Huff, Darrell – How To Lie With Statistics

W.W. Norton & Co, 1st ed 1954, [Surrounding Knowledge] Grade ★★★★

It ain´t so much the things we don´t know that gets us into trouble. It´s the things we know that just ain´t so. These words by Artemus Ward have for a long time held a prime place on my desk, its true wisdom reaching far beyond the simple-minded language. *How To Lie With Statistics* could best be described as the book world´s equivalent to this quote. But don't be fooled by its publishing date (1954), its appearance (classic cartoon-type cover) or language (addressing the reader as he/she is a four-year-old). You will enjoy it on a three-hour train ride and you will be lied to a lot less. The author, Darrell Huff, is a well-known American editor, researcher and author of a series of "How to"-books, of which this one has outshone all others by impact and sales.

The part of the phrase "the dismal science" (i.e. economics) that has irked me the most, has always been the word "science". As for the first part it's hammer on nail. But any exercise in which there is absolutely no – or a very limited – clear line between cause and effect in an observable environment, should not be labelled as a science. Economics, as well as finance in the short run of course, is surely much more art than science. Anything dealing with interactions between people is, in particular if it is being practised outside of a controllable environment (a.k.a. the "real world").

However, the fascination, attention and trust with the myriad of numbers and stats being produced daily around the globe are mind-boggling. Its impact has actually travelled in the opposite direction to its relevance; the less it matters the more the markets crave it. Case in point: U.S. payroll data. The bonfire-cult of this has baffled me for a long time, being one of the worst offenders for both predictability (its revisions are legendary) and relevance (it is, at best, a lagging indicator of the health of the economy. At worst? The mother of all red herrings). So much talent and so many hours are spent prognosticating the changes down to the second decimal – like it would matter! "Statistical challenges" indeed.

To get my senses straight again after a recent avalanche of U.S. payroll data and Chinese macro numbers, I re-read the classic *How To Lie With Statistics*. As an equity analyst, I have always tried to keep the lesson of the five-foot man who drowned crossing a river with an average depth of four feet, close to my heart. There is simply no support in averages, medians or means in the world of intrinsic values. And as the book points out, using averages without intimately knowing and understanding a series' skew and mode (the most frequent occurring number in a series) is simply meaningless. It could even be outright dangerous. The book also brings up important topics such as correlation does not imply causation, the dangers of faulty sampling (to fit ones purpose) and the simple tricks one can use in distorting charts. The outline of the book consists of a chapter by chapter walk-through of some of the most commonly used methods of using statistics to serve one's own purposes (fooling the recipient in the meantime), each chapter being a little more "advanced" than the previous one.

Statistics can be as useless as Lehman Brothers' Tier 1 ratio the week before bankruptcy: 16,9 per cent. It can also prove that it is a six-sigma event that U.S. house prices would decline on a nationwide level. Or, it can be a real aid in helping to understand the world we live in. It all depends on the purpose, intent and the eye of the beholder. Again, this book will disappoint you if you are on the lookout for a tome that will wrestle you intellectually, stuffed with complex math along the way. But I like it for its freshness, common sense and humour. Three traits one could really enjoy in higher dosages while trying to navigate the choppy waters of financial markets. And one and a half million copies sold could not lie, could they.

Henrik Andersson, February 27, 2013