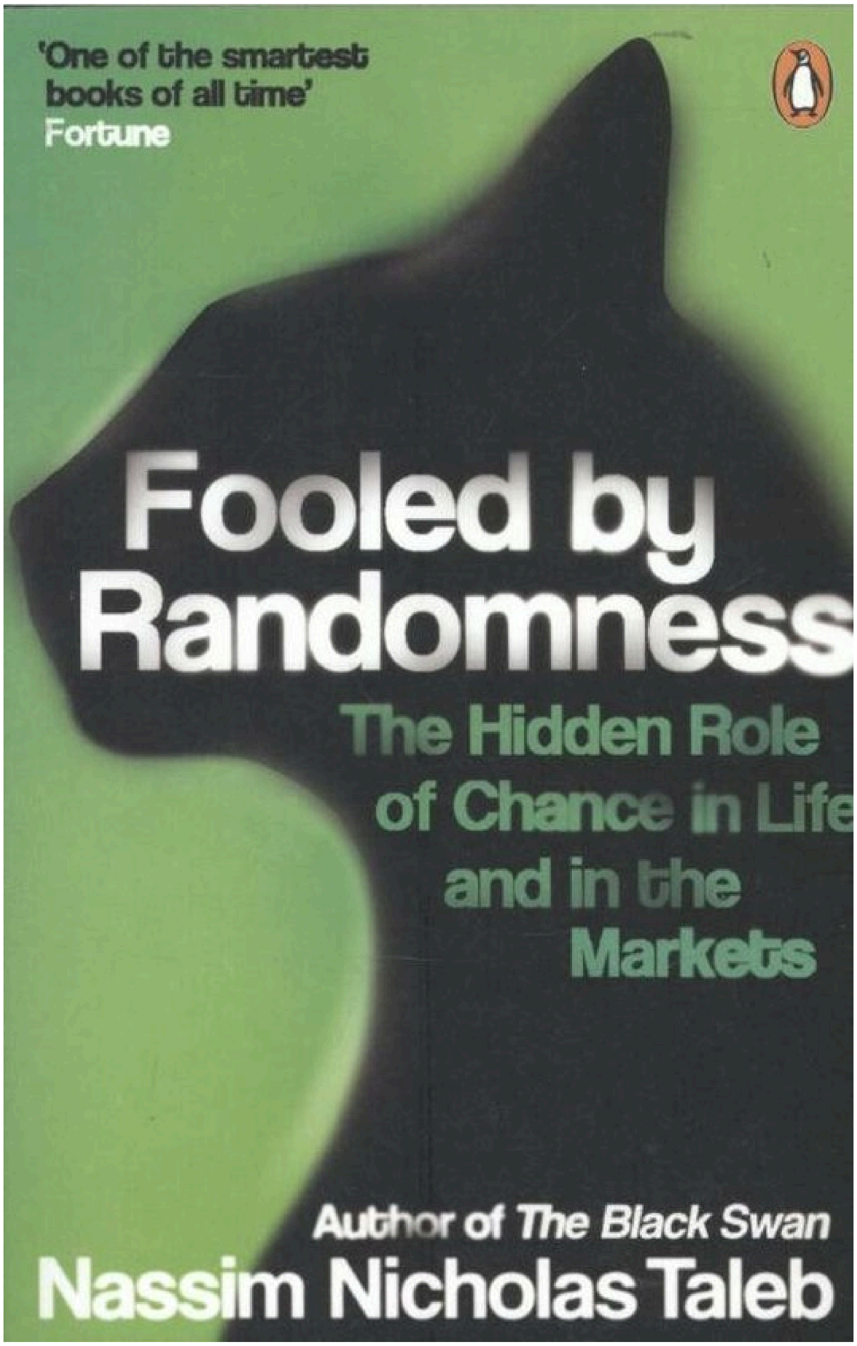
Fooled By Randomness

Takeaways

- People confuse luck with skill, probability with certainty and belief with knowledge.
- Recognize the role of randomness in investing and in everyday life to avoid becoming a victim of superstitious foolishness.
- A single, random event can destroy the success of lucky fools.
- Randomness sometimes leads to the survival of the least fit.
- Some successful traders are like Russian roulette players; outwardly they have signs of wealth, but if they keep playing, they can lose everything.
- In estimating the value of an outcome, consider alternative histories.
- Don’t confuse probability with expectation, which is the probability times the payoff.
- Asymmetry is critical in finance, since rare events can have major consequences.
- Using induction to generalize from a number of cases can produce mistakes due to the effects of randomness.
- To adjust for randomness in trading, use statistics and induction to make aggressive bets, but not for risks or exposure due to the danger of big losses from random events.

Resources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