



BOOK REVIEW

Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets

Nassim Nicholas Taleb

**Reviewed by:
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Citation

Taleb, N. N. (2007). Fooled by randomness: The hidden role of chance in life and in the markets. India: Penguin. ISBN: 9780141031484

Review

We often mistake success as the outcome of skill, perseverance, and the application of knowledge, while it happens in all walks of life, that is, in business or politics; it is much more prevalent in stock market trading and investments. We attribute the personal wealth of investors to the application of their skillful analytical abilities based on formulae-driven and technically sound analysis. Nassim Nicholas Taleb, a Mathematics Professor, an Ivy League education and options trader, in his book, 'Fooled by Randomness' demonstrates a wondrous insight into the share markets, emphasizes disguised luck which can often be mistaken for skill and knowledge.

The book is thought provoking with crisp descriptions, often brutal, on different aspects of financial performance. Although difficult to summarize as it meanders connecting various topics in mathematics, philosophy, history and human behavior. The key aspect of the book is that our minds are conditioned in a way that fools us from knowing randomness. The book makes you question the role of certainty and knowledge in life. It will help you guard yourself against your own emotions while arming you with the required skepticism

that will help you in making more informed decisions on investments.

Amidst interesting anecdotes, Taleb advises not to attribute failure to bad luck or success to skill. According to him, traders who are most profitable most likely happen to have styles that befit the temporary rally. There will always be some detectable patterns in a random series. Even though there have been unnatural financial catastrophes (e.g. crashes in 1987 or 1990 (Japan)) in different times, it is better to learn from them as they offer well constructed arguments. Be aware that the possibility of a 'black swan' - an unplanned occurrence of a rare event cannot be discounted. Keep away from short-term performance or market commentary on a daily basis. Base your decisions on reason instead of emotion. Be flexible and change your mind when new contradictory information is obtained.

Taleb ignores reading the daily paper and avoids television—which is usually mistaken for market signals—as they are too riddled with noise. On noise, time scale, information and emotion, Taleb brings a heartening breath of fresh air while explaining the probability of a day trader who is a retired dentist, earning 15% return over a volatility of 10%. Although a narrow time frame will reveal nothing, he will be emotionally drained after each loss. Instead a look at the monthly statements will lower the pain pangs and increase uplifting experiences. It helps if one is not tailing randomness by watching it on a day-to-day basis as it will lead to burn out.

In Taleb's words:

'We start every meeting at our trade boutique by convincing everyone that we are a bunch of idiots who know nothing and are mistake prone, but happen to be endowed with the rare privilege of knowing it.' Taleb holds an MBA from Wharton and a PhD from the University of Paris.

About the reviewer

Shobha Sriram, currently an Editor with Orient Blackswan, has worked as an equity research analyst

with a brokerage house in Chennai. Her financial articles have been published in online content farms. An alumnus of SDMIMD, she is also proficient in Carnatic music and was awarded the prestigious Copeland Fellowship with Amherst College, a top Liberal Arts college in USA. She has developed innovative music teaching techniques for school kids. Currently, she lives in Chennai with her husband and sings for the All India Radio. When she is not editing or singing, she dabbles in story-writing—a new found passion, sticking to the classic literary fiction genre. She can be contacted at shobha.sriram@yahoo.com