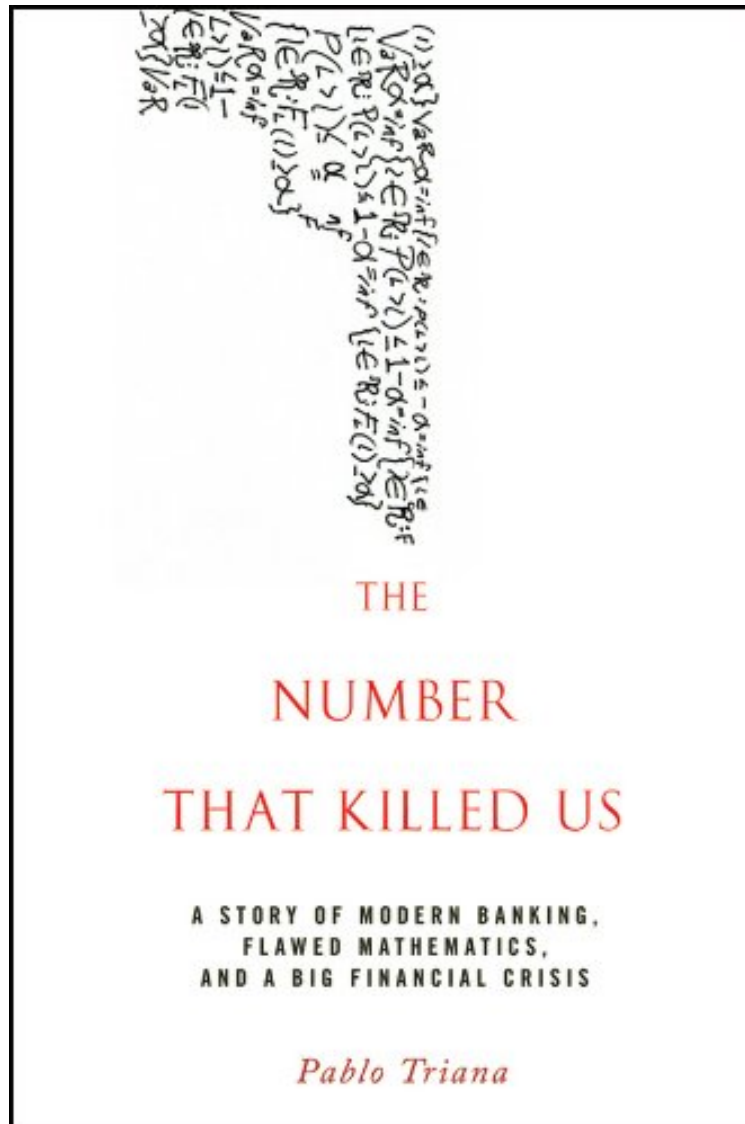


[DOWNLOAD] The Number That Killed Us: A Story of Modern Banking, Flawed Mathematics, and a Big Financial Crisis

The Number That Killed Us: A Story of Modern Banking, Flawed Mathematics, and a Big Financial Crisis

Pablo Triana

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Pablo Triana : The Number That Killed Us: A Story of Modern Banking, Flawed Mathematics, and a Big Financial Crisis before purchasing it in order to gage whether or not it would be worth my time, and all praised The Number That Killed Us: A Story of Modern Banking, Flawed Mathematics, and a Big Financial Crisis:

0 of 0 people found the following review helpful. the real question is why very smart people made such a dumb mistakeBy Patrick Martinlengthy obfuscated discussion on what was a very simple misuse of statistics by quants on

wall street. the real question is why very smart people made such a dumb mistake: deliberate? greed? 0 of 0 people found the following review helpful. Great stuff By Narendra Modi Simply fantastic the whole coverage and narration. Wish more would write like that-simple and precise. Would be interesting to hear of any updates and if any concrete action has been taken. Also to note how banks who survived would have fared without Government supporting the weaker banks and buying out their losses (thereby covering the losses on the so-called "solid" banks!!) 18 of 24 people found the following review helpful. Value put at risk by severe math-phobia By Peter Cotton Walking past Zuccotti Park the other week I was thrilled to see a placard reading "End Regulatory Capture". At last, I thought to myself, the academic research and its verbiage has made its way into the public consciousness. I was inspired by the power of language. Any passerby could see that sign and within fifteen minutes of Googling on their phone, unearth roughly as much dirt on the financial sector, and its regulation, as Pablo Triana has presented in his new book "The Number that Killed Us". Of course that sign was mere fantasy on my part so, whatever the flaws of this latest effort, kudos to Triana for choosing a catchy title and keeping cosy financial regulation in the headlines. In fact one of the most sympathetic parts of the book is Triana's recounting of an oversight hearing held for the House Committee on Science and Technology on the topic of Value at Risk. Triana bemoans the empty chairs at this would be rock concert, a testament to waning public interest in even his anti-VAR super-hero Nassim Taleb. Does anyone care anymore? What taints *The Number That Killed Us* however is a new kind of anti-mathematical slant, one championed by Triana's mentor Taleb and taken to extremes in Triana's previous book. Wearing 1-d anti-Platonic glasses doesn't help distinguish methodology from policy or history from causality so, for example, while VAR requirements could certainly be more stringent, ad-hoc rules can also be more lenient ... and in another world we might be talking how their arbitrariness caused a crisis. Triana makes a case for better capitalized financial institutions and that section of the book is the most readable, but Triana's real beef is not collusion or policy but a language he is largely unfamiliar with, mathematics. The link is strained and it makes for some odd suppositions (to a practitioner) like the fact that bankers are prone to worshipping the arcane, or inclined to bend on one knee in the presence of a mathematical formula. The weight of this accusation rests, it would seem, on some research by a Berkeley Ph.D. candidate as yet unpublished. I await further details with interest. Value at Risk can mean different things. Taken literally it is a mere definition: a single number representing, or rather failing to represent, a distribution of potential losses. That distribution might arise as the output of a probabilistic model, or it might be a naive empirical estimate based on historical profit and loss fluctuations. Either way, a single threshold number (such as \$130 million) is said to be the Value at Risk for a specified probability (say 5% for illustration) if there is a 95% chance, according to the model, that losses will not exceed said threshold. One can take issue with the information loss implicit in this definition, but how upper management chooses to consume summary data is beside the point. The real controversy surrounds the means by which the distribution of losses is modeled. In caricature pop-finance, of the variety peddled by Taleb, this amounts to choosing a univariate distribution from the shelf and - oops - the wrong one. I trust it is evident from the definition of Value at Risk, however, that the Normal distribution need have nothing to do with it. The Value at Risk/Bell Curve conflation is the most successful confusion of terms since 'Iraq' and '9/11'. To his credit Triana cleans that up a little too, attempting an explanation of how Value at Risk was computed for some people using the RiskMetrics framework. Therein a multivariate Gaussian assumption can be made, and often is, so we expect it hides the weapons of mass destruction. Thing is though, a little more digging in the technical documentation provided by the very same vendor would have revealed stern warnings about the limitation and interpretation of the results, including suggestions for dealing with non-linear payoffs and non-gaussian distributions. It was evidently not the propeller heads who failed to notice fat tails, and what Triana misses is the real story of the crisis: the extremely limited bandwidth for communicating technical information to upper management, and a scornful, impatient attitude toward anything remotely theoretical. Policy issues aside the calculation of firmwide Value at Risk was an complicated undertaking in several respects, influenced by front office/back office politics and, at least in this reviewer's experience, a contempt for mathematical tools extending to the valuation of what were, in reality, complex options. Trading desks who lost the most during the crisis were claiming to manage risk in mortgage backed securities but many eschewed any kind of probabilistic approach, preferring to use a small number of scenarios and their famous 'gut instinct'. So the numbers feeding into firmwide risk were not coming from a mathematical model at all, and even if they involved historical estimates of profit and loss fluctuations, those very same estimates were never honestly attempted. That reality, which many quants fought hard to change, makes a mockery of Triana's underlying thesis: that the language in which we communicate probabilistic information is to blame. To Triana mathematics is complex and life (including global finance) is simple. One doesn't fit the other, therefore, and you couldn't hope for a more populist, simplistic argument outside of a Republican primary debate. "Before VAR showed up", Triana writes, "financial risk management was a simple affair." It is an opinion the author states many times, with gusto, but is it true that "the rules respected the simplicity of it all". Did those good old rules see "reality for what it was, not for what it should be"? It is a tough argument to make, not that Triana feels any obligation to do so. Save for some crass categorical distinctions the "good old rules" assign the very same capital to a risky loan as a safe one. For the author, winding back the clock is the only solution but was there ever a golden era for risk management, or finance? There were certainly periods where the

financial sector was smaller, as Triana is right to point out, but demographics of companies were different. The fact that more companies have access to finance than they once did (provided they can argue for potential future earnings) is not a bad thing. Distortion of retail lending via housing policy is another matter, granted, but that has little to do with VAR. There are many hidden costs to keeping financial regulation brain-dead simple just for the sake of it, just as there are many games created by overly simple rating procedures that eschew the quantitative tools used by banks. The notion that finance is trivial is ultimately a contemptible position, almost as contemptible as pronouncements on the inability of other people to solve difficult problems. Life is, one dares to suggest, complex. The challenges of risk transfer, capital allocation and investment are complex. Mathematics on the other hand, is neither complex nor simple, any more than the attribute might be assigned to English. It is tool for building relatively simple calculators and metrics, and can also be used to build more sophisticated technology threatening the margins of Wall Street. How technology is used is a matter of education, culture and respect for careful, rational inquiry devoid of 1950's style, anti-intellectual overtones.

A critical look at the risk measurement tool that has repeatedly hurt the financial world *The Number That Killed Us* finally tells the "greatest story never told": how a mysterious financial risk measurement model has ruled the world for the past two decades and how it has repeatedly, and severely, caused market, economic, and social turmoil. This model was the key factor behind the unleashing of the cataclysmic credit crisis that erupted in 2007 and which the effects are still being felt around the world. *The Number That Killed Us* is the first and only book to thoroughly explain this hitherto-uncovered phenomenon, making it the key reference for truly understanding why the malaise took place. The very number financial institutions and regulators use to measure risk (Vale at Risk/VaR) has masked it, allowing firms to leverage up their speculative bets to unimaginable levels. VaR sanctioned and allowed the monstrously geared toxic punts that sank Wall Street, and the world, during the latest crisis. We can confidently say that VaR was the culprit. In *The Number That Killed Us*, derivatives expert Pablo Triana takes you through the development of VaR and shows how its inevitable structural flaws allowed banks to take on even greater risks. The precise role of VaR in igniting the latest crisis is thoroughly covered, including in-depth analysis of how and why regulators, by falling in love with the tool, condemned us to chaos. Uncritically embraced worldwide for way too long, VaR is, in the face of such destruction, just starting to be examined as problematic, and in this book Triana (long an open critic of the tool's role in encouraging mayhem) uncovers exactly why it makes our financial world a more dangerous place. If we care for our safety, we should let VaR go. Contains controversial analysis of the hotly debated risk metric Value at Risk (VaR) and its central role in the credit crisis Denounces the role of regulators and academics in forcing the presence of the inevitably malfunctioning in financeland Describes how bonus-hungry traders can use VaR as an alibi to take on the most reckless of bets Reveals how the most recent financial crisis will simply repeat itself if the problems behind VaR are not unmasked Pablo Triana is also the author of *Lecturing Birds on Flying* The very risk measurement tool that was intended to contain risk allowed financial firms to blindly take on more. The model that was supposed to save us condemned us to misery. *The Number That Killed Us* reveals how this has happened and what needs to be done to correct the situation.

Idquo;Pablo Triana, whose previous book was an elliptical trip around the world of risk entitled *Lecturing Birds on Flying*, knows whereof he speaks. Indeed, he was one of the quants entrusted with the task of gaming VaRhellip;Trianarsquo;s argument is that it wasnrsquo;t subprime US mortgages or excessive remuneration or even financial engineering as such that brought the banking system to its knees. It was the hubris of quants who believed that market risk could be encapsulated in a single number, the naivety of regulators who, he implies, did not have the little grey cells to argue with them, and the greed of banker bosses who quickly cottoned on that this lsquo;objectiversquo; measure of risk was in fact highly subjective and infinitely manipulablehellip;I hope [the book] prompts a response from VaRrsquo;s remaining defenders.rdqo;mdash;Financial WorldFrom the Inside FlapThe devastating financial crisis that began in the summer of 2007 and led to staggering losses for the banking industry, a global economic recession, and an implosion in government finances was caused by two main factors: toxic assets and leverage. But why did banks and other financial institutions take on this "toxic leverage" in the first place? Because an immensely powerful, but little talked about, mathematical model told them to. Known as Value at Risk (VaR), this model inaccurately projected no risk for these clearly worthless assets, insisting that they could be accumulated worry-free. Intoxicated by the promise of short-term profits, the banks listened, and disaster followed. Now, for the first time, *The Number That Killed Us* reveals the "greatest story never told" about the Great Recession, explaining the key reasons behind this and past market disasters. Providing a comprehensive overview of the development of VaRmdash;a story fraught with mathematical wizardry, intriguing characters, and financial dramamdash;the book reveals how all our lives have been influenced by this mysterious analytical tool. For the past two decades, VaR has been one of the most influential forces in finance. Acting as a radar for risk that guides the decision-making processes of banks around the world, it can determine whether a banking crisis takes place or not. But with its tendency to sanction dangerous and reckless behavior, VaR can also create chaos out of nothing. As in his previous book,

Lecturing Birds on Flying, author Pablo Triana takes important financial issues off the backburner and brings them to the forefront of controversial contemporary debate. Financial instabilities are revealed, and VaR, the mathematical ruler of the past twenty years, is finally seen for what it really is—flawed and impractical. From the Back Cover An unflinching look at the risk measurement tool that brought about the Great Recession It's time to learn the truth about the financial crisis. In The Number That Killed Us, risk management and derivatives guru Pablo Triana presents a shocking look at Value at Risk (VaR), the mathematical model that encouraged banks to take on toxic assets they should never have touched and that ultimately brought the international financial system to its knees. Examining the myriad problems that went overlooked during the two decades when VaR was the king of financial management—including using the past to predict the future and depending on an algorithm instead of common sense—the book discusses topics such as: the history of VaR, its role in Washington, the role of regulators and academics in a malfunctioning financial world, how bonus-hungry traders used VaR as an alibi to take reckless bets, and much more. Essential reading for individual and professional investors, market professionals, regulators, policymakers, and anyone who wants to really understand where all the money went, The Number That Killed Us drags the risk measurement tool that has repeatedly and severely hurt the financial world into the spotlight.