

Taleb Kills \$20 Billion Mythical Swan (Update)

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By [Janet Tavakoli](#)

A recent *GQ* article quoted Nassim Nicholas Taleb as saying that in the falling market he “made \$20 billion for our clients, half a billion for the Black Swan fund.”¹

I checked with Nassim Taleb regarding the \$20 billion in gains and asked if he were misquoted. He responded via email: “The quote is inaccurate. The [sic] 20 billion might correspond to the face value of positions.” This response is both vague and different in character from the mythical \$20 billion in gains inaccurately quoted in *GQ*’s article. The total gains could be a tiny fraction of what Taleb loosely describes as “face value.”²

Why is *GQ*’s mistake important? In my opinion, public claims of enormous private hedge fund gains require credible back up, and one would think that *GQ* would have known that before it inaccurately quoted Taleb as having made a bell ringing gain of \$20 billion for clients. Presumably, the error referred to outside clients, not the black swan fund itself, but it could have the side effect of attracting investors to the black swan fund, similar to advertising or salesmanship.

The black swan fund’s strategy is purportedly to buy out-of-the-money put options on stocks and broad market indices and hedge tail risk for clients. The strategy may produce long periods of mediocre—or even negative—returns followed by a large gain and vice versa. No one can tell you for certain exactly when (or for how long) large gains are possible. Initial success in a newly created fund may not be replicated in the future, and there is always the problem of scaling. Scaling refers to the fact that an individual fund may make a high return on an initial investment, say 100% on \$100 million, but lose 10% on \$1 billion.

The Market Can Stay Irrational Longer Than You Can Stay Solvent (or Patient)

We know that big unanticipated market moves always result in big winners and big losers. After the fact, many winners claim they were smart—not just lucky.

In my opinion, any claim of enormous gains for any strategy—including a black swan fund—should be explained and balanced with caveats. The siren song of enormous gains is always enticing, but the actual swan song may be off key.

A black swan fund strategy may produce future huge gains, but it may also produce mediocre returns (or even slowly burn cash for long periods) before producing another huge gain. The waiting period for the next big payday could be brief, or it could be longer than your investment horizon.

(Update – See also: “[Taleb’s Stranded Swan?](#)” – *TSF* Commentary June 3, 2009)

Endnote: On June 3, 2009 I sent this to Taleb to give him a chance to respond to my commentaries if he chose to do so: “[I]f you look at the following linked commentaries, I am happy to issue appropriate corrections, revisions, updates, or more if it is in order.” Taleb did not respond.

¹ “I went for the jugular—we went for the max. I was interested in screwing these people—I’m not interested in money, but I wanted to teach them a lesson, and the only way you can do it is by trying to take it away from them. We didn’t short the banks—there’s not much to be gained there, these were all these complex instruments, options and so forth. We’d been building our positions for a while...when they went to the wall we made \$20 bln for our clients, half a billion for the Black Swan fund.” (First page, second column, 7th full paragraph of “[The Thinker](#),” GQ UK edition, May 2009)

² Taleb’s [web site](#) home page showed this article as one of two “most representative overall profiles.” After my [May 19] query, Taleb added a qualifier next to the link to the article: “(with typo on the ‘billions’).” [with no further clarification at that time]

Additional Endnote: The GQ article had been posted on Taleb’s web site sans notes or corrections and flagged as one of two articles being “most representative overall profiles.” Other media referred to the GQ article and incorrectly attributed \$20 billion in gains to Taleb [“Nassim Taleb is the Lebanon-born derivatives trader known for...having made clients of his Black Swan fund \$20 billion from shorting the markets last autumn.” under “[Tinkerman](#),” *The Times*, April 7, 2009. *The Times* referred to the correction on July 3, 2009 after other media outlets noted my commentaries and reported the error.]. It was brought to my attention in May, and I contacted Taleb about GQ’s reportage of the \$20 billion gain on May 19. After my initial inquiry, Taleb added “(with typo on the ‘billions’)” to his web site’s link to the article, but he added no further clarification of the numbers at that time. Almost one month after several web-based media outlets questioned GQ’s reportage, Taleb provided more information. At the end of June 2009, Taleb added a correction note to the article he originally posted as “most representative” with no clarification. Instead of making “\$20 billion for our clients, half a billion” for the Black Swan funds [per the original article and Taleb’s uncorrected original web site posting], and instead of making “**almost** [emphasis in original] half a billion for the black swan funds,” [per a December 2008 email to Will Self that Taleb later put in the public domain on June 30, 2009], Taleb’s late June 2009 correction now says the \$20 billion was notional exposure in future value of options, and the funds made between “a quarter and a half a billion.”

Hat tip to alert readers and Chicago’s option market makers. Thanks also to Nassim Taleb for confirming the inaccuracy of the quote. Will Self, the author of the GQ article, did not respond to an email sent to his agency.

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