THE (MIS)BEHAVIOR OF MARKETS
by Benoit Mandelbrot and Richard L. Hudson

A Fractal View of Risk, Ruin and Reward

The work of mathematical genius Benoit Mandelbrot has been turning heads since the early 1960s. As an award-winning scientist, he has always broken from the pack of others to originate groundbreaking ideas that simplify complex problems and forces, such as the forces that create complexity in financial analysis. One of these ideas is fractal geometry (a scientific discovery which makes computer animation possible).

A fractal is a geometric shape that can be broken into smaller parts, each a small-scale echo of the whole, such as the branches of a tree or the bifurcations of a river. Fractal geometry goes beyond the smooth lines and planes of circles and squares and applies wherever roughness is present. Studying roughness, Mandelbrot found fractal order where others had seen only disorder, and changed our view of nature as well as the irregular charts of a stock index or exchange rate. In The (Mis)Behavior of Markets, Mandelbrot and Wall Street Journal editor Richard L. Hudson explore marketplace risk and how Mandelbrot’s fractal theories can be used to predict marketplace outcomes and make the market more secure.

According to the authors, fractal finance is a tool that can be used to reduce the way a specific price varies to a small number of mathematical theories and models. With these powerful tools, an analyst can model how an asset behaves, process various possible scenarios with computer models, and evaluate the risk of an investment with more accuracy. Prices of trade goods and exchange rates, for example, might not be able to be predicted with complete accuracy, but the authors write that they can be measured and characterized, and their volatility can be forecast.

Shaky Business

Throughout The (Mis)Behavior of Markets, the authors explain that much of “what passes for orthodoxy in economics and finance proves, on closer examination, to be shaky business.” As someone who has always disrespected “received wisdom,” Mandelbrot writes that his ideas about economics come from observation, and not abstract theory. As a practical and objective observer of the patterns of financial markets, he has collected 10 “obvious” facts. He calls these his “Ten Heresies of Finance.” They include:

1. Markets Are Turbulent. After studying the patterns found in wind tunnels and ocean currents, Mandelbrot applied his “multifractal” math to the analysis of financial markets. He writes, “The tell-tale traces of turbulence are plainly there, in the price charts. It has the turbulent parts that scale up to echo the whole.” The normal expectations of the bell curve do not capture its changes, and only the metaphor of turbulence can be used to describe it.

2. Markets Are Very, Very Risky — More Risky Than the Standard Theories Imagine. Turbulence is dangerous because it can swing wildly and suddenly. Not only is it hard to predict, but it is harder to protect against, and hardest of all to engineer and profit from.

3. Market “Timing” Matters Greatly. Big Gains and Losses Concentrate Into Small Packages of Time. Since news events like corporate earnings releases and inflation reports help drive prices, big news can cause big market action, and that action concentrates in small slices of time. Particulars matter more than averages, the authors point out, so getting the timing right can produce giant windfalls, such as the two weeks in 1992 when George Soros made $2 billion by betting against the British pound.

4. Prices Often Leap, Not Glide. That Adds to the Risk. The conceptual difference between economics and classic physics is the capacity for jumps, or discontinuity. In financial markets, news can compel many investors to act all at once, now and instantaneously.

Reviews by Chris Lauer

The (Mis)Behavior of Markets re-evaluates the standard tools of financial theory and injects them with the insights of a man who uses simple explanations to dissolve the false assumptions that have caused many investors to underestimate the risks involved in the market. By pointing out the flaws in previous thinking, and using scientific research and ideas to ground his theories, Mandelbrot once again changes the way we think.

Why We Like This Book

**Offshoring, Outsourcing And the Global Services Revolution**

International businessman, consultant and India advocate Paul Davies has written a book that highlights the benefits of transferring U.S. and European business processes and service jobs to that country’s growing economy. In *What’s This India Business?*, Davies offers valuable insight into the advantages and benefits of outsourcing and offshoring projects to India, and also presents a study guide to help those doing business in India for the first time avoid common mistakes and succeed faster.

From the outset, Davies points out that Citigroup claims to have saved $75 million in just one year alone by going offshore, that Prudential Insurance declares cost savings of more than 30 percent, and American Express is reported to have saved more than 50 percent by implementing outsourcing and offshoring strategies. Not turning a blind eye on the other side of the equation, Davies also explains that, according to industry analysts Gartner, about half of all outsourcing projects fail.

**Economic Revolution**

For those considering offshoring and outsourcing to India, *What’s This India Business?* provides a sound basis for a clearer perspective on the global services revolution. According to the World Bank, India’s economy will be the fourth largest economy in the world before 2050, and even in the midst of a global slowdown, its domestic economy is still growing at around 5 to 7 percent. The major thrust of Davies’ book is to describe how businesses both large and small can become a part of India’s economic revolution.

Since most Indian business people are familiar with western television and film, and received an education based on western approaches, they have a huge initial advantage over most outsiders who know very little about the country. The issues and ideas Davies presents throughout *What’s This India Business?* provide a foundation on which those with little to no background in Indian business can gain equal footing. The first part of the book offers an abbreviated background on India as a country and presents a clear view of the country as a global services provider. Davies discusses what services U.S. and European businesses can take offshore and how they can go about selecting an appropriate supplier or business partner, whether they are outsourcing to India or setting up their own service centers there.

Next, Davies offers a detailed section of valuable lessons about the Indian culture that will help newcomers assimilate faster and avoid many problems that can accompany a cultural adjustment to India. By providing the ins and outs of immigration, currency exchange, tipping, hotels, phones, dressing, eating, drinking, traveling, concepts of time, and working, Davies takes readers into the minds and culture of the Indian people and helps outsiders start off on the right foot. Throughout this part of his book, Davies retraces his own gaffs and blunders while describing the right way to behave and conduct business without offending hosts and making a fool of oneself.

After taking the reader into the country and making him or her comfortable doing business there, Davies examines the options for businesses that can make or break an offshoring program. Topics discussed include writing a successful new business plan, due diligence, avoiding risks, negotiating and haggling in India, management techniques, structural difficulties, IT and technology, and breaking into the Indian market. Davies explains that the early wins a business obtains in India or with India business “are a pale reflection of the long-term benefits on offer. It is the added value that will come, perhaps unexpectedly, from the relationship that will provide the real return.”

**Corporate Social Responsibility**

In the final pages of *What’s This India Business?*, Davies provides a brief counterpoint to the rest of his book by focusing on the ethics that must be understood when considering offshoring, and the suffering that some will experience because of the change. Davies writes, “To ignore the corporate social responsibility that goes with employing people and not dealing with the issues properly may damage your reputation and even your brand.” He also counters all negative aspects of offshoring with a rosy, bottom-line focus when he writes, “Cost savings generated by going offshore represent a major competitive gain to your country and could trigger both new investment and greater prosperity.”

**Why We Like This Book**

Outsourcing is a controversial topic, and critics may not be convinced by Davies’ positive spin on the subject. For those considering the strategy, however, *What’s This India Business?* is a valuable guide to the benefits and pitfalls of outsourcing. Beyond his apparent bias as an India advocate, Davies provides many valuable lessons in international business.

Women Don’t Ask
by Linda Babcock and Sara Laschever

Negotiation and the Gender Divide

While examining the discrepancies between the pay and jobs received by men and women in academia, economics professor Linda Babcock and writer Sara Laschever discovered that much of the problem of unequal pay and fewer opportunities for advancement comes from the fact that women do not negotiate as often as men. After conducting several studies of the phenomenon, they realized that the higher salaries of men can often be attributed to men asking for them and women often settling for the first salary offered. In Women Don’t Ask, the authors describe the problem of inequality and offer several solutions to help women gain ground lost to fundamental differences in the ways women and men negotiate.

According to a study conducted by Babcock of students graduating from Carnegie Mellon University with master’s degrees, the starting salaries of the men were 7.6 percent or almost $4,000 higher on average than those of the women. According to the authors, only 7 percent of the female students had negotiated their salaries and asked for more money, but 57 percent (8 times as many) of the men had asked for more money. The students who had negotiated were able to increase their starting salaries by 7.4 percent on average, or $4,053 — almost exactly the difference between men’s and women’s average starting pay. The authors write that this suggests that the salary differences between the men and women might have been eliminated if the women had negotiated their offers.

Shared Assumptions

Throughout Women Don’t Ask, the authors explore the causes of the difference between men’s and women’s use of negotiation. They also examine why women often don’t realize that change is possible and why they don’t know that they can ask. By studying the social forces that shape women and cause them to focus on the needs of others rather than their own needs, the authors show how society’s shared assumptions about what constitutes appropriate female behavior can limit a woman when she wants to assert her own wishes and desires. The authors write that they want to help women promote their own interests by exposing the social forces that constrain them. Women Don’t Ask also serves as an examination of how modern Western culture strongly discourages women from asking for what they want. By focusing at the culture in general instead of how women need to “fix” themselves, the authors attempt to provoke social change and inspire everyone in the work force and at home to think differently about how women can and should behave. In addition, they use statistics and case studies to show how preventing women from pursuing their dreams and ambitions in straightforward ways involves substantial social and economic costs for everyone.

Deloitte and Touche

The authors cite the international accounting and consulting firm of Deloitte and Touche, which employs about 29,000 people in the United States and 95,000 people worldwide, as an example of how an organization can create a large-scale change. In 1991, the firm decided it had a problem keeping women long enough to qualify for partner. The firm’s average annual turnover rate among female managers was 33 percent. A task force calculated that every percentage point in turnover translated into an estimated $13 million for costs such as recruitment, training, hiring and bonuses. When polled, women cited the firm’s male-dominated culture as a big reason for leaving.

Once Deloitte and Touche started looking at their assumptions about men and women, and began to see the implications of those assumptions, they made changes. By changing the way assignments were made and evaluations were determined, the firm started networking events and career-planning programs especially for women. By 2000, the number of female partners at the firm tripled from 5 to 14 percent, and the company saved close to $250 million in hiring and training costs.

The authors write that the experiences of this company provide a great example for how the rest of us, with a little commitment and persistent focus, can change our world. By shining a spotlight on the barriers that prevent women from asking for what they want, and suggesting ways for those barriers to be removed, the authors provide a vision of what is possible. They explain that helping women learn to negotiate both at work and at home — and teaching society to accept women’s need and right to negotiate — will make our world a better, healthier place.

Women Don’t Ask provides a compelling look at society’s stereotypes and assumptions about women and how the genders negotiate differently. By focusing on insightful studies of the problem and providing examples of how many companies were able to change the ways they do business and benefit from their changes, the authors offer hope for women and better ideas for success to the companies that take their concerns and advice to heart.
Big Deals From the Star Of The Apprentice

Still glowing from the success of his hit TV show The Apprentice, real estate mogul, beauty pageant impresario, and bestselling author Donald J. Trump has once again released another creative venture that embodies his unique style and larger-than-life persona. In Trump: How to Get Rich, The Donald has compiled the wisdom and tactics he has used to become a billionaire. Of course being born to a wealthy builder is not something everyone can do after the fact, but beyond that, he’s got plenty of short, to-the-point lessons to deliver that contain the essentials he feels can make any poor “schmuck” a rich person in no time at all.

The most fascinating element of Trump: How to Get Rich is the enormity of his stories. This is not a guy who talks about small things. He dashes off statements like, “I owed billions and billions of dollars — $9.2 billion to be exact,” as if dealing with billions of dollars were as normal as returning an overdue book to the library.

Big Stories

That’s the fun of Trump’s latest book about making it big. His stories are gargantuan, and he pokes fun at himself (and even his unique hairstyle) as often as he tosses out profound introspections like, “I was a schmuck, but I was a lucky schmuck, and I wound up dealing with some understanding bankers who worked out a fair deal.” Who needs exact details when you can explain getting out of a $9.2 billion debt with such simple eloquence?

• Stay Focused. Don’t make a mistake like The Donald did when he lost his focus in the late ’80s: “I’d fly off to Europe to attend fashion shows, and I wasn’t looking at the clothing.”

• Remember: The Buck Starts Here. “Don’t intimidate people. If you do, you’ll never get a straight answer from anyone, and you’ll be defeating your own purpose.”

The advice found throughout Trump: How to Get Rich must be taken with a grain of salt, otherwise some might get confused by the often vague or contradictory statements Trump makes throughout. For example, after teaching that one should not intimidate, he goes on to offer these tidbits of personal growth:

• If You Have Them by the Balls, Their Hearts and Minds Will Follow. “Most negotiations should proceed calmly, rather than in a hostile manner. However, sometimes a negotiation works best after a few screams and some table pounding.”

• Sometimes You Have to Hold a Grudge. If you are mad at someone, even if it is the governor of New York, scream, “You son of a b----! For years I’ve helped you and never asked for a thing, and when I finally need something, and a totally proper thing at that, you aren’t there for me. You’re no good. You’re one of the most disloyal people I’ve known and as far as I’m concerned, you can go to hell.” Now, Trump explains, whenever he sees Mario Cuomo at a dinner, he refuses to acknowledge him, talk to him, or even look at him. That’s how you get rich! (But never intimidate.)

• Every New Hire Is a Gamble. “If people have time to be petty, it’s an indication they’re not busy enough with their work.”

Restraint and Patience

• Manage the Person Not the Job. “Your power as a leader should be used in the most positive way, which sometimes calls for a great deal of restraint as well as patience.” (Except when you’re pounding on the table and screaming.)

• Think Big and Live Large. Responding to the accusation that he is a comic book version of the big-city business mogul, Trump writes, “I am the creator of my own comic book, and I love living in it. If you’re going to think, think big. If you’re going to live, live large.”

Trump: How to Get Rich captures Trump’s management, career and financial advice as well as his personal secrets to negotiation and the “Trump Lifestyle.” In this section, he provides readers with an inside peek at the many decisions he makes, the celebrities with whom he hobnobs in a single week, and his favorite soft drink (Diet Coke).

Trump: How to Get Rich also offers a behind-the-scenes look at the first season of The Apprentice and those who made it happen. In this section, Trump offers the four qualities he looks for in an apprentice: An outstanding personality, brains, creativity, and loyalty and trust.

A photo album of his holdings rounds out the book.

Why We Like This Book

Trump: How to Get Rich not only provides a close glimpse of the wealthy deal maker beneath the indescribable hair, but also allows readers to climb inside his brain and see how it works as he keeps his business running on a daily basis. Although his advice is often glib, the value of many of his points is clearly apparent in his own amazing success.
The Clash Between Freedom and Control

There are dangers posed by the increasing speed and amount of information that are now available, but according to technology writer and educator Siva Vaidhyanathan, we have often used technological quick fixes to avoid complex, serious discussions of the issue. In *The Anarchist in the Library*, Vaidhyanathan discusses the issues of how much and which freedoms are excessive or dangerous, and helps to “identify and criticize ‘moral panics’ engendered by the common perception that freedoms are getting out of hand, that the anarchists are taking over the libraries.”

Vaidhyanathan writes that he is also worried about the repercussions of the fear of information anarchy, and the ways improper reactions to the proliferation of information constitute threats to our freedoms to browse, use, reuse, alter, play with, distribute, share and discuss information. He explains that these are important interactions that help both computer experts and the rest of us shape our worlds.

*The Anarchist in the Library* provides a deep and unblinking look at the “information arms race.” This is a conflict that takes place when one side of the battle invents a device, method, algorithm or law that moves the system of digital information toward increased freedom of distribution and the other side of the aisle deploys a method to push the information back into its place. Vaidhyanathan writes, “This pattern imposes the basic paradox of the digital world onto the real world: Stronger efforts toward control often backfire to create less controllable — and less desirable — conditions.”

Peer-to-Peer Communication

Vaidhyanathan explains that there is a special risk involved when regulating information and the technology that delivers and processes it because information is the raw material of deliberation, and deliberation forms the foundation of a healthy democracy. In an effort to dig up the long-term effects that technological regulations might create, Vaidhyanathan examines the battle for control of peer-to-peer (P2P) communication systems, such as Napster, Gnutella, and the Internet itself.

*The Anarchist in the Library* examines how corporations and governments have reacted to the rise of P2P systems and the free flow of information through unhierarchical channels. Vaidhyanathan writes that the terms and tactics of freedom and control are now becoming a part of the battles that will shape the future of culture, liberty, democracy, and human progress through the new century. One of the main challenges during this century, Vaidhyanathan writes, will be to create “ethics, guidelines, habits or rules to shape an information environment that provides the freedom liberal democracy needs as well as the stability that commerce and community demand.”

The Flow of Information

*The Anarchist in the Library* examines numerous examples of conflict that arise out of the efforts that have been used to control the flow of information. The case studies it reveals raise many important issues, including:

• The battle to control public libraries, which are suddenly considered dens of terrorism and pornography, through technological mandates and legal restrictions.

• Attempts to restrict the use and distribution of powerful encryption technology out of fear that criminals and terrorists will evade surveillance.

• Commercial and governmental efforts to regulate science and mathematics, including control over the human genome.

• Efforts by governments to radically reengineer personal computers and networks to eliminate the very power and adaptability that makes these machines valuable so that they can better control flows of material deemed illicit.

Vaidhyanathan explains that the great challenge of the new century is to mediate between two divergent trends — anarchy and oligarchy. By looking closely at the long-term effects of revolutionary technologies and the behaviors they enable and inspire, he writes that we can energize an open, distributed, diverse network of thinkers and writers to “generate social, cultural, legal and technical protocols that will strengthen democracy and inspire trust and confidence.”

Why We Like This Book

*The Anarchist in the Library* provides a fascinating look at the broader issues and effects that the Internet and technology have brought to the surface of our society, politics and commerce. By presenting the facts and events that have direct effects on our culture and our daily lives, Vaidhyanathan generates a better-informed conversation about information and the forces that shape and control it.
The Emotional Intelligence Quickbook
by Dr. Travis Bradberry and Dr. Jean Greaves

Everything everyone should know about emotional intelligence and how it can be used to improve relationships can be found in The Emotional Intelligence Quickbook. In this short, succinct primer, organizational psychologists Travis Bradberry and Jean Greaves describe how we can get better at recognizing and understanding emotions and using that knowledge to improve our self awareness, self management, social awareness, and relationship management. TalentSmart, 136 pages, $19.95 (ISBN 0-9747193-0-7).

Business Plans to Game Plans
by Jan B. King

In Business Plans to Game Plans, writer, consultant, and former CEO of Merritt Publishing Jan B. King offers valuable lessons about how to run a small business. Presenting useful questions, exercises and worksheets, King offers a practical system for creating effective action plans and avoiding the pitfalls of strategic planning. Drawing on her many experiences as a successful leader, she describes how entrepreneurs should set standards, lead by example, look to the future, focus on important details, face reality, grow profitability, and take action. John Wiley & Sons, 278 pages, $19.95 (ISBN 0-471-46616-6).

Hard Work
by Michael Crews with Ed Sweet

California real estate developer Michael Crews has written an informative memoir that highlights the opportunities that are available when one works hard. In Hard Work, Crews uses his life’s lessons to describe how hard work can make life easier and more satisfying, and how hard work is “more about love than it is about money and material possessions.” He writes that hard work is about loving yourself enough to reach your potential, your employees enough to be a team player, and your customers enough to give them your best. Henry Cooper Press, 267 pages, $27.95 (ISBN 0-9749574-0-2).

The 30-Second Commute
by Beverley Williams and Don Cooper

In The 30-Second Commute, home-based business owners and experts Beverley Williams and Don Cooper explain how entrepreneurs can avoid the long commutes and high costs of working outside the home by starting a home-based business. By taking readers through the essential steps of deciding on a business, making everything legal, and writing a business plan, they help new business owners create a success. They also describe smart ways to make a home business more satisfying. McGraw-Hill, 216 pages, $16.95 (ISBN 0-07-142406-7).

The Hasidic Masters’ Guide To Management
by Moshe Kranc

Moshe Kranc writes that the leadership skills he has used for decades in the high-tech industry have benefitted from the many traditional Jewish stories he has translated into management wisdom and applied to his work. The stories he tells in The Hasidic Master’s Guide to Management touch upon the fundamental aspects of human nature that relate directly to the crucial business skills managers should master to become more enlightened and humanistic. Kranc provides many modern case studies and points of view to illuminate his timeless lessons. Devora Publishing, 262 pages, $14.95 (ISBN 1-932687-11-4).

Life Is a Series of Presentations
by Tony Jeary with Kim Dower and J.E. Fishman

As a presentation coach to executives from Ford, Wal-Mart, Cingular Wireless, and many other Fortune 500 companies, Tony Jeary knows how to help people interact with others. In Life Is a Series of Presentations, Jeary describes eight practices readers can use to improve their presentation skills and connect with others without anxiety. His advice includes ways to exceed expectations, compile research, prepare an audience, change habits, and tailor a presentation to an audience. Fireside Books, 270 pages, $23.95 (ISBN 0-7432-5141-5).
SELECTIONS

PART 1

Does IT Matter?
by Nicholas G. Carr

PART 2

The Power of Impossible Thinking
by Yoram (Jerry) Wind and Colin Crook with Robert Gunther

SOUNDVIEW SPEED REVIEWS

The (Mis)Behavior of Markets
by Benoit Mandelbrot and Richard L. Hudson

What’s This India Business?
by Paul Davies

Women Don’t Ask
by Linda Babcock and Sara Laschever

NEXT MONTH

Crucial Confrontations by Kerry Patterson, Joseph Grenny, Ron McMillan and Al Switzler
In a follow-up to their bestseller, Crucial Conversations, the authors have written Crucial Confrontations to help readers master the skills they need to resolve complex issues at work and at home. By describing the proper steps that should be taken before, during and after sticky confrontations, the authors provide a guidebook for achieving healthy relationships and career success.

Ideas Are Free by Alan G. Robinson and Dean M. Schroeder
Consultant and author Alan G. Robinson has teamed up with professor and former CEO Dean M. Schroeder to show managers how to tap into all the ideas their employees have and use them to gain significant strategic advantage. Ideas Are Free provides a road map for totally integrating ideas and idea management into the way companies are structured and operate.

Strategic Partnerships by Robert Wallace
In Strategic Partnerships, longtime entrepreneur and IT consultant Robert Wallace shows small and large business owners how to conceive, develop and execute successful joint ventures and alliances by examining the best practices used by leading supplier development executives from major corporations like Ford and Microsoft.
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This Month’s Summarized and Reviewed Books

* The Anarchist in the Library
  by Siva Vaidhyanathan

* Does IT Matter?
  by Nicholas G. Carr

* The (Mis)behavior of Markets
  by Benoit Mandelbrot and Richard L. Hudson

* The Power of Impossible Thinking
  by Yoram (Jerry) Wind and Colin Crook with Robert Gunther

* Trump: How to Get Rich
  by Donald J. Trump with Meredith McIver

* What’s This India Business?
  by Paul Davies

* Women Don’t Ask
  by Linda Babcock and Sara Laschever

* These titles available at an additional 10% off through Oct. 11, 2004

This Month’s Short Takes

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The Emotional Intelligence Quickbook
by Dr. Travis Bradberry and Dr. Jean Greaves

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