

Silver, Nate – The Signal and the Noise

Penguin Hall, 2012, [Surrounding Knowledge] Grade ★★☆☆

Nate Silver became famous due to his innovative use of statistics in baseball followed, by correctly predicting the results of 49 out of 50 states in the 2008 election (50 out of 50 in 2012). In 2008 Silver launched his website FiveThirtyEight.com. In 2009 he was named one of The World's 100 Most Influential People by Time. In 2012 FiveThirtyEight.com won an award as the Best Political Blog from the International Academy of Digital Arts. Amazon.com named *The Signal and the Noise* the best non-fiction book of 2012.

The book is divided into four parts, each consisting of 3-4 chapters. The first part is about failures and successes of historic predictions (Silver presents his baseball predictions). The second part treats the problems of making predictions of dynamic systems like the weather. In the final parts Silver presents his statistical tool, the Bayes theorem, which he then uses to improve prediction skills (this theorem is also used by Daniel Kahneman in his book *Thinking Fast and Slow*, i.e. this is something we all should learn more about...).

In the third part of the book Silver applies this theorem to various examples, like sports betting and his own experience as a successful poker player. In the final part he uses Bayes on such difficult problems as terrorism, financial markets and global warming. When it comes to the latter Silver claims that there is no clear evidence of global warming. It's not possible to predict higher temperatures with certainty. Temperatures have been flat for a decade, quite the opposite of previous predictions. He is worried that neither side in the debate looks at facts and data, but instead selects noise that supports previous views. In the beautifully written introduction the dramatic increase in data, and therefore also noise, is presented as a

problem just because it's easier for followers to find noise to support their views, which could be one reason why political partisanship has been increasing rapidly.

Mr Silver has written a very entertaining book. He takes on the numerous problems with statistics and shows how to find the truth (signal) among the data (noise). My main critique of the book is that the author has few solutions. The main conclusion is that we should be less certain about our views and predictions. In his view many experts who are seen in media tend to exaggerate, oversimplify and to be careless with facts. The reason being that in order to get airtime and attention you need to say something newsworthy that can make a headline, not necessarily what is relevant. One of the few exceptions being Hans Rosling who with his long term graphs has managed to explain more things than most experts - and get attention.

Regarding investing in stocks, Silver really doesn't have anything new to add, but he doesn't view the market as efficient. Rather his tentative conclusion is that the market is efficient 90% of the time. The main problem is that it's difficult to identify the interesting 10% (surprise...). Unfortunately Silver leaves it at that. The book however is easy to read and if you are interested in baseball, poker and the climate this is a book for you. If you have less of an interest in those subjects and more into investing, then there are better books. I highly recommend books written by people from the financial industry such as Maboussin, Taleb, and Montier.

This is probably not the last we have heard from the very creative Nate Silver. Since he is born 1978 he has plenty of time to find more signals in the noise that we all can learn from. I will definitely read his next book.

Bo Börtemark, January 11, 2013