

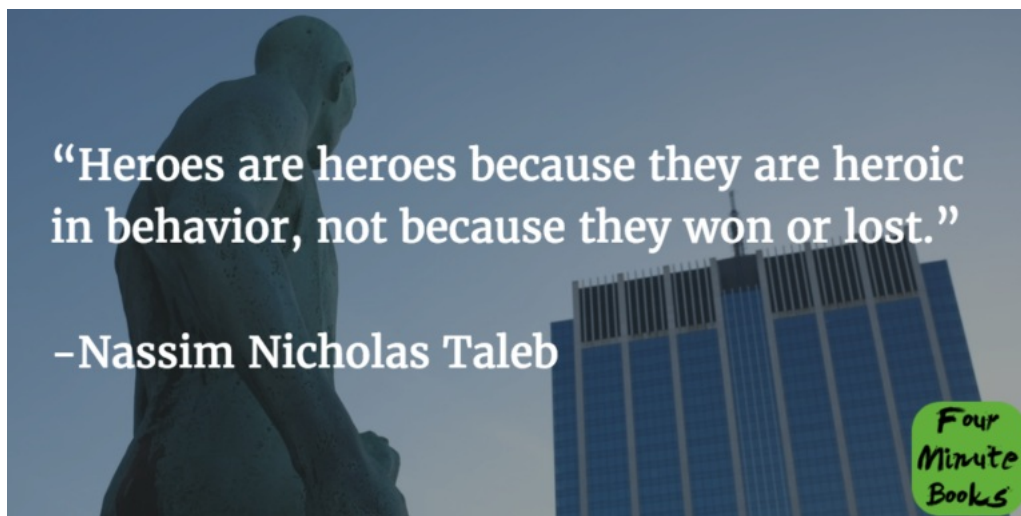
Fooled By Randomness Summary

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1-Sentence-Summary: *Fooled By Randomness* explains how luck, uncertainty, probability, human error, risk, and decision-making work together to influence our actions, set against the backdrop of business and specifically, investing, to uncover how much bigger the role of chance in our lives is, than we usually make it out to be.

Read in: 4 minutes

Favorite quote from the author:



Imagine this: You've just moved into a new place, and when you enter your new room for the first time, you see two switches for the light. You press the upper switch and the light goes on. Neat. You turn it off again and press the lower one to test it too, and BZZZZZZ – you get an electric shock!

Somehow, a short must've sneaked into the wires. Because you're no electrician, what do you do? Simple: from now on, you avoid pressing the lower light switch.

The reason I'm telling this story is that there are dozens of these short circuits in your brain, called biases, and when they cause you to make a bad decision, you get a real-life version of the small electric shock described above – only that it's often not so small.

What Nassim Nicholas Taleb does with his work and specifically this first book of his four-volume *Incerto* is *show you where those short circuits are*, so you can at least avoid them.

Here are 3 lessons from *Fooled By Randomness*:

1. Life is non-linear, which makes the rewards of continued effort disproportionately big.
2. We need our irrational emotions to be able to decide.
3. Enjoy randomness when it's harmless and use stoicism to deflect it when it's harmful.

Ready for a stroll down your mental circuit board and uncovering some security flaws? Let's take a walk!

Lesson 1: Life isn't fair, which makes the rewards of continued effort excessively big.

Many of the systems we move and live in work in a linear fashion. With every day at work, you get closer to the next promotion. With every exam in school, you get closer to graduation. With every dollar into your retirement plan, you get closer to being able to retire with the same lifestyle, and so on.

Because of that, we tend to think life is *all* linear, but it's really not. For example, Darwin's rule of "survival of the fittest" only means that the best-adapted organisms will survive *on average*. However, that doesn't stop all unfit organisms from surviving, at least in the short run.

Taleb says the reason life is non-linear is that some outcomes are *path-dependent*, meaning we wouldn't end up with the same results if we were to start over. For example, the QWERTY keyboard we all know and use today was originally invented for typewriters in 1873, just to keep them from jamming. But after the spread of its usage reached a *tipping point*, it became and remained the standard, just because switching to a more ideal keyboard would be a hassle and not improve much.

It's hard for us to see these tipping points in advance, so **our natural tendency is to expect incremental changes to have only incremental impact as well.**

However, at one point, a single office ordered Windows for its computers and suddenly, more than half of all offices were using it. From one day to the next, non-Windows users were in the minority. **Just like one grain of sand can bring down an entire sand castle, that one extra blog post, one extra day in the lab, one extra phone call can suddenly create a huge reward.**

This is exactly what The Dip is talking about, the disproportionate size of rewards for ongoing effort, but because progress on the extra mile isn't clearly visible, most people give up too early.

Lesson 2: Without our irrational emotions we often couldn't make decisions at all, we need them.

If we were to make every single one of our decisions based on rational reasoning, we would cease to exist, because some choices really are indifferent – neither outcome will make us better or worse off.

Consider the parable of Buridan's donkey. A donkey that's equally hungry and thirsty is placed dead in the middle between a stack of hay and a bucket of water. A donkey always goes to whatever's nearest to him, but since both are equally far and he's just as hungry as he is

thirsty, he would starve to death as a consequence.

Sometimes, making a purely rational decision is impossible for us too, and in those cases a little irrationality or randomness helps us make up our mind. **Our emotions are the metaphorical coin flip in this regard**, getting us to stop deliberating, just decide and move on – and therefore serve a crucial purpose in our decision-making progress.

Of course, the flipside (pun intended) is that our emotions can also get us to behave irrationally when we really would need to use logic and reason.

Lesson 3: You can use stoicism to deal with the bad kind of randomness and enjoy it when it's harmless.

Most of what Taleb writes about in this book is supposed to help us eliminate and better deal with the randomness in our lives. However, I liked that he also said it's not all bad: **randomness can be beautiful when it's harmless**.

For example, think about art, music, poetry, humor and books. Without randomness, there would be no aesthetic, no beauty, no joy in these things. As a Yiddish saying goes: "If I must eat pork, it had better be the best kind." The same goes for randomness. We can let ourselves be fooled by it, but only by the right kind.

While an irrational poet is harmless, an irrational scientist is dangerous.

To deal with the harmful kind of randomness, Taleb suggests we take on a Stoic attitude. **When life deals us one of those unexpected, random, horrifying blows, Stoicism is our choice to deal with it with elegance**, without self-pity, to not blame others or complain and to take responsibility regardless.

The only thing we have full control over and that's never forced to be random is, after all, our own behavior.

Fooled By Randomness Review

Fooled By Randomness is another jam-packed gem full of valuable lessons, which will allow you to live a better life, starting today. How does that mental circuit board of yours look? Marked some short circuits already? I know I have. An absolute must-read!

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What else can you learn from the blinks?

- Why you'd be better off flipping a coin than trusting most investment advisors
- The problem of induction, the process on which all science is based
- How our context-dependent brain is easily fooled because it uses many heuristics
- What an overly emotional investor should do to be successful
- How hindsight bias leads to people developing gambler's ticks
- Why we suck at judging the impact of rare events
- How you can make your life a lot easier and less stressful by drowning out the noise of the media and stock markets

Who would I recommend the Fooled By Randomness summary to?

The 21 year old, who just moved out from home, and spends a lot of her time deliberating what to wear and eat, the 59 year old writer, who's not sure whether the next page is even worth writing, and anyone who has someone with a bad illness in their family.