

Against the gods the
remarkable story of
risk by peter l.
bernstein assignment



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AGAINST THE GODS The Remarkable Story of Risk By Peter L. Bernstein I

have to admit I was pleasantly surprised by *Against the Gods*. I expected this book to be a typical dry book on a given financial subject, detailing use, application, and theory. I completely took for granted the fact that math, particularly risk, has history. The author did a fantastic job of painting a picture and explaining how, why and when concepts we use today came into being. While reading this book I became excited about risk and statistical analysis.

The author is Peter L. Bernstein graduate of Harvard, economist, educator, and historian. He lived from January 1919 to June 2009. Bernstein is best remembered for his contributions in investment economics. He created interest in the subject and made it popular through his vast experience and knowledge. Bernstein did an excellent job simply defining risk for those like me that don't have any experience or prior understanding of the subject. " Risk management is the ability to chart future possibilities and choose the most likely alternative. From this simple basic statement Bernstein wove a compelling tale and related risk to my life and the issues we all face in life today. It was surprising to me to learn that it is risk management at work behind contemporary social issues like public health and safety; weighing, planning, and executing wartime efforts; planning a family; decisions on what and how much insurance to buy; the choice to wear or not to wear a seat belt; and even something as simple as marketing cereal.

Once Bernstein lay down the foundation to what risk was he expertly moved into detailing what it involved. " A portion of risk involves taking into consideration error and malfunction which involves probability theory. "

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Again I was impressed at how the author took concepts that I knew, risk and probability theory and seamlessly tied them together. Probability theory along with other tools used in risk, is what permits structures like bridges and buildings to be erected by engineers, suburban and metropolitan areas to have electrical power, air travel and space exploration, and even the ability to mitigate risk through the purchase of life insurance. Our concept and understanding of risk today actually began more than 700 years ago in the Hindu and Arabic system of numbering. A more serious assessment and consideration of risk began in the Renaissance. Bernstein explains that although the Greeks were incredibly close to unlocking risk, it wasn't until mankind changed their thinking of the world and future possibilities that an exploration and attempt to master risk could earnestly begin.

The journey to unlocking and understanding risk seems to have begun in 1654 when the 200 year old question " how to divide the stakes of an unfinished game of chance between 2 players when one of them is ahead? " was asked of the French Mathematician Blaise Pascal. Pascal enlisted the help of another brilliant mathematician and at the time lawyer, Pierre deFermat. Bernstein cites their joint answer as being the foundation of theory and probability that allowed us to begin making educated predictions about the future. Next came a development of statistics as we know it.

Scientists realized that inferences for a large group could be made from observations of a small sample. This discovery led to our modern use of things like voter polls and quality control. Then in the post modern World War II era, theories in the science of risk began to develop in opposing

camp. Throughout this book Bernstein touches on a number of subjects
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involving risk and the history of all including; chaos theory, game theory, regression to the mean, binomial distribution, derivatives, and more. Who knew all of these things had something to do with risk, I didn't!

I'll be honest and admit although Bernstein's work was interesting, there were some areas I was completely lost and didn't understand. My lack of understanding had nothing to do with the author simply the fact I am not a math major or a numbers type person. It was a very profound and eye opening moment for me to see how the author tied communism to the deliberate exclusion of risk. Any manipulation or attempt to hide risk changes the outcome and outlook of a situation. This was evidenced in the Soviet Union when their government tried to exercise control by pushing the concept of risk out of consideration. The end result was a complete stifling of social and economic progress. I personally compare this scenario to what Bernstein said earlier in the book about Greek society. Although the Greeks were great philosophers and were on the cusp of discovering risk, no great inventions or discoveries in math or science happened in their time. Another thing I liked about the book was in certain areas the discussion tied back to what I am currently working with on our StockTrak assignment specifically, the topics of options and dividends.

Bernstein told the story of how in 1973 Fischer Black and Myron Scholes created an options pricing model and tried to have their work published. Although their work wasn't accepted because neither Black nor Scholes had advanced degrees, their work went on to become very instrumental in options pricing and liabilities. With relation to dividends Bernstein explained how both investors and corporations would make more money if instead of <https://assignbuster.com/against-the-gods-the-remarkable-story-of-risk-by-peter-l-bernstein-assignment/>

paying dividends corporations used that money to repurchase outstanding shares of stock. In several areas of the book Bernstein cautions about relying on measurements of risk.

Despite all of our calculating there are still errors, random events, and natural unexplained occurrences. Bernstein's has a very thought provoking idea about financial investors in that their attempts to control and predict the market are not any better than making random choices. Bernstein also states with regard to investing that a person would have a better chance at wealth by investing in the belief that business will continue as normal forever versus investing in the same thing as everyone else in a group, sticking with the group will ensure going broke faster.

In conclusion one of the things that I liked best about this book is that history came alive! I can honestly say I wish that all teachers and professors would include more about the history of the subject they are teaching. I think sparking my interest and imagination on this subject has definitely inspired me to do better in math. I think Bernstein described it best when he said "the capacity to manage risk, and with it the appetite to take risk and make forward-looking choices, are key elements of the energy that drives the economic system forward. "