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Beware of Black Swans

Why We Fail to Predict the Major Events in Our Lives

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We spend much of our lives concerned about the future, trying to anticipate what will happen next in order to protect our families and maximize our opportunities. Experts on TV analyze news events and offer predictions. Government and industry computers crunch mountains of data to measure the risks we face.

So how come we keep getting surprised by momentous events, such as the stock market plunge in 1987 and the tragic terrorist attacks on September 11, 2001?

Nassim Nicholas Taleb, PhD, who has written two international best-sellers on the role of luck, calls these statistically improbable major events that carry a colossal impact "Black Swans." He points out that Black Swans don't have to be negative. Some Black Swans have changed society in profoundly positive ways, such as the discovery of cholesterol-lowering drugs and the meteoric rise of Google.

Here, Taleb explains how Black Swans will play a larger role in the world -- and what we can do to deal with them...

■ Aren't we pretty good at forecasting? After all, we make lots of accurate predictions about life every day.

We are very successful at predicting short-term, somewhat inconsequential events, such as the best time to leave for work to beat the traffic and how many groceries we'll need for the coming week. This ability has been developed by mankind through centuries of hunter-gathering. It is the major events that we fail to predict.

■ Why do we have such trouble predicting more important stuff?

Because our internal mechanism for estimating the potential role of chance events is too antiquated for the complexity of the modern world. Historically, we have had to deal with far fewer variables, less information and a smaller number of theories to explain it all.

Our ancestors lived in a highly predictable habitat. There were many small surprises but few large ones. Nowadays, communication is so effortless, society so intermingled, that almost no one's future works out as planned. What matters most to us today isn't the chance of rain or whether you can catch something for dinner. What matters now are complex economic and sociopolitical events, such as the rise in oil prices and the fall of the Soviet Union.

The larger problem is that we resist the notion that our existence is getting more unpredictable. It's scary to think that what happens is often just a matter of luck. We would rather fool ourselves with the illusion of control.

- **Can't we learn from our past mistakes?**

The way we dissect these highly complex events after they happen is the major reason we fail to forecast the future. In an effort to make sense of an event, we tend to oversimplify what we could have done differently.

For example, the 9/11 Commission concluded that the tragedy might have been averted if only we had had a more vigilant airport security system. But reality is not so cut-and-dried. Say that one year before the attacks, an astute member of Congress had predicted an attack and recommended the commission's changes. He wouldn't have been greeted as a visionary. The airline industry would have attacked him for instituting costly regulations, and passengers would have vilified him for creating unbearable delays.

- **Still, there have been no terrorist attacks in the US since 2001. Haven't our efforts made us more secure?**

I think it's a false sense of security. The lessons we drew from 9/11 may reduce the chances of a similar type of attack, but it won't help us predict the next one, any more than the lessons of Vietnam prevented us from getting bogged down in Iraq.

- **Should we stop trying to predict the future?**

We should focus on adjusting to the existence of Black Swans, rather than trying to predict them.

Let me give you an example -- Seung-Hui Cho, the troubled young man who killed 32 students at Virginia Tech University. In hindsight, it was clear that Cho should have been hospitalized. Instead, he was released. The mental health system failed. What is the appropriate response? Spend enormous resources to improve the system, right? But statistically there have been hundreds of thousands of troubled students who never became mass murderers. Can we really know the

next time someone is about to cross the line?

A smarter response to Black Swans is not to try to anticipate when they'll occur, but rather to establish more forward-thinking platforms of prevention. For instance, we could enhance security on campuses. It's not unimaginable that would-be terrorists have taken note of the relative ease and dramatic national impact of a massacre on a campus.

- **What can we do personally about Black Swans?**

You can empower yourself...

- **First**, stop making silly mistakes due to overconfidence. We are so anxious to feel secure and maximize our opportunities that we would rather accept the predictions of experts (and pay them handsomely) even if we know they are wrong. I'm amazed that investors hand over so much of their money to money managers who say they can beat the market but often can't.

- **Second**, worry more about the rare catastrophe that has the potential to ruin you, rather than high-probability events that just inconvenience you. For example, most people keep a low deductible on their car insurance because they don't want to shell out money for the inevitable fender bender. But when it comes to injury liability in the event they hurt someone in an auto accident, they insure for only the state-required minimum. The Black Swan in this case isn't the fender bender -- it's injuring someone else. You don't expect it will ever happen, but it can bankrupt you if it does. The solution is obvious -- raise your deductible and use the money you save in premiums to pump up your injury-liability coverage.

- **Third**, focus on Black Swans you can control. There's not a lot you can do to prevent a plane from crashing. On the other hand, there is a lot you can do to minimize your risk of diabetes. You can lose weight, eat right, etc.

Bottom Line/Personal interviewed Nassim Nicholas Taleb, PhD, a former trader on Wall Street, who is currently a visiting professor of marketing at the London Business School. He is author of [*Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets*](#), which has been translated into 20 languages, and [*The Black Swan: The Impact of the Highly Improbable*](#) (both from Random House).

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