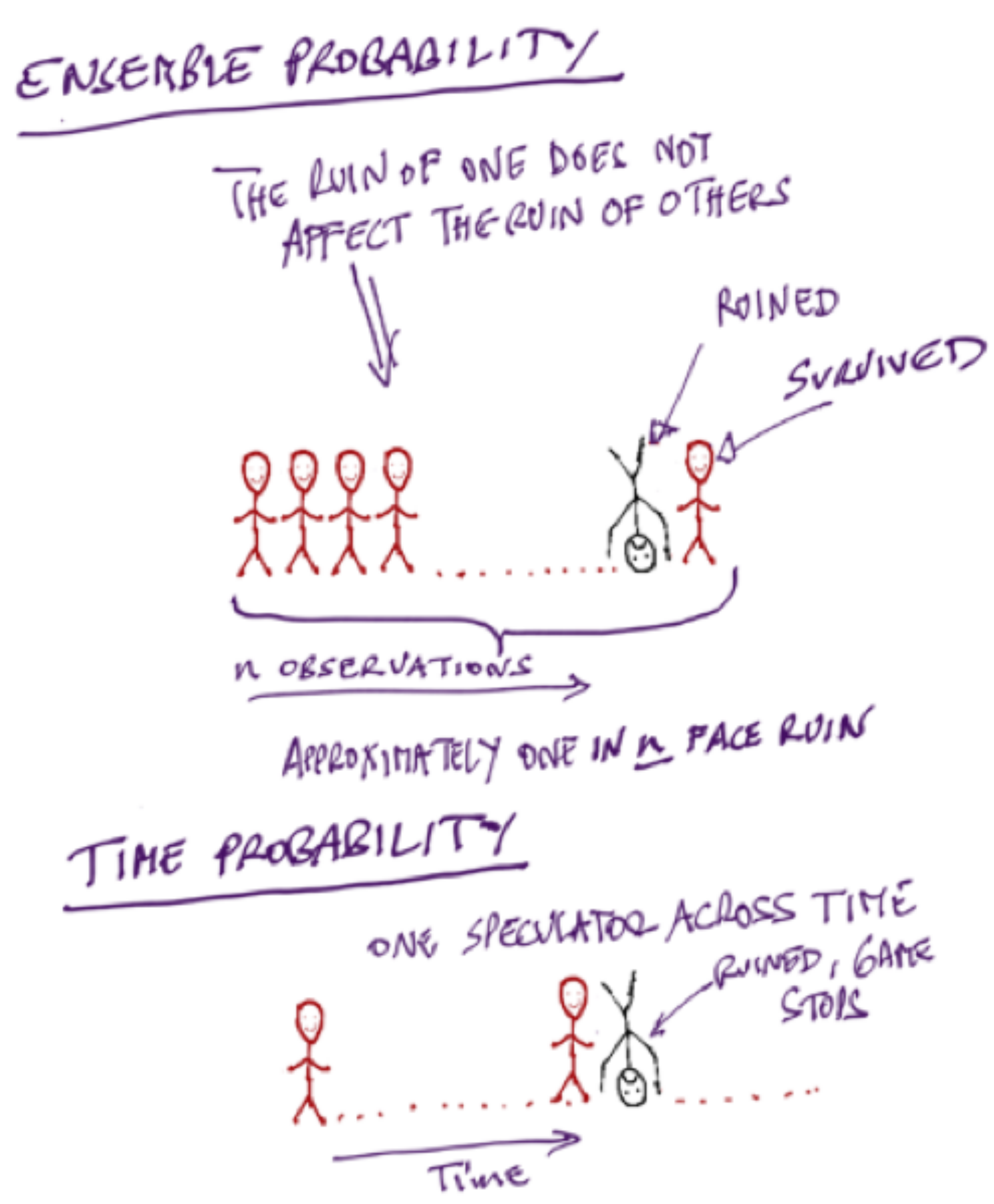
4a. Traps

Sequence matters

in the non-ergodic world of investing.



[Taleb, “The Logic of Risk Taking”, part of “Skin in the Game”, Incerto series, 2018. ISBN: 978-0425284629]

[Gell-Man, Peters: “Evaluating gambles using dynamics” https://arxiv.org/pdf/1405.0585.pdf]

[Peters: “Optimal leverage from non-ergodicity” https://arxiv.org/pdf/0902.2965.pdf]

source: Nassim Nicholas Taleb, https://medium.com/incerto/the-logic-of-risk-taking-107bf41029d3

Some of these traps are our own cognitive biases.

A comprehensive manual on these biases is given in Kahneman and Tversky's research (Kahneman, "Thinking Fast and Slow", 2011, ISBN: 978-0374275631). Among them:

loss aversion (investors perceive a dollar lost and a dollar gained differently than their percentage value),
overconfidence (confidence greater than predicting abilities),
confirmation bias (viewing information that confirms our view as more important),
availability heuristic (focusing more on recent data and developments, fresh data as more important).