NETRA

Early Signals Through Charts

Understanding Randomness
Through Aphorisms

5ᵗʰ June 2025

4th
ANNIVERSARY
EDITION
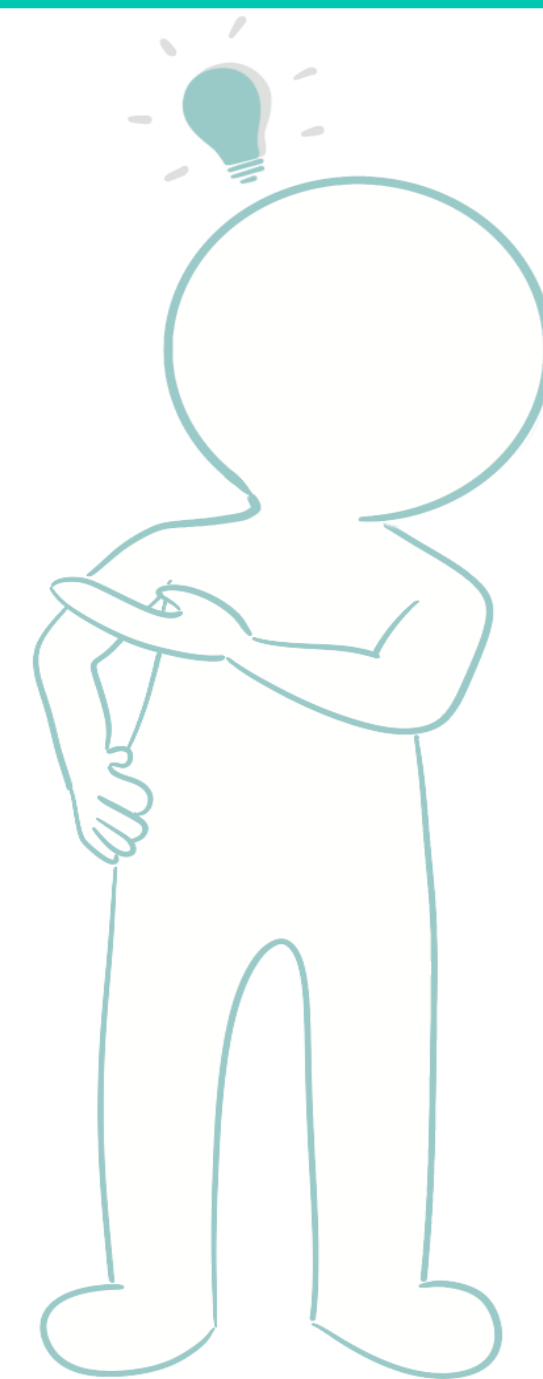
Understanding Randomness Through Aphorisms

"To bankrupt a fool, give him information."

This edition has no information. It doesn't have data or charts from financial markets. The fourth anniversary edition of DSPNetra focusses on lessons from 'The Incerto' series by Nassim Nicholas Taleb. The following pages illustrate some of the most insightful, although not all, ideas from the series.

To fully grasp these ideas, and we emphasize that every reader of DSPNetra must
- Read all five books of the 'The Incerto' series by Nassim Nicholas Taleb.
- Spend at least 1 minute, or more, on each illustration and then read the text.
- Try to pen your own interpretations as notes.

All quotes used in the report are from Nassim Nicholas Taleb's publicly available resources unless otherwise stated.
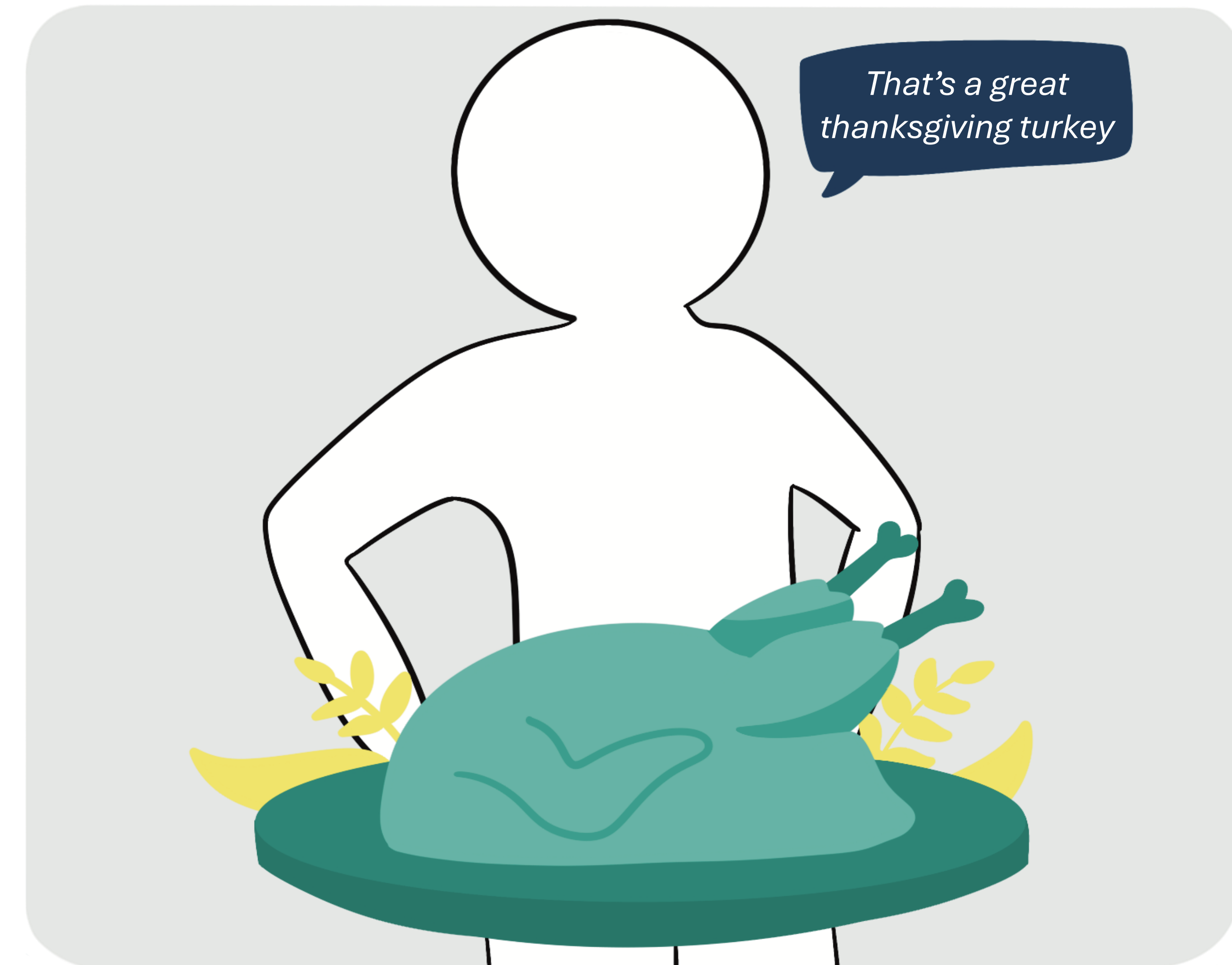
"They think that intelligence is about noticing things that are relevant (detecting patterns); in a complex world, intelligence consists in ignoring things that are irrelevant (avoiding false patterns)." - Nassim Nicholas Taleb

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The Problem of Induction – Avoid Wrong Lessons From The Past
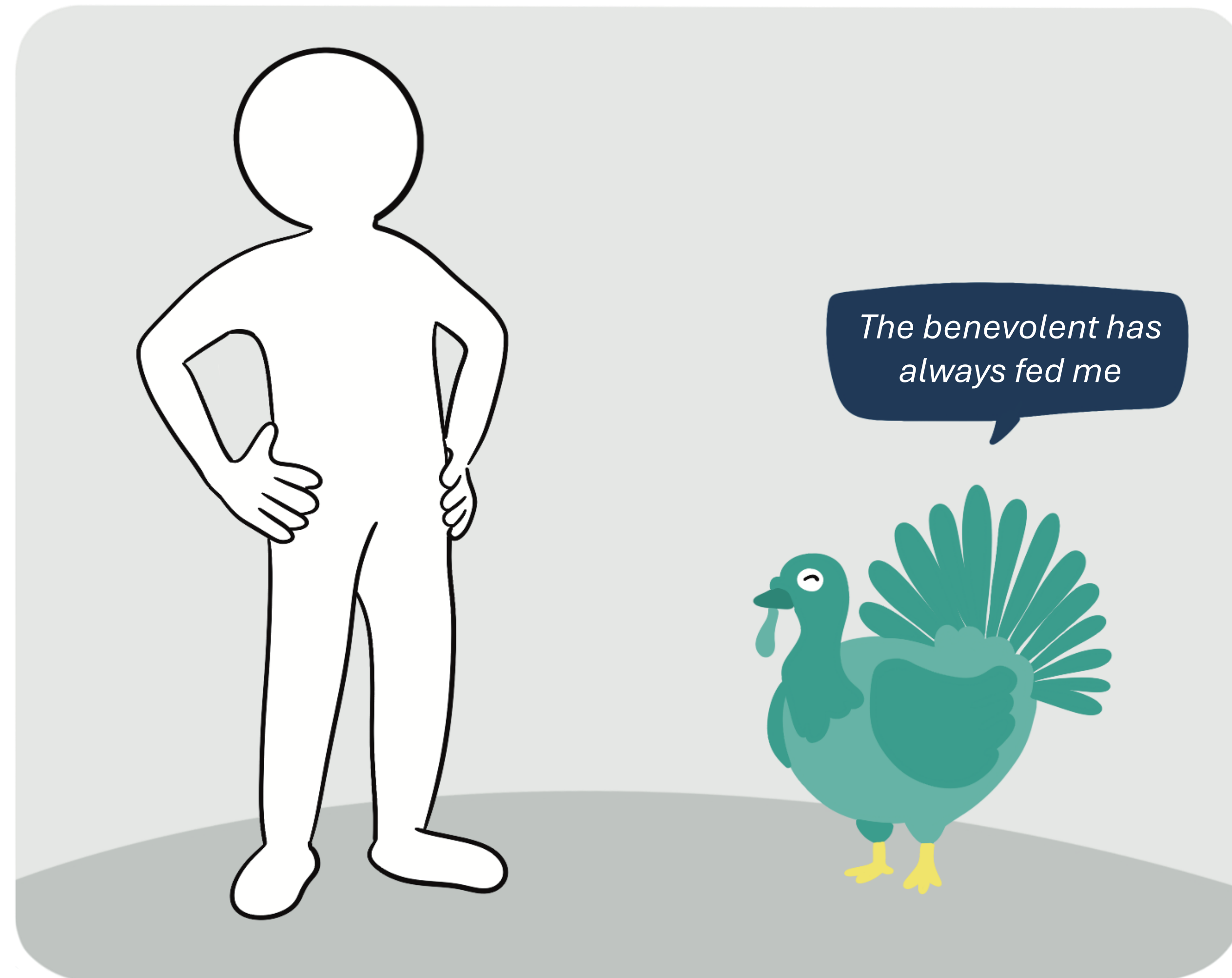
The Black Swan – Rare, Extreme & Retrospectively Predictable

Black Swans don't just break your predictions; they break your confidence in prediction itself. But only for a while…
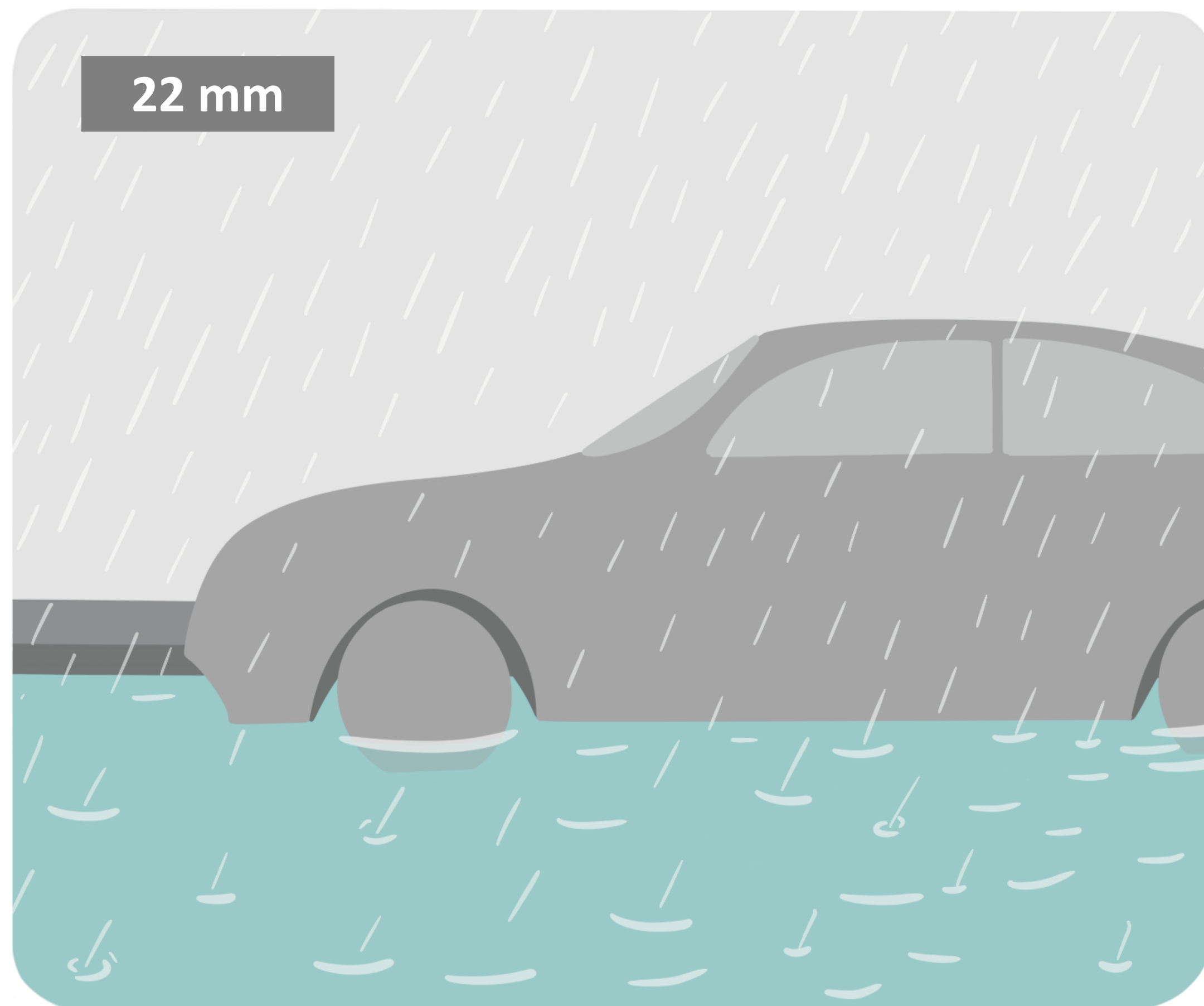
Normal Mumbai Monsoon
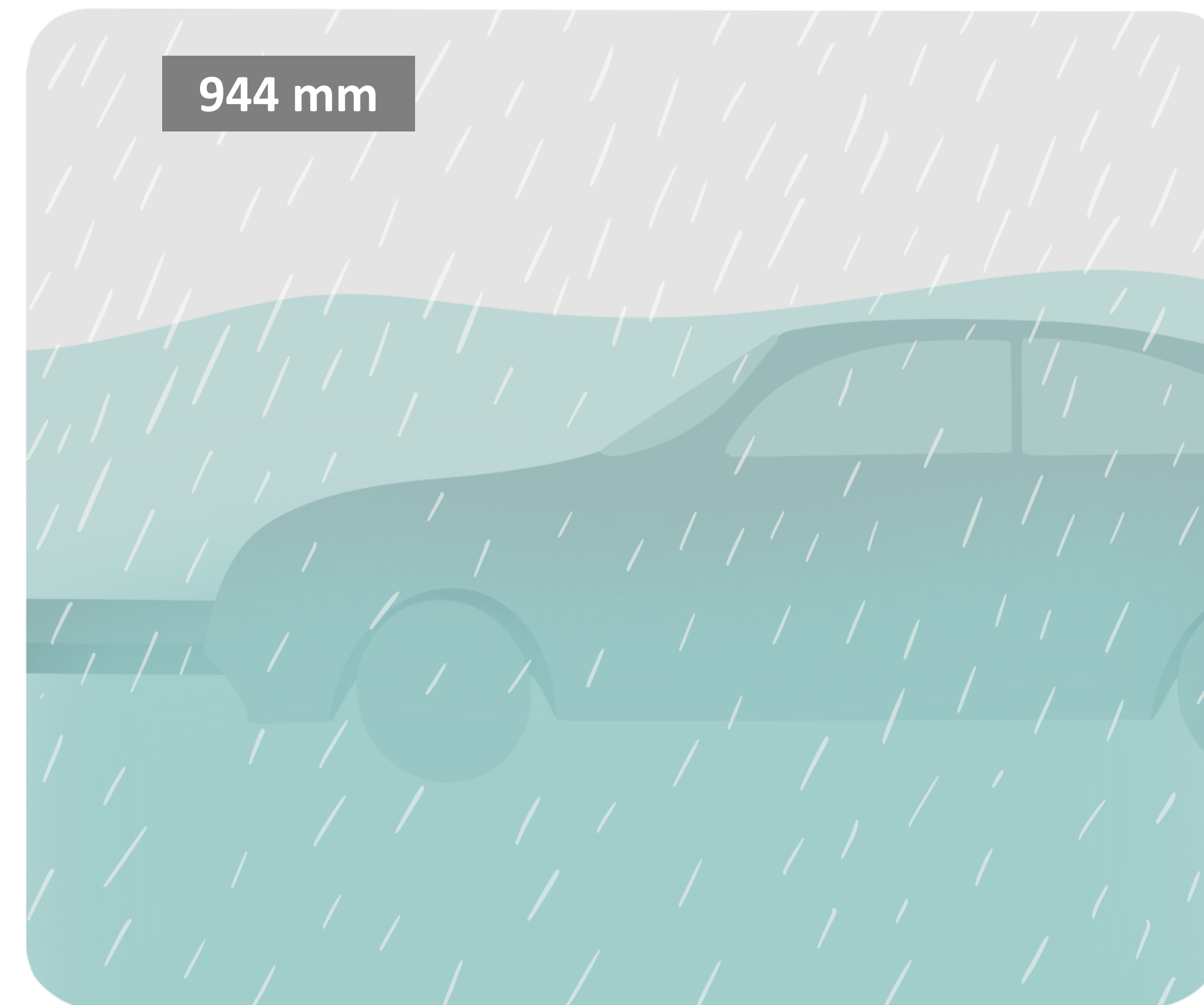
26th July 2005

Average daily rainfall in July, in Mumbai is about 22 mm per day. On 26th July 2005 it rained 944 mm of which 760 mm fell in just 10 hours. It was a 26-sigma event. Even if there were a new July day every second for the age of the universe, you'd still not expect one 944 mm day, assuming a true normal distribution. Yet we have the illusion that we know everything and can predict the next deluge. Everyone knows retrospectively. Nobody knows prospectively.

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Antifragile – Please Mishandle

"Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better."

Sold for 1.4M USD
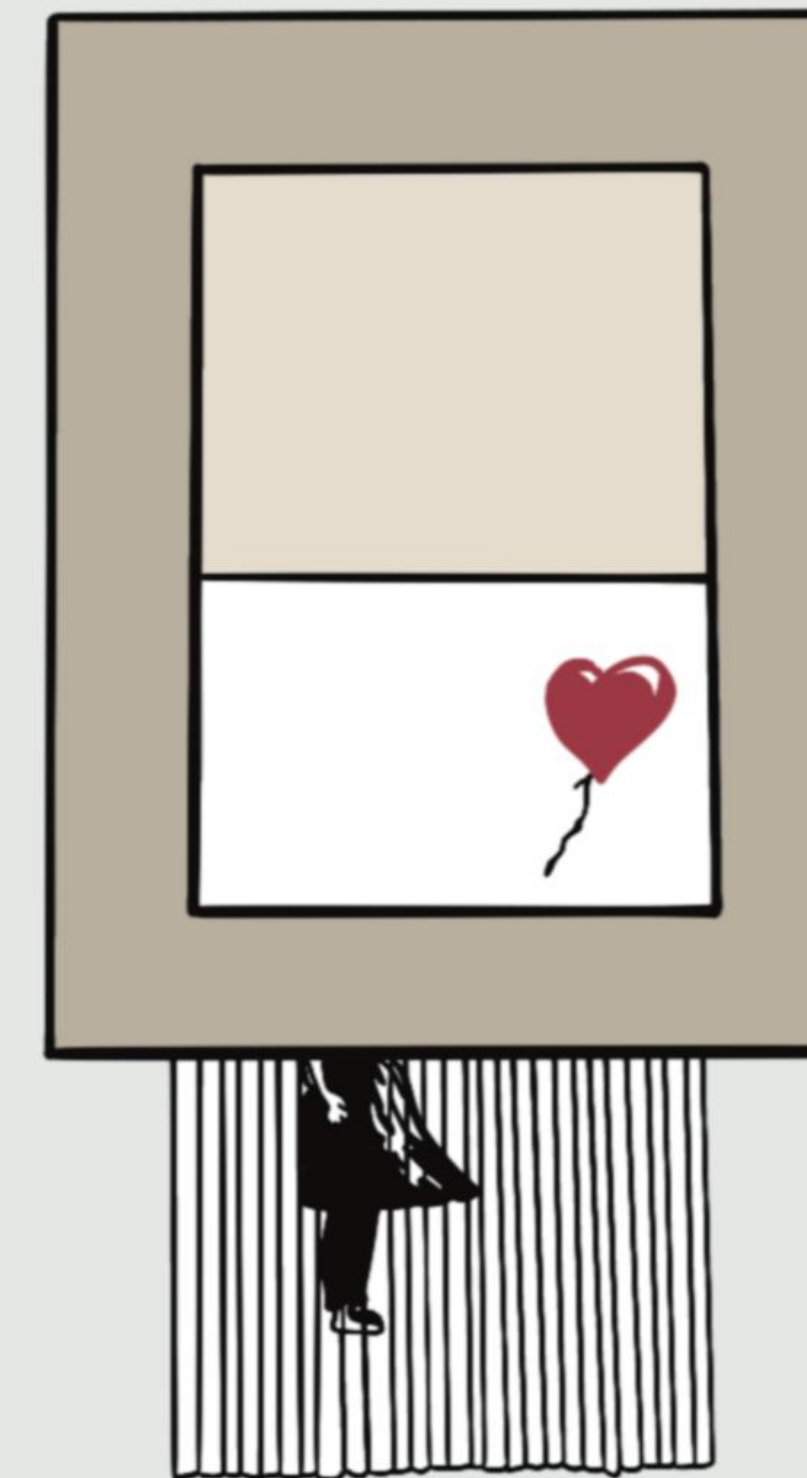
Sold for 25.4M USD

During a 2018 Sotheby's auction, Banksy's 'Girl with Balloon' began self-destructing moments after being sold for over $1.4 million. Hidden within the ornate frame was a shredder that activated immediately after the gavel fell, slicing the canvas halfway through in front of a stunned audience. This bold act transformed the painting into a new artwork, mid-auction, without prior knowledge of Sotheby's. Rather than diminishing the piece's worth, the unexpected shredding increased the worth of the artwork. The artwork was antifragile. It thrived under stress. The buyer agreed to complete the purchase, and the work was renamed Love is in the Bin. Later, the artwork was sold for $25.4 Million.

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Read more: Banksy sets auction record with £18.5m sale of shredded painting

# Skin In The Game – Don't Trust Bystanders

"Don't ask the barber whether you need a haircut."

"Anyone voicing a forecast or expressing an opinion without something at risk has some element of phoniness. Unless he risks going down with the ship this would be like watching an adventure movie."- Taleb

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The Ludic Fallacy – Reality Is Not A Gimmick

"People confuse the map for the territory, the model for reality."

Backtested

Magnificent outcomes!

Real World

Wonder what went wrong!
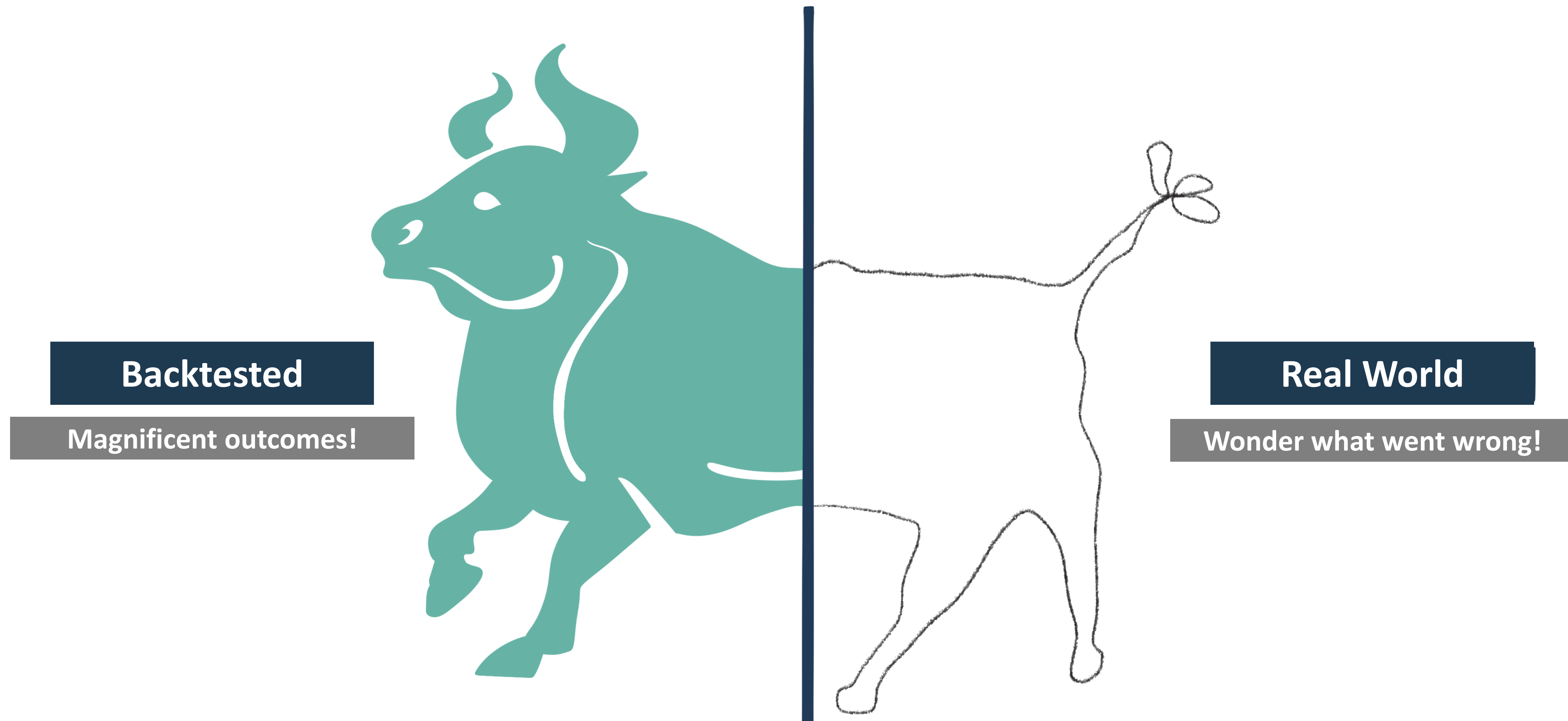
A trader listened to the firm's "chief" economist's predictions about gold, then lost a bundle. The trader was asked to leave the firm. He then angrily asked the boss who was firing him, "Why do you fire me alone, not the economist? He too is responsible for the loss." The boss: "You idiot, we are not firing you for losing money – we are firing you for listening to the economist." - Taleb

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Lucky Idiots – Mistaking Luck For Skill

Many who seem talented are simply lucky. All one can do is try not to be an idiot. Luck, or the lack of it, is random.
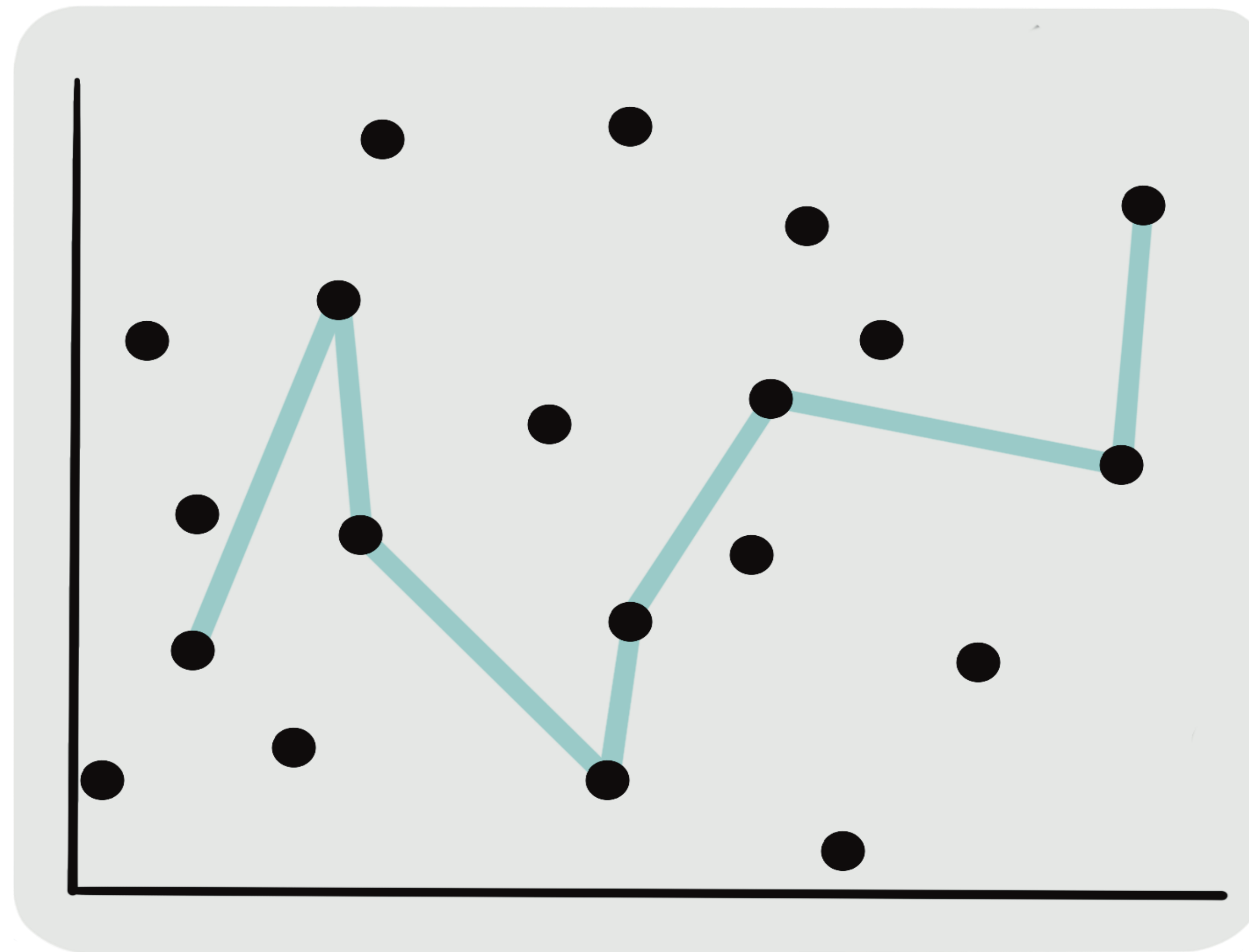
*"We often have the mistaken impression that a strategy is an excellent strategy, or an entrepreneur a person endowed with 'vision,' or a trader a talented trader, only to realize that 99.9% of their past performance is attributable to chance, and chance alone." – Taleb*

Over sufficiently long periods, it is likely that a lucky idiot will be run over by idiocy.

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Mediocristan vs Extremistan - Rare, Extreme Events Dominate In Extremistan.

"You may think the world is in Mediocristan. You will be fooled."
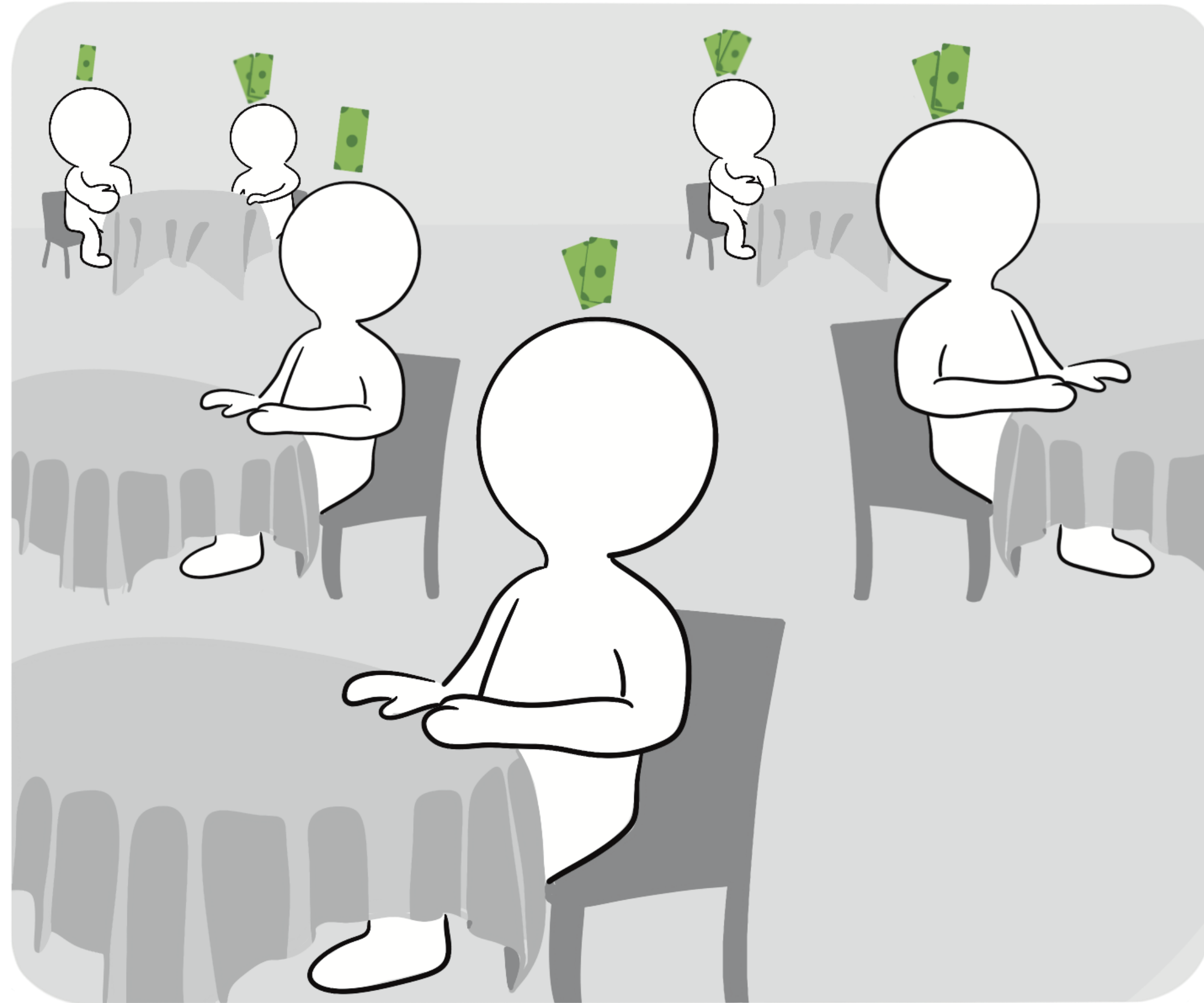
Average income: $100,000

Average income: $4.35 Billion

In a restaurant with 25 customers averaging $100K each, the total net worth is $2.5M. If 'Gill Bates' with a net worth of $113B walks in, the average jumps to over $4.35 billion per person. Averages hides extremities. One bad day, one large outlier, one massive lucky break can change the course of history.

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Nonlinearity – Tiny Changes, Massive Impact

"The fragile wants tranquillity, the antifragile grows from disorder, and the robust doesn't care too much."

(R_0): 2 to 3, Asymptomatic Spread: Rare

SARS 2003

*(R_0): 2 to 5, Asymptomatic Spread: Common*

SARS-CoV-2, COVID-19

COVID-19 (SARS-CoV-2) became a global pandemic while SARS 2003 didn't because of nonlinear dynamics. Driven by a higher R_0 and widespread asymptomatic transmission, COVID-19 allowed exponential, invisible spread before containment could start, unlike SARS 2003, which had a lower R_0 and symptomatic transmission that made isolation effective early on.

Non-linear processes have vastly convex outcomes. Take decision where downside is limited but upside is unlimited. Always focus on the 'margin of safety' on the downside, the upside will take care of itself.
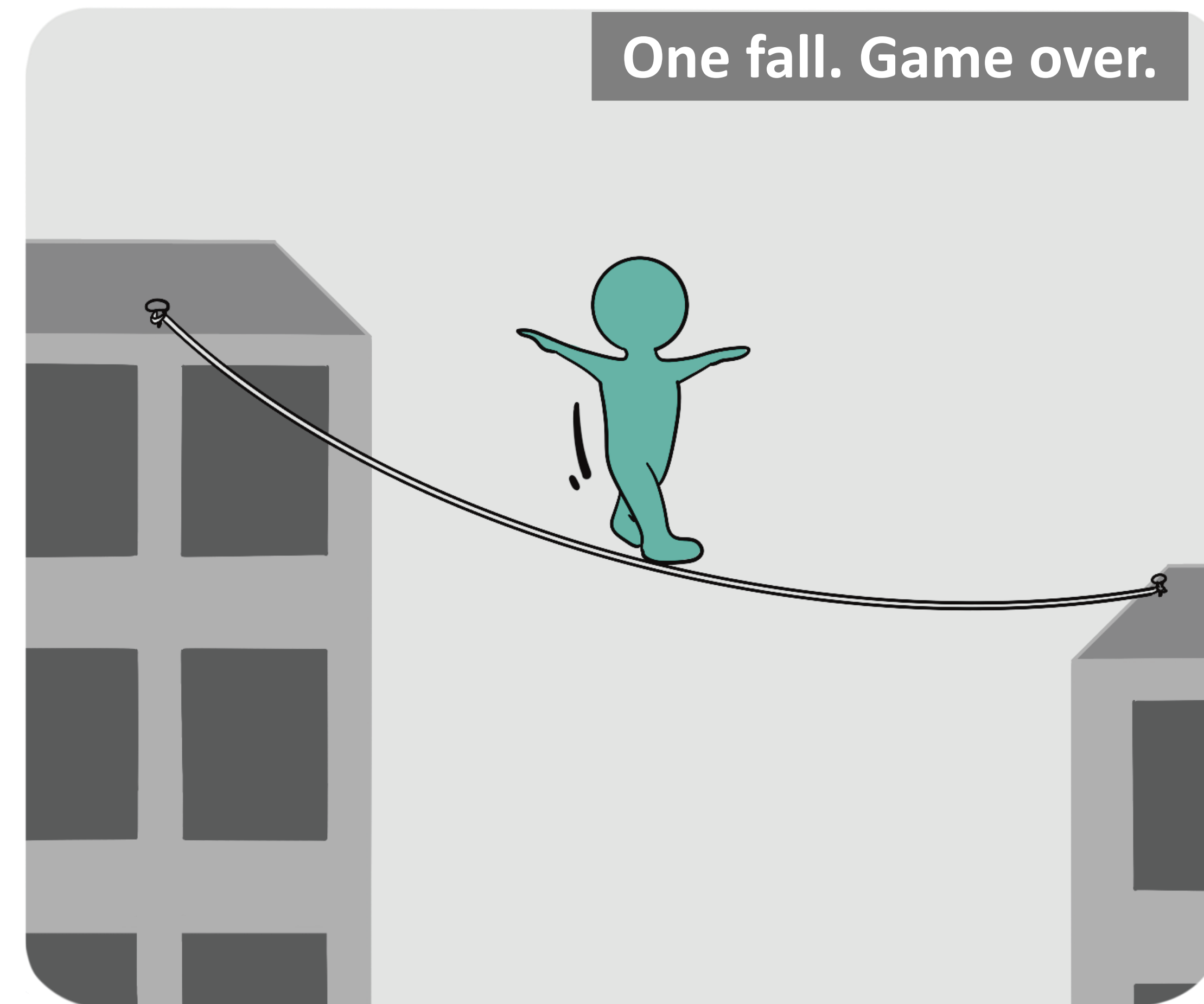
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Ergodicity – "No probability without ergodicity."

"An ergodic system is one where what happens on an average, happens to you too. In non-ergodic systems, what happens to the average person does not happen to you over time."
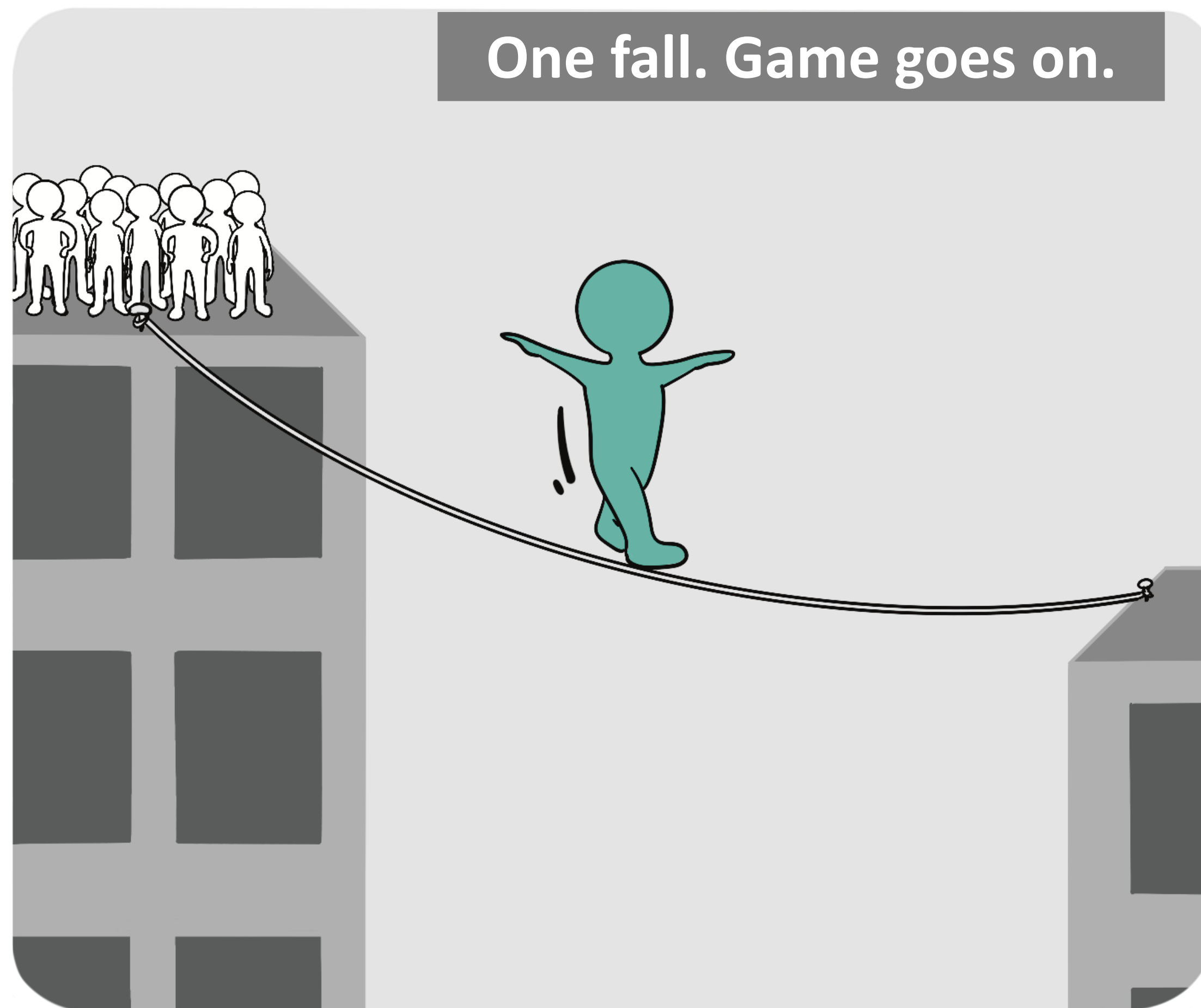
One fall. Game goes on.

50 people ropewalking

One fall. Game over.

You ropewalking 50 times

"If the system is not ergodic, then the risks you take must not be based on averages. Ruin cannot be averaged away."
Stock markets are non-ergodic. The average returns touted to you is not your return. The risk of ruin that you run in your portfolio has nothing to do with what market, as a whole, delivers. If you lose, your journey is over, but the market will go on. Therefore, survive. Real world is non-ergodic.

The Lindy Effect – Survivors Last Longer

Time is the greatest destroyer. It will find your weakness and expose you to ruin, eventually.

Stick with the Time-Tested

The Hype Trap

*The toothbrush has been in existence in its basic form for over 5000 years. Despite countless innovations and attempts at replacement, its simplicity and effectiveness have stood the test of time. Many modern gadgets promise better outcomes – but often fade into obscurity. Not everything new is better. Some things survive not because they haven't changed, but because they don't need to.*

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Via Negativa – Be Deeply Skeptical of "Naïve Interventionism"

"Knowledge is subtractive, not additive – what we subtract (reduction by what does not work, what not to do), not what we add (what to do)."
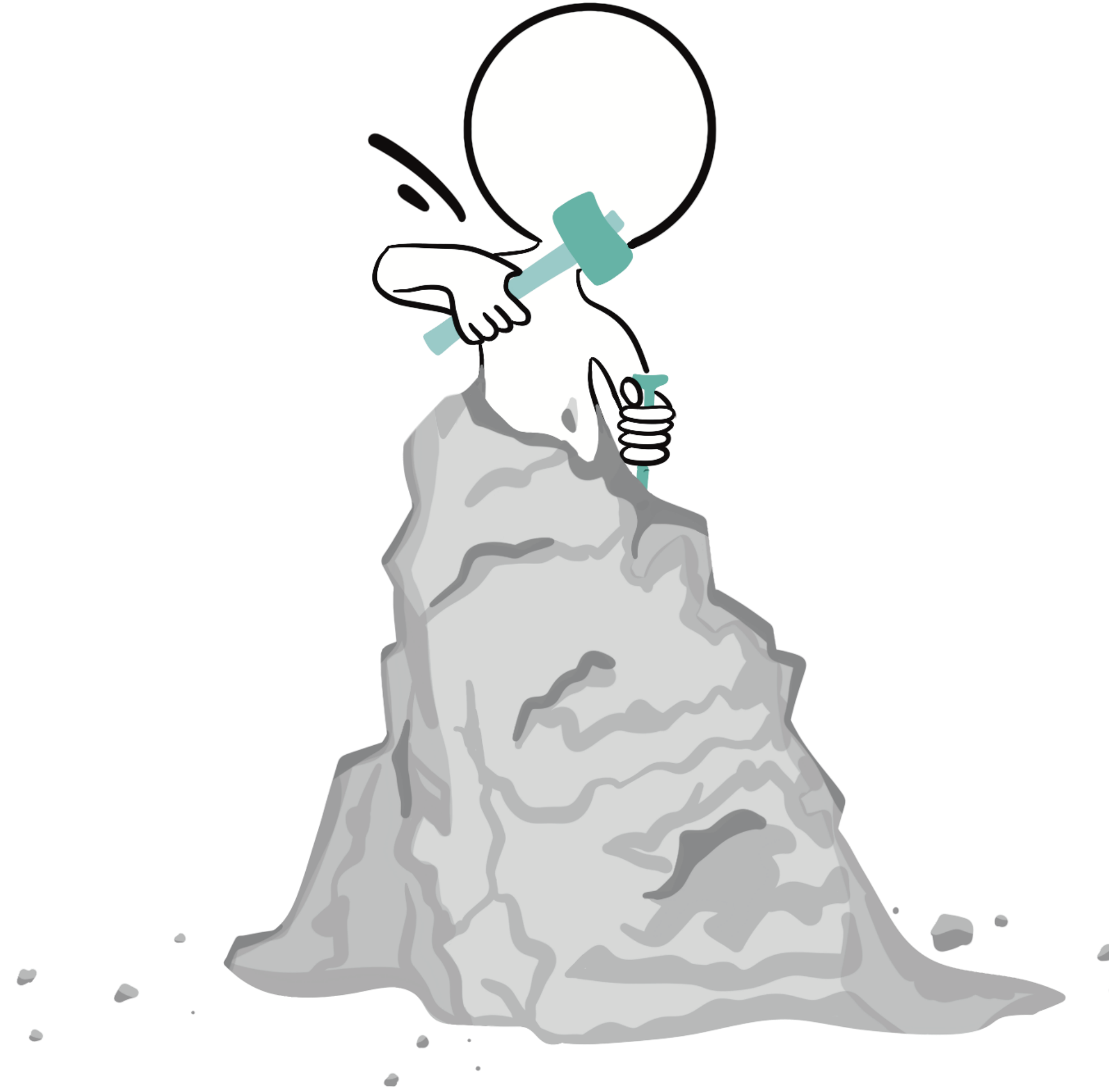
The idea that we can always improve things by acting, especially in complex systems. Instead of looking for what to add to make things better, focus on what to remove that is causing harm or creating fragility. Instead of constantly seeking new drugs or procedures (which carry iatrogenic risks), focus on removing harmful habits (smoking, poor diet) as a primary way to improve health. This is a classic "via negativa" approach to avoiding medical iatrogenics.

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Absence Of Evidence Is Not The Evidence Of Absence

"For the antifragile, good news tends to be absent from past data." For the fragile, all 'new' news can be lethal.

"All clear"

The lack of historical data on certain market crashes does not guarantee their impossibility; unforeseen economic downturns can and do occur. The worst of the past, is by definition not the worst of the future. "Silent Evidence", the information that is missing or unobserved, can lead to skewed perceptions and faulty conclusions. Missing evidence is not equal to no evidence. Beware.

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Books That Were Read, Re-read, or Left Unread

"The unread books in your library are more valuable than the ones you've read."

Anti-library

The Italian novelist and scholar Umberto Eco owned a personal library of over 30,000 books. Most people, when visiting Eco's home, were awestruck by how many books he had presumably read. Eco didn't keep the library to show what he had read but rather, to remind himself of how much he didn't know. This leads to the idea of the "Anti-Library". Read books show what you do know. Unread books reflect possibility and epistemic humility, the recognition that your knowledge is always incomplete. All this applies only to those who read, the reader 'Tsundokus'. Don't hoard passively. Read.

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Credits

Veena Balachandran

All illustrations in this edition of DSPNetra are by Veena Balachandran.
Veena is an illustrator and animator based in India, working across a range of artistic styles. Her distinctive approach marked by a subtle blend of wit and clarity brings ideas to life in compelling ways. Her work spans storytelling, branding, and education. For Netra, her minimalist visual language proved especially effective in distilling complex theories into accessible, engaging illustrations.
Here is the link to her profile and work: **https://www.behance.net/theveenabalachandran**

Nassim Nicholas Taleb

Nassim Nicholas Taleb spent more than two decades as a risk taker before becoming a full-time essayist and scholar focusing on practical, philosophical, and mathematical problems with chance, luck, and probability. His focus is on how different systems handle disorder. He now spends most of his time in the intense seclusion of his study, or as a flâneur meditating in cafés.

Incerto by Nassim Nicholas Taleb. A series of five books
1. Fooled by Randomness,
2. The Black Swan,
3. The Bed of Procrustes,
4. Antifragile,
5. Skin in the Game

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