

Taleb, Nassim Nicholas – Antifragile

Random House, 2012, [Behavioural Finance] Grade ★★☆☆

Not many authors are as fearless and eloquent advocates of their views. That makes Nassim Taleb a thought-provoking author. Taleb regards himself as both a trader and philosopher. He is a household name in the investing world and was propelled into fame with his two books *Black Swan* (2007) and *Fooled by Randomness* (2001). In *Fooled by Randomness* he challenged our entrenched views of volatility as an appropriate measure of risk, instead advocating the idea of the surviving sample. He described how many of the successes (and failures) we see in the world such as Facebook or the young hedge fund manager who is up 80% in a given year, don't necessarily reflect foresight, knowledge, skill or intelligence but are more often than not blind luck. *Black Swan* exposed that large, consequential but improbable 6 sigma events occur more frequently than recognized by Joe public. In it he presciently predicted the collapse of the US financial system.

Taleb sees randomness everywhere. In *Antifragile* he takes his philosophy a step further. In his introduction he explains how *Black Swan* can be read best as an appendix to *Antifragile*. The crux is living by rules in order to benefit from Black Swan events and randomness.

The book's core idea can be summed up by Nietzsche's "Whatever doesn't kill you makes you stronger". Everything gains or losses from volatility. Fragility is what loses from volatility and uncertainty. Antifragility are those phenomena that grow *stronger* when exposed to shocks. Want to build muscle? Do short bursts of 100 kilogram lunges rather than a 90 minute leisurely jog. Need to shed weight? Starve oneself in a fast for a few days and then feast on steaks and red wine on off days. Vaccines make us stronger by giving us a little of the infectious agent. Exposure to stressful events and our subsequent adaptation lie at the very heart of Darwinian evolution, making for stronger species. The book is littered with (no pun intended) such random examples.

Taleb advocates a Barbell strategy, a term often associated with the bond markets when traders invest in both long and short duration bonds but no intermediate term durations. Taleb's much broader interpretation implies playing it safe in some areas to protect against Black Swans and taking a lot of small risks in others, through a portfolio of 90% cash and 10% in high impact out of the money antifragile options. Bad events contain useful information and it's a big mistake to avoid shocks. The mistakes of failed entrepreneurs guide the next generation of start-ups to avoid the same errors and thereby build more sustainable businesses. The reason we have aviation safety today is due the crashes of the past, each crash yielding information that makes the next flight safer. In the macro economy avoiding shocks through intervention by for instance cutting rates (fragilista Greenspan) may sow the seeds of the next crisis. Often the best approach of doing nothing; "*via negativa*" leads to issues resolving themselves spontaneously or a new superior status quo.

This is a self-help book filled with anecdotes and musings. Direct investment applications are sparse. The book is divided into 7 books and 25 chapters. Book 1 introduces the core principles of antifragility; if all you require is the gist, read this. The other books discuss antifragility in the context of political systems, health, evolution, ethics and technology. Book 5 is mostly technical and can be skipped. It is unstructured and could have done with more editing. Having said that, references are wide and many and it's hard to come away not having learnt something, though many readers will find his grandiose style a little off-putting.

After finishing the book I tried to develop an increased awareness of places where antifragility might appear. The issue is that like Taleb I'm prone to confirmation bias and end up seeing antifragility everywhere. *Antifragile* deserves its place firmly in the middle of the Barbell, slightly to the right perhaps but not at either end...

Henry Makansi, April 7, 2013