



## Plight Of The Fortune Tellers (Book Review)

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My initial reaction at being handed the opportunity to review Riccardo Rebonato's 2007 work on financial risk, *Plight of the Fortune Tellers*, was one of enthusiasm (the name's not Risk Watchdog for nothing). However, while the book proved insightful, I realised early on that I was reading it two years too late.

Prior to Lehman's 2008 collapse, some of the book's opening phrases – claims like financial innovation in general 'has clearly been advantageous for borrowers and, probably, for the economy as a whole', and that 'risk, in general, becomes less "toxic" the more it can be dispersed' – may not have seemed so dated. One year on from the epic failure of derivatives (and more generally financial) risk management, though, and such comments are hard to swallow.

Unfortunately, this initial reaction distorted what was an interesting journey through both the advances and failings of the current (or at least pre-Lehman's collapse) state of the financial risk industry. The focus on frequentist rather than subjective probability, the lack of communication among quant specialists who 'love and know a lot about mathematics' and the senior managers who don't, and particularly the need to recognise the disconnect between statistical inference and ultimate decision making; all of this was both a welcome and damning revelation of risk management practices. Particularly refreshing was the call from a specialist in the field (Rebonato has much experience in financial modelling, trading and risk management) for a more commonsensical approach to using quantitative data, something Risk Watchdog has long been in favour of.

Nevertheless, in the wake of events over the last 12 months or so this book clearly falls short in its criticism of the industry as a whole, and is therefore more useful for those seeking to learn what went wrong than a model for financial risk management going forward. Viewed in this light, I believe the glaring lack of condemnation for the industry becomes much more palatable, and makes Rebonato's book a more enjoyable read.

*Plight Of The Fortune Tellers: Why We Need to Manage Financial Risk Differently*, by Riccardo Rebonato. Published by Princeton University Press, 2007. ISBN-13: 978-0691133614