Lecturing Birds on Flying: Can Mathematical Theories Destroy the Financial Markets?

Pablo Triana
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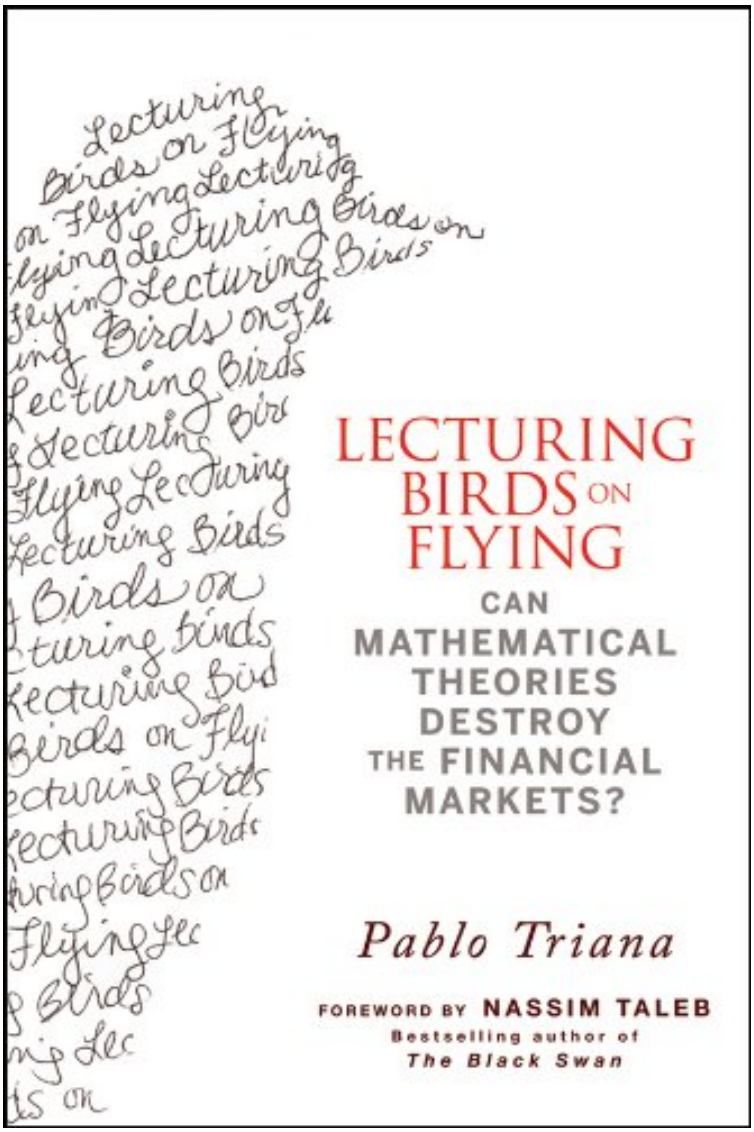

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Pablo Triana : Lecturing Birds on Flying: Can Mathematical Theories Destroy the Financial Markets? before purchasing it in order to gage whether or not it would be worth my time, and all praised Lecturing Birds on Flying: Can Mathematical Theories Destroy the Financial Markets?:

3 of 3 people found the following review helpful. I Want My Money BackBy J. J MaloneThe writing is awful. Truly awful.This book was obviously not edited at all. I'm amazed that the publisher (John Wiley Sons) allowed it be released. The author mixes tenses, makes up words (like "panickly" and "noncowardly"), and rambles on and on and

on with very little coherence or logic. It is painful to read.Here's an example of the writing (taken from the preface, p. XXXVII):"Even more ruthlessly elaborating on the damage very particularly caused by Black-Scholes and on the possibility that the famed construct may not be used or have been needed at all is a devastating bombardment of the theoretical temple, given the awe in which Black-Scholes (in essence, the crown jewel of financial economics) has been held by the analytical community for over three decades."There's over 330 pages of this!I bought the book because Nassim Taleb wrote the foreword and recommends it. In contrast to the body of the book, Taleb's forward is well-written, logical, insightful, precise, and concise. In fact, it is by far the best part of the book, and, indeed, the only part of the book worth reading.I know that Taleb hates editors and shuns proofreaders. Maybe Triana, in trying to imitate his master, did the same; I don't know. But the writing is so horrible that reading it was an obscene waste of time. I'd get a refund if I could.6 of 6 people found the following review helpful. A wast of ink and paperBy Tim DoolingThis book is written by a young derivative salesman. If you are a young derivative salesman your mission in life is twofold:1. Repeat soundbytes that other people tell you. Over and over again.2. Rip people off. Get people to pay the wrong price for something, then prance down to the trading desk patting yourself on the back and watch the trader try to keep a straight face.This book does both in spades.... unoriginal thought verbosely repeated.....Triana is annoying throughout, his false self-deprecation and poor attempts at copying Talebesque wit make the book a trudge thinking there is something about to change or emerge from the text.....sadly it does not.The best book I have read in the genre is Traders Guns and Money by Satyajit Das.....Check out it's reviews....A well written tour de force from a smart guy who knows what he's talking about.....Traders, Guns and Money: Knowns and unknowns in the dazzling world of derivatives Revised edition (Financial Times Series)12 of 14 people found the following review helpful. An introduction to the theory and practice of ridiculeBy Dr. Lee D. CarlsonThe blame game for the current "financial crisis" is ongoing, with an intensity and volatility that is going way beyond the pale of any acceptable standards of human discourse. As this book is an excellent example of, the level of vituperation and ridicule is reaching the stratosphere, and shows no sign of abatement. At least for this reviewer, this book was tough to read, not because its technical content is difficult, which it is not, but rather because of the steady and irritating commentary on part of the author. In addition, he seems to switch from one position to its opposite, as if he flipped a coin while writing the book, with his stance depending on which side of the coin came up. In one part of the book he is excoriating the practitioners of "pure mathematical finance" for the bringing down of the markets. Just a few pages later he is revealing to the reader that such an approach was not even used at all, or at least minimally.Between these Markov transitions from one position to the next, the author is busy indulging himself in distasteful and unprofessional ridicule of the "arrogant" and "self-serving" financial theorists who never spent a minute on the trading floor, and who were responsible for "terrible, theory-ignited mischief." Risk management he asserts should be handed back to "freethinking, gumption-honoring, innumerate chums". In other words, the financial decision-making should return to the use of "old-fashioned commonsense." Throughout the book he lifts up the quasi-mythical "Black Swan" symbolism in order to justify his belief in the power of "rare events" and the inability of VAR models to account for them.One can certainly commend the author's rejection of social and intellectual hierarchies, and his encouragement of this rejection to the reader. Degrees, accolades, and exaggerated recommendations mean nothing when it comes to describing and understanding real systems. The only thing that matters is evidence, and this comes at a high cost, both in dollars and in time. The obtaining of true knowledge is difficult, and frequently must be done without worrying about recognition or monetary compensation. A high degree of mental discipline is required, along with large blocks of time.But rebellion against authority and word arrows fired against stuffy, arrogant mathematicians does not prove a thesis. The author has failed to prove his in this book, in spite of the title and the page count. Indeed the writing and logic is confused and leaves the reader wanting as to what the author is really asserting:- Quantitative finance is derided for its potential to "sow the seeds of market chaos" but the author does not define what "market chaos" is nor entertain the possibility that chaotic dynamics in a financial market may indeed be an efficient way of allocating capital and labor. There are several systems of interest, such as data networks and the human neural system, which depend on chaotic dynamics for their proper functioning.- Financial engineers are scolded about their attempts to predict future market movements by sole reference to the past, but the author then praises the financial savvy of "commonsense" traders who acquired their knowledge and expertise by years of trading.- In attempting to explain the (in his opinion, unjustified and reckless) adoption of techniques from quantitative finance, he author claims that it was also due to regulatory agencies or public relations but does not give one example, even anecdotal, to support this. Which regulatory and advertising agencies were involved?- The 1987 "crash" is blamed on Black-Scholes-inspired trading strategies, but no convincing evidence is given anywhere in the book. And along these same lines the author refers to this as a "cataclysm", as do a few others in the financial press. But it would be just as easy to refer to it as merely a market correction, considering the behavior of the market a few days after "Black Monday." And just because a collection of wealthy people lose a lot of money does not mean that it is a "cataclysm."- The claim that no mathematical model can capture the intricacies of human psychology. This is not true, as research into cognitive neuroscience will reveal. Although much work remains to be done in this area, it is progressing with all deliberate speed.- The author asserts that humans are so unpredictable in their financial dealings that not even a "Prophet" could

sort it all out. Humans "change the rules constantly". But on the other hand many times in the book he is proclaiming the wisdom of Leo-Malamed-type "commonsense" traders to do just that. Apparently folk wisdom and "commonsense" can "untangle" the "conundrums" of the financial markets. How many commonsense "chums" were actively involved in the 1929 Crash, the Latin American banking crisis in the 1980's, Black Monday in 1987, the bond market meltdown in 1994, the Asian 1997 crisis, the 1998 Russian default, the 2000 NasDaq crisis, the 2001 Enron Bankruptcy, and the 2002 WorldCom bankruptcy? None at all? Predominantly?- What evidence is there that "outliers" are "created by people who don't believe in outliers"? Has the author studied this real-time, or can he give some sort of historical evidence supporting this claim? Can a collection of people doing trading on a "assumption of normality" actually give results that are "non-normal"? How would one study this phenomenon? It seems the author is making a prediction here. But from dialog throughout the book, he ridicules the attempts to make predictions on human financial behavior.There are many more outrageous claims that would add to this list, but space restricts this reviewer from going any further. To substantiate the claims that the author is making in this book would swell its pages to number in the thousands. It is a tiresome collection of ranting and ridicule, and adds nothing to the debate on the efficacy of quantitative finance. From working in financial modeling, this reviewer has always encountered extreme skepticism regarding mathematical modeling on the part of senior management. But these examples are purely anecdotal, and it would take many years to show that this is widespread, or that the converse is true.If one humble lesson could be taken from reading this book it is that the financial markets of the twenty-first century rattle and intimidate some people, even seasoned traders and financial professionals. Yes, there are complicated mathematical constructions that are employed to describe financial markets and that are used to trade securities. But this reviewer looks forward to more mathematics in finance, not less, in the years ahead. Even better, and this is certainly on the horizon, is a situation where the commonsense of human financial dealings is completed automated into the technology used to implement financial transactions.

Praise for Lecturing Birds On Flying "Finally, a book taking a critical look at quantitative finance models, illuminating both their flawed fantasy assumptions as well as the uncritical use of such models on Wall Street, in many cases, leading to billion dollar losses. Pablo Triana knows both the financial industry and the academic community from the inside. A must-read for anyone interested in finance." mdash;Dr. Espen Gaarder Haug, trader, thinker, and author of Derivatives Models on Models "A thoroughly readable explanation of the problems that have beset the models and quantitative techniques that have underpinned so much of finance in recent years. If only the bankers had heeded this message a few years before, we might not be in such a big mess today." mdash;Gillian Tett, Assistant Editor of the Financial Times, overseeing global financial markets coverage, and author of Fool's Gold "Pablo Triana dismembers quantitative finance, in theory and in practice, with expertise, anger,and an excellent eye for the illuminating anecdote. By the time he has finished marshalling his evidence, his call to replace complex equations with something more like common sense sounds like, well, common sense." mdash;Edward Hadas, Assistant Editor at Breakingviews.com; and author of Human Goods, Economic Evils: A Moral Approach to the Dismal Science "Pablo Triana is an entertaining and engaging writer, even on the dry subject of finance theory. His debunking of conventional wisdom is a treat." mdash;Pauline Skypala, Editor, FTfm, Financial Times "Triana's book is an unrelenting fusillade of detailed and irrefutable arguments against financial theorems and those who teach them. It should, by rights, spark a revolution in both investment banks and business schools. But, at the very least, it is required reading for anyone who would regulate the finance industry." mdash;Felix Salmon, Finance Blogger, Reuters

"Points to the over-reliance on financial models and quantitative techniques as what ultimately brought down the financial markets. Sure, many of us feel that we have heard enough on this topic-do we really need another book about the financial mess and how it all began? Yes, we do. . . Triana's impressive knowledge and experience allows him to dig deeper and go beyond the mere musings of his published peers."mdash;Risk Management Magazine"Readers of this book may make quite a lot of noise. . . Some will cheer out loud; others will yelp as cherished beliefs are torn into. At times, the book is deliberately incendiary. Triana is trying to stimulate debate. . . On the whole, this is a good read."mdash;The Financial Times, July 23rd 2009"...calls for a return to "good old fashioned commonsense decision making"."mdash;Daily Express, June 4th 2009"This book explains how it is that theoretical finance can fail dramatically in the real world."mdash;Finanace Management Faculty, June 2009"The book is fizzing with ideas"mdash;The Economist, June 29th 2009" Trianarsquo;s book will ruffle a lot of feathers, but it also will make many readers think hard."mdash;BizEd"A deeply unsettling insider account of how bogus mathematics overtook finance and was a key contributor to the financial collapse of 2008-2009 . . . With deep insight, Triana deconstructs the "pillars" of mathematical finance . . . Like Nassim Taleb, celebrated author of The Black Swannbsp;(2007), Triana is calling for major surgical reform of such business schools' curricula. An important addition to our deeper understanding of how finance must be reformed."mdash;Hazel Henderson, Ethical Markets"Should the Nobel Prize for economics be abolished? That is one of the suggestions in Pablo Triana's provocative book "Lecturing Birds on Flying: Can Mathematical Theories Destroy the Markets?" . . . As Nassim Nicholas Taleb writes in his witty

introduc...From the Inside FlapFor the past few decades, the financial world has often displayed an unreasonable willingness to believe that "the model is right, the market is wrong," in spite of the fact that these theoretical machinations were largely responsible for the stock market crash of 1987, the LTCM crisis of 1998, the credit crisis of 2008, and many other blow-ups, large and small. Why have both financial insiders (traders, risk managers, executives) and outsiders (academics, journalists, regulators, the public) consistently demonstrated a willingness to treat quantifications as gospel? Nassim Taleb first addressed the conflicts between theoretical and real finance in his technical treatise on options, Dynamic Hedging. Now, in Lecturing Birds on Flying, Pablo Triana offers a powerful indictment on the trustworthiness of financial theory, explaining-in jargon-free plain English-how malfunctions in these quantitative machines have wreaked havoc in our real world. Triana first analyzes the fundamental question of whether financial markets can in principle really be solved mathematically. He shows that the markets indeed cannot be tamed with equations, presenting a long and powerful list of obstacles to prove his point: maverick unlawful human actions rule the markets, unexpected and unimaginable events shape the markets, and historical data is not necessarily a trustworthy guide to the future of the markets. The author then examines the sources of origin of many prevalent theories and mathematical dictums. He details how the field of financial economics evolved from a descriptive discipline to an abstract one dedicated to technically concocting professors' own versions of how such a world should work. He goes on to explain how Wall Street and other financial centers became eager employers of scientists, and how scientists became eager employees of financial firms. Triana concludes with an in-depth discussion of the most significant historical episodes of theory-caused real-life market malaise, with a strong emphasis on the current credit crisis. In the end, Lecturing Birds on Flying calls for the radical substitution of good old-fashioned common sense in place of mathematical decision-making and the restoration to financial power of those who are completely unchained to the iron ball of classroom-obtained qualifications.About the AuthorPablo Triana has successful derivatives experience at all levels: on the trading floor and as a professor, consultant, and author. He is a frequent contributor to business publications, including the Financial Times, Forbes.com, Breakingviews.com, and Risk magazine, among others. Triana is also the author of Corporate Derivatives. He holds a master of science from the Stern School of Business, New York University, and a master of arts from American University.