

What's the Risk? The Black Swan vs. The Bell Curve

If you recall, I wrote a [blog](#) not too long ago on the [Black Swan](#), with emphasis on its take of an [Extremistan](#) world, where living in a scalable world makes you subject to extreme events. With the recent movie [Wall Street: Money Never Sleeps](#), I've been thinking a lot about this theory, and about what caused the stock market crash. Was it really because of the greedy types on Wall Street?

A big portion of the [Black Swan](#) is on how the [Gaussian](#) bell curve can measure risk in a world not subject to extreme fluctuations, but it doesn't come close to measuring the risk that is associated with things that can range more than 3 standard deviations from the mean. Things such as wealth, stocks, bonds, book sales, movies, or CD's are an example of this.

Since Wall Street uses this form of measurement to analyze risk, they gave everyone that warm and fuzzy feeling when thinking about how much loss they were exposed to. In reality, an extreme black swan event blew out all of their ability to measure the risk they were taking, causing all the major investment banks to push their existence to the edge, and not all survived.

This seems to me to be a much better explanation of what happened than one that blames all of the Wall Street players for being too greedy. If this was so, why would so many people jeopardize their careers and livelihood, all just to make more money?

Having been part of the investment world for over 20 years, and associating with the Wall Street players, I don't feel that this is a plausible excuse. It would seem from an

observation stand point that no matter what the income level, people are always striving to do better. Do you remember thinking that if you could only get to \$25,000/year, everything would be great? Then when you got there, suddenly all it took was \$50,000/year for everything to be great? Then \$100,000...and so on, and so on.

If making a lot of money makes you greedy, then what about Bill Gates or Oprah? Have you seen Google or Intel's earnings and revenue lately? In the last quarter, Google made 2.2 Billion, Microsoft's profits are up 51%, and the late, great superstar Michael Jackson...he made 250 Million, which Forbes claims to be more than any living celebrity superstar. Does greed extend to the afterlife?

Does Wall Street, just like tech companies, writers, producers, or musicians, make lots of money because they live in the scalable world of the [Black Swan](#) rather than because they are greedy?

So what does this mean to you if you are trying to grow a business? The model of reality that you use is important in understanding the risk that you are taking. Depending on if you live in a scalable or non-scalable world, the risk that you are taking may not be what you think it is.