

The Poker Face of Wall Street

Book Reviews

“A new book by Aaron Brown, Morgan Stanley's quantitative expert, aims to have investors (and poker players) apply the connections [between their crafts] for profit... While the book may be the first attempt to help individual investors profit from a better understanding of the art of gambling, behavioural finance professors have employed gambling and investing decisions to explore how individuals behave when it comes to financial decisions...

“While the professionals may understand this, most individual investors have not embraced the notion—something Mr Brown aims to rectify with his book.

“There may be few individuals better suited to take on such a controversial argument with such authority. The Harvard and University of Chicago-trained quantitative strategist has helped top-tier Wall Street firms manage uncertain risks for more than two decades. Mr Brown is also a life-long poker player who has shared the table with Wall Street bigwigs, Nobel Prize-winning researchers and world champion poker players.

“In exploring the intrinsic links between gambling and investing, Mr Brown mines a rich vein of economic history and draws conclusions that may surprise. He demonstrates how gambling was at the centre of economic development in many river-network societies—explaining how the highly leveraged "soft banks" in the American frontier are much like modern poker houses and why it is no coincidence that futures markets and poker were invented in the same time and place, the American west of the 19th century.

“More important than his historical research, however, are his explanations of the inner workings of poker hands and trading. Many casual players may feel poker is about intuition and trying to get a gut feeling from the player across the table. But Mr Brown's book leaves the impression that poker might be considered a type of quantitative investing where rapid processing of statistical probabilities can greatly enhance one's long-term returns. He also shows that while hand to hand and trade to trade markets may be random, the cumulative effect of previous trades (or hands) weighs heavily on future outcomes...

“Similarly, Mr Brown provides many examples of how investing involves a careful application of uncalculated risks. These include George Soros' massively successful bet that the British pound was worth less than the amount the central bank was aiming to set against the D-Mark. He also offers more analysis of how to make money from the spreads in various dated options.

“The bigger impact of Mr Brown's book is to get investors to rethink how they view placing bets with their money. Our understanding of the markets may be moving further away from the comforting notion of efficiency and steady returns

and more toward an acceptance of uncertainty and incalculable risks. Investors who recognise this will hold the stronger hand."

Stephen Schurr, *Financial Times*, March 20, 2006

"Playing high level poker, trading options, marketing bonds and professor of finance--Aaron Brown has done them all. He shares with us the insights each of these has given him about the others and the lessons he's learned about life. From John Law to Fischer Black, I enjoyed the characters and the anecdotes."

Edward O. Thorp, author of *Beat the Dealer: A Winning Strategy for the Game of Twenty-One* and *Beat the Market: A Scientific Stock Market System*

"What makes this a landmark book is that it tells us, quite convincingly, that economic life is gambling. I hope the reader will start viewing the world in a different manner, as I did."

Nassim Nicholas Taleb, author of *Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets*

"Make no mistake, this is a book about economic development as much as poker, and it tells how to win at both gambling games. Experienced poker players and economists will both look at the world with new eyes after hearing what Aaron Brown has to say."

Perry Mehrling, Economics Professor at Columbia University, author of *Fischer Black and the Revolutionary Idea of Finance* (Wiley 2005)

"Brown...[covers poker] basics and shares plenty of stories from his early card-playing days, which include Harvard games with the likes of Scott Turow. But he has much bigger stakes to discuss in this upbeat and entertaining guide...[and] he's very convincing once all the cards are laid out. He sees the current financial market as filled with...wealth-generating potential and believes "taking risks just makes sense" in such an opportunity-rich climate. Poker, then, becomes a tool for learning how to evaluate and embrace financial risk. Brown's model is instantly graspable, but...contrary to the conventional wisdom on both economics and gambling."

Publisher's Weekly (March 7, 2006)

"The Poker Face of Wall Street is packed with useful information about gambling, the life on Wall Street, the poker culture and some of the most interesting people involved in gambling. The book is a great mix of entertaining and non-traditional thinking."

Espen Gaarder Haug, Trader J. P. Morgan, New York, and author of *The Complete Guide to Options Pricing Models*

“Aaron Brown brings together more colorful threads than a Persian carpet, more dimensions than an episode of Stargate and more interesting characters than Damon Runyan. Aaron Brown is the Damon Runyan for a technological age in which you need psychology, game theory and mathematics in place of the suit, the spats and the diamond stick pin. Aaron Brown brings together more colourful threads than a Persian carpet, more dimensions than an episode of Stargate and more interesting characters than Damon Runyan. I'd even go so far as to say that Aaron Brown is Damon Runyan reincarnated in a more technological age in which you need psychology, game theory and mathematics more than the suit, the shoes and the diamond tie pin.”

Paul Wilmott, author of *Wilmott on Quantitative Finance*

"The writer's experience and knowledge of the worlds of poker and finance come together in this intriguing and readable book.”

Philip Augar, author of *The Greed Merchants: How the Investment Banks Played the Free Market Game* and *The Death of Gentlemanly Capitalism*

“Move over William Poundstone (author of *Prisoners Dilemma* and *Fortune's Formula*). John Allen Paulos (author of *A Mathematician Plays The Stock Market*) can read this book and revise his own flawed works with this insight. Michael Lewis (author of *Liar's Poker*) can stop typing now. There is a new king of lucidity concerning the nexus of games and game theory, mathematics, finance, gambling, markets, and the simultaneously brilliant and frail humans who engage and advance our knowledge of them all. His name is Aaron Brown.

“Aaron Brown's *The Poker Face of Wall Street* accomplishes the impossible, for it is simultaneously a readable and enjoyable narrative work, yet also dense with mathematical and behavioral finance theory. Nearly every page supplies a lucid thumbnail explication of an economic or behavioral finance concept, backs it up with an appropriate example, often offers an alternative view, and then provides an historical anecdote to expand the concept and make it at once both memorable and familiar. Yet this is not a pedagogic work, but a popular offering for a wide audience of those who are curious or love poker, finance, or both.

“Brown's method is to use the game of poker as his narrative spine, upon which he weaves the histories and intersections of finance and gambling, economics and risk, information theory and human behavior. He tells the tale of his own love affair with the game, going to the poker dens of 1970s Los Angeles long before there was a World Poker Tour or the Commerce Casino existed. These modest halls (often operating Veterans of Foreign Wars meeting halls) were an anomaly and a pause in history after the saloons of the Wild West were tamed and before the leveraged glamour of Las Vegas lured the core tourist and casual poker player away. My own uncle spent his life in such places as a career poker player who made a modest living at the game, but often working ten and 12 hour days to do so, and with not infrequent setbacks. Yet, these nondescript low rise

cinderblock buildings were the birthplace of poker as we know it today, and were where the world famous celebrity players of the hour originally honed their skills for today's high stakes televised games from the well of glamour.

"Yet this is not simply a memoir of a poker great also-ran, but a sound examination on the dimensions of why the game is rational and irrational, tractable yet inexplicable, simultaneously transcendent and incarnational. Familiar poker personalities appear here and there, often emerging again in the work as other dimensions of their contribution to the game become more famous. But the work is not concerned with a recounting of great memories of a silent Cowboy facing a taciturn Chinese, both bluffing, and both betting all-in. Rather, it uses poker to point to gambling, gambling to point to math, and math to point to risk, and risk to point to investing, and investing to point to finance, and finance to point to economics, and economics to point to gambling. All concepts explained with examples and personalities.

"Brown's elucidation of the gambling economy of the Mississippi delta Native Americans and how effective it was at distributing goods across vast territories in a moneyless society is the first treatment of the topic I have seen outside specialist historical texts, typically only known to Mississippi natives such as myself. The irony of a gambling economy trying to be supercharged by colonial economic presumptions, which were themselves being advanced by famous gambler John Law through his Mississippi Company, is a hilarious accident of history that Brown walks us through with deadpan seriousness. All the while pointing to goods and trade being advanced by gambling.

"The short detail above is just one example of the countless dimensions that Brown has managed to weave into this work and provide its density. Well chosen history and anthropology buttress Brown's memories and economic and financial comments, yet in the same breath he points to gambling and poker. One puts this work down with the feeling that finally all previous works you have read concerning probability, finance, gambling, history, psychology, economics and mathematics have been tied together with a clarity never previously experienced or imagined possible. This is an excellent, satisfying work that merits immediate rereading. You will not be disappointed."

James Ward, Head of High Yield Investments,
AXA Investment Managers and Professor of
Finance, American University in Paris