## Book review

# ANTIFRAGILE

# THINGS THAT GAIN FROM DISORDER

## Nassim Nicholas Taleb

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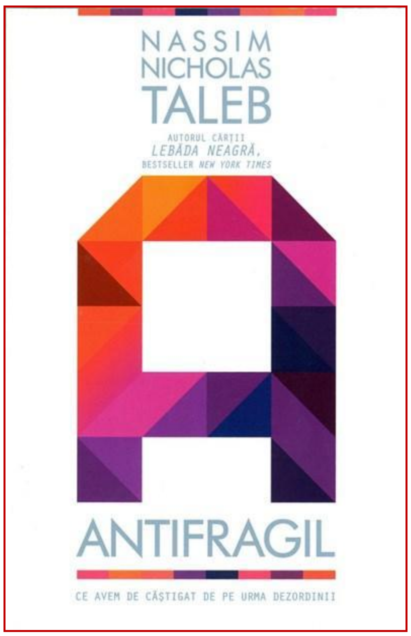
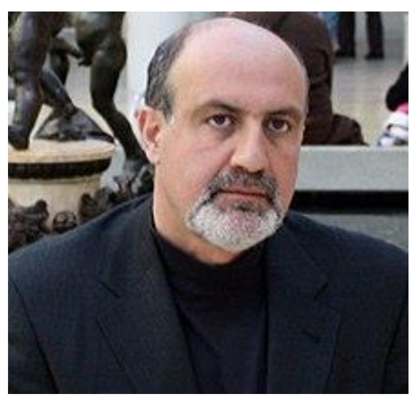



His book "Antifragile" defines anti-fragility as a convex, positive sensitivity to an increasing volatility (variability, stress, dispersion of results or uncertainty). In opposition, fragility is defined as a concave, negative sensitivity to increasing volatility. In contrast to strength and robustness, the anti-brittle, antifragile not only resists shocks, but also draws lessons from them and also improves from them. This is why knowledge through trial and error will always be superior to academic, "laboratory" knowledge, and the characters tempered in the fire of challenges will be stronger than those developed under a "glass bell." The world does not need detailed rules, no strict governance, but it must be allowed to evolve naturally.

Through his entire intellectual training, Nassim Nicholas Taleb, a stockbroker and a risk analyst, has become a bold and even more eccentric thinker and philosopher who advocates for accepting and assuming uncertainty in all areas of life. He is a good connoisseur of Greek, Latin and Arabic languages used in the history of the Near East, also a speaker of English, French, Italian, Spanish and passionate about classical philology. His name is associated with risk management around the world with the concepts of black swan and anti-fragility.



Fragile things break under stress. But there is a whole class of other things that not only resists stress, but also grows, strengthens or gains from unplanned and otherwise unwanted disorder. For example, *hormesis* is a mild anti-frailty, in which small, non-lethal but increased doses of poisonous substance are administered to become anti-fragile in an attempt to dodge the kill by poisoning (as proceeded Mitridate - King of Pontus and Agrippina - mother of the Roman emperor Nero). This is different from robustness or resilience in that the antifragile system improves with stress, it resists when the stressors are neither too high nor too low. According to Taleb, it should be noted that "lack of vital stressors is not necessarily a good thing and can be totally harmful."

In finance, there are financial contracts that are anti-fragile: those that will benefit from market volatility. As a result of price volatility, more advantages than disadvantages can be obtained. This is the case, among others, of hedge funds that use long and short strategies to hedge their position to market risk and that bet on positions advance or decrease in the future.

The first investment strategy is short selling, especially when the underlying asset is an income/value stock, that is supposed to be less speculative and more dividend oriented rather than capital gain. This strategy can be useful in times of recession when hedge funds bet on falling stock prices. Short sale involves selling the shares that the seller does not own, with the anticipation of making a profit from the difference between the price at which the shares are sold (higher) and the price at which they will subsequently buy those shares (lower). The short sale involves borrowing the shares from a broker, against a commission, through a margin account and selling them. Subsequently, these shares will be bought from the market at lower price and returned to the broker for a profit.

When the short-sale strategy is combined with the investment of another important part of the portfolio allocation in stocks with growth potential, that will bring profits when the stock market advances. Long positon investment strategy is made by borrowing from the broker the amount to be invested or by trading in the margin. It is based on the considerable benefit of a potential leverage effect. By compensating for long positions with short positions, the fund manager decreases its net exposure to the market and at the same time assumes a lower market risk.

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Taleb also highlights an agency problem in contemporary economics and finance: more and more people with public responsibilities and influencers will acquire anti-fragility at the cost of fragilizing others who are required to carry out the decisions of the former. These "negative heroes" (politicians, bankers, bureaucrats, etc.) "do not put their skin in strife/iron in fire", do not take the risks of their decisions (bankruptcy of large banks, for example, "because they are too big to be allowed to go bankrupt due to the systemic risk it represents”) and citizens pay the price (through massive state subsidies).

It is a deviation from ancient behaviors when people of high rank and / or with important social status "were the only ones who took risks, who bore the negative consequences for their actions - and those who did this for the sake of others were heroes. Today what happens is exactly the opposite ... The basic ethical rule would be as follows: Do not acquire antifragility at the price of others' fragility.

Let's take the case of managers with "solid, scalable" strategies at the superficial level by which, in a subtle way, they hide the real risks and from which they obtain market advantages, making them antifragile through the fragility of the shareholders or even of the company. "When he is right, he gains great benefits; when he is wrong, others pay the price. " Let us note that the same transfer of fragility occurs also to the politicians by carrying out some inexperienced public policies and even to the university professors who fragile their students by declaiming models with many hypotheses that will not be found in the economic reality.

Taleb argues that statisticians can be pseudoscientists when it comes to assesment of risks of rare events and risks of blows (whistles) and mask their incompetence (or limited competence) with complicated equations. "Economic models are extremely fragile to assumptions, in that a slight alteration in these assumptions can lead to ... extremely important differences in results." Worse, "many of these models are" retrospectively adapted "to the premises, in the sense that hypotheses are selected so that mathematical calculations work, a condition that makes them ultra-fragile and ultra-causal of fragility."

Critics of Taleb's book are either favorable or biased. For example, Lund acknowledges that he has many points of agreement with the Taleb philosophy and that "the book is a necessity" for anyone "remotely interested in finance and / or philosophical probability." Michiko Kakutani describes the book as "crazy, daring, repetitive, making justice and being timeless, erudite, reductive, agitated, self-indulgent, self-congratulatory, provocative, pompous, penetrating, insightful and demanding. "

To a criticism of Taleb about Scholes taking responsibility for the financial crises of 2008, Scholes replied that Taleb "simply popularizes ideas and earns money to sell books ... Taleb does not cite previous literature, and for this reason, he is not taken seriously in the academic environment.” The comment is malicious because Taleb has quotes from the ancient authors but also from the most recent ones.

From the book's contents:

Prologue, How to love the wind. The wind extinguishes the candle, but intensifies the fire ...

Book I, Antifragile: an introduction ... a look at the exchange between the antifragility of the collective and the fragility of the individual ...

Book II, Modernity and the denial of antifragility, describes what happens when we look at systems - mainly political systems - for volatility ...

Book III, A non-predictive view on the world, ... especially during the crisis, if you bet against fragility, you can get antifragility ...

Book IV, Optionality, technology and antifragility intelligence, presents the mysterious property of the world, because behind it lies a certain asymmetry than human "intelligence" and the way in which the option has brought us here.

Book V, Nonlinear and nonlinear (sic!), ... a map of fragility (as nonlinearity, more precisely: convex effects) and shows the limit resulting from a certain class of convex strategies ...

Book VI, Via negativa, shows that the subtraction is wiser and more efficient than the summation (the acts of omission are superior to the acts of commission) ...

Book VII, The ethics of fragility and anti-fragility, bases the ethics of fragility transfers, in which only one party gets the benefits and the other gets the damages; it will also be about the problems that arise from the lack of courage to put our skin in the game, the iron in the fire.

Appendix I, A graphic tour of the book ...

Annex II, Places where economic models cause fragility and blow people away ...

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