more—you won't lose your money! My mother-in-law recently put her savings into bank convertibles. She lost 40 percent of her money. Her broker kept telling her that you don't earn interest on cash, but you know what, zero percent interest is better than negative 40!

**Should we all stop seeing financial planners?**

Yes. Never take advice from anyone in a tie. They'll bankrupt you. Don't ask a general for advice on war, and don't ask a broker for advice on money. Think about the derivatives mess—buying credit derivatives from these banks was like buying insurance for the Titanic from people who were on the Titanic!

Individuals should think about the worst-case scenarios and plan for them. The world will be crazier than you think it will be. Put money away, and then you can live with much more freedom.

**You've said you think the world is becoming more extreme than in the past. Why?**

Globalization has made the linkages between things more complex. The Internet and technology has increased the number of zeros you can put behind things. Capitalism has forced everyone to overoptimize in order to compete. There's not enough redundancy in the system anymore. If banks had two times the capital and half the leverage, they wouldn't be in the position they are in now.

**How would you fix the system?**

Take risks away from bankers. Let hedge funds—and the high-net-worth people—take it. At least they aren't threatening society. Also, don't use an economist as Treasury secretary. The world needs fewer economists in general. I believe in psychology, not economics.

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