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Misleading indicators in use of mathematical models

From Mr Bernard Beauzamy.

Sir, With reference to your article "Doomed to repeat it?" (August 27), concerning the computer models (or rather, mathematical models) used to make decisions on Wall Street and elsewhere. It is true, as the article says, that their history is too short. But their main drawback is that these models are "endogenous": they use only the data from the item concerned.

For instance, for a currency, they use only the history of that currency, and the same for all markets. A good model should of course incorporate much wider indicators, but they are hard to define: they include economic aspects, but also political stability.

Another aspect, not taken into account by present models, is that the actors' decisions are largely irrational. So, as a conclusion, I would say that the use of mathematics, based on small sets of data and ignoring irrationalities, is often misleading.

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