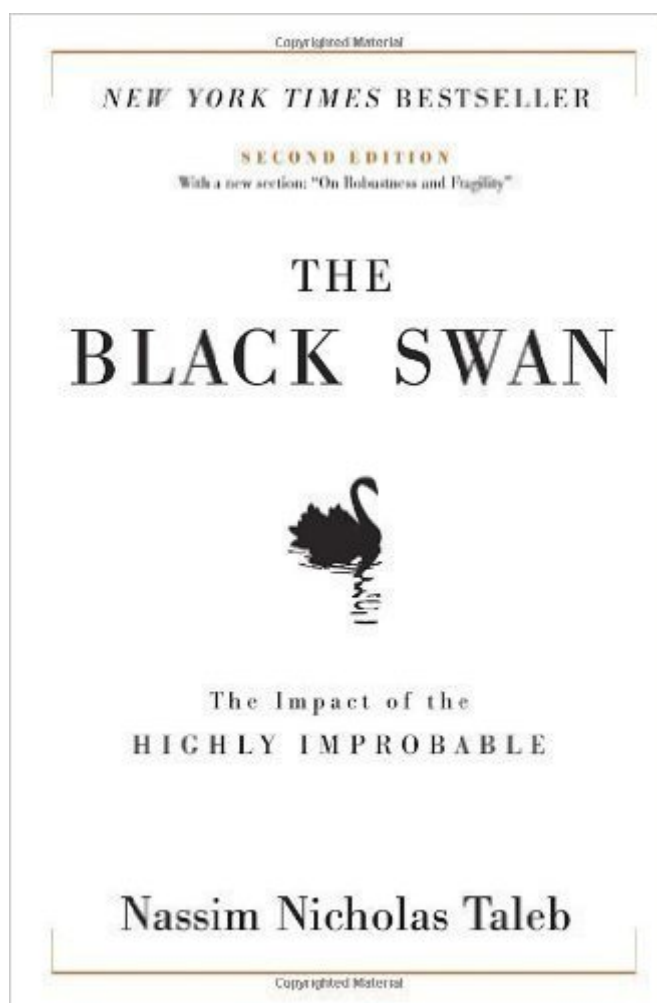


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The Black Swan: The Impact Of The Highly Improbable By Taleb, Nassim Nicholas (1st (first) Edition) [Hardcover(2007)]



Synopsis

The Black Swan

Book Information

Hardcover

Publisher: Random House; 1 edition (April 17, 2006)

ASIN: B00BR9W8GM

Product Dimensions: 9.1 x 6.6 x 1.1 inches

Shipping Weight: 1.6 pounds

Average Customer Review: 3.7 out of 5 stars [See all reviews](#) (1,130 customer reviews)

Best Sellers Rank: #250,157 in Books (See Top 100 in Books) #188 in [Books > Politics & Social Sciences > Philosophy > Epistemology](#)

Customer Reviews

Starting with the good (chapters 15 - 17), within chapter 15 Taleb explains where the Bell curve works and where it does not. The Bell curve captures well variables that don't deviate much from the mean. Otherwise, it does not work. Taleb suggests we often fool ourselves in believing that correlation, regression coefficients, or standard deviation convey much information. This is because those coefficients are unstable (and can flip sign when possible) depending on the time selected. This is because the underlying variables are often not stationary enough for these coefficients to be stable. Chapter 16 is excellent as an introduction to Mandelbrot's fractal geometry as an alternative to Gaussian based investment theory. He supports well that these mathematical tools do capture randomness (of non-stationary variables) far better than the Normal distribution. However, he admits that Mandelbrotian models are not predictive. When looking at the same data set, he and numerous colleagues each came up with different underlying parameters to build fractal-like models. And a small difference in such parameters makes a huge difference in outcome. That's why you will not hear much of fractal geometry within the quantitative financial community. Nevertheless, this is a fascinating subject that deserves further exploration. For this purpose, I recommend Mandelbrot's *The Misbehavior of Markets*. Within Chapter 17, Taleb further elaborates on the flaws of the Normal distribution. He underlines that half of the return of the stock market over the past 50 years was associated with just 10 days with the greatest daily change.

If, as Socrates would have it, the only true knowledge is knowledge of one's own ignorance, then Nassim Nicholas Taleb is the world's greatest living teacher. In *The Black Swan*, Taleb's second

book for laypeople, he gives a full treatment to concepts briefly explored in his first book "Fooled by Randomness." The Black Swan is basically a sequel to that book, but much more focused, detailed and scholarly. This is a book of serious philosophy that reads like a stand-up comedy routine. (Think Larry David...) The Black Swan is probably the strongest statement of enlightened empiricism since Ernst Mach refused to acknowledge the existence of the atom. Of course, in theory, everyone today is supposed to be an empiricist - all right-thinking intellectuals claim to base their views solely on positive scientific observation. But very few sincerely confront the implications of rigorous empiricism. Specifically, few confront "the problem of induction," illustrated here by the story of the black swan. Briefly: observing an event once does not predict it will occur again in the future. This remains true regardless of the number of observations one adds to the pile. Or, as Taleb, recapitulating David Hume, has it: the observation of even a million white swans does not justify the statement "all swans are white." There is no way to know that somewhere out there a black swan is not hiding, disproving the rule and nullifying our "knowledge" of swans. The problem of induction tells us that we cannot really learn from our experiences. It makes knowledge very problematic, if not impossible. And yet, humans do behave -almost without exception- as though they believe that experience teaches us lessons. This is forgivable; there is no better path to knowledge.

This is an entertaining and enlightening book, and fairly easy to read. It has an important message regarding how the world works; that the world is governed not by the predictable and the average, but by the random, the unknowable, the unpredictable -- big events or discoveries or unusual people that have big consequences. Change comes not uniformly but in unpredictable spurts. These are the Black Swans of the title: completely unexpected and rare events or novel ideas or technologies that have a huge impact on the world. Indeed, Taleb argues that history itself is primarily driven by these Black Swans. It is convincing argument, entertainingly presented with plenty of sarcasm, and indeed, anger, by Taleb. For example he rails against the academic community, economists (including specific names), and Nobel Prize committee. Considerable numbers of his arguments "ring true" to me, that is my experience in life confirms that they are more accurate than the traditional approach. Like any important work, 90% of what is in the book is not original; that does not make it less important. Taleb's contribution is in integrating the material together, and showing how these different ideas are tied to the Black Swan. The themes include: winner-take-all phenomenon, numerous effects of randomness on the world, the invalidity of the Gaussian Bell Curve to most things in world, concepts of scalability, numerous instabilities in the world, especially the modern world where information travels so quickly, the fallacies about people's inability to

predict the future.

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