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BALANCING THE BOOKS

Odds-On Loser
The folly of common sense
QUICK! YOU'RE ON "LET'S MAKE A DEAL." There is a Maserati behind one of three doors. The other two doors conceal a profoundly ugly iguana with a bad attitude. You're smart enough to know the odds for the car are one-in-three for all the doors. At random, you choose door No. 1.
Then Monty Hall opens door number two: ugly iguana. He asks if you want to change your choice from door No. 1 to No. 3.

The Drunkard's Walk
By Leonard Mlodinow
Pantheon
272 pages, $24.95

If you're like most people, common sense says you have a 50-50 chance of getting the Maserati, regardless of whether you switch or not. And, like most people, you'd be wrong, according to physicist Leonard Mlodinow's intriguing and well-written new book, subtitled, *How Randomness Rules Our Lives.*

This Caltech physicist has written a thought-provoking, sometimes brain-twisting view of the mathematics of the probabilities, chaos and random behavior that affect our lives.

While most people will never encounter the Maserati versus the iguana (the answer to that choice lies at the end of this book review), all of us make ill-informed choices in everyday life, thanks to the often counterintuitive solutions to everyday choices. Whether we accept it or not, The Drunkard's Walk clearly illustrates the substantial and inevitable role of chance involved in picking stocks, wines, and CEOs; in evaluating the effectiveness of football coaches, pharmaceuticals and medical techniques; and in following schemes for winning at war games, craps and the roulette table.

"The outline of our lives, like the candle's flame, is continually coaxed in new directions by a variety of random events that, along with our responses to them, determine our fate," writes Mlodinow, who employs a diverse array of historical, mathematical and anecdotal evidence to make his arguments ring true.

Consider his analysis of mutual-fund performance over two five-year periods. He starts with a graph depicting 800 mutual managers and their returns for the period of 1991-1995. "Few are the investors who would choose a fund that has performed 10% below average in the past five years over a fund that has done 10%% better than average," he observes.

But turn the page and watch common sense fail: The chart of the same 800 funds for the next five years, 1996-2000, shows no relationships at all to that of the previous five

years. In other words, all those warnings on fund advertisements are right: Past performance is no indicator of future success.

Even if you begin *The Drunkard's Walk* as a skeptic, by the time you reach the final pages, you will gain an understanding -- if not acceptance -- of the intuitively improbable ways that probability biases the outcomes of life's uncertainties.
Oh yes, the answer to increasing your odds of snagging a Maserati over an Iguana? So-called "common sense" is wrong. By switching you increase your odds to 1-in-2 ; not switching leaves you at 1-in-3. Mlodinow explains why and how.

Reviewed by Lewis Perdue, who is the founder of several Internet start-ups and author of thrillers. He lives in Sonoma, Calif.