

Book Review by James Ullmer

Title: *Fooled by Randomness*, second edition

Author: Nassim Nicholas Taleb

Publisher: Random House

Length: 262 pages

Price: \$16.00 (paperback)

Reading time: 5 hours

Reading rating: 7 (1 = very difficult; 10 = very easy)

Overall Rating: 4 (1 = average; 4 = outstanding)

In *Fooled by Randomness*, Nassim Nicholas Taleb has written a thought provoking book that focuses on the hidden role of uncertainty, “chance,” in business, financial markets, and life in general. Using financial markets as the primary case in point, the author describes how “luck,” perceived as skills, is often the reason for success. According to the author, this misconception becomes a problem because poor decisions, especially by traders in the financial markets, are often the result of mistaking luck and coincidence for skill and causality. With a broad understanding of probability theory and extensive interdisciplinary knowledge, Taleb succinctly lays out his case for the ubiquitous role of randomness and the dangers for those who don’t recognize randomness when it exists.

Nassim Taleb’s irreverent treatment of experts from Wall Street traders and CEOs of Fortune 500 companies to professional economists challenges some of the long-held beliefs of their professions. For one example, Taleb asks the reader to assume that twin brothers simultaneously become corporate executives. They possess the same characteristics including the fact that they are both above average in height. The author wryly notes that “the only true predictor of corporate success is to be taller than average.” The brothers randomly take completely opposite actions leading to great failure for one and great success for the other. The successful brother, not surprisingly, becomes extremely wealthy. However, the failing brother is not penalized and becomes mildly wealthy—ostensibly, the beneficiary of a separation bonus—because only the shareholders bear the downside risk of the economic errors in judgement of CEOs.

This lessons to be learned from this vignette seem especially apropos in this time of the “Troubled Asset Relief Program” (TARP) and government bailouts. The Federal Government in adopting these policies has in essence kept profits privatized, but has socialized the downside risk. The only difference in the latter case is that the taxpayers rather than the shareholders are bearing the downside risk for the corporate executives. The dangers associated with shifting risk away from decision makers is clearly illustrated by Taleb in his monograph—a lesson apparently not learned by policy makers in Washington.

An overarching achievement of Taleb in *Fooled by Randomness* is his comprehensible explanations and applications of the central concepts of statistical probability. Regardless of his or her background, the reader will come away with an understanding and appreciation of conceptions such as induction, deduction, skewness, asymmetry,

ergodicity, regression to the mean and, especially, the notions of probability and randomness. Taleb notes that using basic probabilistic reasoning, instead of heuristics (rules of thumb), enables market traders to avoid errors in logic such as overconfidence. In *Fooled by Randomness*, Nassim Taleb has produced a page-turning masterpiece. He has turned conventional Wall Street thinking upside-down, and in so doing, has provided his readers with a better appreciation of the uncertainties associated with competitive markets and make them less apt to be “fooled by randomness.” Moreover, because of the wit and flair of the author’s writing style, the general public should find Nassim Taleb’s monograph to be entirely enlightening and engrossing.

James Ullmer is a professor of economics in the College of Business at Western Carolina University. His interests include the history of economic thought, economic education and regional economics. For previously reviewed books, visit us at our website at www.wcu.edu/cob/.