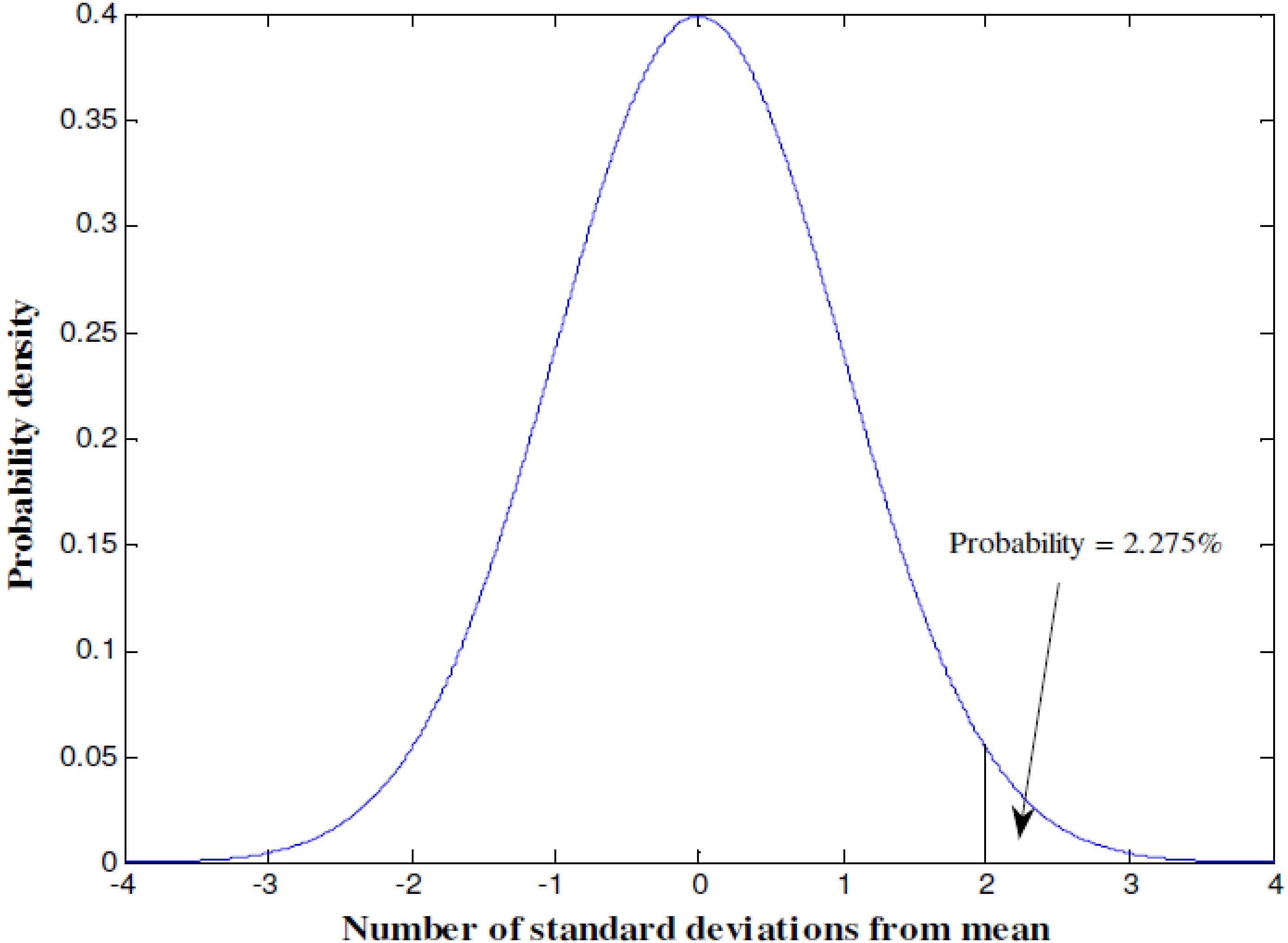
UCLA Anderson School of Management
Crisis Management

Mike Perry, former Chairman and CEO, IndyMac Bancorp

May 13, 2013

“’We were seeing things that were 25-standard deviation moves, several days in a row,’ said David Viniar, Goldman’s chief financial officer…”

Larsen, Peter Thal (2007, August 13). Goldman pays the price of being big. Financial Times.


Probability density
Number of standard deviations from mean
Probability = 2.275%
0.4
0.35
0.3
0.25
0.2
0.15
0.1
0.05
0
-4
-3
-2
-1
0
1
2
3
4

Probabilities of k-sigma events: k=2, 3, 4, 5, and 6

k	Probability in any given day	Expected occurance: once in every	
2	2.275%	43.956	days
3	0.135%	740.8	days
4	0.00317%	31559.6	days*
5	0.000029%	3,483,046.3	days
6	0.000000000129%	1,009,976,678	days

** 1 trading day in 126 years!!!*

"…right now we're still dealing with the aftermath of a once-in-three-generations financial crisis."

Krugman, Paul (2013, April 28). The Story of Our Time. The New York Times, Opinion Pages.

"An annoying aspect of the Black Swan problem…in fact the central, and largely missed, point…is that the odds of rare events are simply not computable."

"Risk management as practiced is the study of an event taking place in the future, and only some economists and other lunatics can claim….against experience…..to 'measure' the future incidence of these rare events, with suckers listening to them…."

"…the fragilista is one who makes you engage in policies and actions, all artificial, in which the benefits are small and visible, and the side effects potentially severe and invisible…the financial fragilista makes people use 'risk' models that destroy the banking system (then uses them again)…."

Excerpts from "Antifragile" by Nassim Nicholas Taleb

"Our first task was to find companies that showed the good-to-great pattern…***We launched a six-month "death march of financial analysis," looking for companies that showed the following basic pattern: fifteen-year cumulative stock returns at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years.*** We picked fifteen years because it would transcend one-hit wonders and lucky breaks (you can't just be lucky for fifteen years) and would exceed the average tenure of most chief executive officers (helping us to separate great companies from companies that just happened to have a single great leader). We picked three times the market because it exceeds the performance of most widely acknowledged great companies."

Collins, James (2001) Good to Great. New York: HarperCollins, Page 5

"…David Maxwell and his team didn't use the fact that Fannie Mae was bleeding and near death as a pretext to merely restructure the company. They used it as an opportunity to create something much stronger and more powerful. ***Step by step, day by day, month by month, the Fannie Mae team rebuilt the entire business model around risk management and reshaped the corporate culture into a high-performance machine that rivaled anything on Wall Street***, eventually generating stock returns nearly eight times the market over fifteen years."

Collins, James (2001) Good to Great. New York: HarperCollins, Page 83