

Against the Gods: the Remarkable Story of Risk,

by Peter Bernstein

Ideas from the book. The numbers are page numbers in the book 1998 edition.

RULES:

261 – Risk is the change of losing money

6 – Regression to the mean

165, 170 – Reversion to the mean

221 – no event is identical to earlier events

277 – life is a 3 dimensional world, 1 move and everything else adjusts

53 – likelihood of an outcome

Probability = the ratio of favorable outcomes to total opportunity set.

Odds = ratio of favorable outcomes to unfavorable outcomes

70 – value of outcome varies by person

49 – with math we gained a theoretical understanding of frequency of past events.

100 – objective measurement with as good info as you can find and using maths and statistics to describe them.

120 – we estimate probability from what happened after the fact

BENEFIT IDEAS: best practices

280 – Take risks based on known probabilities

247 – seek best price / returns for less / lower risk

250 – seek best for the price

71 – fear of harm should be relative to gravity of harm and probability it will occur

70 – value of outcome and likelihood it will occur

50 – is the die honest or is the game rigged against you?

53 – don't bet more than you should relative to the odds

100 – make decisions based on objective facts and desirability of result

Pathologically risk-averse make choices based on consequences without regard to probability

Foolhardy make choices based on probability without regard to consequences

49 – how much credibility can you give to the evidence?

BIASES:

264 – Losses make people risk averse, increases in wealth increase appetite for risk

281 – people use computational shortcuts

293 – overweight of new information, underweight existing information

121 – people are influenced by past experiences; more influence = more recent

113 – fear of losing is greater than desire for gain

118 – conjecture process of estimating whole from the parts

71 – degree of belief – not correlated with statistical likelihood

271 – use gut rules instead of measurement

272 – how we frame things in our minds matters

Pay little attention to the routine

Lots of attention to low probability events with high drama

274 – loss aversion; reference value based on possible gain or loss of where are now

275 – make choice to move forward based on bet relative to what's in our pockets

277 – separate parts – fail to realize the decisions will affect the whole

View cost and loss differently

278 – a loss added to a larger loss is not as painful as a loss on its own

291 – the planner vs. the thrill seeker

