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In a million

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THE BLACK SWAN. By Nassim Nicholas Taleb. 400pp. Allen Lane
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Why do some people who make a lot of money very fast so fervently need to persuade the rest of us that they are great philosophers as well? George Soros suffers from this compulsion, as does Conrad Black. Why should Nassim Nicholas Taleb, who invested in risky derivatives on Wall Street and was on the lucky side, want us also to think that he is wise, with an insight into history and the functioning of the universe denied to the rest of us?

All books in this genre indulge in some autobiography, but Taleb gives us the works. There is his political awakening in Lebanon:

My ethos was shaped when, at fifteen, I was put in jail for (allegedly) attacking a policeman with a slab of concrete during a student riot -an incident with strange ramifications since my grandfather was then the minister of the interior, and the person who signed the order to crush our revolt. I recall being at the center of the riot, and feeling a huge satisfaction upon my capture while my friends were scared of both prison and their parents

There were some obvious benefits in showing one's ability to act on one's opinions, and not compromising an inch to avoid "offending" or bothering others.

There is his reaction to the stock-exchange crash of 1987, and specifically to the news that a friend's neighbour had committed suicide as a result:

I feared a Pyrrhic victory. I had been vindicated intellectually, but I was afraid of being too right and seeing the system crumble under my feet. I did not really want to be that right But I realized then and there that I did not give a hoot about the money.

I experienced the strangest feeling I have ever had in my life, this deafening trumpet signaling to me that I was right, so loudly that it made my bones vibrate.

There is the revelation that he likes saying "fuck you" on the telephone to people who irritate him, the repetition of remarks he has made to assorted listeners, from his primary-school teacher to fellow airline travellers, and regrets that no one else was around to hear -and there is the following thought experiment:

Imagine someone of authority and rank, operating in a place where rank matters.

He could be a verbose political commentator . . . the chairman of a company . . .

. . . or a Harvard Business School professor who does not laugh at your jokes. Say that a prankster surprises him one day by surreptitiously sliding a thin feather up his nose during a moment of relaxation. How would his dignified pompousness fare after the surprise?

In case the reader has not guessed by now, Taleb confides, "I confess having developed an incorrigible taste for this kind of prank". Any readers who start to feel Taleb getting up their nose can hardly say they weren't warned. "Pranks can be compassionate", he continues. "I remember in my early trading days, at age twenty-five or so, when money was starting to become easy, I would take taxis, and if the driver spoke skeletal English and looked particularly depressed, I'd give him a \$100 bill as a tip, just to give him a little jolt and get a kick out of his surprise."

Taleb gives us in parentheses the exploits of a fictional alter ego called "Nero" (I'm not making this up) who seduces the wives of less flamboyant philosophers than he is, and once tears up the evaluation form given him by an employer, in an act that he describes as "standing up for his beliefs" with "both elegance and dignity". Even in his own persona he rails against the fools and mediocrities with whom he is forced to cohabit the planet.

To show us his charming side he concedes that he can derive some enjoyment from this unequal contest of wits. He affects a chummy partnership of equals with Benoit Mandelbrot (it might be interesting to hear Mandelbrot's side of the story), and hands out plaudits once in a while to the likes of Cicero, who "puts to shame almost all empirical thinkers who came after him, until very recently".

He also records various attacks on him by pompous figures whose dismissals of him and his ideas serve only to show how original he is.

So what then is Taleb's big, big idea? It was during the civil war in Lebanon, sheltering from bombs in a basement and reading William L. Shirer's Berlin Diary, that Taleb experienced an epiphany about the true nature of history:

I was in a basement with history audibly unfolding above me (the sound of mortar shells kept me up all night). I was a teenager attending the funerals of classmates. I was experiencing a nontheoretical unfolding of History and I was reading about someone apparently experiencing history as it went along. I made efforts to mentally produce a movielike representation of the future and realized it was not so obvious. I realized that if I were to start writing about the events later they would seem more . . . historical. There was a difference between the before and the after.

The big idea is that history is full of unpredictable events; they are the "Black Swans" of the title. They are unpredictable, they have massive impact, and after they have happened we have a strong desire to make them seem less random and unpredictable than

they really are, usually by telling a narrative in which they retrospectively make sense. Black Swans have a big impact partly because we humans live in a physical environment that can change in rapid and unpredictable ways, as the study of global warming is beginning to remind us.

Partly it is because our social environment exhibits a phenomenon called by Sherwin Rosen "the economics of superstars"; in some domains a small proportion of the talented or lucky can earn a huge proportion of the rewards, whether they are opera singers, options traders, or bestselling authors (or evangelists, or politicians, or recruiters for global jihad, for that matter).

The fact that it can be luck rather than talent is due to herding, which makes later buyers or investors flock to empty their wallets in the laps of those who strike it lucky early in the process. Herding creates everything from fashion to the structure of cities, and has been much studied in the mathematics, sociology and economics of networks, though you would not guess this from the contempt with which mathematicians, sociologists and economists are dismissed in *The Black Swan*. Chance events that can have massive impact have also been given much attention recently by mathematicians under the title of "fat tails".

This is a property of statistical distributions whose extreme values happen often enough to have a massive impact on the average of the whole distribution.

What about Taleb's own luck? Defying his maxim that "no one in particular is a good predictor of anything", he lets us in on the secrets of his investment strategy, which he realizes is why lots of people will buy this book: "Instead of putting your money in 'medium-risk' investments", he advises, "you need to put a portion, say 85 to 90 per cent, in extremely safe instruments, like Treasury bills -as safe a class of instruments as you can manage to find on this planet. The remaining 10 to 15 per cent you put in extremely speculative bets, as leveraged as possible (like options), preferably venture capital-style portfolios". He adds, "Make sure you have plenty of these small bets; avoid being blinded by the vividness of one single Black Swan. Have as many of these small bets as you can conceivably have". It seems that he has also discovered portfolio diversification. Other insights include "make a distinction between positive contingencies and negative ones"; "seize any opportunity, or anything that looks like opportunity"; "beware of precise plans by governments"; and "If you hear a 'prominent' economist using the word equilibrium or normal distribution, do not argue with him; just ignore him, or try to put a rat down his shirt". "We cannot truly plan, because we do not understand the future - but this is not necessarily bad news. We could plan while bearing in mind such limitations. It just takes guts." "In the end", he tells us, summing up the wisdom of a lifetime, "we are being driven by history, all the while thinking that we are doing the driving."

Many of Taleb's messages are delivered with the confidential mateyness of the man in the pub who has a hot racing tip: "Now, if you think that science is an abstract subject free of sensationalism and distortions, I have some sobering news". But, like the man in the pub who doesn't want his success at the races to blind you to everything else he knows, he packages it with a lot more: "The Soviets may have flattened the economic structure, but they encouraged their own brand of ubermensch"; "I'd rather degrade us

humans to a level certainly above other known animals but not quite on a par with the ideal Olympian man who can absorb philosophical statements and act accordingly". With a ghastly sense of inevitability you know that, four hours and many drinks later, your watch will still have advanced only twenty minutes and he is going to start telling you about chaos theory. But he wants you to know that all this erudition hasn't spoiled him: "it is usually a humbling process, particularly to someone aware of the narrative fallacy, to discover that history runs forward, not backward". Of the many words I might have used to describe the process that this insight has worked on Nassim Nicholas Taleb, "humbling" was not the first to spring to mind.

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