Antifragile: Things That Gain from Disorder
Nassim Nicholas Taleb

What would you do if you had all the intelligence in the world?

Taleb is candid about what to do if you have all the money in the world -- in his parlance, f*** you money. He does, and the suggestion would be to follow his example.

More easily said than done. Although he dwells at some length on the intelligence of his ancestors, he is quiet about his own. I'm a smart enough guy that I don't often encounter people markedly more intelligence except through their writing. Taleb is clearly one such – a five or six sigma fellow, to use the kind of traditional statisics which he despises. The former is one mind in three million, the latter one in a billion. That is, if you believe standard statistics, which would be blind to the existence of exceptional subpopulations such as Jews and Lebanese from Amouin, in other words, standard stats would ignore black swans and get it wrong.

Just as it is easy to be to be charitable if you are wealthy, it is easy to be moral and ethical if you are blindingly intelligent. It is equally easy to have contempt for the ordinary strivers. Taleb disdains those who have come up via the national merit scholarship, valedictorian, Princeton, Harvard Law School etc. etc. path. People who are far brighter than the average, yet not so bright that they have the freedom to paint outside the lines of their lives. People who have a perpetual anxiety, and a need to get ahead of their fellow strivers, and certainly the hoi polloi, by whatever means. Especially if it means adopting a convenient moral blindness. He is not shy about naming such shysters by name: Thomas Friedman, Alan Blinder, Myron Scholes, Robert Merton. It is a long list.

Egregiously making enemies is one of the privileges given to those who possess f*** you money . He proudly recounts the bullet embedded deeply in his father's chest, requiring him to carry X-rays to explain his failure to pass through airport metal detectors. He talks about his own bodybuilding regime, giving him a sufficiently formidable aspect to discourage physical retribution for his verbal assaults. He invites the reader to share his prejudices. He's successful with me. I can't be him, but I admire him. I'm the kind of guy with enough experience in business, government and academia to instantly recognize the kinds of phony he detests, but without the intellect to articulate the revulsion nearly so well, or the cojones to beard them in their respective dens.

Now we come to the title, "Antifragile." Something is fragile if it an event not too far out of the ordinary can damage it. A teacup is fragile. A banking system or a currency is fragile if it cannot withstand the sort of shocks that should be expected over the course of time. Moreover, fragile things can generally only be worsened by life's slings and arrows. No chance event is going to improve a teacup. .. it is all downside.

A robust system reacts better to the twists and turns of life. A plastic teacup is robust in the face of children's small accidents. The Internet is built to be robust. Composed of electronic components any of which may fail, it has enough redundancy that a message can almost always get through. There are, of course, exceptions, which the (fragile) government security people use to scare us when they need funding or greater permission to invade our lives.

Antifragility is more than robustness. It is the property of improving under small shocks. A system of 1000 small restaurants, each of them individually fragile – likely to be forced out of business quite easily – is quite robust. Whatever happens to the economy, the traveler will always find one which remains open to feed him. Each failure gives the others an opportunity to learn, to adapt, and to make themselves stronger. The greatest antifragile system in the world is evolution. Individuals of a species are fragile, the species itself is at least robust, and life itself is antifragile. Even great shocks, such as the meteor strike which caused the Permian extinction, serve in the long run to improve it.

Taleb relishes his background as a trader, an artisan, a practitioner, a guy who puts his money where his mouth is. He uses trading as a metaphor. Situations with a large upside but limited downside he calls "convex," or antifragile. Call options would generally fall in this category. Conversely, those with limited upside but potentially unlimited downside, such as AIG's reinsurance of collateralized debt obligations and swaps, are fragile or "concave." They break, as AIG did break in the collapse of 2007/08. The trader Taleb made tons of money betting against the fragile Fannie Mae and Freddie Mac. The upside, if people paid their mortgages, was quite modest. The downside if they could not was huge.

Convex situations provide "optionality." Like a call option, they provide unlimited upside and limited downside risk. Taleb's major rant is against the elites of our society who can only benefit from optionality. Investment managers who lose millions in other people's money while drawing fat salaries, then when their funds go bust, as Corzine and Scholes' have twice, move on to other opportunities, leaving the little people to lick their wounds. Journalists like Thomas Friedman whose beating of the war drums helped draw us into Iraq, but who suffered no loss of any kind when it turned out to be a disaster. He hates hypocrites like Peter Orszag, who played a role in precipitating the meltdown of 2007, then without shame moved into the Obama administration to supposedly fix it. Ditto Bernanke.

He admires people who are not just "tawk," who live the lives according to the principles they advocate, and put up with large amounts of heat in the process. He names Ralph Nader, Steve Jobs and Andre Malraux among his heroes.

How can we apply his lessons to our lives? As far as money goes, he is a trader. Trading is generally a zero-sum game. His advice would be that of his character Fat Tony, "Don't be a sucker." Unfortunately, in just about every trade there is a sucker, somebody on the wrong side of it. It his hard to find a moral course of action in such a situation. The dumb guy loses. He trusts his banker, his broker, and his lawyer. It is the agency problem – these guys are not looking out for their clients, they are looking out for themselves. Taleb is indignant, but that's how the world works. Dumb people don't have much choice. They cannot be their own banker, broker or lawyer. A guy like Taleb can. NB: Google "Four Prominent Bastards" for Ogden Nash's poem on same. Wonderful humor, and nothing has changed in 60 years.

Taleb therefore advises us how to find convex risks in our own investments. He doesn't dwell as much on the topic of investments that are convex from the perspective of a whole society. He talks about why Switzerland works – it is a confederation of cantons, manageable entities – and talks about the benefits of family-owned businesses. His advice would be that the managers of a business should have "skin in the game."

He lambastes the American system of education, overstuffed with government money, risk-averse, never impacted by the faults in the supposed knowledge it imparts to its victims ('scuse, pupils). His own education was ideal. His father let him read pretty much whatever he wanted, and he acquired a superb classical education. The book is replete with apt quotations from both well known and obscure scholars from antiquity. He says that everything worthwhile which he learned, he taught himself. Much of it came while he was hiding out from the civil war in Lebanon.

I will refer back to Taleb as I plan the education of my infant son. One must make allowances; there is an outside chance my kid won't have a five-sigma intelligence. Still, the principle of taking responsibility, of educating one's self, should apply to any child. It used to be the standard back in Lincoln's day. Allow a kid to progress as far as his talents will take him, develop a broad understanding of the world, and avoid the Harvard hothouse flower syndrome which pushes a kid to achieve 150% of that of which he is capable, and leaves him quaking in fear all his life lest the fraud be discovered.

I'll revisit this review upon rereading the book, which I plan to do shortly. It is incredibly rich. Here I offer just a few scoops of frosting, without even looking back to the cake itself.

Taleb develops the barbell theme from "The Black Swan." With regard to your portfolio, keep most of it in very safe investments (whatever those are in these times – real estate, gold and ammunition?) and make speculations with convex exposure (ie, call options) with a small fraction. Investing most of a portfolio in "fairly safe" stuff like AAA rated bonds can turn badly against you.

He talks about risks in terms of the Pareto 80:20 rule. 20% of the people have 80% of the money. 20% of those have 80% of that (ie, 4% and 64%). Focus on those 20%, or 4%. If they are positive, back up the truck. If they are negative, short them or get rid of them.

Iatrogenics (ya-trow-jen-iks) is doctor-induced disease. Doctors have an agency problem: it is your body, not theirs. They have a bias towards action: a doctor who tells you just to wait, it will go away, appears not to be giving useful advice. They have a financial incentive: they get paid more if they treat you. In our litigious society they have a CYA incentive. It is easier to get sued for doing nothing than following the accepted course of treatment. The upshot is that we get far more treatment than is good for us. Taleb advises that you ask the question, what would the doctor do if he had the problem, not you? Odds are strong it would be much less.