

Fooled By Randomness

ACKNOWLEDGMENTS

FOR THE UPDATED SECOND EDITION

Out of the Library

The book helped me break out of my intellectual isolation (not being a full-time academic offers plenty of benefits, such as independence and the avoidance of the dull parts of the process, but it comes at the cost of seclusion). I made many interesting dinner companions and pen pals among lucid thinkers through the first edition, and, thanks to them, I was able to make a second pass on some of the topics. In addition, I have gotten closer to my dream life thanks to the stimulation of discussion with people who share my interests; I feel that I need to pay the book back for that. There seems to be some evidence that conversations and correspondence with intelligent people is a better engine for personal edification than plain library-ratting (human warmth: Something in our nature may help us grow ideas while dealing and socializing with other people). Somehow there was the pre-and post-Fooled life. While the acknowledgments for the first edition hold more than ever, I would like to add here my newly incurred debt.

Shrinking the World

I first met Robert Shiller in person as we were seated next to each other at a breakfast panel discussion. I found myself inadvertently eating all the fruits on his plate and drinking his coffee and water, leaving him with the muffins and other unfashionable food (and nothing to drink). He did not complain (he may have not noticed). I did not know Shiller when I featured him in the first edition and was surprised by his accessibility, his humility, and his charm (by some heuristic one does not expect people who have vision to be also personable). He later drove me to a bookstore in New Haven, showed me *Flatland*, a scientific parable dealing with physics that he read when he was in high school, and told me to keep this book as it was in the first edition: short, personal, as close to a novel as possible, something I kept in mind throughout the exercise of this reworking (he tried to convince me to not do this second edition, I begged him to do a second one of his own *Irrational Exuberance*, be it only for my own consumption; I think that I won both points). Books have bubble dynamics of the type discussed in Chapter 10, a matter that makes an extra edition of an existing book far more likely to break through the critical point than a new one (network externalities make religions and fads fare incrementally better in their second editions than brand-new ones). The physicist and crash theorist Didier Sornette provided me with convincing arguments for the effectiveness of a second version; we are surprised that book publishers who thrive on informational cascades are not conscious of the point.

During much of the rewriting of this book I was under the energizing influence of two intense dinner conversations in Italy with Daniel Kahneman, which had the effect of “pushing” me to the next critical point of intellectual drive, after I saw that his work went so much deeper than mere rational choice under uncertainty. I am certain that his influence on economics (including the Nobel medal) focused people away from the breadth and depth and the general applicability of his discoveries. Economics is boring stuff, but His work matters I kept telling myself, not just because he is an empiricist, not just because of the contrast of the relevance of his work (and personality) with those of the other recent Nobel economists, but because of its far-reaching implications on far worthier questions: (a) He and Amos Tversky helped stand on its head the notion of man that we owe to the dogmatic rationalism of the Hellenistic age and which held for twenty-three centuries, with all the damaging consequences that we know of now; (b) Kahneman’s important work is on utility theory (in its different stages) with consequences on such significant things as happiness. Now understanding happiness is a real pursuit.

I had lengthy discussions with Terry Burnham, the biologist and evolutionary economist and co-author of *Mean Genes*, that unpretentious introduction to evolutionary psychology, who coincidentally turned out to be best friends with Jamil Baz, the childhood friend who was my sounding board with my early introspections on randomness two decades ago. Peter McBurney got me involved with the Artificial Intelligence community, which seems to fuse together the fields of philosophy, cognitive neuroscience, mathematics, economics, and logic. He and I started a voluminous correspondence on the various theories of rationality. Michael Schrage, one of my reviewers, is the epitome of the modern (hence scientific) intellectual—he has a knack of reading everything that seems to matter. He offers the conversation of a true intellectual, shielded from the straitjacket of academic pressures. Ramaswami Ambarish and Lester Siegel showed me (with their suspiciously unnoticed work) that if we are fooled by randomness with respect to plain performance, then performance differential is even harder to pin down. The writer Malcolm Gladwell sent me into some interesting parts of the literature on intuition and self-knowledge. Art De Vany, the insightful and brilliantly colorful economist who specializes in nonlinearities and rare events, started his introductory letter to me with the shibboleth “I despise textbooks.” It is encouraging to see someone with such depth in his thinking who can also have fun in life. The economist William Easterly showed me that randomness contributed to illusionary causes in economic development. He liked the link between being a skeptical empiricist and disliking monopolies on knowledge by institutions like governments and universities. I am grateful to Hollywood agent Jeff Berg, an enthusiastic reader, for his insights on the wild type of uncertainty that prevails in the media business. I have to thank the book for allowing me to have insightful dinner discussions with Jack Schwager, who seems to have thought of some of the problems longer than anybody alive.

Thank You, Google

The following people have provided me with help on this text. I was very fortunate to have Andreea Munteanu as an incisive reader and valuable sounding board; she spent hours away from her impressive derivatives job checking the integrity of the references on Google. Amanda Gharghour also helped with the search. I was also lucky to have Gianluca Monaco as the Italian translator; he found mistakes in the text that it would have taken me a century to detect (a cognitive scientist and book-translator-turned-student-of-mathematical-finance, he called up the publisher and appointed himself the translator). My collaborator, the philosopher of science Avital Pilpel, provided me with invaluable help with technical probability discussions. Elie Ayache, another Levantine-tradder-mathematician-physicist-turned-philosopher-of-science-probability-markets (though without the neurobiology), made me spend numerous hours at Borders Books in both the philosophy section and the science section. Flavia Cymbalista, Sole Marittimi (now Riley), Paul Wilmott, Mark Spitznagel, Gur Huberman, Tony Glickman, Winn Martin, Alexander Reisz, Ted Zink, Andrei Pokrovsky, Shep Davis, Guy Riviere, Eric Schoenberg, and Marco Di Martino provided comments on the text. George Martin was, as usual, an invaluable sounding board. The readers Carine Chichereau, Bruce Bellner, and Illias Katsounis, gracefully e-mailed me extensive errata. I thank Cindy, Sarah, and Alexander for support and the reminder that there are other things than probability and uncertainty.

I also have to thank my second home, the Courant Institute of Mathematical Sciences, for providing me with the right atmosphere to pursue my interests and teach and coach students while retaining my intellectual independence, particularly Jim Gatheral, who took the habit of heckling me while co-teaching the class. I am indebted to Paloma's Donald Sussman and Tom Witz for their unusual insights; I am truly impressed by their heroic ability to understand the “black swan.” I also thank the Empirica members (we ban the use of the word employees) for fostering a climate of fierce and ruthless, truly cut-throat intellectual debate in the office. My coworkers make sure that not a single comment on my part can go without some sort of challenge.

I insist once again that without David Wilson and Myles Thompson this book would have never been initially published. But without Will Murphy, Daniel Menaker, and Ed Klagsbrun, who revived this book, it would have been dead. I thank Janet Wygal for her thoroughness (and patience) and Fleetwood

Robbins for his assistance. Given their zeal, I doubt that many mistakes are left; however, those that remain are mine.