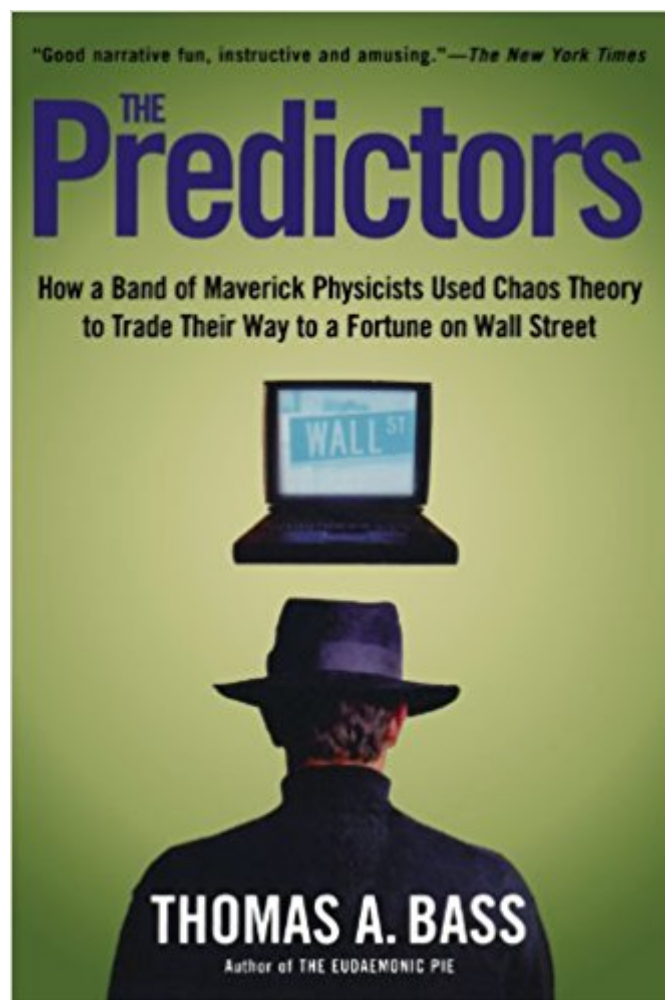




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The Predictors: How A Band Of Maverick Physicists Used Chaos Theory To Trade Their Way To A Fortune On Wall Street



Synopsis

Excerpted in The New Yorker and hailed by the business press, The Predictors is destined to become a classic of its generation--an antic, subversive odyssey into a universe defined by the mystical convergence of physics and finance. How could a couple of rumpled physicists in sandals and Eat-the-Rich T-shirts, piling computers into an adobe house in Santa Fe, hope to take on the masters of the universe from Morgan Stanley? Doyne Farmer and Norman Packard may never have read The Wall Street Journal, but they happen to be among the founders of the new sciences of chaos and complexity. Who better to try to find order in the apparently unreasoned chaos of the global financial markets? Thomas A. Bass takes us inside their start-up company, following it from its inception as a motley collection of longhaired Ph.D.s to its passage into the centers of financial power, where "the predictors" find investors and finally go live with real money. The Predictors is a dizzying, often hilarious tale of genius and greed.

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Customer Reviews

Using a computer to beat Wall Street from afar is, arguably, the new American dream. While it will remain just that for most of us, an offbeat gang of academics turned financial wizards is showing it can be done. Led by acclaimed physicists Doyne Farmer and Norman Packard, the Santa Fe-based Prediction Company has proven since its 1991 founding in an adobe bungalow furnished with plastic lawn chairs and top-of-the-line Sun workstations that it is indeed possible to make millions in the world's financial markets by anticipating trends and developing software that automatically

capitalizes on them. In *The Predictors*, Thomas A. Bass colorfully relates their tale of fiscal triumph--and reveals in the process how even an unorthodox group of antibusiness intellectuals in far-off New Mexico can make the world's biggest institutions sit up and take notice. Long esteemed in the scientific community, Farmer and Packard have become legendary in hacker circles since their failed attempt to beat the roulette tables in Las Vegas with toe-operated computers was chronicled in Bass's well-regarded 1985 book called *The Eudaemonic Pie*. This time, though, the two hit the jackpot with their cutting-edge computer programs and the company they created to trade German marks, Chicago commodities, Japanese treasury bonds, Texas oil futures, and New York securities. Bass's prose is a bit flowery at times, but his perceptive you-are-there account is nonetheless entertaining and sure to cement the pair's reputation as today's ultimate masters of "phynance," the successful, and now oft-copied, merger of physics and finance. --Howard Rothman

--This text refers to the Hardcover edition.

In 1991, physicists Doyne Farmer, Norman Packard, and Jim McGill established the Prediction Company in Santa Fe, NM, intending to use their knowledge of chaos theory (the study of complex systems) to develop predictive models and automated black-box systems for beating financial markets worldwide. That they succeeded is only part of the story, the more interesting part of this tale being its human side. In *Wired* contributor Bass's account, we see the primary characters deal with a broad array of charlatans and geniuses, learn from their successes and failures, grow to appreciate the problems inherent in traditional economic theory, and become adept businessmen and managers. Useful as a primer in chaos theory as well as the various challenges that face start-up firms and the complexity of financial markets, this marvelous story should interest readers in both public and academic libraries.-ANorman B. Hutcherson, Kern Cty. Lib., Bakersfield, CA

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Enjoyable account of scientists applying their knowledge to trading. The book is a little shallow, in terms of depth, since it neither describes the models or strategies in any detail nor gives much in the way of trading anecdotes. The best part of the book is the challenges the founders face as entrepreneurs-- raising capital and structuring a new business (compensation, responsibilities, juggling sales and modeling). Overall, an interesting read if you are in the industry, but probably a little slow for those who love Michael Lewis' work.

I loved it enough to re-read, something rare for me. I plan to read it a couple more times. I even

made a pilgrimage to the Santa Fe institute to see where these guys hang out. It is set in a world of math, finance, brainiacs, and the great Southwest--all fun things! It's a much better book than Bass' other book about these guys, "Eudamonic Pie." The big caveat is that I read Waldrip's "Complexity" first. I can't imagine the book being nearly as much fun without that background.

Before Michael Lewis and his deserved bestseller *Flash Boys*, before the LTCM implosion in 1998 there were *The Predictors*. Gaining an understanding of modern financial markets and how our stock market currently works (or fails to work...) requires an understanding of how the Wall Street morality of "gaming the system," met the computer revolution. *The Predictors* is one important contribution to that understanding.

It's frustrating to read this book, as it's never clear what Prediction Co has actually achieved in the way of financial success/ROI w.r.t. risk engaged. Bass kicks off the book with a chapter asserting how easily Prediction's trading system makes "one million dollars" on a given day trading online (with unf. no mention of quantity of capital under management or level of risk undertaken). Heck, give me 50 Million to buy and hold QQQ and I'll make you a million in a day no problem. As an assertion, making X\$ by itself on a given day says just about nothing, except that they didn't lose money every single day. But like Dr Evil knows, "One Million Dollars" sounds dramatic to say. Bass to his credit details early failures of the trading system but seems to need to end the book on a vague high note about ROI he can't back up. ROI issues are swept under the rug for the rest of the book until the very end when it is stated that Prediction is "well on their way" to being quite profitable. Hardly a convincing assertion of success. The case is far from clear in the book that Prediction was able to outperform any other equivalent risk neutral humanly managed portfolio. Bass did a similar sleight of hand in his entertaining book *"Eudaemonic Pie"* when asserting that Doynes' famous roulette wheel prediction system "worked" and was successful based on an exceedingly small number of trials before the system broke down completely, thus unfortunately (and conveniently for any future film) rendering future testing of the system impossible. Bass is an engaging writer but much too close to the subject to write more deeply than a glowing hagiography in this case. Not surprisingly institutional investor reaction to Doynes' earlier brushes with Nevada gaming law barring the use of mechanical counting systems and his team's ethical judgement with respect to the interpretation of those laws was not covered. Maybe they didn't read the *"Eudaemonic Pie"*.

The Predictors is a good book, easy read, entertaining but including enough detail to be interesting to the experienced trader. A bit light on the math and science behind the methodology, but that may be proprietary and too technical for non math types anyway.

Fascinating subject and easy to get grabbed by, but as you near the last third of the book, you sense you will be disappointed, feeling you are about to be asked to "leave the theater before you see the end of the movie". 95% of the book builds up to telling you how these guys beat the market, and in the end you never find out if they did. The cliff hanger comes at almost the last page when you are told "the company is starting to make some good money". It's as if the author left out the last 2 solid "what happened" chapters. Also, what's with the fashion commentary? In almost every "scene" each party is described fashionwise...so and so was dressed in blue jeans, a somber black shirt and an oversize big silver buckle...who cares! The book covers promises to tell you how a band of physicists made a fortune on Wall Street, and you never learn if they did. It was a fascinating read, just wish it had an ending.

Interesting story of group that beat the market. I like to read about smart people doing something extraordinary.

Bass writes lucidly about science and the decidedly odd interface between Wall Streeters in Armani suits and Birkenstock-wearing science guys in the desert. An enjoyable, informative and entertaining read. His earlier work about the same crew and Vegas, Eudonomic Pie, is great too.

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