

Fooled By Randomness

Part III

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WAX IN MY EARS

Living with Randomitis

Odysseus, the Homeric hero, had the reputation of using guile to overcome stronger opponents. I find the most spectacular use of such guile was against no other opponent than himself.

In Book 12 of the *Odyssey*, the hero encounters the sirens, on an island not far from the rocks of Charybdis and Scylla. Their songs are known to charm the sailors into madness, causing them irresistibly to cast themselves into the sea off the sirens' coast, and perish. The indescribable beauty of the sirens' songs is contrasted with the moldering corpses of sailors who strayed into the area around them. Odysseus, forewarned by Circe, contrives the following ruse. He fills the ears of all his men with wax, to the point of total deafness, and has himself tied to the mast. The sailors are under strict instructions not to release him. As they approach the sirens' island, the sea is calm and over the water comes the sound of a music so ravishing that Odysseus struggles to get loose, expending an inordinate amount of energy to unrestrain himself. His men tie him even further, until they are safely past the poisoned sounds.

The first lesson I took from the story is not to even attempt to be Odysseus. He is a mythological character and I am not. He can be tied to the mast; I can merely reach the rank of a sailor who needs to have his ears filled with wax.

I AM NOT SO INTELLIGENT

The epiphany I had in my career in randomness came when I understood that I was not intelligent enough, nor strong enough, to even try to fight my emotions. Besides, I believe that I need my emotions to formulate my ideas and get the energy to execute them.

I am just intelligent enough to understand that I have a predisposition to be fooled by randomness—and to accept the fact that I am rather emotional. I am dominated by my emotions—but as an aesthete, I am happy about that fact. I am just like every single character whom I ridiculed in this book. Not only that, but I may be even worse than them because there may be a negative correlation between beliefs and behavior (recall Popper the man). The difference between me and those I ridicule is that I try to be aware of it. No matter how long I study and try to understand probability, my emotions will respond to a different set of calculations, those that my unintelligent genes want me to handle. If my brain can tell the difference between noise and signal, my heart cannot.

Such unintelligent behavior does not just cover probability and randomness. I do not think I am reasonable enough to avoid getting angry when a discourteous driver blows his horn at me for being one nanosecond late after a traffic light turns green. I am fully aware that such anger is self-destructive and offers no benefit, and that if I were to develop anger for every idiot around me doing something of the sort, I would be long dead. These small daily emotions are not rational. But we need them to function properly. We are designed to respond to hostility with hostility. I have enough enemies to add some spice to my life, but I sometimes wish I had a few more (I rarely go to the movies and need the entertainment). Life would be unbearably bland if we had no enemies on whom to waste efforts and energy.

The good news is that there are tricks. One such trick is to avoid eye contact (through the rearview mirror) with other persons in such traffic encounters. Why? Because when you gaze into someone's eyes, a different part of your brain, the more emotional one, is activated and engaged as the result of the interaction. I try to imagine that the other person is a Martian, rather than a human being. It works sometimes—but it works best when the person presents the appearance of being from a different species. How? I am an avid road cyclist. Recently, as I was riding along with other cyclists, slowing down traffic in a rural area, a small woman in a giant sports utility vehicle opened her window and heaped curses at us. Not only did it not upset me but I did not even interrupt my thoughts to pay attention. When I am on my bicycle, people in large trucks become a variety of dangerous animals, capable of threatening me but incapable of making me angry.

I have, like anyone with strong opinions, a collection of critics among finance academics and economists, annoyed by my attacks on their misuse of probability and unhappy about my branding them as pseudoscientists. I am incapable of taming my emotions when reading their comments. The best I can do is just not read them. Likewise with journalists. Not reading their discussions of markets spares me plenty of emotional expenditure. I will do the same with unsolicited comments on this book. Wax in my ears.

WITTGENSTEIN'S RULER

What is the mechanism that should convince authors to avoid reading comments on their work, except for those they solicit from specified persons for whom they have intellectual respect? The mechanism is a probabilistic method called conditional information: Unless the source of the statement has extremely high qualifications, the statement will be more revealing of the author than the information intended by him. This applies, of course, to matters of judgment. A book review, good or bad, can be far more descriptive of the reviewer than informational about the book itself. This mechanism I also call Wittgenstein's ruler: Unless you have confidence in the ruler's reliability, if you use a ruler to measure a table you may also be using the table to measure the ruler. The less you trust the ruler's reliability (in probability called the prior), the more information you are getting about the ruler and the less about the table. The point extends way beyond information and probability. This conditionality of information is central in epistemology, probability, even in studies of consciousness. We will see later extensions with "ten sigma" problems.

The point carries practical implications: The information from an anonymous reader on Amazon.com is all about the person, while that of a qualified person, is going to be all about the book. This plays equally in court: Take the O. J. Simpson trial once again. One of the jurors said, "There was not enough blood," meaning to assess the statistical evidence of what was offered: Such statement reveals very little about the statistical evidence as compared with what it shows about the author of the statement's ability to make a valid inference. Had the juror been a forensic expert, the ratio of information would have tilted the other way.

The problem is that while such reasoning is central to my thinking, my brain knows it though not my heart: My emotional system does not understand Wittgenstein's ruler. I can offer the following evidence: A compliment is always pleasant, regardless of its authorship—something manipulators know rather well. Likewise with book reviews or comments on my risk-management strategy.

THE ODYSSEAN MUTE COMMAND

Recall that the accomplishment from which I derive the most pride is my weaning myself from television and the news media. I am currently so weaned that it actually costs me more energy to watch television than to perform any other activity, like, say, writing this book. But this did not come without tricks. Without tricks I would not escape the toxicity of the information age. In the trading room of my company, I have the television set turned on all day with the financial news channel CNBC staging

commentator after commentator and CEO after CEO murdering rigor all day long. What is the trick? I have the volume turned completely off. Why? Because when the television set is silent, the babbling person looks ridiculous, exactly the opposite effect as when the sound is on. One sees a person with moving lips and contortions in his facial muscles, taking themselves seriously—but no sound comes out. We are visually but not auditorily intimidated, which causes a dissonance. The speaker's face expresses some excitement, but since no sound comes out, the exact opposite is conveyed. This is the sort of contrast the philosopher Henri Bergson had in mind in his *Treatise on Laughter*, with his famous description of the gap between the seriousness of a gentleman about to walk on a banana skin and the comical aspect of the situation. Television pundits lose their intimidating effect; they even look ridiculous. They seem to be excited about something terribly unimportant. Suddenly pundits become clowns, which is a reason the writer Graham Greene refused to go on television.

I had this idea of stripping people of language while, on a trip, I listened (while brutally jet-lagged) to a speech in Cantonese, a language I do not understand, without the benefit of translation. Since I had no possible clue about his subject, the animated orator lost a large share of his dignity. The idea came to me that perhaps I could use a built-in bias, here prejudice, to offset another built-in bias, our predisposition to take information seriously. It seems to work.

This part, the conclusion of this book, presents the human aspect of dealing with uncertainty. I have personally failed in achieving a general insulation from randomness, but I have managed a few tricks.