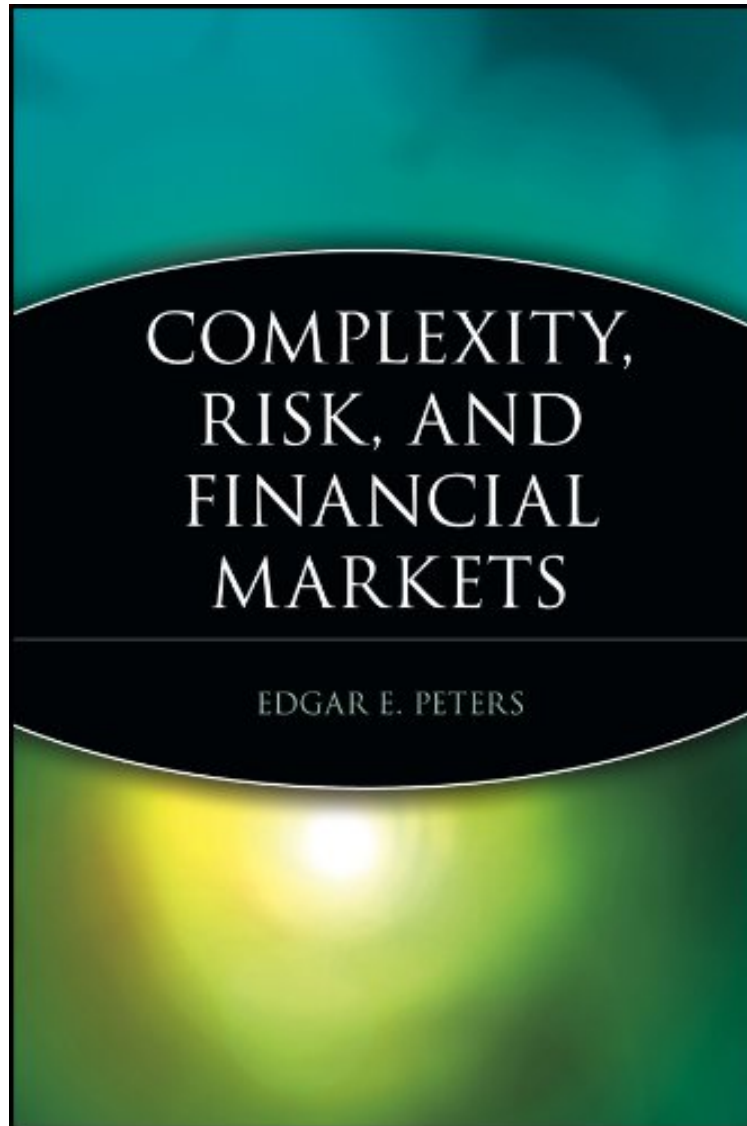


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## Complexity, Risk, and Financial Markets (Wiley Investment)

*Edgar E. Peters*

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**Edgar E. Peters : Complexity, Risk, and Financial Markets (Wiley Investment)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Complexity, Risk, and Financial Markets (Wiley Investment):

0 of 0 people found the following review helpful. intuitive way for complexity and chaos theory undrsatndingBy jpvvery useful for non mathematicians: the author succeeds in passing intuition of the lot of abstract concepts defining chaos theory and complexity theory4 of 7 people found the following review helpful. Peters has overlooked Keynes's contributions in this areaBy Michael Emmett BradyPeters does an excellent job in clearly differentiating between the

concepts of complexity, ignorance, risk, uncertainty, vagueness, and ambiguity. He shows how each concept has an important separate, yet interrelated, clearcut role to play in financial decision making. Unfortunately, Peters overlooks the fact that John Maynard Keynes had already provided an operational approach for such a decision making approach in his *A Treatise on Probability* (TP) in 1921. The role of conflicting and ambiguous evidence in decision making in general was discussed by Keynes in his rain-barometer-dark clouds example in chapter 3 of the TP. Keynes's point in discussing this particular problem was to show that it would be difficult to measure and quantify this particular dimension of a decision problem. The implicit danger is that no account will be taken of it if a strictly quantitative approach to decision making is taken. The importance of vagueness was discussed by Keynes in chapter 1, p. 5, chapter 2, p. 17 and in chapter 22, p. 259. Complexity is discussed within the context of Keynes's discussion of induction and analogy. The ability to reason inductively starts to break down if the number of important independent factors (Keynes's principle of limited (finite) independent variety) grows too large and/or the interactive effects start to exhibit nonlinear relationships instead of proportionate, linear relationships. The clearcut differences between ignorance, uncertainty and risk in general decision making were discussed in chapters 6 (the introduction) and chapter 26 (the conclusion). Keynes defined an index to measure what he called the weight of the evidence,  $w$ , upon which probability estimates would be based.  $w$  is a measure of the completeness and the reliability of the relevant, potential, available evidence and information that a decision maker can obtain (or be aware of its existence).  $w$  is defined on the unit interval  $[0, 1]$ , where 0

A groundbreaking look at complexity theory and its implications in the world of finance Complexity theory tells us that processes with a large number of seemingly independent agents—such as free markets—can spontaneously organize themselves into a coherent system. In this fascinating book, Edgar Peters brings together scientific theory, the artistic process, and economics to show how the randomness and uncertainty of complexity theory can be applied to financial markets. Written in an engaging and accessible style, this is a thoughtful, conceptual look at the way free markets are, by their nature, continually evolving complex systems. Expanding on previous explorations of chaos theory, Peters draws on real-life examples ranging from the Asian crisis to America's love of conspiracy to show that complexity and randomness are necessary for the free markets to operate in a competitive manner.

Peters combines a chaos/complex systems framework with the Austrian school of economic thought to explain our lack of market understanding. He develops a strong case that the most pressing problem for investors is not a matter of specific models but of determining how to assess risk in a complex and uncertain world. Peters draws important distinctions between risk, uncertainty, ignorance, vagueness, and ambiguity, and in doing so, shows how the subtle meanings of words can provide immense value in explaining the market environment. He also resurrects the Austrian school's emphasis on subjectivism and makes it come alive within finance. (Financial Analyst's Journal) From the Back Cover Praise for complexity, risk, and financial markets "A fascinating account of one of today's great paradoxes: the irreducible uncertainty that lies at the heart of social and economic order. Ed Peters takes our most cherished beliefs, turns them upside down, and convinces us that they're much better that way." - Ian Stewart, author of *Does God Play Dice* and columnist for *Scientific American* "Is it any wonder why smart traders love volatility, while amateurs shun it? It's because smart traders understand complexity theory. And with the help of Peters' book, you may too!" - Desmond MacRae, *The Street.com* "In reading previous contributions to the work of complexity and chaos theory, it's obvious that the forerunners in these fields have been running too fast for the average reader...Peters knows what he is talking about and has done his homework, which makes this a good starting point for gaining insight into an economic paradigm shift bound to take place...[this book] is the real deal about complexity and chaos." - Thomas Stridsman, *Futures Magazine* "...Peters always seems to provide compelling insight into how global structure and local randomness interact...the discussions regarding various process models and their implications for economic activity are worth the price of admission alone. Interested investors ought to check it out." - Alex Schay, *The Motley Fool.com* About the Author EDGAR E. PETERS is Chief Investment Strategist and Director of Systematic Asset Allocation for PanAgora Asset Management, a global investment management firm. He is a frequent lecturer on market theory and has taught investment and portfolio management at Babson College, Boston College, and Bentley College. He is the author of *Chaos and Order in the Capital Markets* and *Fractal Market Analysis*, as well as numerous articles in professional journals.